

“Importance of business linkage in the marketing of Handicraft product: A Case Study of Handicraft Industry in Manipur”

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Abstract:-

Handicraft industry is a major industry, and source of employment for rural as well as urban Manipur and India. But this industry has a big issue of sustainability in the present micro-and macro economics environment. To sustain in the present competitive environment, business linkage has been adopted as a strategy to make the industry competitive in terms of productivity and help better marketing. One of the main problems of handicraft industry is lack of marketing capability on the part of craftsman. This paper will study the importance of business linkage for sustainable growth of handicraft Industry and examine the type of business linkage which is prevailing in Manipur. The impact of business linkage type like commercial subcontracting, joint venture, buyback, arms length market transaction, licensing etc on the profit and sales of handicraft industry in Manipur are also examined. Logit model is used to examine the impact of these variables on the growth of handicrafts industry in Manipur.

Key Words:- Rural Industrialization, rural development, Business linkage, Handicraft Industry

1. Introduction:-

In order to overcome the problems of unemployment and poverty and a higher incidence of migration of active population, the diversification of economy from subsistence to commercialized production of farm and non-farm products has been recognized among the most important alternative options and a necessary policy. But the scope for large scale diversification of non-farm economic activities is severely limited because of a number of factors. Problems in promoting non farm activities are lack of knowledge, lack of proper marketing facility, lack of finance, Raw material problem, lack of demand, lack of proper communication, Competition from organized sector, Lack of time, lack of technology, lack of common facility and lack of training Non farm sector.

Among the non-farm sectors, handicraft sector is a major industry which is promoting employment to masses. The Khadi and Village industry Commission is a main organization

which is taking the initiative of promoting rural industrialisation in India. According to the KVIC source there are about 4.1 lacs of handicraft workers in Manipur and the annual sales of this sector in Manipur was about Rs 142 crores. As a rural industrialization strategy in India, handicraft cluster center has been jointly initiated by UNIDO and Government of India in different parts of rural India.

1.1 Definition of Handicraft Industry:-

Handicrafts are mostly defined as "Items made by hand, often with the use of simple tools, and are generally artistic and/or traditional in nature. They are also objects of utility and objects of decoration."

1.2 Characteristic of handicraft industry

The important characteristics of handicraft industry are:

1. Most of the craftsmen in this industry are women, children and uneducated man and who stay in rural and semi-urban area.
2. They work in the lean seasons
3. Raw material is available abundantly.
4. Indigenous
5. Sustainable
6. It represents the authentic creative form of the state or community.

2. Problems of Handicraft Industry

Presently, the global market of handicraft is valued at US\$ 400 billion and India's share in the global market stands at 2% only. However, the handicraft industries in rural India economy registered an annual growth rate of 15% consistently over the last decade and it is estimated to grow at the rate of 42% over the next five years annually. Although, the Handicraft Industries in Rural India is witnessing steady growth over the last five years but its growth is hampered by certain bottlenecks, like the following;

- The manufacturing process does not compliments with orders of such products
- Use of primitive techniques
- High manufacturing cost
- Poor quality of products
- Product design and development to be aligned with the background and history of the craft, the producer and the market requirements
- Poor standard of raw materials
- Lack of standardized vendor and suppliers
- Lack of standardized raw materials
- Improper pricing of finished products
- Absence of proper incentives and schemes by the Government of India
- Unorganized investment patterns and lack of regular investors
- Lack of proper marketing channels
- Poor access to urban markets

In response to this situation, Governments and other national and international organisation have understood for some time that if Handicraft industry organized their production, information gathering, and marketing efforts they can reduce these individual risks. Specifically, by organizing into Group or cluster, handicraft firms will able to:

- improve their access to and reduce the cost of procuring raw materials through bulk-purchasing;
- increase their efficiency by sharing production skills and resources;
- enhance their product's quality and marketability through common production standards and market driven product specifications;
- increase access to available financing;
- obtain business development services (BDS) through embedded or fee-for service mechanisms or institutional support for time to time scheme of governments policy and programme; and
- improve their market position by having the quality, quantity, and types of products that multiple buyers demand.

