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EXPORT NETWORKING CHALLENGES AND OPPORTUNITIES FOR MANUFACTURING FIRMS FROM DEVELOPING COUNTRIES: THE CASE OF ERITREA

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To

My wife Yihdega Araya and our daughters Meron and Rodas

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Acronyms

AATH	Allied Afri-Trading House
ACP	African Caribbean and Pacific
ASEXMA	Chilean Export Manufacturers Association
ASMIMAD	Association of Small and Medium Sized Enterprises in Chile
CAD	Computer Aided Design
CBE	Commercial Bank of Eritrea
CBI	Centre for Promotion of Imports
CEA	Canada Export Association
CIF	Cost Insurance and Freight
COMMESA	Common Market of East and South Africa
ECU	European Currency Unit
BTTG	British Textile Technology Group
EDDC	Ethiopian Domestic Distribution Corporation
EFPA	Eritrean Footwear Producers Association
ETMEX	Ethiopia Import and Export Corporation
ESPA	Eritrean Sweater Producers Association
EU	European Union
EPO	Export Promotion Office
GSP	General Systems of Preferences
HAGLE	Horn of Africa and Great Lakes Marketing Company
HEART	Human Employment and Resource Training
HS	Harmonized Coding System
INTRES	International Retail Support Services
ISO	International Standard Organization
JAG	Joint Action Group
JAMPRO	Jamaican Public Development Agency
MIT	Ministry of Industry and Trade
MNCs	Multinational Companies
OETH	L'Observatoire Européen du Textile et de l'Habillement
PEMD	Program for Export Market Development
PROFO	Proyecto de Fomento (Development projects)
SERCOTEC	Chilean Government Export Promotion Agency
TCA	Transaction Cost Approach
TCS	Trade Commissioner Service
SGS	Societe Generale de Surveillance
SMEs	Small and Medium Size Enterprises
SPSS	Statistical Package for Social Sciences
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
V&D	Vroom and Dreessmann

PART I

INTRODUCTION

Chapter 1

Introduction and Problem Definition

1.1 Introduction

International trade is important for developing countries as it can create employment and provide foreign exchange for imports. While trade between nations has been an economic activity pursued in the world since ancient times, it experienced rapid global growth only after the end of the Second World War due to a number of factors. These factors are the establishment of the International Monetary Fund; the construction of the world trading system; the economic growth experienced by many countries; and the significant developments in transportation, communication, and information technology. More recently, the establishment of the World Trade Organisation has increasingly influenced international trade activities.

Economists explain the engagement of nations in international trade by several theories; the most frequently one cited being the theory of comparative advantage (Ricardo, 1817). According to this theory, a country exports those products that it can produce relatively inexpensively and imports those goods that it can produce only at a relatively higher expense. However, this theory, although important for economic policy purpose, does not explain why some individual firms are successful in exporting while others fail. Stiglitz (1991) stressed the importance of firm level studies and criticised economists for restricting their views to market mechanisms.

In the last decades, however, many scholars have adopted a company perspective of international trade by attempting to investigate the forces inhibiting the firms to initiate, develop or sustain export operations. A large number of empirical studies, investigating a variety of issues pertaining to export marketing activities, have been conducted with particular empirical attention being given to the problems that companies experience in their exporting activities (Burges and Oldenboom, 1997; Moini, 1995; Kaleka and Katsikeas, 1995; Katsikeas and Morgan, 1994; and Ghauri and Herbern, 1994). The focus of these studies is not on macroeconomic policy but on barriers, real and perceived by the individual companies. Undoubtedly, the empirical findings of this kind are critical for decision-makers at the micro level, since they can provide strategic guidelines for the development of effective export plans. Furthermore, such findings constitute a source of valuable information for public policy makers in their attempt to design and implement optimal national export policies.

Micro level studies are important for developing countries in particular because most of the policies in these countries do not stem from the firm level export problems. Policy makers often lack the institutional environment in order to be able to assess the state of the art of manufacturing firms in their countries while firms have no organisation that may defend their interest. Consequently, many companies in developing countries still hesitate to enter foreign markets, and those already engaged in international activities face serious problems in their future progression along the internationalisation path. Currently footwear and textile manufacturing firms in Eritrea are facing this problem.

