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## ROLE OF CLUSTER DEVELOPMENT ACTIVITIES IN ENHANCING COMPETITIVENESS OF HANDLOOM CO-OPERATIVES IN KANNUR DISTRICT

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**PAYYANUR COLLEGE**  
**EDAT**

### ABSTRACT

*The Indian Textiles Industry has an overwhelming presence in the economic life of the country and plays a vital role through its contribution to industrial output, employment generation, and the export earnings of the country. It provides direct employment to over 35 million people, which includes a substantial number of SC/ST and women. The textile sector being the second largest provider of employment after agriculture, development of this industry has a direct bearing on the improvement of the economy of the nation. Handloom industry is one of the ancient cottage industries in India and is a part of the great Indian tradition and culture. The handloom industry generates production at low capital cost, mostly using indigenous raw material and utilizing local skills, widens entrepreneurial base, facilitates balanced regional growth and prevents the migration labour to the metropolitan areas. The handloom industry faces a serious crisis, owing to competition from cheap power loom cloth from other states, scarcity of quality yarn, price escalation of yarn, dyes, chemicals and other raw materials, high cost of production, absence of diversified product range, the shrinking market for handlooms in Kerala, non demand based production and inadequacy of new designs, inappropriate technology and incapability of professional marketing and export, global competition in quality and price, pose the threat of massive redundancies in this high employment sector of Kerala, which may result in poverty and social problems. Cluster approach is expected to result in improving the collective efficiency by sharing of costs and pooling of resources. The aim of the researcher is to conduct a detailed study about the role and functioning of clusters for the successful accomplishment of the objectives of the handloom cooperatives in Kannur district.*

### JEL CODES

L6 - Industry Studies: Manufacturing: L60 – General.

### KEYWORDS

cluster, handloom, export, cluster interventions, consortium.

### INTRODUCTION

The Indian Textiles Industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textiles industry also plays a vital role through its contribution to industrial output, employment generation, and the export earnings of the country. It provides direct employment to over 35 million people, which includes a substantial number of SC/ST and women. The textile sector is the second largest provider of employment after agriculture. The growth and all round development of this industry has a direct bearing on the improvement of the economy of the nation. The potential size of the Indian textile and apparel industry is expected to reach US\$ 221 billion by 2021, according to Technopak's Textile and Apparel Compendium 2012<sup>1</sup>.

Handloom industry is one of the ancient cottage industries in India and is a part of the great Indian tradition and culture. The archaeological surveys and studies discovered fragments of woven cotton and bone needles at Mohen-jo-daro and Harappa. References are there in Rigveda about weaving and spinning materials. The epics of the Mahabharata and the Ramayana dwell upon the craft of weaving at length. This industry seems to have flourished between 5000 and 3000 BC<sup>2</sup>. The handloom industry generates production at low capital cost, mostly using indigenous raw material and utilizing local skills, widens entrepreneurial base, facilitates balanced regional growth and prevents the migration labour to the metropolitan areas. The sector contributes about 14 per cent to industrial production; 4 per cent to the country's gross domestic product (GDP); 17 per cent to export earnings.

### SIGNIFICANCE OF THE STUDY

The handloom industry faces a serious crisis, owing to competition from cheap power loom cloth from other states, scarcity of quality yarn, price escalation of yarn, dyes, chemicals and other raw materials, high cost of production, absence of diversified product range, the shrinking market for handlooms in Kerala, non demand based production and inadequacy of new designs, inappropriate technology and incapability of professional marketing and export, global competition in quality and price, pose the threat of massive redundancies in this high employment sector of Kerala, which may result in poverty and social problems.

Cluster approach is expected to result in improving the collective efficiency by sharing of costs and pooling of resources. The aim of the researcher is to conduct a detailed study about the role and functioning of clusters for the successful accomplishment of the objectives of the handloom cooperatives in Kannur district.

