



Organizing the un-Organized? The Rise, Recession and Revival of the Indian Diamond Industry

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Abstract

The Indian diamond industry thrives in the atmosphere of secrecy and informality that envelops the diamond trade and has for long been labeled as an unorganized sector of the economy. However, it resembles a close-knit community composed of thousands of small, medium and large sized CPD (cut and polished diamonds) units and has grown to become one of the highest foreign exchange earners for the country. The industry exports cut and polished diamonds worth US \$ 14 billion annually and enjoys a 95 % market share of the global exports of cut and polished diamond pieces. An in-depth study of the industry reveals that the so called unorganized sector is in fact highly organized and has great potential to offer useful insights to the field of management in terms of new forms of organizing, networking, business processing and for doing international business. This paper presents summary of findings from research conducted in the Indian diamond industry over a period of last four years. Part I includes insights about the remarkable rise, growth and the unique working of the industry. Part II makes use of a case study of a 40 years old large- sized CPD unit to help gain further understanding of the Indian diamond industry. Part III is about the impact of the 2008 global turmoil and of the industry's revival after a severe recession. The analysis of findings and implications for future research have been discussed.

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Dr Indu Rao

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1. INTRODUCTION

The unorganized sector has been grossly overlooked in management literature. While most of the research is focused on organizations and we often collect data and administer surveys in the 'organized' sector, the 'unorganized sector' remains neglected. However, the so-called unorganized sectors are in fact highly organized and contribute significantly to the global economy. These sectors mirror neither the typical evolution of the organizations, nor the organizational structures common to the organized sector. Moreover, these success stories are not well-documented, nor are they systematically represented in the management literature. Our interest, indeed what intrigues us, is in these 'new organizational forms' embodied by these unorganized sectors that seemingly add significant value and apparently seem to contradict the traditional understanding of organizations.

The Indian Diamond industry has existed for almost half a century and has ever since been understood to belong to the unorganized sector. However, India has risen to be the world's largest centre for cutting and polishing of diamonds and is one of the highest foreign exchange earners for the country. The industry has been a frontrunner to India's export-led growth and is unique due to several reasons. It is composed of a network of thousands of family run units of different sizes employing more than a million people most of whom have little formal education. All of these units are concentrated in Gujarat, a western state of India and mainly in the city of Surat. Given the global nature of the trade and the background of the workforce, it is perplexing to note that networking of these units has developed into an industry which enjoys 95 per cent share of the world market in terms of number of pieces, 82 per cent share in carats and 60 per cent share in value terms. Nearly 11 out of every 12 diamonds sold worldwide are cut and polished in India. ^[1] Fig 1 shows the rise of the Indian diamond industry over the last two decades.

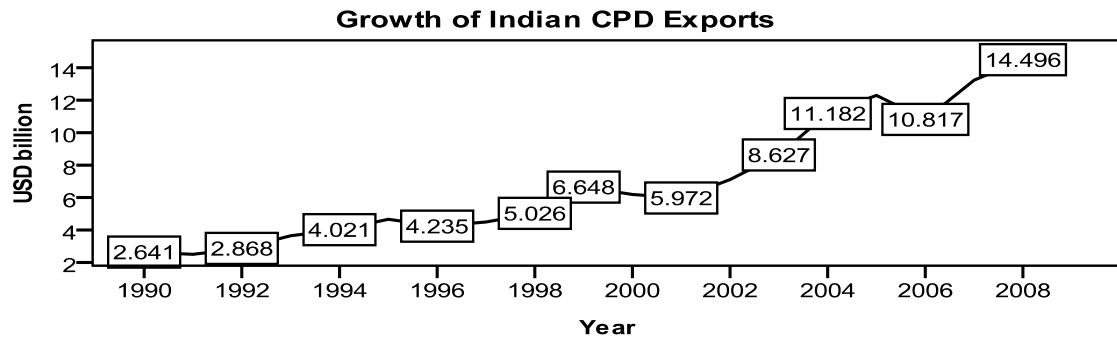


Fig 1(Compiled from data available at gjepecindia.org)

The Indian diamond industry received significant attention in the media recently because about a hundred thousand workers lost their jobs in Nov 2008 when panic followed due to the impact of recession. While we acknowledge the sensitivity and gravity of the issues and the need of reforms to address them, this paper is an attempt to draw useful insights for the field of management with a balanced perspective on the industry. Due to the manner in which the Indian diamond industry has organized itself and grown, coupled with the kind of signals of recovery which have followed after the severe recession, we believe that this success story of long awaits to be documented in the business management literature.

This paper presents summary of findings from research conducted in the Indian diamond industry over a period of last four years. Part I includes insights about the remarkable rise, growth and the unique functioning of the industry. Part II makes use of a case study of a 40 years old large- sized CPD unit to help gain further understanding. Part III includes the impact of the global turmoil of 2008 on the Indian diamond industry and of its revival after the severe recession. The analysis of findings and implications for future research have been discussed.

2. RESEARCH DESIGN

Due to dearth of documented research on Indian diamond industry, practically none in management, we proposed to begin with an exploratory study and framed our preliminary research questions (RQ) as below :

RQ 1: “How is the Indian Diamond Industry organized ?”

