

INDIAN HANDICRAFTS INDUSTRY: EVALUATING INCLUSIVITY OF CURRENT BUSINESS MODELS

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Abstract

In the current scenario, we judge companies on the actual social and economic value they create through their core business activities. Hence, it is essential to clearly demarcate the commercial enterprises from the inclusive ones to gain a comprehensive understanding of an Inclusive business model. This article aims at evaluating companies in the Indian handicrafts industry to determine the nature of their business models with respect to inclusive business models. The article develops an evaluation framework based on various social and economic parameters, which measures the socio-economic impact of a business in the handicrafts industry.

Introduction

Though there is a high demand for both utilitarian and traditional crafts in the domestic and international markets, most of the craftsmen live below the poverty line because middlemen exploit traditional artisansⁱ. It is interesting to find out what role the for-profit organizations, which try to establish a link between rural artisans and urban markets, can play in this domain.

Companies like FabIndia, which include poor people in their supply chain thereby providing them economic benefits, are Socially Inclusive. However, at the same time diamond companies also include diamond miners in their supply chain but we do not call them Socially Inclusive. It is intuitive why there is a difference between these types of companies but a proper evaluation of companies on social parameters is required.

Current Landscape of Indian Handicrafts Industry

The Handicraft industry is a major source of income for rural communities and employs over six million artisans including a large number of women and people belonging to the weaker sections of the society. It is a highly labor intensive, cottage based and de-centralized industry. There are hundreds of small players in the industry who deal with limited range of productsⁱⁱ. The important factors which help in arriving at the set of key players in the Industry are Product coverage and Scale (Exhibit1). The key players identified are FabIndia, Mother Earth, Hansiba, Good Earth and Anokhi.

Based on preliminary research, when the players in the handicrafts industry was mapped on a plot with dimensions of scale and degree of inclusion of low-income groups in the value chain, we found that FabIndia was the most successful social enterprise followed by Mother Earth. Although the scales of these two companies had a lot of difference, both the companies had a considerable number of beneficiaries in their value chain. Other players like BIBA, W were largely commercial enterprises with a good amount of scale. Thus, very few organizations have business models focusing on both profitability and social impact.



Exhibit 1: Reach vs. Social Inclusion

Inclusive Businesses

An inclusive business is sustainable in nature and essentially benefits low-income groups. An inclusive business maintains its for-profit nature and contributes to poverty reduction through the inclusion of low income communities in its value chain. Inclusive business is about including the marginalized in the business process and supply chain either as producers or consumers.

What it means to be inclusive

For Business, it means income generation opportunity by addressing the needs of the poor or providing unique services, driving innovations by creating sustainable models for development, developing markets at the Bottom of the Pyramid, strengthening supply chains by providing access to rural areas which inaccessible in nature and expanding the labour pool.

Whereas for the poor, it means creation of jobs and opportunity to increase income levels, access to essential goods and services, meeting basic needs, higher productivity, sustainable earnings and greater empowerment .

Organizations scoring high on social value and moderate to high on economic value are considered as inclusive organizations (Exhibit 2). Measuring each of these parameters thus becomes important to establish the overall inclusivity of the business.