### SCOPE OF THE STUDY

Contribution of Cluster Development Programme in the growth of different industries is a topic which is of great relevance. Since the implementation CDP from 2005, Govt. of India has been taking much initiative for the growth of MSMEs through clusters. In Kerala, a number of clusters have been formed. Important among them are Rubber cluster, Rice millers' cluster, Furniture cluster, Plastic cluster, Plywood cluster, Terra Tile cluster, Wood cluster, Ethnic food processing cluster, General engineering cluster, Printers cluster, Natural Fibre & allied products cluster, Automobile cluster, Handloom cluster, Note books cluster and so on.

For understanding the different studies that have been undertaken with reference to handloom cluster development programme, a thorough review of the literature on the topic was carried out. But no studies in this regard were seen undertaken. But few studies were undertaken on cluster development in other fields. In this context of the growing significance of cluster development programmes, impact of Handloom Cluster Development Programmes in Kannur district appears to be significant and hence the study is undertaken.

### OBJECTIVES OF THE STUDY

1. To study the cluster intervention in Kannur handloom cluster from 2003-2005
2. To examine to what extent the Cluster Development activities helped handloom Co-operatives in enhancing competitiveness in the area of production, design, cost reduction and Marketing
3. To study the present status of handloom clusters in Kannur district

## METHODOLOGY AND SAMPLE

This study is based on both primary and secondary data. Primary data was collected from the 25 Handloom co-operative societies, working in Kannur district, included in the cluster, while secondary data are collected from the records of District Industries Centres and different Government publications.

### VARIABLES

The change in number of looms, change in the volume of output, change in the sales, change in the exports and change in profitability which are collected from all the 25 units through interview schedule are the variables for the study.

### PERIOD OF THE STUDY

The study is undertaken by collecting data for a period of 10 years from 2003-'04 to 2012-'13.

## HANDLOOM SECTOR

The handloom sector is known for its heritage and the tradition of excellent craftsmanship. It provides livelihood to millions of weavers and craftspeople. The industry has not only survived but also grown over the decades due to its inherent strengths like flexibility of production in small quantities, openness to innovation, low level of capital investment and immense possibility of designing fabrics.

Kerala's textile industry comprises of traditional handloom sector, power loom sector, weaving and spinning sector. The Handloom Sector in Kerala stands second to the coir sector in providing employment among the traditional industries of the State. Based on the method and varieties of production, the handloom sector in Kerala can be divided into three zones. The southern zone including Thiruvananthapuram, Kollam, Pathanamthitta Alapuzha and Kottayam districts; the central zone including Trissur, Ernakulam, Palakkad and Idukki and the northern zone including Kannur, Kozhikode, Kasargod, Waynad and Malappuram districts. The southern zone is mainly focused on the production of dhoti and the central zone on both sarees and dhoti. But the northern zone specializes in export oriented items.

Handloom Industry is dominated by the Co-operative sector, covering 94 per cent of total looms. The remaining 6 per cent of Handlooms units are owned by Industrial entrepreneurs. The Co-operative sector consists of factory type and cottage type societies. There were 664 registered Primary Handloom Weavers Co-operative Societies in the State as on November, 2013, indicating a 12 per cent increase from March 2012. Of the 664 registered Primary Handloom Weavers Co-operative Societies, 153 are factory type and 511 are Cottage type societies.

## HANDLOOM CLUSTER

Cluster development methodology is fast becoming a popular mode of ensuring growth among small-scale enterprises in the country faced with common opportunities and threats. Industrial clusters are increasingly recognised as an effective means of industrial development and promotion of small and medium-sized enterprises. For MSME participants, clusters play an important role in their inclusiveness, technology absorption, efficiency improvement and availability of common resources. The Ministry of Micro, Small and Medium Enterprises (MSMEs) adopted the cluster approach as a key strategy for enhancing the productivity and competitiveness as well as capacity building of small enterprises. The Draft 11<sup>th</sup> Five Year Plan document states that "A cluster approach can help increase viability by providing these units with infrastructure, information, credit and support services of better quality at lower costs, while also promoting their capacity of effective management of their own collectives emphasis ours" (Planning Commission 2006). It is estimated that 400 modern SSE and 2000 rural and artisan based clusters exist in India.