RQ 2: “What has led to the success of the Indian Diamond Industry ?”

Both primary and secondary sources of data were used. The industry export data was collected from GJEPC ^[1], India to assess the size and growth of the industry. Though the information obtained gave insights about overview of the trade at the global interface, that is, at the point of exchange between India and other countries, it did not reveal how the industry operates within India.

In order to address RQ1, in-depth interviews were conducted with diamond manufacturers, traders, exporters, workers, artisans, representatives from the related government agencies and the Indian diamond institute as well as with others who were knowledgeable of the diamond industry. This was accomplished through extensive travelling and visits to the small, medium and large sized CPD units (cutting and polishing of diamonds) across the state of Gujarat and in Mumbai offices. Answers were sought for open ended questions about the work that the person interviewed was doing and discussion was extended to “*How does the Indian diamond industry operate? Who are its actors? What has led to its rise and growth?*” As there were limited records for the distribution of the various CPD units and their location, judgement and convenience sampling technique was adopted. Summary of the findings about the overall industry obtained from the exploratory data are presented in Part I of this paper.

For RQ 2, we proposed to conduct a case study of a large successful CPD unit. The unit was identified after analysis of inputs obtained from the exploratory study and of those received from responsible people in the industry. Our objective was to understand the factors leading to the success of this unique industry by analyzing how this CPD unit has evolved over the years. We have made an

attempt to understand the background, the growth, the culture and the practices followed in the unit which are summarized in Part II.

3. PART 1: THE INDUSTRY OVERVIEW

3.1 The Global Spread

The diamond industry is truly global. The raw material which is the diamond rough, is not mined in India but in different pockets around the world as in Africa, Russia, Australia and Canada. This is imported by different countries where it is cut and polished. Fig 2 and 3 depict the global percentage share by value, of regions and countries which produce rough diamonds and of those which import this rough in 2008 . The finished product has since long been traded mostly in Antwerp, Belgium, and exported to different parts of the world, the major consumer being the USA.

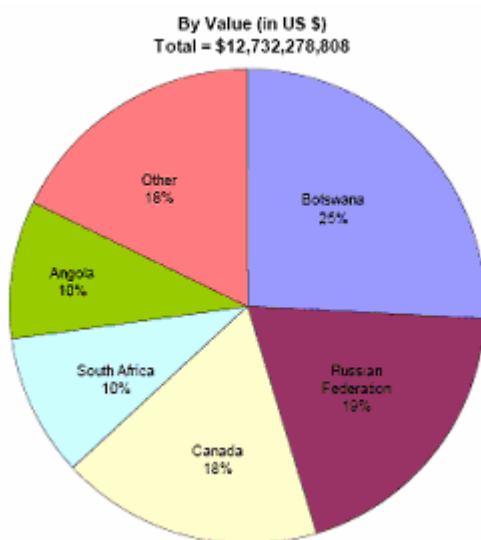


Fig 2 Diamond Rough Producers

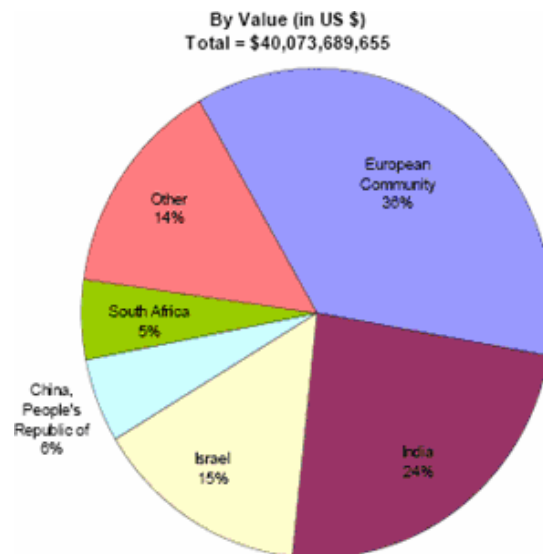


Fig 3 Diamond Rough Importers

Source: Kimberley Process^[2]

3.2 A Modest Beginning in India

In the 1950s, the processing of diamonds was done mainly in Antwerp in Europe. As more diamond mines were discovered, there was increase in the availability of diamond rough. Also, there were

enormous price differentials in the processing of large and small sized diamonds. The diamond manufacturers of Europe were faced with the problems of handling a large chunk of rough diamonds and were willing to share the production of small sized diamonds which gave lower returns on investment. At the same time, a newly born Indian democracy was crippled with problems of unemployment and poverty. Our study revealed that a few enterprising Indians who went to Antwerp agreed to bring to India the left-overs of diamond rough for polishing. These were very small pieces of diamonds called as 'grains of sand' in diamond terminology. The entrepreneurs from Gujarat in India, utilized this opportunity to develop indigenous methods of cutting and polishing of diamonds in small factories (CPD units). The finished product, the processed diamond was then exported to the globally centralized trading market which existed in Antwerp. This was like outsourcing of low-valued diamond rough to an under developed country in those times.