Although the benefits are many, craftsmen are sometimes risk averse and suspicious of any activity that may encroach upon the sovereignty or internal operations of their business. This is particularly evident in saturated markets, where intense competition for limited contracts drives prices down and inhibits growth. Craftsman with limited economic options often develop a predatory/opportunistic competitive behavior, whereby any activity that remotely implies a limitation on their ownership rights is ill received.

To overcome the suspicion, risks, and potential pitfalls, the Government agencies like KVIC, NABARD, NEFDI and NGOs have been increasingly active in designing interventions that focus on bottom-line results, and activities that serve to diversify product-marketing channels through better linkage policy and programme between the firms and various other stack holders.

3. The Objective of the study:-

- i. To explore the kind of inter-firm linkages or network that exist between handicraft firm, buyer and other stake holders in handicraft industry of Manipur.
- ii. To study the impact of business linkage on the performance of handicraft industry

4. Business- linkage in Manipur:-

The term Business-Linkage encompasses production linkages, Micro-Macro policy linkages, international or TNC linkages, Institutional linkages. We again say business linkage as an integrated approach, which consist of the above four linkages for sustainable growth of MSME in developing world. The term production linkage means "Production linkages

include forward and backward linkages. Forward linkages are created as a consequence of the supply of products of SMEs to other sectors, and backward linkages are created due to the demand from the SME sector for intermediate or capital goods”.

Macro-micro policy linkages is terms as ‘These linkages relate to the multitude of effects that governmental policies (macro level policies such as fiscal policy, monetary policy and exchange rate policy) have on small enterprises’ operations’.

International linkages as “These linkages deal with the ‘interdependencies’ of national and international markets in which the small enterprises function”.

Lastly Institutional Linkages is term as ‘These involve the relationships among the different types of individuals and organizations that operate and interact with small enterprises’.

So, in the broader sense business linkage include all strategy, effort, and facility extended by Government agencies, International organization, institutions, large and small enterprises, private bodies etc. for the sustainable growth of the MSME.

Inter-organizational linkage is within the domain of business linkage and is important means of increasing the productivity and better linkage to market for MSME. A linkage is defined as any transaction, which takes place between two or more firms. It usually express a continual relationship involving recurrent transactions. The term ‘inter –firm linkage’ is traditionally used to cover all possible forms of economic relationships between firms operating within an economy (Wong 1991, 1992). Types of inter-firm linkages can be classified into :

(a) Contractual arrangements

Inter-firm linkages can be divided into different forms of contractual arrangements in accordance with the degree of control one party has over the other. A typical classification is as follows (Williamson 1975a, Casson 1987, Wong 1991):

Outright equity control (parent 100% subsidiary)

Joint venture (majority, 50-50 or minority)

Industrial co-operation agreement

Licensing and franchising

subcontracting

‘Arms length’ market relationship.

-‘spot’ market transaction

-‘longer-term’ recurrent contractual supplier-buyer relationship.

(b) Economic roles:

* Direct vertical backward linkages (buyer -induced); or

* Direct vertical forward linkages (supplier-induced)

(c) Interaction of contractual forms and roles.

The vertical backward linkage relationships involve essentially arms-length market

transaction between a large buyer and a SME supplier (subcontracting linkages are possible within these relationships). Any one of the contractual arrangements can be combined with either economic role (sellers, buyers) to produce a matrix of different linkage forms and subcontracting (buyer firm procuring supplies from suppliers through market transactions).

After reviewing the type of inter-organizational linkage, we will study its relevance in the context of marketing of rural handicraft products from Manipur. The main problems of handicraft industry in Manipur are lack of productivity and lack of marketing capability. We assume that the issues of productivity can be address by using horizontal networks of handicraft firms giving necessary support by government department, agencies, and other stack holders. At the operational level, we find that some handicrafts firms in Manipur has collaborate each other for (i) fulfilling the order, (ii) for sharing knowledge (iii) sharing of resources (iv). Sharing of manpower (v) sharing of expertise etc. The NGOs and government agencies in Manipur are helping the handicraft firms to make Self- help group and other group effort to increase the production capacity in Manipur.

The figure 2.a shows us the model of the horizontal network of the handicraft industry in Manipur. In the figure we assume that there are A,B,C,D..... firms which are having cooperative linkage among themselves and are getting the help from government agencies, NGOs, in terms of value addition of product, training, finance, capacity building, documentation etc.