## DEFINITION OF HANDLOOM CLUSTER

Handloom cluster may be defined as a place where there is a large concentration of handlooms producing fabrics of niche varieties on handlooms which are in demand in the market. These handlooms could be located in close proximity in two across two (mostly adjoining) districts. In certain smaller states, where the districts are of smaller size, the number of sub divisions may be increased to ensure the minimum critical size of the cluster.

## WHY INTEGRATED HANDLOOMS CLUSTER DEVELOPMENT PROGRAMME?

In the face of growing competitiveness in the textile industry both in the national and international markets and the free trade opportunities emerging in the post MFA environment, a growing need has been felt for adopting a focus, yet flexible and holistic approach in the sector facilitate handloom weavers to meet the challenges of a globalised environment. A need has also been felt to empower weavers to chart out a sustainable path for growth and diversification in line with the emerging market trends. The Integrated Handlooms Cluster Development Programme was an attempt to facilitate the sustainable development of handloom weavers located in identified clusters into cohesive, self managing and competitive socio economic unit. An imperative step has been taken by the office of Development Commissioner – Handlooms, Ministry of Textiles, and Government of India, to promote and develop its exclusiveness for the global market. It was a comprehensive and innovative attempt among others to promote merchandising and marketing both at the domestic and international levels which is central to the success of the handloom sector. The Ministry of Micro Small and Medium Enterprise has been running the Cluster Development Programme since 1998 though the latest comprehensive guidelines have been issued only in 2006. The CDP is being implemented in 90 clusters across different states.

Centrally Sponsored Integrated Handloom Development Scheme aims to focus on formation of weavers group as a viable production unit, developing the handloom Weavers Groups to become self – sustainable, all inclusive approach to cover weavers both within and outside the cooperative fold, skill up-gradation to produce diversified products with improved quality, provision of suitable workplace to produce quality products with improved productivity, facilitate process of credit from financial institutions/banks, and in tying up of marketing of finished products etc. The scheme envisages skill up gradation of the weaver through training; improve productivity through modification/up- gradation of the existing looms, diversification of products through design interventions, create necessary infrastructure for marketing of his products etc and thereby lead to increase in the earnings of the weavers.

In order to get better benefit of the scheme, the societies are clubbed as Consortia and implementation is done. Consortia means a group of people which include Weavers, Master Weavers, Dyers, Exporters, Representative of Cooperative and Handloom Corporations, yarn suppliers etc. and is set up to tie up the linkages with the connected organization like; banks/financial institutions, market institutions/ marketing experts, marketers, legal experts, Government machineries, weavers etc. for collective bargaining.

## NODAL AGENCY FOR INTEGRATED HANDLOOM CLUSTER DEVELOPMENT

The Development Commissioner (Hand Loom) shall be the nodal agency who will be responsible for holding and disbursement of funds to the identified implementing agencies and overall monitoring of the project under the supervision of the Apex committee. The nodal agency and Apex committee will be assisted by the National Resource Agency.

## ISSUES IN THE HANDLOOM SECTOR – AS IDENTIFIED BY THE 12<sup>TH</sup> PLAN WORKING GROUP REPORT ON MSME AND TRADITIONAL INDUSTRIES (KERALA)

1. Low productivity due to lack of technology intervention & poor market segmentation
2. Competition from cheap power loom fabrics and dumping of cheap fabric from outside state.
3. Lack of emphasis on quality and innovative designs of handloom products in market.
4. Lack of product diversification in accordance with new trends.
5. Difficulty in getting workers due to low wages & difficulty to avail credit facility.



6. Lack of working capital and fluctuation in hank yarn price.
7. Weak performance of apex societies and organizations.

### IMPLEMENTATION OF DDHPY, HES ETC. UNDER CLUSTER APPROACH

When UNIDO introduced cluster approach, the then DHT of Kerala decided to implement DDHPY Scheme in cluster method. Accordingly, a diagnostic study was conducted by the Manager, Handloom who was given CDA training at EDI Ahmadabad. SWOT Analysis was done, problems were identified, critical gap studied and an action plan was made covering the following steps and implemented the plan.