3.3 The Incredible Growth

Gradually, over a span of four decades, there was an increase in the size of the industry, and in the number of CPD units in India. The secrets of this business were shared with and restricted to the members of a local community in Gujarat. The community members were largely simple, religious and possessed very little formal education. Personal discussion revealed that those who were interested in going to school were attracted towards diamond business and dropped out of studies. In spite of absence of management education, unique management styles and organizational skills were developed. They tirelessly worked on upgrading the skills of artisans as well as on the techniques of diamond processing. As these Indian firms (CPD units) increased in size, they moved up the value chain and set up their own trading offices in Antwerp. After creating a niche in the diamond arena with small diamonds, some of these units developed skills and technology for cutting and polishing larger stones and fancy cuts. Improved technology and product quality helped 'in-sourcing' of higher valued raw material, the larger sized diamond rough to India. The firms eventually developed a worldwide marketing network of global suppliers and clients on their own.

The entire process, by the dawn of the 21st century, led to a shift in the global production base of diamonds to a country which by now had transformed into an emerging economy. Fig 4 and 5 illustrate the percentage share of India in global exports of cut and polished diamonds by value in 2005 and the distribution of global produce of rough diamond during the same year.

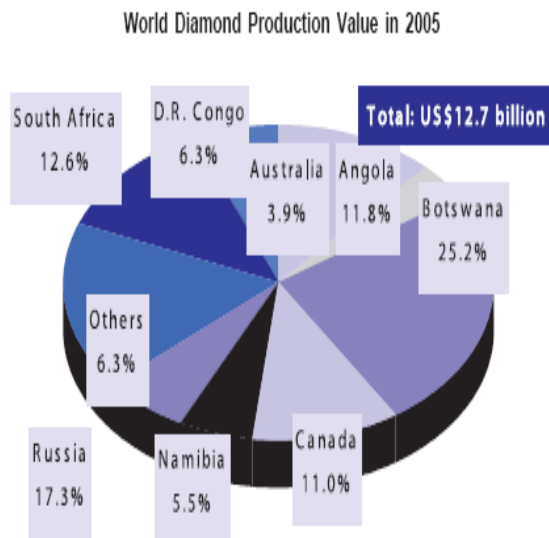


Fig 4 Countries Producing diamond rough

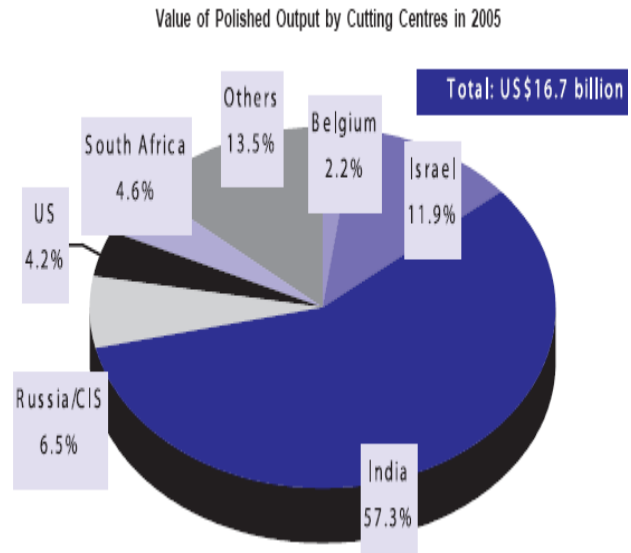


Fig 5 Countries exporting Polished Rough

Source : ICRA ^[5]

On Aug 1, 2005, the Financial Express ^[3] reported, “The Indian gems & jewellery (GJ) industry is one of the most important segments of the Indian economy.” “About 10 lakh people out of the total of 35 lakh population of Surat city earned directly or indirectly from diamond industry in 2006”, said a local industry report. ^[4] The enterprising Indians were successful in leading the remarkable growth of the CPD industry from 0.12 billion US\$ in 1975-76 to 14 billion US\$ in 2008-09 (Fig 5). ^[1]

3.4 The Industry Structure

The Gems and Jewellery Export Promotion Council (GJEPC) is the apex governing body of the Indian diamond industry and was set up by the Ministry of Commerce and Industry, Government of India, in 1966 with a purpose to effectively mould the scattered efforts of individual exporters towards evolution of the industry and to undertake various activities as trade facilitator and as an advisory. The GJ industry has registered a remarkable growth with exports having grown from US \$29.35 million in

1966-67 to US \$ 21.11 billion in 2008-09 accounting for 19.1 percent of total Indian exports.^[1] Export of cut and polished diamonds (CPD) accounts for 67% of the export basket of Indian Gems and Jewelry and is therefore a leading foreign exchange earner for India. ^[1]

However, the Indian diamond industry has traditionally been claimed to be a part of the unorganized sector of the economy. A majority of India's skilled diamond workforce is employed by small family-owned firms or CPD units that process diamonds on a job-lot basis. In the 80s and 90s, the diamond industry was largely criticized for the poor working conditions of the hundreds of one and two room units mushrooming in Surat and nearby places.^[4] Our study suggests that even today, there exists a huge network of traders, manufacturers, artisans and brokers engaging perhaps more than a million people. Also, it appears to be difficult for anyone to predict the actual number of diamond manufacturing units or the actual number of people employed, as processing is done in large, medium and small units spread across the state and reaches many villages and even homes for which there are no records.