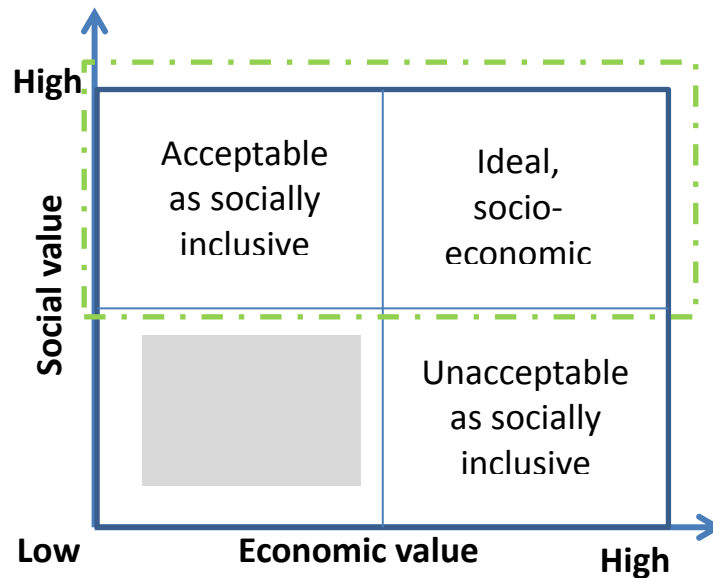


Exhibit 2: Social Value vs. Economic Value

Measuring Inclusivity

Social inclusion requires addressing the problem of social exclusion faced by the poor apart from generating income for the disadvantaged class. Apart from economic development of the poor, one also needs to take account of health, education and affordable access to other public services such as justice, housing, civil rights, security, information and communications. Businesses should be measured in dimensions of economic value and social value added. There are multiple indicators of social value enhancement. The weights assigned to each of the social indicators must be different depending on the type of domain the business operates in. The evaluation of the degree of inclusivity of businesses must include both monitoring and impact assessment frameworks. The unintended negative impact of business operations must also be taken into account. But the positive impact of the business' operations must outweigh the negative outcomesⁱⁱⁱ.

Key economic indicators

These are used to establish the economic viability of an organization. They include both financial and operational indicators to capture adequacy of demand and supply.

1. Financial indicators:

1. Profitability of business:

Gross margin and net margin can be used to assess the profitability. A business which has both the margins as negative over a long period of time is at risk of closing down.

ii. Sustainability of business: Firm's assets and liabilities determine the overall sustainability of the business in the long run.

2. Operational indicators:

- i. **Infrastructure:** In context of crafts industry, infrastructure implies tools and machinery to create the end product.
- ii. **Processes:** Here processes imply work allocation processes across the supply chain as well as workflow processes in creating the final processes. Work allocation and production processes should be standardized and well documented.
- iii. **Tools and automation:** While infrastructure includes basic tools to achieve production, automation (power mills etc.) can help achieve consistency in quality and higher efficiency at a lower operational cost.
- iv. **Resources:** As the crafts industry is a labor intensive industry, human resources are the most important assets. Thus, HR systems including organizational structure, career growth, incentives, compensation and skill development through training become extremely important.

Key social indicators

Contrary to traditional belief, it is possible to measure the social impact by capturing certain quantitative as well as qualitative metrics. The other potential perspective could be direct vs. indirect impact.

1. **Livelihood generation:** The primary objective of organizations operating in crafts sector is to provide sustainable livelihood. Change in average per-capita income post entrance of firm and number of jobs created by the firm can measure the impact on livelihood generation.
2. **Training and skills development:** For a business to be inclusive, it should make people self-sufficient to pursue the sector they are employed in as a sustainable livelihood. For this, they need to develop the skills requisite to do the tasks on their own. Some of the metrics that can be used are: No. of people trained and number of households benefitted by skills imparted to 1 member (through knowledge transfer)
3. **Women empowerment:** No. of women employed, increase in average marriage age and women attrition rates measure the extent of women empowerment.

Some of the other indicators include extent of reverse migration and provision of better financial planning to the poor people. Indirect/spillover effect is essentially the impact created indirectly through efforts put in by firms for achieving direct impact. These can focus on education, indirect employment through ancillary industries etc.

Evaluation framework

For economic indicators, ‘must have’ parameters include steady stream of revenues and profits. Having adequate asset base or less liabilities is good to have but not a necessary requirement for a business to be commercially viable. However, parameters are ‘must have’ only if they correspond to fulfilling primary objective. In case of crafts industry, income generation and human capital development are primary objectives and hence come under the category of must haves. Exhibit 3 shows the broad buckets of social indicators. However, deeper assessment depends on data availability. The evaluation for any firm will involve rating on a 5 point scale (indicated through Harvey balls). In addition, we cannot compare one firm’s rating to other firm’s rating as the rating only indicates how far the firm currently is from attaining its objective/being best in class. The relative importance of each parameter determines its weight on the evaluation framework.