1. Consortium Approach: Four Handloom Consortia were formed in Kannur Cluster
2. Trust Building: For trust building, District level Trust Building Meetings were held participating, all the cluster actors. This was followed by Consortium Level Meetings participating President, Secretary and Director Board members of the societies. Then society level meetings were held participating President, Secretary and Director Board members, workers and staff of the societies. Inter society visits and inter consortium visits were also arranged as a part of trust building. Representatives of the consortia were given a chance for exposure visit to places of other states – Viz Karoor, Salem, Erode and Chennimalai of Tamil Nadu where the textile industry has flourished.

### HANDLOOM CLUSTER IN KANNUR

Before implementing Handloom Cluster Development Programme, a SWOT analysis on the Handloom Co operative Societies in Kannur district was carried out by the Cluster Development Agent (now called Cluster Development Executive) in 2003 to make an Action Plan. The study revealed the following weaknesses.

1. Products of Kannur handloom consists of common furnishings, made ups, table linen, fabrics, lungies, dhoties, sarees, bath towels etc
2. Kannur handloom industry cannot sustain itself by depending up on home market selling the old products. There has not been any planning in making new fabrics, new and innovative designs etc in tune with the taste of buyers in the era of changing trend and fashion.
3. Though Kannur handlooms enjoy good reputation overseas, efforts are not taken to develop or sustain the market by changing in tune with the taste of international buyers.
4. Efforts are not made to identify new market when there is competition in the traditional market. The possibilities of internet and modern communication methods are left unused.
5. In most of the societies, quality control system was not practiced properly, though it is must in the post globalised scenario.
6. Most of the handloom societies are running with lower productivity, higher raw material cost, higher conversion cost, over staffing, lower value addition, reluctance to switch to new products etc and are running on loss.
7. No co operation among handloom societies themselves.

#### STRENGTHS

- Good reputation overseas
- Excellent dyeing
- Skilled workers available
- Good quality of water
- Dynamism of workers
- Sufficient entrepreneurship
- Good infrastructure

### SUMMARY OF CLUSTER INTERVENTION IN KANNUR HANDLOOM CLUSTER FROM 2003-2005

1. For Trust building among the societies, District level meetings of President and Secretary of all handloom societies were held. Consortium level meetings of all Board of Directors and secretaries were called to discuss the matter. In addition, society level meetings of the employees, staff and Board of Directors of all the co operative societies were held and inter consortium visits were conducted by the Chairman and Board of Directors.
2. For improving products through design interventions, design development programmes were conducted in two stages. In the first phase,
  - ❖ Engaged NIFT and NID for making new and innovative design to suit international market.
  - ❖ Engaged four freelance designers through IHTT to make innovative design to all handloom societies.
  - ❖ Engaged handloom technical personnel to help in making fabric in new designs made by designers.
  - ❖ Discussion held with designers, technicians, and society technical people to translate design into fabric.
 In the second phase,
  - ❖ Service of Canadian designer was made available
  - ❖ Service of Australian designer – Sara Thron made available
  - ❖ Application submitted to NMCP (now CBI) for design and market linkage and NMCP consultant visited Azhikkal Weavers' Industrial Co operative Society
  - ❖ Application submitted to SES Germany for getting services of designer
3. For skill up gradation, training in quality control aspect of handloom fabrics and training in dyeing were given through IHTT, Kannur. In addition, training in advanced weaving with Jacquard was also arranged.
4. To create necessary infrastructure for marketing of the products, the following steps were taken by the District Industries, Centre, Kannur, the nodal agency.
  - 🔧 Engaged IIMK for creation of common brand image to Kannur handloom home furnishing
  - 🔧 Assistance of NMCP and SES sought for exploring market and product up gradation
  - 🔧 Consortium participated in the International Trade Fair at Dubai, New Delhi and Brussels
  - 🔧 Common show rooms were opened by three consortia – ICON(Irinave Consortium), KAIRALI (Payyanur Consortium) and HANDLOOM KENDRA (Kannur South Consortium)
  - 🔧 Interactions organized with Tirupur Exporters' Association for exploring the possibility of getting export orders.
  - 🔧 Participated in the B2B Meet at Cochin
5. A credit of ₹2.2 crore were made available through DDHPY to all handloom co operative societies for purchasing looms and accessories, design development, advertisement etc. and an amount of ₹2.15 crore made available to five handloom co operatives under Handloom Export Scheme for product up gradation, design development, participation in international fair etc. .