As in any other industry, some CPD units have performed better and have grown faster. As a result different sizes of units exist which can be categorized as small, medium and large depending on the number of diamond pieces, the size of individual diamond piece and the quality or grade of diamond being polished. The large-sized diamond units are few in numbers but have risen to be centers of excellence in various aspects of management of resources, human and material, and of doing business, both within and outside the country. Some of these Indian diamond polishing factories are today, at par with the world's best and make use of laser machines, computerized yield planning machines, advanced bruiting lathes, diamond impregnated scaives, etc. According to a survey conducted by GJEPC, the percentage share of the organized sector increased from 9 % in 1995 to 45 % in 1998. ^[5] What we witness today is that the industry is becoming increasingly organized. The recent recession has also paved the way for consolidation.

3.5 Networking of CPD Units

Different categories of CPD units are equipped to cater to cutting and polishing of different categories of diamond rough. Often, the large CPD units have subsidiaries and outsource the smaller and lower quality rough to the smaller CPD units. Discussions revealed that the imported diamond could pass through different channels before being exported (Fig 6). It is possible for a large manufacturer to directly import, process and export the diamond. The medium sized CPD units may depend on the traders and brokers who are involved in the intermediate buying and selling. There are several small units at the lower end of the chain which participate in the Heera Bazaars (see 3.7) to collect their share of the diamond rough for polishing.

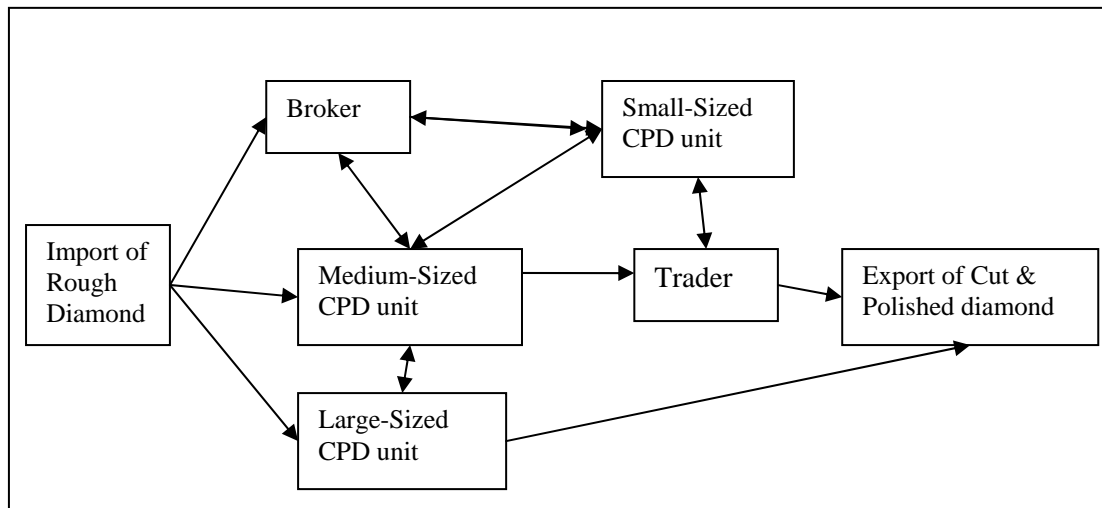


Fig 6 Networking of CPD Units

3.6 A Unique Transaction System

The transaction of diamonds is carried out through special mechanisms. The transportation of diamond packets, both rough and polished, is largely done through *angadias*. Angadias are people, members of *Unja Patels*, a local community who have specialized in carrying diamonds safely within the industry for a period of over four decades and have achieved trustworthiness of the highest order. There are often no written contracts, many transactions occur in cash, and stones worth millions of dollars are transported with virtually no security. The angadias could also be carrying these diamond

packets in their pockets and traveling in the economy class of a train. The whole industry they say, works on trust.

3.7 The Heera Bazaar

Trading across various levels between importers, exporters and manufacturers is carried out through thousands of brokers on open streets in markets called '*Heera Bazaars*'. Diamond packets worth millions of dollars continue to exchange hands without formal receipts in such There are Heera Bazaars located in different parts of the state of Gujarat which cater to the nearby CPD units. The rough diamonds as well as the polished ones are traded here. It appears impossible to track and account for the exact number of such transactions or the number of people involved in them, however, they seem to be well-connected to the industry network and are engaged optimally to produce the overall output of the industry.

3.8 The Industry Glue

The Indian diamond industry mainly consists of members of a particular community and are often socially related to each other. They share a unique industry culture with few formal systems unlike what we see in the so called organized sector. Most functioning of the industry seems to be nested in psychological contracts and trust which is reinforced through social bonding. It resembles a close-knit community that thrives in the atmosphere of secrecy and informality that envelops the diamond trade. Self imposed rules, discipline and order is observed and the business dealings carry out smoothly with few formal policies and procedures or documentation.

4. PART II : A CASE STUDY

4.1 Reasons for identifying the Case

This part of the paper presents a case study of a large-sized CPD unit and includes a description of its culture, practices, systems, policies and innovations. Discussion with different stakeholders of the Indian diamond industry in early 2009 revealed that this CPD unit has grown along with the industry and was at the forefront braving the recession of 2008 while leading the revival of the industry. These references besides others were instrumental in helping us make the choice of the CPD unit for the case study.