					Illustrative	
		Must have		Good to have		Overall Assessment
		Profits	Revenues	Assets	Liabilities	
Economic Indicators		●	●	●	○	●
		XX% GM and YY% NM for last quarter	XX Rs. Revenue with yy% YoY growth rate	Fixed assets worth xxx, and current assets	Have long term debts worth Rs. yy	Fair performance on economic indicators
Social Indicators		●	●	●	●	●
		Increase in income levels by zzz	Training imparted to zz number of people	Contributed to development of community hospital	Assisted in development of SHGs for rural artisans	Good performance on social indicators

○ 0/4 rating
 ● 4/4 rating
 Area of concern

Exhibit 3: Inclusivity Evaluation Framework

Assessment of Inclusivity: FabIndia

FabIndia works as a facilitator between the weavers and niche buyers and merchandizes exclusive products. We assessed inclusivity of FabIndia’s model by evaluating it on commercial and social parameters (Exhibit 4 and 5).

Commercial Venture (Financial and operational)^{iv}

FabIndia has revenues of over Rs. 500 Crore with expected YoY growth of over 30%. Because of its early start, FabIndia was able to get prime mover advantage resulting in cost advantage, which translates into a net margin of 8% which is almost 3 times higher than the industry average^v.

FabIndia currently has 144 retail stores and targets 350 stores by 2015. Presence of a robust supply chain helps source goods at affordable prices, with very low variance in quality and just-in-time supplies—making its supply chain innovative. They source from 17 different regional CoCs with decentralized sales. This helps in limiting the dependence on a particular vendor. FabIndia invests in training and development of workforce ensuring adherence to optimal quality standards. Exclusive suppliers and employees of FabIndia have more than 36% stake in the company, which helps them tie their revenues to company's performance increasing their motivation to work.

Social Venture

FabIndia employs more than 80,000 rural producers and connects them to urban markets. It conducts extensive training programs imparting both technical and business skills and develops human capital. It has also stressed on inclusion of women weavers aiding in women empowerment. The women weavers are now earning approximately Rs. 2000-3000 per month. They also claim to preserve Indian culture by providing ethnic designs but this is debatable as the designs are more contemporary and suited to high-end customers rather than focusing on Indian culture.