Eritrea[1] developed a good export capacity in the first half of the twentieth-century during the Italian colonisation. According to the records of the Ministry of Trade and Industry, Eritrea exported manufactured products such as textiles, footwear, as well as fish to the Middle East, Europe and Africa. Adequate communication facilities such as railway, air and road transport were available. Italian investors were the main players in the export business. With the coming of the Ethiopian administration and particularly under the socialist government of Ethiopia in the 1980s, a new export approach prevailed. All exports were channelled and marketed by the parastatal, Ethiopia Import Export Corporation (ETIMEX) responsible for negotiating export prices with foreign buyers. During this time manufacturing firms in Eritrea limited their activities only to production. Furthermore, in fear of the expropriation policy of the socialist government directed at those firms that generate foreign currency, privately owned manufacturing firms were forced to focus on the domestic market. The centralised system of export policy together with thirty years of war for independence alienated the footwear and textile-manufacturing firms in Eritrea from the international market. This resulted in a weak marketing knowledge and poor financial capacity of the entrepreneurs. The companies lost their export infrastructure and long accumulated experience.

Following the attainment of full independence on 24 May 1993, marketing of exports has been liberalised and manufacturing firms once again are developing strategies to sell their products in the international market. However, exporting has not been easy to them and only a limited number of the manufacturers managed to participate in the international market. The poor participation was reflected, in a problem assessment survey conducted in 1998 by the Ministry of Trade and Industry of Eritrea. Out of 242 respondents 96(39.7%) small and 112(46.3%) large enterprises reported that lack of adequate and reliable export markets was the major problem they encountered (MIT, 1998). Next to the market problem, lack of modern machinery and equipment and lack of good quality raw material were mentioned as serious problems. In order to get adequate first hand information on the export marketing problems of the footwear and textile-manufacturing firms in Eritrea, the researcher conducted a base line study in April and May 1999. During the interview the managers of these firms mentioned lack of market knowledge and information, limited financial resources to finance exports and to conduct market research, and lack of experienced personnel in international marketing as problems that constrain their entry to the international market.

Although most of the export problems of the footwear and textile-manufacturing firms in Eritrea are similar to the problems that other developing countries experience some of them are unique to Eritrea. Before the war between Ethiopia and Eritrea in 1998, the footwear and textile-manufacturing firms were selling about 70 percent of their production to Ethiopia. This market opportunity, however, has been lost and the firms have to find another market. Despite the fact that many of the footwear and textile-manufacturing firms in Eritrea have a long business experience only a few are successful in accessing new export markets. Barriers to export often provoke failures in foreign business operations. However, little has been done to investigate these export problems of individual firms in developing countries. In particular, studies that focus on the organisation of the export marketing channel are useful to the footwear and textile-manufacturing firms in Eritrea as they are looking for an economic export organisation that helps them to increase their export capability.

[1] Eritrea is a country located in East Africa. It was an Italian colony (1885-1941) and under a British protectorate (1941-1952). Eritrea federated with Ethiopia (1952-1961). In 1961 the struggle for independence started. Ethiopia annexed Eritrea in 1962. In 1991 Eritrea gained independence, which was formalised through a referendum in 1993.

Exporting today is a highly skilled and professional operation. To be successful in this field requires an adequate and cost-effective marketing organisation. The type of export marketing organisation that firms choose to distribute their product to their customers has an impact on the final result of each transaction, not to mention the firms' overall survival. In view of this argument, it is the objective of this study to investigate the specific export problems associated with the footwear and textile-manufacturing firms in Eritrea, examine and understand the requirements of potential buyers in target export markets and design an export marketing network that increases their export capability.

1.2 The Research problem in perspective

Export transactions could be organised through three types of governance structures. These are Markets, Networks and Hierarchies (Thorelli, 1986; Thomson et al., 1991). Market forms of transaction governance rely on prices, competition and contracts to keep all parties in an exchange informed of their rights and responsibilities (Williamson, 1975). In a pure market form of economic organisation, all activity is conducted as a set of discrete, market based transactions and virtually all-necessary information is contained in the price of the product that is exchanged. However, in real world practice, the price established in the competitive marketplace does not contain all the information necessary for both parties to conclude the exchange. Markets fail due to asymmetric information about product quality and problems arising from imperfect information. As a result, though they provide a useful starting point for theoretical analysis, pure market transactions are rare.

If the transaction takes place in a hierarchy, the firm is expected to organise the export operation (Williamson, 1985). Multiple layers of management, functional specialisation, integrated operations, and clear distinctions between line and staff functions characterise hierarchy (Webster and Frederic, 1992). The larger the firm, the more activities it could undertake by itself and the less it depend on contracting out. Governance through hierarchy is the result of high transaction cost involved in exchanges through markets.