4.2 Overview of the CPD Unit

Established four decades ago by two brothers with a handful of employees, the second generation of the family joining later, the annual turnover of this unit grew from Rs 50 million in 1988 to Rs 14,000 million in 2008, the employee strength today stands at 1500. The firm enjoys the reputation of having revolutionized the domestic and international diamond cutting and polishing industry, and of redefining the concept of a modern diamond processing unit.

4.2.1 Reasons for Start-up

In 1960s, there was a talk about a new business opportunity, the diamond cutting and polishing in this region. Also, there was joblessness, poverty and lack of education. Members of this community were intelligent and hard working and there was scope for a large number of them to get employed in the diamond business. Not only did these diamond workers have little or no formal education, those who were studying stopped doing so because they found work with diamond industry. The 61 year old CEO and founder of the CPD unit himself, though a successful student with high aptitude for Math and plans of doing an engineering course, dropped out of studies after 10th grade in school. He was one of the few persons trading actively on open streets, now called the Heera Bazaars. Various aspects of diamonds were learned while moving in different factories of cutting and polishing diamonds which had started mushrooming in and around Surat in those times. Eventually, in 1969, he started his own firm.

4.2.2 The Initial Growth Phase

Initially, the office and the factory of the CPD unit were separated by a distance of 3-4 km, this resulted in a few misunderstandings which led to protests called by workers. The founders realized the importance of a regular interaction and communication between the workers and the managing staff. In 1982, they conceptualized a CPD unit with an office and a production facility in the same premise, the concept was later accepted by the industry.

Coping with an industry that was booming and manufacturers were roping in workers from other companies, they used their business acumen. Compromising on quality was not acceptable, neither were the employees penalized for doing so, instead, salaries were doubled and a unique quality/incentive based wage system was established. They resolved to provide good working conditions and better salaries to their employees. Further, methodologies were invented to achieve quality and they were quick to adopt technology. In less than 10 years of its inception, along with the routine business activities, the firm also began allocating funds to social and religious welfare activities.

4.2.3 Moving Up the Value Chain

India was earlier known only for polishing very small sized rough stones which would often be a by-product resulting from cutting of a large sized diamond rough in Antwerp or in other cutting centres in Europe. In February 1988, during a business trip to Antwerp, it was discovered by the founder of this firm that the price of polished stone for a large sized diamond was substantially higher than the price of the rough stone but there were doubts about India's ability to process large sized diamonds. It was taken as a challenge and he purchased a 2-carat rough diamond. Additional working hours were spent on developing the technique of polishing. They were determined to achieve a world class quality and to make this large sized diamond polishing business successful. The company eventually started manufacturing diamonds of

sizes 2 carats and above on a large scale, thereby pioneering the concept of high value diamond processing in India.

4.2.4 Defining the Concept of the Workplace

Far from the sweat shop images that Indian CPD units carried earlier, in June 2002, the unit's new US \$ 12 million state-of-the-art manufacturing facility was made operational. It is a centrally air-conditioned 8 storey factory premise of 260,000 sq. ft. area on a 6.5-acre plot in Surat, providing an excellent working environment. There are landscaped gardens, spotless buildings, product line arrangements neatly divided into separate rooms, smartly dressed security guards who welcome visitors with warmth and hospitality and the hi-tech automated security systems to guard the place. More than a thousand workers and skilled artisans work diligently and with discipline on their respective machines using computerized tracking systems, cutting edge laser technology and the most modern and sophisticated diamond processing equipments.

4.3 The People Structure

No formal organization structure exists, people are grouped into different work areas, a manufacturing unit exists at Surat and a sales and marketing office in Mumbai. About 86 % of employees work in manufacturing, 7% as support staff including the canteen attendants and security watchmen, about 5% are employed at the Mumbai sales and marketing office, and the remaining for administration, data processing, audit, etc. It is easy to notice that overheads are minimum.

4.4 Marketing and Sales

Expenses on conventional marketing are kept minimum. The logic here is that if you offer transparency in the attributes of the product, it translates into customer confidence which goes on to build more customers through word of mouth. And yet, talk of buying -selling norms, there exists a law of non-negotiable price. Take it or leave it, the first offer is the final offer and is determined by a computerized system, based upon

a long list of parameters which ‘do not’ emphasize the fluctuating prices and the profitability of the company. No lengthy credits of up to 9 months to customers at this CPD unit, the average receivables in 2008 were just 10 days. Initially, customers were angry and the sales went down, but the company adhered to its policies, refined the grading systems and ensured that the stones were well cut. Over time, they developed a strong client base that was ready to buy their diamonds through website without physical inspection of the diamond. This has cascaded into a strong global customer base spread across USA, Europe, Japan, the Asia Pacific and Asia Arabia, and in Australia, Canada, New Zealand, South Africa etc. to an extent that they are willing to pay a premium.

4.5 Achieving Quality in Production

No two diamonds are alike just as no two humans are, and achieving quality in polishing diamonds is not an easy task. The rough diamonds are sorted and valued depending on shape, quality, color and size. In this unit, some 1270 skilled artisans, sorters, graders make use of their traditional knowledge as well as the high tech laser technology and machines to convert the rough stone into polished diamond through a well designed manufacturing scheme. There is no QC department in the set-up, but a unique system of individual accountability and responsibility has been designed for all, and every action / decision taken, inherently ensures the best possible quality control.