(Deen Dayal Hathkargha Prostahan Yojana (DDHPY) is a comprehensive scheme of the Government of India, covering all inputs required for production of export worthy handloom fabrics like design development, training assistance for machinery purchase, working capital assistance, advertisement, sales promotion etc.)

6. Conducted seminars on International marketing and internet in business development and workshops on ISO 9000&14000, SA 8000 etc.
7. Other measure taken as a part of cluster intervention include:
  - Govt. of India sanctioned 26 crores under Textile Centre Infrastructure Development and work started at Taliparumba, as part of Project implementation by KINFRA. (This integrated apparels park was inaugurated at Nadukani, Taliparumba on 16.4. 2010).
  - Proposed an Apparels park in Kannur (Started functioning at Nadukani, Taliparamba)
  - Started a power loom service centre at Marakkarkandy, Kannur

- New zero-zero finishing plant being erected under District Panchayath Scheme, at Chirakkal, Kannur in the premises of handloom Development Corporation.
- Common Mercerizing Plant, Radio frequency drying ((Couldn't be implemented for want of funds/scheme)

### RESULTS OF INTERVENTIONS

- Positive changes in the attitude of employees and Directors
- New designs
- New products
- New colour combinations
- Learned better dyeing methods
- New markets and higher prices
- Common facility zero zero finishing
- Common facility of Yarn Bank
- Common facility of showrooms
- Few societies could get first trial order for export

### ANALYSIS OF BUSINESS OPERATION –PRE AND POST CLUSTER APPROACH

- Before introduction of cluster approach, handlooms units were producing lungies, dhoties, bath towels, bed sheets, shirting, fabrics etc. With the introduction of cluster activities, units started producing Furnishings, made-up, table linen, fabrics, linen shirting, mosquito nets, rug, floor mats, organic fabrics, shawls, mats using herbal dyes, churidar, Jaquard bed sheets, satin bed sheets, turkey towel and so on in addition to the traditional products.
- Cluster interventions such as employee motivation programmes, Trust building programmes, design development programmes, market linkage, training in quality control and dyeing, assistance of NMCP and SES for exploring market and product up gradation, opening up of common show rooms, Participation in the B2B Meet, National and International Trade Fair, Government interventions in Infrastructure Development etc improved the confidence of the handloom societies in Kannur district and it resulted in increased domestic production, value addition to products, increased credit facility, new marketing techniques, new markets, diversification in production, improved the quality of products, skill up gradation, improved man days, increased sales and so on.
- Revenue generation of the societies was through direct domestic sales, direct export, and indirect export (doing job work of exporters).
- Quantum of sales during festival seasons like Onam, Vishu and Christmas increased much. With cluster development programmes, societies started organizing trade fairs during Christmas season also from the year 2008. This can be considered as an important positive result of cluster approach. Now they are confident that there is sufficient domestic demand for quality handloom products and decline in exports will not affect the working of the society and their revenue generation.

### AGE GROUP, TYPE AND QUALIFICATION OF EMPLOYEES

Majority of the workers are above the age group of 40. Again, majority of the workers are women. Average educational qualification of workers is 10<sup>th</sup> standard. Wages earned is very much less compared to other sectors. In short, the wage structure in traditional industries like, handloom, khadi, coir, beedi etc. is very much less and not at all attractive as far as younger generation is concerned.

### LOOMS AND PRODUCTIVITY

Handloom export from India, particularly from Kerala drastically decreased due to WTO related Agreements and Phase out of quotas in US and EU. So, societies engaged in job works of exporters and direct exporters faced severe problems. All looms were not continuously engaged for want of sufficient orders. Thus productivity per loom decreased considerably.

With decline in the number of looms, total production per loom decreased. Since the remuneration is not attractive, new generation is not attracted to this field. So there is shortage of workers as well, which lead to reduction in the capacity utilization.