It is evidence from the literature that vertical network like subcontracting has been us by several developing countries to increase the marketing capability of the respective industry. As an example

- 1.The Nike/Reebok and Asian footwear producers subcontracting network (Rosenzweig, 1994);
- 2.The Brazilian Sinos Valley and Mexican footwear subcontracting network (Ceiglie and Dini, 1999);
- 3.The lightening subcontracting network (Sarathy, 1996);

In our case, we do not find manufacturing subcontracting like the example given above, but we do find commercial subcontracting¹ in Manipur. The source of vertical linkage for our handicraft firms are

1. Large exporter in metros like Delhi, Bombay, Goa, Kolkatta etc.
2. Alternative trade organizations like NGOs, SHGs
3. Direct to independent retailers and whole sellers
4. Direct to Government showrooms like Panthoibi showrooms Delhi, Manipur handloom and handicraft emporium etc.

The Government agencies are helping the entrepreneurs in making the linkage by organizing trade fairs, seminars, exhibition, buyer-seller meets etc.

As a case of successful inter-firms linkage story in Manipur, I am citing the example of Women Income Generating Center (WIGC). WIGC is a Non-Governmental organization, established in 1996 which is having assistance from DC (Handicraft) Govt. of India and Women and child development, Ministry of Social welfare, Govt. of India and is active in the

rural area of six districts namely Bisnupur, Senapati, Chandel, Imphal East, and Imphal West district of Manipur. The craftsmen are mostly women and weaker section of the society. The Organisation is looking over 75 self-help groups and artisans under the umbrella of WIGC is about 1400. The support, extended to artisans and SHG are.

1. Training:- The WIGC is conducting regular training to artisans and SHG to improve design, quality, information sharing about the latest skills development etc. Recently a 15 days skill development programme (24 February-09 March 08) was conducted at the centre and a series of training programmes are on the pipeline for craftsman in Cane and Kouna . Now, under AHVY programme a training programme in embroidery, pottery, jewellery, woodcarving, and soft stone curving will be conducted from next year.
2. Marketing :- WIGC is acting as a supporting agent for marketing of craft products produce by craftsman in Manipur through many innovative idea. The organization encourage the artisans to produce creativity product made of cane and kouna and take the initiative of test marketing the new product through trade fair and other marketing channels of the organisation. So far the organization has test 180 different products made of cane and Kouna in the market, out of that 4 (Ladies bag, marketing bag, file cover, carry bag) products are successfully exploited commercially. WIGC is participating in many national and international fair and buyer-seller meet acting as a representative of 75 artisans SHG. The organization is also going for joint design development with other creative firms for joint production. Recently, the organization is organizing a craft bazaar at Wangjing Mela ground, generating a sales of about Rs 90 lacs . Now they got order for 50 thick kouna mats for Brazil, worth few lacs of Indian rupees.
3. Buyback:- WIGC is supporting the artisans by buying back the product made by them. By buying back the product the artisan are getting continuous source of income and are motivated to adopt handicraft as a full time profession.
4. Micro-finance :- The organization is having its own Micro-finance service center, which is extending the financial support to craftsman and self-help center. The mode of operation is payback in product i.e the loanee will borrow money and repayment will be in the form of product. By doing this the repayment is absolute and the relation between the client and server is in perfect harmony. As an example, the organization is doing a contract farming of Kouna at Nongpok Sekmai, where the farmer is taking credit for farming and the organization is counter guarantee buyback of the product, thus benefiting both the parties.
5. Constant feedback for improvement:- The management of the organization realize that the success depends upon the interaction between the parties, so in order to know the problems and continuous improvement of the process and people and organization the management, craftsman, and SHG members are regular meeting by conducting meeting, seminars, and workshop etc.

So, the success of this organization in marketing the products made by rural artisan is the result of series of innovative technique used by the management, for continuous supply of product by backward and forward integration of operation to local and international market. And for our analytical purpose we assume that the handicraft firms in Manipur are having commercial subcontracting, buyback, arms length market transaction, licencing, and joint venture.