4.6 Shaping Employee Behavior

It doesn't end with the diamonds and their manufacturing and selling, come lunch time and all employees including the owner eat together in the excellently maintained canteen facility with the unit's own kitchen staff serving hygienic vegetarian food free of cost. The CEO intervenes, “It is not free lunch, because it is only for those who work here. If the workers are happy, they perform better, if they perform better, our clients are happy, if my clients are happy, so am I.” Annually, two vacations for Diwali and summer, each

of three weeks, eight working hours per day, pension schemes, and workers encouraged to self-supervise. Of course, closed circuit cameras monitor many parts of the factory.

Negative discussions and negative attitude have no place, people are encouraged to think and act positively, as well as to not shout or even raise their voice during discussions. Before the vacation begins, the founder addresses all employees through the public address system, or in a meeting, and advises them on various issues related to their personal safety and family welfare, advising them to drive carefully, and to not indulge in bad habits like tobacco. He explains to his workers that their life also belongs to their family members and therefore they should take care of it. It was heartening to note when employees confessed that their behavior at home had improved a lot after they started working at this CPD unit. In turn, the families of these workers have also developed deep regards for the founder.

4.7 People Management Practices

Generally, good references of workers already employed are preferred. The company recruits experienced workers who have a proven track record of honesty, diligence and dedication in their area of work. The founders believe that people need to be made aware of the dormant capabilities, the immense unused potential lying within them. In addition, they never ask a person to perform a task below the level of his / her potential. This is perhaps how they make optimal use of their human resources. Safety of the valuable diamond pieces in CPD units is important, hence fingerprints as well as palm-prints of new recruits are taken.

In order to keep people motivated, an innovative quality / incentive linked wage system and unique methods of resolving disputes have been devised. State of the art safety standards and welfare measures take care of the employees. Since inception, founders have stressed on effective communication and any lapse is not accepted on any employee's part irrespective of rank, job or position in the company. "People

have a tendency to send selective messages, we have meticulously tried to nullify them. If any worker or artisan tries to approach me, I listen to him with utmost priority.”

4.8 Major Innovations at the CPD Unit

Surprisingly, unlike the reputation of the industry, a unique IT driven business model is in place which seamlessly merges the manufacturing, grading, pricing, sales and marketing aspects of the business. The CPD unit started computerizing as early as in 1987. A Grading system was invented in 1996 at this CPD unit for a diamond piece which became a hallmark for the global diamond industry. In addition, they introduced the concept of single piece-single parcel concept, another first in the industry. Concept of ‘On-line Sales’ was launched by this CPD unit as early as in 1997, a first for any manufacturer in the global diamond industry. For a product such as diamond, it calls for a great deal of credibility of a company to give the confidence to its buyers to purchase online without physical inspection. In 2005, the company hosted an in-house web server, providing the entire inventory on real time basis for their online buyers. Later, besides the grading details, digital images of diamonds were also made available. Sales through the website totaled about 37% of total sales in 2006 which, is an amazing reflection of customer trust and confidence given the nature of the product.

In 2003, the company introduced Confirmed Order Requirement (COR), a revolutionary system of buying diamonds on specification without personal inspection. Apart from boosting consumer confidence in the business integrity of the company, the system alone contributed to 12.31% of sales in less than six months. Sales crossed the US \$150 million mark in the year 2003. Exports crossed US \$ 100 million in 2002 on year-to-date basis. Sales grew from US\$ 67.09 million to US\$ 174.80 million in a period of just 3 years between 2001 and 2004.

4.9 Social Responsibility

The importance of CSR as we know today was practiced by these Indian entrepreneurs since the last three decades. Besides leading the path to the best practices as mentioned above, they contributed to other aspects of diamond trade and industry like suggesting government policy decisions. This CPD unit has made innumerable and significant contributions towards religious, social, educational and disaster management related needs of society.

5. PART III : THE GLOBAL TURMOIL

5.1 The Recession of 2008

The year 2008 witnessed a global economic recession impacting all export oriented business across the world. Indian exports during 2008-09 were valued at US \$ 115 billion which was 33.3 per cent lower than the level of US \$ 172 billion during 2007-08.^[7] The Indian diamond industry was not an exception given the dependence on the global economy for exports and USA being the largest consumer of polished diamonds. “Exports of Gems and Jewellery that made up over 12 % of the total in 2007-08 entered into sharp decline after August 2008 in the face of a collapse in global demand for polished diamonds and jewellery.”^[7]

In November 2008, an estimated one million workers returned after a customary 3 week Diwali vacation just to find that owners of the diamond processing units wouldn't open gates for them. Thousands of such units in Gujarat, India, which cut and polished diamonds mainly for export, had been shut down. The decades old, and now US \$ 14.2 billion Indian diamond industry witnessed the severest recession in its history. Our study reveals that the broad reasons for the industry to fall prey to the global recession were 1) the long credit terms availed and given to suppliers and buyers in the supply chain, 2) investments in stock and oil bonds fuelled by the upsurge in economy before the recession, 3) downturn in the global economy in particular the US leading to slump in demand and 4) the devaluation of US dollar. This led to sudden

drop in diamond prices and reduction in liquidity while the uncertainty associated with the global recession sent a panic amongst all, thus forcing most unit owners to shut down their factories.