In the international footwear and textile market to conduct a sound transaction, buyer and seller have to go through certain stages. These stages are identifying the fashion trend, producing a sample design, making the sample and finally exhibiting the sample to see how customers react to it. It is only after this long process that a market demand is identified and the wholesalers can put the order to the manufacturer. Each order is different and the footwear and textile produced is not standardised. This makes continuous flows of information between manufacturers and buyers critical. To expedite this process history of past business relationships and trust are essential. When these factors are absent information exchange precedes real business transaction. Thus, the international footwear and textile business takes place in a network setting where different business actors are linked to one other through direct and indirect business relationships deviating from the pure market transaction where price and quantity mediate buyer seller relations.

However, it is worthwhile noting that networks also have some characteristics of markets and hierarchies. While maintaining the benefits of hierarchy and market governance structures, networks also fail because of similar transaction hazards that lead to the failure of markets and hierarchies (Park, 1996).

Networks are regarded as an especially significant strategy for managing long-term exchange relationships between firms. They combine autonomy and flexibility with increasing control and efficiency (Johanson and Mattsson, 1988; Lorange and Roos, 1992). Networks emphasise the importance of partnerships between firms and depend on relationship management instead of market transactions (Webster and Frederic, 1992). They depend on negotiation, rather than market based processes, as principal bases for conducting business and determining prices, though market forces almost always influence and shape negotiations. Chetty and Holm (2000) noted that managers should realise that establishing and maintaining relationships in business networks is an important part of their international strategy. Consistent with this argument Gray (1994) in his study of New Zealand firms concluded that one of the greatest perceived barriers to internationalisation is a lack of business networks.

Easton (1992) identifies three groups of network definitions. One set of definitions (e.g. Hakansson, 1989; Van de Ven and Ferry, 1980) describes a network as a total pattern of relationships within a group of organisations that recognise that the best way to achieve common goals is to co-ordinate the business system in an adaptive fashion. Ghauri and Prasad (1995) claimed that a network could simply be identified as a relationship created between two organisations. According to Ghauri and Prasad (1995) if firm A has a relationships with firm B, B with C, C with D and so on, there is a simple linear chain of connection. However, a complex network relationships can be found if firm C is linked to A, and firm D is linked to B and perhaps to A. The second set of definitions identified by Easton focuses on the bond or social relationships that link loosely connected organisations (Aldrich, 1979; Lundgren, 1995). The third definition focuses on the exchange dimensions in two or more connected organisations (Anderson et al. 1994; Cook and Emerson, 1978).

Each of these groups of definitions implies a different level of analysis. The first definition focuses on the overall relationships between business organisations. It includes both the exchange and social relationships dimensions in the inter-organizational relationships. Trotter (1999, p.1) defines a social network as “a specific type of relation linking a defined set of people, organisations or communities.” The second definition may include loose organisations such as social gatherings between employees of two organisations, not necessarily linked with business transactions in the two organisations. This can also include soft co-operation whereby groups of firms are involved in the exchange of ideas and the development of broad initiatives such as training programmes and capability brochures. In contrast the third definition focuses solely on the exchange relationships.

The first definition is relevant because in our study the term network refers to both the social and exchange relationships. We included the social aspect of the business relationships into our study because it is a key factor that facilitates the network formation among footwear manufacturers, textile manufacturers, leather and cotton suppliers and buyers. For our purpose, the term network is defined as:

A total pattern of relationships among the footwear (textile) manufacturers, leather (cotton) suppliers in Eritrea, and agents and buyers in the international footwear (textile) export markets, who recognise that a network is the best way to solve common export problems, exploit export market opportunities and achieve common export objectives.