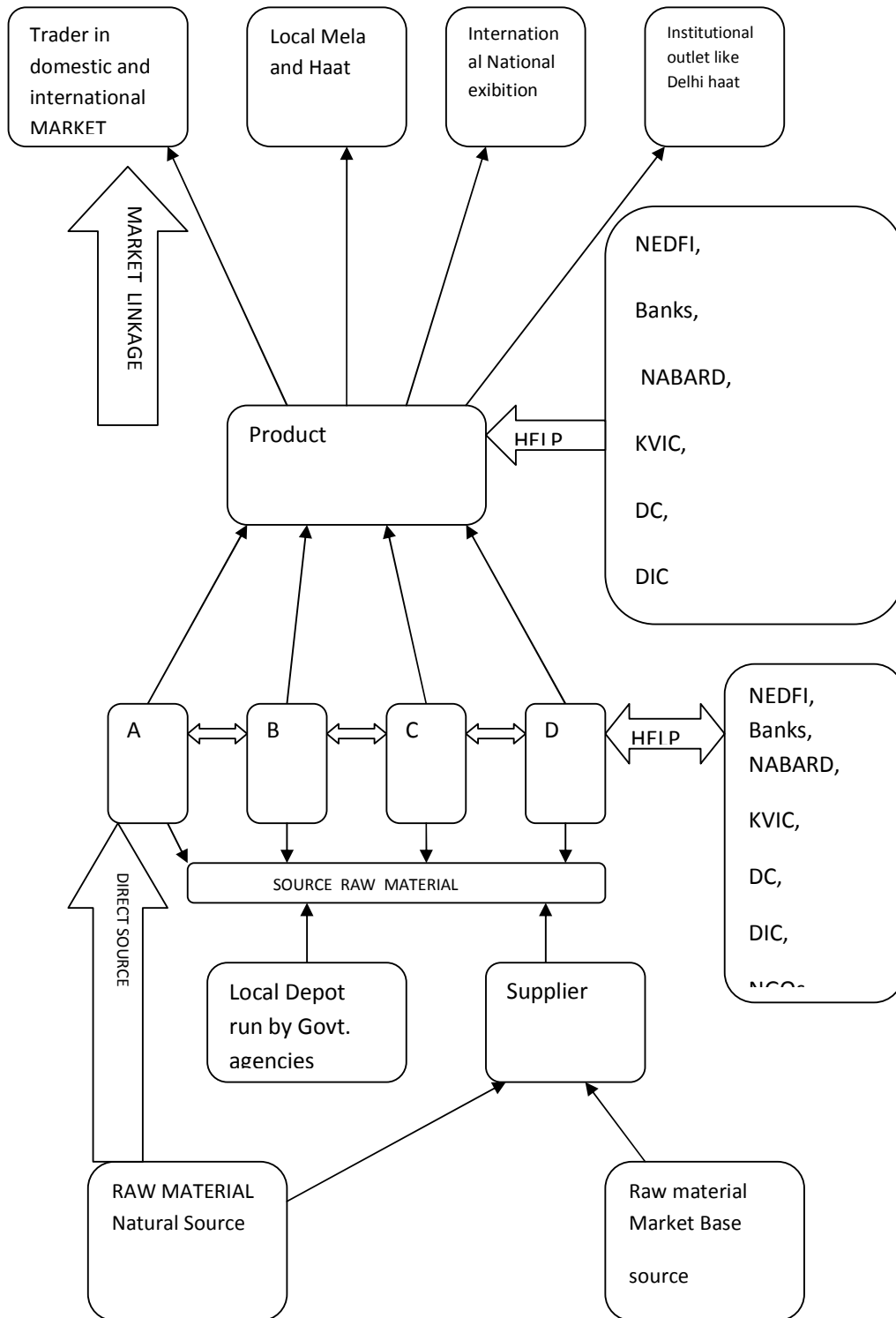


FIG.2.b INTER-FIRMS NETWORK MODEL FOR HANDICRAFT IN MANIPUR

5. Analytical Framework:-

5.1 Sample:-

A survey was conducted during 2005-07 to find the Entrepreneurs' personal profile, General profile of the enterprises, Entrepreneurial networks: networking, use of networking, network benefits, Sub-contracting linkages, Performance of the firms of handicraft industry (Cane and bamboo and Kouna). The number of enterprises taken for the study (N) is 200, spread over all the 9 districts (both hills and plain).

5.2 Growth of the firms:-

The performance of the firm is measured on the basis of sales growth and increase in profitability over a three -year period (Donckels and Lambrecht, 1995; Hansen, 1995; Ostgaard and Birley, 1996).