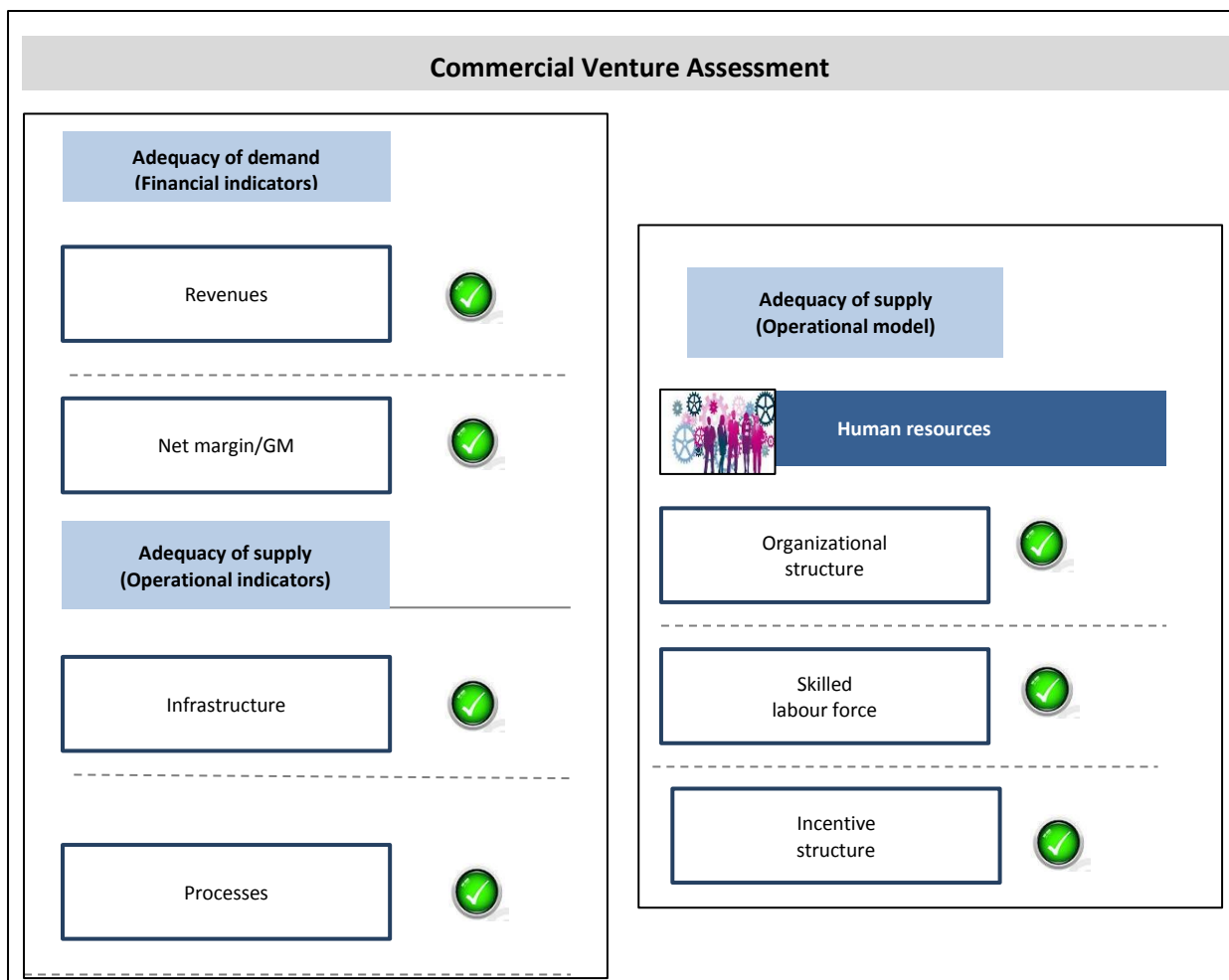


Exhibit 4: Commercial Venture Assessment - FabIndia

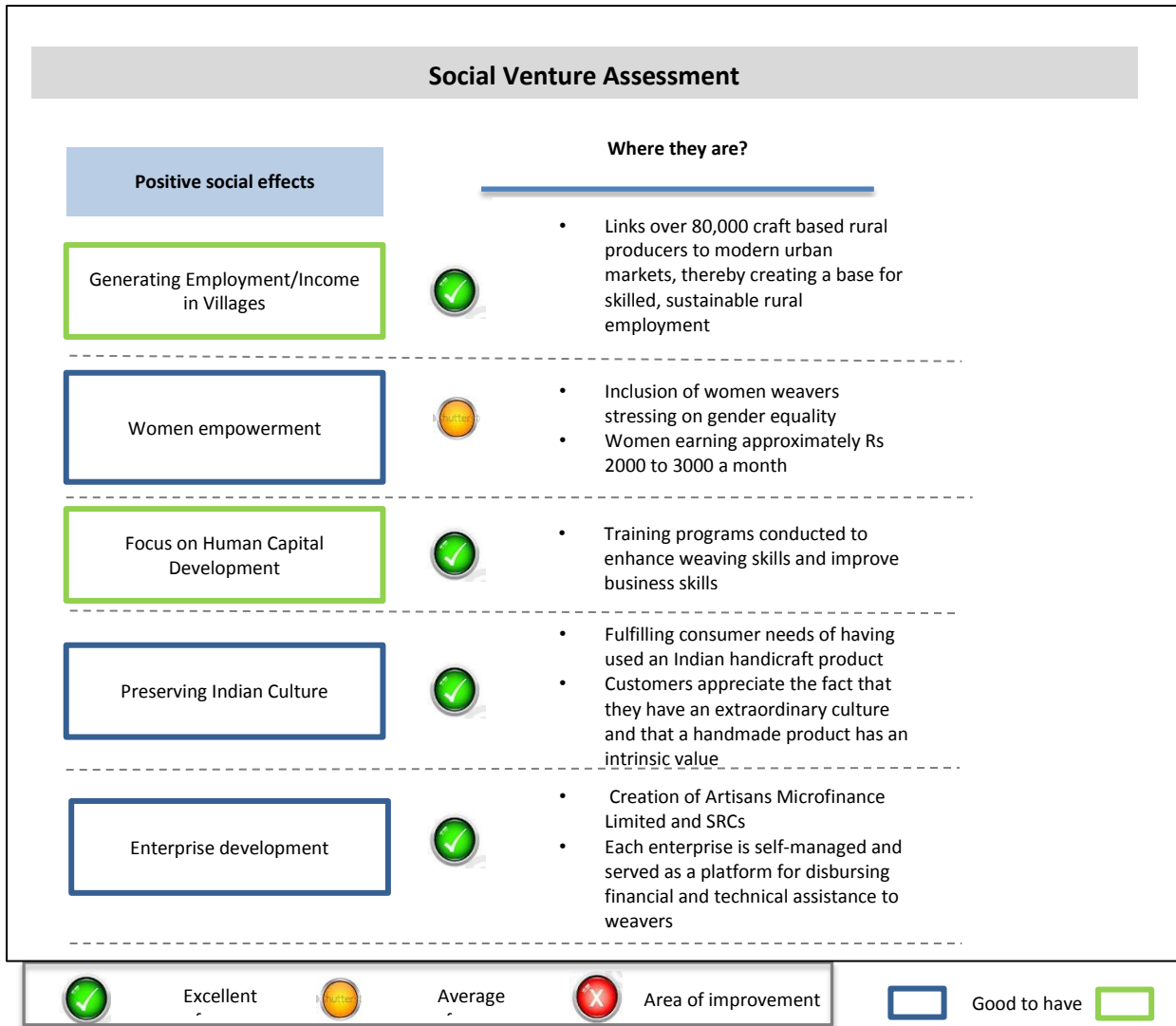


Exhibit 5: Social Venture Assessment - FabIndia

Assessment of Inclusivity: Mother Earth

We evaluated Mother Earth on the similar lines as FabIndia. We observed that Mother Earth, though smaller in scale, is trying to go down the path of being an inclusive model.

Commercial Venture (Financial and operational)

Mother Earth had an expected turnover of Rs. 120 Mn in 2010-2011. They have also formed Industree Crafts Pvt. Ltd (ICPL) to forward integrate to provide a stable demand. With Profits after tax (PAT) in FY 10 at Rs. (24.52) Mn, Mother Earth has not been able to make money. However, it is still in the growth stage in its lifecycle and is expected to break even in next couple of years^{vi}.

Mother Earth is financially backed by the Future Group and gains from its retail expertise as well providing a robust supply base. Producer groups are not on its payroll which provides them with opportunity to become independent entrepreneurs. It provides 26% stake to producer groups in the firm's equity tying them to the firm's performance.^{vii}

Social Venture

Mother Earth is on its way to achieve its twin objective of livelihood generation and human capital development. However, it has taken a step ahead to improve standard of living of the entire village by forming a mutual beneficiary trust where 10% of the money earned by organization is pooled back for community development. ICFL helps in human capital development by not only training SHGs in core skills but also helping them understand the basics of running a business^{viii}.

However, like any other social business, there are unintended negative consequences associated with providing jobs to artisans – opportunity cost of pursuing higher education or agriculture. We do not have any data for Mother Earth in this regard and hence have not evaluated Mother Earth on this parameter.

Conclusion

The research work shows that we can quantitatively measure social impact provided adequate data is available and captured timely. Both FabIndia and Mother Earth are trying to move toward creating inclusive models benefiting the local artisans and at the same time making profits. The framework suggested for evaluation of firms in the handicrafts industry can be extended to other sectors, though value indicators might change depending upon the type and nature of the industry being evaluated. Also, apart from evaluation of inclusivity, it is worth looking at the reason for a particular level of inclusivity.

While inclusivity assessment using framework suggested above provides directions towards areas of improvement, implementation of same requires overcoming ground level challenges like lack of skills, competing priorities with commercial side, financing, building demand and tackling principal agent problem throughout the supply chain. Thus, a detailed analysis of the challenges faced at the ground level is required to give an accurate picture of the situation.

Keywords

Others, Inclusive Business Models, Handicrafts, India, FabIndia, Mother Earth, Social Value

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