Networks are characterised by vertical or horizontal patterns of exchange, interdependent flows of resources and reciprocal flows of information (Ibarra, 1992). Horizontal networks include organisations in the same industry. Their main purpose is to co-ordinate their skill, resources and functions that contribute to the production and marketing of a certain product. Horizontal networks can improve the collective bargaining power of manufacturers in relation to their vertical partners (Cook and Emerson, 1984). Vertical networks include organisations at different levels of the marketing channel (Elg and Johansson, 1996). Vertical networks offer a new marketing opportunity by making alternative buyers accessible to the firm. The related firms need to coordinate their activities by exchanging information about the quantities and qualities of leather, cotton, footwear and textiles, the prices set, the nature and reliability of suppliers and buyers, and about the changes in such products as they undergo improvement and technical innovation. However, not all vertical networks foster economic growth (Lall, 1980). Some networks may well reflect the unequal market power of buyers vis-à-vis sellers; others may be the result of misguided government policy and socially detrimental (though privately profitable); yet others may embody collusive anti-competitive behaviour (Ibid). Thus, only an understanding of their causes and detailed case-by-case study analysis can show the net effect of networks in different circumstances.

The network approach has been adopted as export marketing strategy for gaining access to new markets (Christensen, 1991; Forsgren et al., 1992; Hakansson, 1989). Major concerns focus on overcoming entry barriers by forming groups of firms or getting access to new markets by establishing network relationships with actors in the marketing channel. Network programmes have been initiated to overcome the liabilities of being small by joining forces in constellations of firms as a point of departure for growth, product development and exporting (Gelsing and Knop, 1990). Most of the programmes were perceived as very positive because of the degree of market penetration they have achieved and the advanced learning opportunities that they provided. Visser (1996) showed that small textile firms in Peru were able to transform themselves into big exporting companies through networking. Scarce resources have been allocated efficiently to all members and this resulted in a competitive advantage to network members through reduced transaction costs and ultimately lower prices to the customer. Ceglie and Dini (1999) explained that footwear manufacturers in the Sinos Valley (Brazil) created horizontal and vertical business networks and managed to penetrate the US footwear market. Thus, the results from network experience of small firms in developing countries justify the move to consider networks as a mechanism to alleviate the export marketing problems of footwear and textile manufacturing firms in Eritrea.

The need for new markets encouraged the Eritrean footwear and textile manufacturers to assess new opportunities. Eritrean footwear and textile producers started to travel to the Great Lakes region (in Africa), South Africa and Europe to exhibit their products. However, individual efforts have not been successful. The reasons mentioned by manufacturers in Eritrea were: insufficient knowledge about the market, difficulty in finding reliable buyers on an ongoing basis, financial constraints to finance exports (only overdraft facilities are available) and operating space constraints hindering expansion. The poor marketing knowledge and limited financial capability of the footwear and textile-manufacturing firms do not allow them to contact, contract and control on an individual basis. The cost of travelling to foreign markets is high, their poor experience in export marketing may make them susceptible to the opportunistic behaviour of some importers, and they need partners to fulfil large orders.

The upshot of the above mentioned argument is that the Eritrean manufacturers need buyers that are committed to working with them to produce footwear and textiles suitable to the target export market and provide a reliable channel of distribution. Particularly they need market information related to product quality, design, and price. These factors are important to the manufacturers to evaluate their product standards and take the necessary corrective action to achieve the desired level. Business network relationship with a committed buyer can enable the footwear and textile-manufacturing firms to secure the distribution of their products to the target market, and ultimately build their export capability. In general the problem is about organising a competitive and sustainable export-marketing network that delivers value to the customer.

It has been agued so far that neither pure market nor pure hierarchy exchange governance approaches are appropriate to footwear and textile manufacturing firms in Eritrea. When there are transaction costs a simple market mechanism is not appropriate to facilitate exchange. This makes a different transaction co-ordination mechanism necessary. It has been also said that vertical and horizontal business network relationships can open new market opportunities to the footwear and textile manufacturers in Eritrea and improve value to the customer through reduced transaction costs and improved product quality. The continuous flow of information in the networks facilitates the enforcement of contract and helps to curve misunderstandings between the contracting parties. These are also the factors that influence the development of export capability and market representation of manufacturing firms in developing countries. Therefore the central theme of this study is:

Horizontal and vertical business network relationships can alleviate export-marketing problems and increase the export capability of small and medium sized manufacturing firms in developing countries.

The key issue is to identify what kind of vertical and horizontal business network relationships are appropriate for the Eritrean manufacturing firms. What types of network structures exist in the export markets and how they are managed. And finally it is also essential to make sure whether the conditions required for creating successful vertical network relationships among suppliers, manufacturers and customers and horizontal network relationships between manufacturers are fulfilled. If that is the case it is important to see the ways of organizing it. Different problems demand different networks: some problems require a relatively stable and closed network while others need a more open network with very flexible internal relations. In view of the above, the following central research problem emerges for investigation:

How can footwear and textile manufacturing firms in Eritrea enter into horizontal and vertical business network relationships and increase their export capability?