The Economic Survey presented in the Indian Parliament on July 3, 2009 said, “Around 6 lakh people lost their jobs from October 2008 following the impact of recession and most of them are from Surat’s diamond and jewelry industry. About 500,000 people lost their jobs in the October- December 2008 period, while over 100,000 were shed in January this year ”^[9]. The most affected sectors were gems and jewellery, transport and automobiles where employment had declined by 8.58 per cent, 4.03 per cent and 2.42 per cent, respectively during the period (October to December 2008).

Informal discussions during the study suggest that many diamond workers who were immigrants from Saurashtra, Bihar and Uttar Pradesh, and whose families were totally dependent on their jobs in Surat, were left stranded during the crisis, some tried to commit suicide, others who struggled for a few months, either switched to jobs in other business or withdrew their children from local schools and packed their bags for their native places. “Diamond had become as good as stone” remembers a middle-aged artisan.

5.2 The Signs of Revival

The turnover of the CPD unit of our case had grown at an astonishing 47% in first half of 2007-08. In Nov 2008, when most of other CPD units were shut down, this unit allowed all of its over 1500 employees to resume work as usual. Subsequently, the turnover came down from \$ 335 million in 2007-08 to \$ 217 million in 2008-09.

Six months later, the industry somewhat recovered from its lows with around a quarter million jobs added after January and signs of global recovery. Although it is now difficult for several units whose workers wouldn’t return to them, some other units not only retained their staff, but also invested more in rough

diamonds during these times as in the unit described above. Although there has been a global downturn in recent years, the Indian exports of polished diamonds in 2008-09 crossed USD 14 billion (Fig 1).

During the severe recession, the Indian diamond industry was noted as being one of the most affected out of all export oriented industries in the country. However, as shown in Fig 7, it appears to be already on the path of revival (Fig 7). India's cumulative value of exports for the period April-March, 2008-09 was US \$ 169 billion as against US \$ 163 billion registering a growth of 3.4 per cent in dollar terms over the same period last year.^[10] The Indian diamond industry has been quick to follow the trend. By June 2009, the industry is already showing signs of revival led by large sized firms.

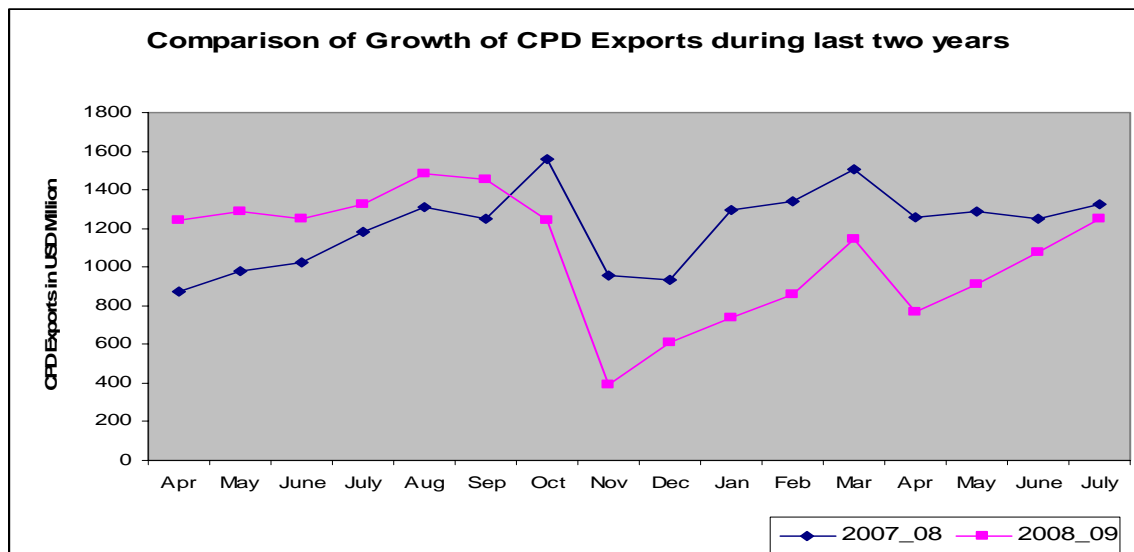


Fig 7(Compiled from data available at gjepcindia.org)

“The Rs 50,000-crore diamond industry in Surat is on its way to recovery. The growing economies in India, Middle East, Hong Kong and China are helping the sector to regain its glitter. Roughly 500 units, 40% of the 1,250 units which shut shop in the wake of the economic crisis, are back in business giving jobs to one lakh diamond workers. If September 2008 was the beginning of the crash period for the

diamond industry, September 2009 has heralded a revival.” the Times of India on Sep 18, 2009 reported. [11]

The founder of the CPD unit of our case told us that in the last four months, they have in fact achieved production equal to what would otherwise happen in a couple of years. By retaining their employees during the panic of recession, they suffered heavy losses but efficiency has increased, and they are happy to have earned the enhanced loyalty and trust of employees. “If we believe in our responsibility to our people, take care of them, respect them, do not leave them in tough times, my experience is that they will put in their best.”