Growth of Sale = Having growth in sales from 2005 to 2007

Growth of profit = Having growth in profit from 2005 to 2007

5.3a Dependent Variable:-

Growth of sales :- Yes / No

Growth of Profit :- Yes/ NO

Independent variables

Commercial subcontracting Yes/No

Joint Venture Yes/No

Licensing Yes/No

Buy back Yes/No

5.4 Model

Logistic regression is useful for situations in which we want to predict the presence or absence of a characteristic or outcome based on values of a set of predictor variables. It is similar to a linear regression model but is suited to models where the dependent variable is dichotomous.

The *logit model*, which is based on the cumulative logistic probability function (F), can be specified as follows

$$P_i = F(\alpha + \beta X) = \frac{e^{(\alpha + \beta X_i)}}{1 + e^{(\alpha + \beta X_i)}}$$

Here e represents the base of natural logarithms, and α and β are the coefficients. X is the model matrix consisting of values of explanatory variables. P_i is the probability that an individual makes a certain choice, given X_i . For example, if an individual has external actors, the probability of having external actors is as:

$$P(\text{External Actors, Yes}) = \frac{e^{(\alpha + \beta X_i)}}{1 + e^{(\alpha + \beta X_i)}}$$

on the other hand, the probability that an individual does not have external actors is as

$$P(\text{External Actors, No}) = 1 - P(\text{External Actors, Yes}) = \frac{1}{1 + e^{(\alpha + \beta X_i)}}$$

The likelihood function then becomes:

$$L = \prod_0 \frac{e^{(\alpha + \beta X_i)}}{1 + e^{(\alpha + \beta X_i)}} \prod_1 \frac{1}{1 + e^{(\alpha + \beta X_i)}}$$

The procedure for obtaining estimates of α and β coefficients is to maximize L with respect to the parameters. This is called the *maximum likelihood method* (Agresti 1990, DeMaris 1992, Maddala 1983, Pindyck and Rubinfeld 1991).

Logistic regression coefficients can be used to estimate odds ratios for each of the independent variables in the model.

$$\mathbf{Log}(p_i / 1 - p_i) = B_1 + B_2X + B_3X_2 + B_4X_3 + B_5X_4 + B_6X_5 + u_i \dots\dots\dots(\mathbf{M1})$$

Where p_i is the probability of growth and $1 - p_i$ probability of no growth and B_i where $i = 1, 2, 3, 4, \dots\dots\dots$ are the coefficient independent terms, U_i an error. $(p_i / 1 - p_i)$ is known as the odds ratio is simply the odds in favor of getting a growth. The natural log of this odds ratio, is called the logit, and the model (1) is called the logit model.

However, it is hard to interpret the logit coefficients. Therefore, most people work out odds ratios and probabilities (Mukherjee *et al.* 1998, Norusis 1997). A zero coefficient in a *logit*

regression implies that an odds ratio is equal to 1 ($e^0 = 1$), corresponding to a unit change in the variable concerned. An odds ratio equals to 1 means that the corresponding probability is 0.5 ($e^0/(1+ e^0) = 0.5$). This indicates that **minus** coefficient in a *logit* regression predicts less probability than 0.5 (1/2), which implies that changes in the independent variable will have its less effect on the probability of choosing a given option at the midpoint of the cumulative logistic distribution. Therefore, corresponding probabilities can be calculated at the mid-point of the cumulative logistic distribution.

5.5 Statistical analysis:-

Variable		frequency	%
Profit	0	83	41.5
	1	117	58.5
Sales	0	68	34
	1	132	66
Commercial subcontracting	0	62	31
	1	138	69
Licensing	0	145	72.5
	1	55	27.5
Buyback	0	59	29.5
	1	141	70.5
Arms length	0	8	4
	1	192	96
Joint venture	0	193	96.5
	1	7	3.5

The data available from the survey (see table above) say that 69% of the respondent goes for commercial subcontracting, 27.5% for Lincensing, 70.5 for buyback, 96% for arms length, and 3.5% for Joint venture.

