GOVERNANCE MECHANISMS AND ORGANIZATIONAL INNOVATION WITHIN THE TEXTILE INDUSTRY AND TEXTILE PRODUCTS

Monica DUDIAN

Academy of Economic Studies, Piata Romana 6, Bucharest, Romania
monica.dudian@economie.ase.ro

Abstract

The objective of this article is to identify the possibilities of organizational innovation at micro-economic level and industry level, in order to ensure the long term viability of this domain in Romania. To achieve the above mentioned objective, there has been studied and analyzed the reference literature for the organizational forms and strategic solutions from the textile industry, applied since 1930 up to present days, in representative countries for this sector. Afterwards, given the current overall situation of the textile industry, there has been set potential strategically solutions appropriate for Romania. Historical experience suggests two directions of change in the textile industry of Romania: (1) changes within the organizational structures; (2) new strategically directions of the enterprises.

Keywords*:* organizational innovation, textile industry, organizational structures.

1. INTRODUCTION

The textile industry (strands, fabrics, manufactured items) is into a continuous process of structural mutations, currently characterized by a tough competition and an intensive effort of adapting to the new economic conditions generated by the world crisis. The objective of this article is to identify the possibilities of organizational innovation at micro-economic level and industry level, in order to ensure the long term viability of this domain in Romania. Organizational innovation is defined as „the introduction of significant changes into the organizational structures, the implementation of advanced management techniques or the implementation of new strategic corporate directions" (Trott, 2008). The importance of this subject is derived from the importance of the textile industry and textile products sector within the total of Romanian economy. Thus, in 2010, this industry was approximately 3.3% of the total industrial production and 12.2% of the export trades.

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The structure of the paper is the following: the second part comprises the reference literature regarding the strategies into the textile industry; the third part is an overview of the Romanian textile industry; the fourth part identifies the organizational innovations that could lead to the increase of performance of the textile industry.

2. THEORETICAL REFERENCES

Many empirical studies and reports of the international organizations are focused on the manners to ensure the viability of the textile industry. EU (2003), into a report on the future of textiles and apparel after the year 2005, concludes that the future of the textile industry lies into research, innovation, education and cooperation. The report insists upon the importance of the free trade Pan-Euro-Mediterranean area, which allows „the combination of cost, quality and proximity advantages" (EU, 2004).

In France, the state was involved in ensuring the long term viability of the textile industry. Thus, according to Chevalier (1991), in 1981 the French government launched „the Textile Planning" and its objective was „to maintain the jobs, to regain the internal market and to promote a dynamic and efficient industry". The plan was functional in respect of competitivity, but not in respect of maintaining the take-up. In 1988 there was implemented a device called „the textile-apparel operation", focused on the modernization of enterprises and their speed-access to information. According to Chevalier (1991), relocation is a solution to increase competition, by reducing the costs. But an equally important solution is the increase of capitalization per employee, in other words, the increase of capital power. This assertion is proved by the cited author through the two-time increase of capital invested per employee within the textile industry in France during 1973 – 1985. The additional solutions underlined by Chevalier are the globalization and the flexibility. It is interested the fact that globalization is „the capacity of choosing the partners and the most appropriate form of association: partnership, vertical integration, network, sub-contracting, joint-venture, franchise, passive progress" (Chevalier, 1991). The result consists in reducing the transaction costs within the context of an immediate answer to the market demands. Flexibility takes into account precisely the diminution of the time of procurement / manufacturing / outlet and the quick answer to the demand, the principle being exactly called „quick answer" (Chevalier, 1991). The two elements – globalization and flexibility – are the central elements of the organizational strategy. This strategy is completed by the market strategy, having as central point the brand-based difference applied at global level. Although this research could be classified as „old", it is interesting the fact that the solutions indicated by its author are still in force today. Into their latest work, Hristache and Iacob (2012) conclude that the corporate performance depends on its capacity to implement an organizational system which is „extremely dynamic, flexible and reactive".