6. DISCUSSION

The analysis of the findings from the exploratory study of the Indian diamond industry and that of the case study of a large CPD unit leads to significant findings.

The Indian diamond industry has flourished like a close-knit community with entrepreneurs like the one we have described above leading at the forefront. As the volume of business increased, they passed on the business to others connected to the same community. However, a unique professionalism prevails where verbal commitments are honored and met, and the highest order of integrity is exhibited. It works on trust and mutual respect. It appears to be an industry where the people involved take pride in their work and in what they have achieved. A sense of belonging to this community is a big motivating factor and people try their best to be known and respected by adhering to the norms as established in this unique industry culture.

A similar display of simplicity, sincerity to work and discipline was observed down the line from the large to medium and small sized CPD units. It appeared that the smaller units were not underpinned by the larger ones, and were happy to be operating from their native places, the location of their respective villages where they shared their life with the members of the family and kith and kin. However, the mention of the big names did evoke a sense of respect and motivation to grow.

It was observed that in the broader context of the Indian diamond industry, there is lack of formal systems like documentation of the diamond packets exchanged and of the financial transactions or that of the recording of employee details or number of units etc. However, it appears this made them feel proud of their ability to conduct a business of a huge global dimension based on mutual trust within their community. The community or clan feeling appeared so strong that the mere thought of being ousted from the group and the diamond business on account of not delivering on the verbal commitments or due to any symptoms of dishonesty became a driver to behave as per norms.

Also, it was uniform across the sizes of the CPD units that the unit owners were sensitive to the family demands of their employees which in turn helped the employees to be loyal and devoted to their work. Another interesting observation at least in the smaller units, was that after the workers and the artisans learned the art of cutting and polishing a diamond, they were likely to start their own CPD unit and employ others known to them through personal references.

An enterprising spirit was omnipresent and everyone understood the importance of what they were doing irrespective of the place they were operating in on the value chain. The huge network of these thousands of CPD units was in a way kind of held together by a common goal of doing and improving the business of diamond cutting and polishing and they understood exactly the informal systems in place. Most large sized unit owners mentioned that they had a dream of making Surat the world's largest diamond cutting

and polishing centre, which they achieved and it gives them a great sense of fulfillment. And they sure contributed to the society by getting involved in social, religious and other human endeavors.

The recession of 2008 was a great setback which jolted the entire industry. The small and medium sized firms were affected to a larger extent. Undoubtedly the industry went through enormous pain and suffering. However, the forward looking entrepreneurs are of the view that “What happened in 2008 was not a recession, but a correction for people to undo their mistakes”.

Consolidation seems to be occurring which may lead to the industry becoming more organized with better availability of records. It appears unlikely that the share of the Indian diamond industry in the global market will be adversely affected as recession was a global phenomenon. Due to the unique characteristics of the Indian diamond industry as described above, it might have a higher resilience and will bounce back stronger. Indeed, there are so many uncontrollable factors like competition, availability of raw material, government policies at home and in the other competitor and/ or buyer countries, market fluctuations, changes in the trends, tastes and purchasing power of the people across the world which will have a bearing in the industry’s position in future, the worst seems to have been over.

7. CONCLUSION

The study of the Indian diamond industry, of its rise, recession and recovery provide useful insights to the field of management. The unorganized sector, so called due to the absence of traditional corporate structures, strategies and statistics, remains under-researched and empirically undocumented. That these unorganized, globally-dispersed companies appear to gel or ‘fit’ into a more ‘organized’ framework later in the value creation chain challenges our current thinking on organizing and managing for competitive advantage. Neither theorists nor empiricists have studied these unorganized organizational forms, nor

charted any so-called best practices despite this dominant global market share. Hence, this is a first such attempt to study these new organizational forms, as represented by the CPD industry in India. While many in the corporate business and the world economy in general continue to struggle with the aftermath of the recession, the so-called unorganized sector has shown laudable resilience to bounce back. This only strengthens our assumption that time has come to bring in lessons for management from the unorganized sector to our business schools.

A possible outcome of this study is that industries and companies with close knit community culture are likely to make use of their people management skills to survive the difficult times. The so-called organized and corporate structures hence need to revisit their organizational culture and in particular the assumptions, values and beliefs held about their own people. It is evident that unique leadership styles, management skills and culture exist within the unorganized sector as in the Indian diamond industry and its contribution to the growth of economy as well as to the study of organizations cannot be ignored.

8. IMPLICATIONS FOR FUTURE RESEARCH

This preliminary study on the multifaceted diamond industry opens a plethora of new directions for future research. We believe this study will have significant implications for theory as it explores new forms of organizing as displayed by the CPD units of the Indian diamond industry. There exists a large scope to learn from their innovative operations and value systems. Study of the unique people management practices is likely to add to the body of literature on human resource management. This study also seeks to uncover the secret of such massive 'entrepreneurial' success framed within an 'unorganized' network of people involved in these different organizational forms.

We believe we have been able to only scratch the surface of the unique but invaluable culture that exists in this largely successful Indian diamond industry. It is therefore suggested that empirical research be conducted in this industry to unearth the unexplored dimensions of their culture. Clearly there will be implications for practice for small and large firms alike.

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