### COST AND SALES

Cost of production depends on various factors, important being cost of raw materials and labour. Handloom sector is labour oriented and workers are paid better wages in Kerala than other states. So cost of production is higher. The export has a direct bearing on the working of the handloom co-operatives because the export is done by private exporters where as major chunk of the production work is done by societies. Naturally, when the export decreased, the societies had to concentrate on domestic items.

### EXPORTS

The exports from Kannur Handloom Cluster crossed `300 crores before the starting of the study period (2003-04) but, after 10 years the export sale couldn't make any significant growth, but decreasing. This is mainly due to a variety of reasons.

1. Competition from Tamil Nadu- Karur Handloom Cluster
2. WTO related rules and stopping of special import incentives extended by several European countries.

### FINDINGS AND SUGGESTIONS

- With the introduction of cluster activities, units started producing demand based products in addition to the traditional products.
- Cluster interventions resulted in increased domestic production, value addition to products, increased credit facility, new marketing techniques, new markets, diversification in production, improved the quality of products, skill up gradation, improved man days and increased sales.
- Quantum of direct sales during festival seasons like Onam, Vishu and Christmas increased much. There is sufficient domestic demand for quality handloom products and decline in exports will not affect the working of the society and their revenue generation.
- Average educational qualification of workers is 10<sup>th</sup> standard.
- Younger generation is not attracted to this industry, since youth are more educated and the remuneration is not attractive. So there is shortage of workers.
- Decline in the number of looms, resulted in reduction in the capacity utilization.
- Handloom cluster is undergoing loss in general. But few units are making profit even now.
- Export sale couldn't make any significant growth, but decreasing.

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## TABLES

TABLE 1: SALES DETAILS (₹IN CRORES)

Year	Vishu	Onam	X Mas	Total
2003	.3	.56	.....	.86
2004	.4	1.54	.....	1.94
2005	1.07	1.72	.....	2.79
2006	1.18	2.13	.....	3.31
2007	1.7	2.52	.....	4.22
2008	1.90	2.68	.74	5.32
2009	1.77	2.90	1.05	5.72
2010	2.04	3.8	0.7	6.54
2011	2.8	4.6	.8	8.20
2012	3.1	4.8	.86	8.76
2013	3.2	5.2	.78	9.18
2014	2.9			

Source: DIC, Kannur

TABLE 2: AGE GROUP, TYPE AND QUALIFICATION OF EMPLOYEES

20-30 M		20-30F		31-40M		31-40F		41-50M		41-50F		>50 M		>50F		Total	
<10	>10	<10	>10	<10	>10	<10	>10	UG	<10	>10	<10	>10	<10	>10	<10	>10	
0	0	7	4	37	6	105	100	3	144	7	353	112	488	20	305	13	1704
						6.16%	5.87%		8.45%		20.72%	6.57%	28.64%		17.9%		

Source: Survey data

TABLE 3

Year	Cost of raw materials (₹)	Exports (₹)	Sales (₹)	Net loss (₹)
2003-'04	79853615	64779638	156855245	21418135
2004-'05	74642286	68165124	162721399	20006689
2005-'06	70208277	62062344	168733076	29666569
2006-'07	663811652	53465838	140800058	20284390
2007-'08	63723168	50098852	157977548	18749720
2008-'09	62198928	44765144	130343940	28809257
2009-'10	60345822	45755496	135617468	32981063
2010-'11	68629623	49670104	167897542	40433528
2011-'12	64183843	49576175	159544679	24977201
2012-'13	66694079	42738011	164849191	28193613
2013-'14	80637455	40724680	184668377	Not audited

Source: Survey data

TABLE 4

Year	Exports of sample units (₹)	Exports of textile from Kannur District (₹)	% contribution of sample units
2003-'04	64779638	260 Crores	2.50
2004-'05	68165124	275 Crores	2.47
2005-'06	62062344	285 Crores	2.17
2006-'07	53465838	300 Crores	1.80
2007-'08	50098852	310 Crores	1.61
2008-'09	44765144	325 Crores	1.38
2009-'10	45755496	270 Crores	1.70
2010-'11	49670104	260 Crores	1.92
2011-'12	49576175	235 Crores	2.12
2012-'13	42738011	210 Crores	2.05
2013-'14	40724680	195 Crores	2.10

Source: Survey data

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