Balacet and Vitali (2001) explore into their paper the relationship between Italy and Central and Eastern Europe into the field of textile industry. They perform a short analysis of the stages of increasing the Italian

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multinationals and extending them towards Latin America, Spain and Central and Eastern Europe. Their conclusion is that the extension towards the Eastern Europe during 1990 – 2000 was focused first of all on the decrease of costs and not on the scale economies. In Italy, the textile and apparel industry is focused on industrial districts, regrouping various small firms which are, at the same time, competitors and collaborators. The textile and apparel industry is very concentrated at regional and intra-regional level, and the relationships between enterprises were limited mainly to subcontracting in 2011 (Balacet and Vitali, 2001). The industrial districts have allowed the successful exploitation of the positive externalities and synergy effects, keeping at the same time the advantages generated by the clear definition of the property rights and by the specific exciting elements belonging to the quality of ownership. The extension towards East, was made both under hybrid forms of government, such as joint-ventures, cooperation agreements, subcontracting, and under procurement – hierarchy agreements. According to the authors, the lohn contract was a solution for the firms from Italy to cope with competition and to penetrate the Eastern European markets. Romania was the main destination of these firms (as an example, in 1998 Romania held half of the production in lohn transferred by Italy). From the macroeconomic point of view, this fact represented an advantage for Romania only on short term, due to the fact that the textile sector, technologically weak, got and spent resources that could have been assigned to certain intensive technological sectors. According to Balacet and Vitali (2001) the Italian example would be followed by the countries of the ex-communist Europe in the following decades.

Signorini (1994) performed a study on a sample of 500 firms from Italy and he concluded that the geographical concentration set up the increase of productivity and profitability.

Staber (2001) proves, through econometric models, on a sample of 1213 hosiery enterprises from Baden-Wurttemberg region from Germany, for the period 1960 – 1998, that the geographical proximity and cluster organization affect negatively/positively the firms if they belong/do not belong to the same industry. The article leads to the conclusion that the cluster organization is favorable to the firms belonging to the complementary industries/sectors/activities. Puig and Marques (2011) have studied in their work the impact of regional clusters and industrial districts from Spain upon the company performance. The conclusion of the paper was that the hybrid forms of organization determined the increase of productivity. As the impact is higher in the case of the industrial districts, the authors of the research recommend that the authorities should support the strategies of creating/developing/improving these groups. Vicedo and Vicedo (2011) show in their work that „through the collaboration between the universities and the Spanish textile industry clusters there is obtained an increase of competitivity and the different competitive advantages obtained are exploited".

In Turkey, the state supported the textile industry development during 1923-1962 (Kutluksaman et al., 2012). According to the referred authors, the development of this industry has been done by successive integration

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along the value chain, beginning with the production of natural and synthetic fibers and finishing with the distribution of final products. Import substitution policies, followed by the aggressive export policies during 1962 – 1972, respectively 1980 – 1990, led to the exponential increase of this sector. Afterwards, Turkey was positively affected by the customs union creation with the EU, but it was „hit" similarly to the countries developed by WTO's Agreement on Textiles and Clothing (ATC) implemented since 1995. Similarly to China, the textile industry is concentrated along the sea-coast areas, allowing thus the exploitation of the advantages generated by the sea opening. The industrial centralizations take the form of clusters comprising regional industrial groups, trade chambers, export associations, suppliers of raw materials, banks, service suppliers, governmental agencies and entities, universities and other education and research organizations, connected industries (agriculture, furniture, vehicles, a.o.). Kutluksaman et al. (2012), further to an extended research upon textile industry, based on Porter's theory, concludes that „the consistency and strong cluster focus in government policy" are essential for the growth of competition within this industry and country on the whole. The case of the textile industry from China is a special one, because this country is characterized by a historically unique centralized economy. The development of the textile industry was grounded by its labor intensity and the low level of Qiu technologies (2005). The policies of supporting the textile industry which brought China on the first place in the world in respect of textile and apparel export (Research Report on China's Textile Industry, 2012); have been permanently integrated into the policies of regional development and the global policy of this country. Primarily, during the 1950s, the industry developed scattered in terms of space, with the aim of exploiting the advantages resulted from the labor and cheap raw materials and the high demand, wherever these advantages existed. In 2005, in China, the textile industry was concentrated into the Eastern sea-coast regions (Lin, Li and Yang, 2011), as a result of the implementation of open – door policy since 1979. Lin, Li and Yang (2011) prove on the basis of a sample of 14645 textile firms, for the period 2000 – 2005, that the given space concentration had a positive impact upon productivity. At the same time, the authors emphasize the passing character of the cost advantage and they argue that a solution for China is to continue „the science park policy", so that the industry could benefit of technological innovation. The state involvement into supporting the textile industry is permanent, a last example in this respect being the support given after the year 2008, as a response to the challenges generated by the crisis. Thus, among the adopted measures, there were „the increase of the export rebate rate, the Adjustment and Revitalization Plan of Textile Industry and Notice on the Exemption and Reduction of Exit-Entry Inspection and Quarantine Expense for Exporting Agricultural Products, Textiles and Garments, etc" (Research Report on China's Textile Industry, 2012). In order to cope with the increasing competition, China is implementing a series of measures such as: the usage of ecological fibers, investments into new technologies or eco-technologies, development of a „clean production", understood as the efficient assignment of resources and energy, diminution/deletion of dissipation as means of the sustainable development of textile industry and long term

environmental protection. China's example is pointing out an important aspect of long term survival of enterprises: the component of sustainable development or that called the socially responsible enterprise.