5.6 Impact of these five variables on profit of the handicraft firms in Manipur:-

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	JOIVEN	5.379	20.544	.069	1	.793	216.842
	COMSUB	3.283	.541	36.857	1	.000	26.656
	LINCEN	2.592	1.106	5.495	1	.019	13.355
	BUYBACK	2.582	.520	24.696	1	.000	13.225
	ARMENGHT	-1.720	.966	3.174	1	.075	.179
	Constant	-2.267	.966	5.508	1	.019	.104

a. Variable(s) entered on step 1: JOIVEN, COMSUB, LINCEN, BUYBACK, ARMENGHT.

We study the impact of these variable using SPSS10.0, and the model is found to be statistically significant and with a moderate goodness of fit as indicated by the model value of chi-square(p-value <.001, Nagelkerte $R^2 = 0.646$). Even though the model is significant, the contribution made by the variables to the profit of the firm is in different degree. The odd ratio of each of the variable Joint venture(216.842 at p-value<.793), Commercial subcontracting(COMSUB) (26.656 at p-value<.000), Lincensing (LINCEN)(13 at p-value<.015), Buyback(13.225 at p-value<.00), arms length transaction(.179 at p-value<.075). The result of the above result shows us that joint venture and arms length transaction is not significant, this may be due no of respondent in Joint venture is too small (7) and in case of Arms length transaction the No of respondent is too large (192). In case of buyback, for 1 degree increase i.e addition of one respondent will increase the odd of profitability by 13.225 likewise 26.265 for subcontracting, and 13 for Lincensing. We can conclude that Subcontracting, lincising, and buyback have positive impact on the profitability and joint venture, arms length transaction has no significant impact on the profit of the firms.

5.6 Impact of these five variables on the sales of the handicraft firms in Manipur:-

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	JOIVEN	5.541	49.809	.012	1	.911	254.963
	COMSUB	1.827	.543	11.312	1	.001	6.216
	LINCEN	7.935	21.418	.137	1	.711	2793.922
	BUYBACK	3.402	.558	37.176	1	.000	30.033
	ARMENGHT	-.085	1.012	.007	1	.933	.919
	Constant	-2.866	1.052	7.417	1	.006	.057

a. Variable(s) entered on step 1: JOIVEN, COMSUB, LINCEN, BUYBACK, ARMENGHT

We study the impact of these variable using SPSS10.0, and the model is found to be statistically significant and with a moderate goodness of fit as indicated by the model value of chi-square(p-value <.001, Nagelkerte $R^2 = 0.630$). Even though the model is significant, the contribution made

by the variables to the profit of the firm is in different degree. The odd ratio of each of the variable Joint venture(254.9 at p-value<.911), Commercial subcontracting(COMSUB) (6.656 at p-value<.001), Lincensing (LINCEN)(2793.922 at p-value<.711), Buyback(30.033 at p-value<.00), arms length transaction(.919 at p-value<.933). The result of the above result shows us that joint venture, LINCIN and arms length transaction is not significant. In case of buyback, for 1 degree increase i.e addition of one respondent will increase the odd of increase in sales by 3.402 likewise 1.827 for subcontracting, and 13. We conclude that Subcontracting, and buyback have positive impact on the sales and joint venture, arms length transaction and LINCIN has no significant impact on the sales of the firms.

6. Limitation of the study:-

1. Due to limitation of time we are able to collect and analyzed only a limited 200 sample.
2. Due to bad law and order situation in the state has greatly hampered the data collection process.
3. The concept of business linkage is new, and literatures are limited.
4. The method of data collection is purposive and confine only to certain rural clusters in Manipur.

Conclusion:- We came to know from the above fact that business linkage is an important factor for the sustainable growth of handicraft industry in Manipur. We are taking the case of WICG, to show that good inter-organizational linkage or relationship among craftsmen, government agencies, supplier, exporter, retailer, whole seller etc have able to sustain competitive pressure from other states. We have define the problems of handicraft industry, its characteristic, and its importance in the economic development of India and Manipur in particular. Business linkage has been reviewed in detail, and we take five inter-firm linkages type which are relevant to the handicraft industry in Manipur and applied statistical tools (Logistic regression) to test the significant of these five variables on the profit and sale of the handicraft firms in Manipur. We find that maximum of the firms in Manipur are going for Arms length Market transaction and the effective types of inter-firm linkage for profitability and sales are buyback and subcontracting (Commercial subcontracting). Encouraging the handicraft firms in Manipur to go for commercial subcontracting or buyback with big show rooms, design house, exporter, NGOs etc would be a right direction for the handicraft industry.

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