The aspects related to social responsibility and environment are also underlined by the work written by Thoburn (2010) under aegis of the United Nations Industrial Development Organization (UNIDO). The paper broadly explains the effects of contemporary crisis upon the textile industry and apparel from Asia and comprises a distinct chapter for policies and answers of this crisis sector. The author points out that the green and socially responsible production is both a required answer to the clients' demands and to the new EU regulations, and an instrument to differentiate on the market, which determines the increase of the company performance. Thoburn (2010) argues that the success of firms will depend „on their successful insertion into global value chains", the chain being defined as an assembly of contractual agreements on long term, where the power of parties is important, and that power is held especially by global buyers. In order to assess which of the above solutions are appropriate for Romania, there has been necessary a synthesis of the textile industry situation from this country.

3. TEXTILE INDUSTRY FROM ROMANIA: OVERVIEW

The Romanian textile industry is characterized by a low degree of concentration, the first four firms holding under 15 % of the market. The HH indicator, of approximately 48.4, shows the low concentration on the market of textiles, indicating the absence of the monopoly power (Dudian and Crăciun, 2011).

If in Turkey a key element of success was the integration along the value chain, in Romania, after 1989, the disintegration was an important cause of the decay. Disintegration was determined mainly by the orientation of the Romanian textile industry towards lohn, system implying in essence an assembly of intermediary products and the export of final product towards the origin country (Voinea, 2005). A logical simple analysis on the basis of the value chain displayed in figure 2 proves this assertion.
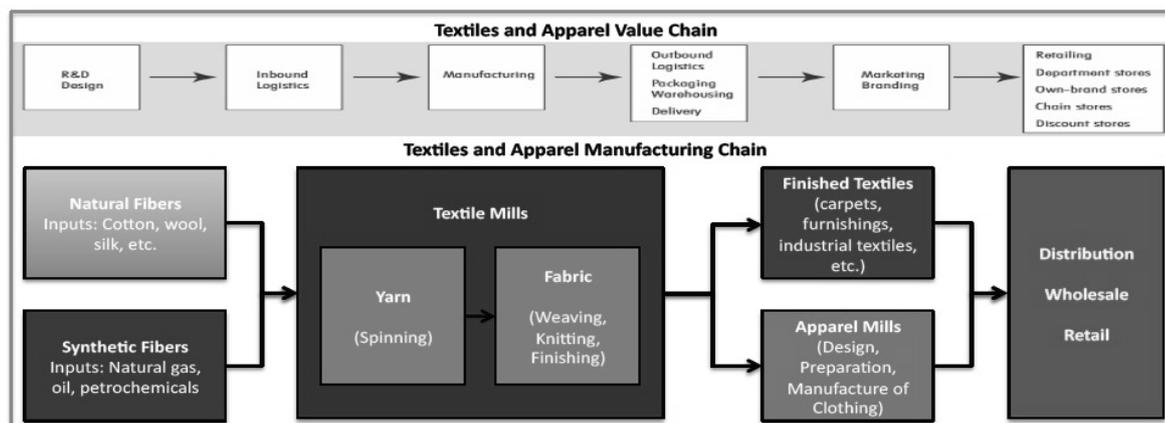

FIGURE 2 - THE VALUE CHAIN INTO THE TEXTILE INDUSTRY
Source: McNamara (2008), cited in Kutluksaman et al., 2012

Through the prevailingly lohn production (lohn weight increased from 18.3% in 1989 to 56.8% in 2006), the Romanian firms integrated into the value chain predominantly into the „manufacturing" area, with a low added value. At the same time the raw material production and the research development activities dramatically decreased simultaneously with the agricultural surface intended for the assurance of raw materials and with the number of researchers and research institutes within the sector. The retail sector is dominated in Romania by global players, such as H&M, Zara or C&A a.o. The absence of training schools within the field of textile industry, the absence of national suppliers and the high power of negociation of retailers are the main issues invoked by the Romanian manufacturers from the textile industry. In the last five – six years, the manufacturers tried hard to overpass these issues, but their replacing into the value chain is far from being realized.

According to Tudor (2012), other important factors of the decay were: „a continuous increase in the minimum wage, an acute labor shortage, which was caused by migration, the closure of many small enterprises, and the liberalization and full integration of the textile industry into GATT in 2005".

The economic crisis intensively affected this industry. During 2008 – 2009, when the crisis reached the peak in Romania, the manufacturing of textile products decreased, cumulated, with approximately 29%, and the production of apparel with approximately 40%. The downfall of apparel continued up to 2012, while the textile production met a revival in 2010, and then decreased again (National Committee of Forecast, 2012). Within the context of crisis, the textile industry gets under higher and higher pressures aiming to structural adjustments and organizational innovation, similarly to all world economy countries. Unlike the EU developed countries, Romania is at the beginning of the adjustment process of this industry, being still intensively dependent on the lohn production, which represented a surviving solution during the last two decades. So far, in this country, the enterprises are classical hierarchies, most of the times, multifunctional, but with well defined hierarchy levels. The cluster cooperation is weak and the sector is confronting a tough competition both on the internal market, and abroad, in countries with cheap labor, like China. Given that, the following question occurs: in which direction could the adjustment be done? The researchers cannot give a unique answer to this question, but there could be described possible solutions, taking into consideration the experience of other countries mentioned into the above chapter.

4. RESULTS AND DISCUSSIONS

Coming back to the definition of the organizational innovation, the experience summarized in the last chapter suggests two directions: (1) changes within the organizational structures; (2) new strategically directions of the enterprises.

- *Changes within the organizational structures*

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The main point of this change consists in the industrial agglomerations, partnerships of any types and cluster cooperation. The clusters from the textile industry are the reality of all studied countries, both from the EU, and Asia. China's experience shows that the industrial agglomerations could be influenced by the government decisions, and the developed countries come to support the fact that the public authorities could be a catalyst and an interface for cooperation. The agglomerations and networks into the textile industry have generated in the studied countries many positive effects, such as: diminution of transaction costs, increase of productivity, increase of competition, scale and scope economies, division of social responsibilities and commonly solving the cross sector and multi sector issues. In addition, this type cooperation facilitates the draw up of financial resources, including the public ones. For example, in Romania, the effective cooperation could allow the better draw up and absorption of European funds.

An important question is: where should these agglomerations is established? China's experience gives a possible solution: close to the sources of raw materials, to the financial resources and to the areas ensuring speediness to export and eventual, for Romania, to raw material import.

- *New strategically directions of the enterprises*

Relocation is the main strategic element common to all UE developed countries. Even if Romania is still competitive in terms of costs as compared to other less developed countries, it is obvious that this advantage is a short term one, at the most, a medium one. Therefore, the strategically reorientation in due time is a solution to ensure the long term viability. Relocation aims mainly to: diminution of costs, penetration of new markets and, to a less extent, exploitation of scale economies. These objectives suggest the possible destinations of relocation: the place where the creation/development of demand is desired and where there could be obtained economies of costs. Given that the Romanian brands are not very known (in comparison to those from France, like Dior or Channel), relocation, accompanied by an appropriate marketing and a good ratio quality/cost, could allow the penetration of external markets. In terms of cost diminution, the countries from the Pan-Euro-Mediterranean area could be a solution for Romania, similarly to other countries from EU15. Of course, given the regional closeness, Ukraine and other countries from the ex-Soviet Union could be added.

An important and thorny aspect of relocation, underlined by the economic crisis, is the access to the financial resources. Therefore, a relocation strategy supported by the public and by the cooperation between enterprises could reduce the risk and could facilitate thus the access to financing.

Other potential strategic directions, less radical and possibly implemented on short term, are: the increase of capitalization, the increase of flexibility and the emphasis on the brand-based difference.

Given that the social responsibility has become an important aspect of business after the year 2000, the social and sustainable development aspects should not be absent from the strategically orientations of firms. Sustainable innovation into the textile industry from the EU15 countries is achieved both individually, and by cooperation with universities. « Clean » manufacturing is an important aspect within textiles, not only in Europe, but also in China, country which is aware that its cost advantage could disappear and it has begun the implementation of this new strategic direction.

From the above discussions there could be emphasized the fact that the new strategically directions are indissolubly linked to the changes into the organizational structures. The transformation of enterprise agglomerations into effective partnerships, hybrid organizational structure types, socially responsible, represent the solutions for increasing competition and ensuring the long term viability of the branch.

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