The argument behind the central research problem mentioned above is that the international footwear and textile market is full of network relationships. The network theory helps to design such relationships. However, the network research has its own pitfalls, as it has been mainly limited to analysing and understanding existing networks structures. Being empirically rich the network theory lacks the ability to provide normative implications for managerial actions (Belenker et al., 1997). Consequently, it lacks norms that predict network structures as optimal governance form for a specific exchange process. This research intends to contribute to the efforts that have been undertaken to fill this gap. Our line of reasoning is consistent with Salancik's (1995) argument that network research should propose how network structures of interaction enable the network's members to co-ordinate their actions to achieve collective and individual interests.

In our central research problem the term good export capability is defined as, access to updated market information; capacity to produce export standard product; good knowledge of export procedures; international business practices and government regulations; and access to export support services. The aforementioned factors must lead to fulfilling buyer requirements. The term manufacturing firms' refers to the footwear and textile-manufacturing firms in Eritrea. By suppliers we mean the leather and cotton producers in Eritrea. The term buyer refers to footwear and textile buying organisations, wholesalers and retailers in Europe and the Great Lakes region. Buying organisations are co-operative marketing organisations that represent small textile and footwear retailers. They are often established as a share company or an association. Their purpose is to buy textiles and footwear for their members. Studying both footwear and textile buyers and manufacturers together will help us to have a good understanding about the networking opportunities from both buyer and seller perspective.

1.3 Research sub-questions

The main research problem has been divided into five research sub-questions:

1. What are the export problems of manufacturing firms in developing countries?

In chapter two a literature review will be made to make an inventory of the export problems of manufacturing firms in developing countries. The answer to this research sub-question is used to develop a classification of export marketing problems of manufacturing firms in developing countries. The export problems will be an input to develop a semi-structured questionnaire for the empirical study in Eritrea.

2. How are networks used to alleviate the export problems of manufacturing firms in developing countries?

In chapter three we will conduct a literature review to make an inventory of the experiences of the manufacturing firms in developing countries with networks. The lessons from the business network relationships in developing countries are useful to frame the possible network solutions for the export problems of the footwear and textile-manufacturing firms in Eritrea.

3. What are the specific export problems of the footwear and textile-manufacturing firms in Eritrea?

This research sub-question examines the export problems that are common to footwear and textile manufacturing firms in Eritrea. Knowledge of the export problems in Eritrea helps us to suggest relevant business network solutions. Extensive interviews of the manufacturing firms in Eritrea will provide the information.

4. What are the prevailing network structures and requirements of the Netherlands' and Ugandan footwear and textile export markets?

Examination of the business network structures in the two potential export markets helps us to understand the requirements that the footwear and textile manufacturing firms in Eritrea have to fulfil to do business in the two export markets. Traders in both markets will be interviewed to collect the information.

5. How can the footwear and textile-manufacturing firms in Eritrea enter into a vertical and horizontal business network relationships and increase their export capability?

The answers to the first four research sub-questions will show us how the footwear and textile-manufacturing firms in Eritrea can enter into a business network relationship and increase their export capability. This information will be used to answer the central research question and results in a design of business network relationships.

Table 1.1 Sources to answer the research sub-questions

Research sub-question	Sources to answer the sub-questions	Relevant chapter
Sub-question no. 1	Literature review	Chapter 2
Sub-question no. 2	Literature review	Chapter 3
Sub-question no. 3	Empirical study	Chapter 6,7
Sub-question no. 4	Empirical study	Chapter 8, 9
Sub-question no. 5	Empirical study	Chapter 10,11

The aforementioned five research questions set the parameters of the research project and determine the methods to be used for data gathering and analysis. Table 1.1 shows the data sources to answer the five research sub-questions.

Why footwear and textile manufacturing firms?

Almost all manufacturing firms in Eritrea experience the export problems discussed above. However, only the footwear and textile-manufacturing firms are chosen for this study. The main reason is that there is potential to increase exports in the two industries because of the existing idle capacity and a potential to develop bovine hide and cotton production. Eritrea also has access to a potentially abundant pool of raw materials in the region, namely Uganda, Ethiopia and Sudan. The long experience in manufacturing footwear and textiles can be seen as an important resource for further development of the industry.

The footwear and textile-manufacturing firms in Eritrea are found in the capital, the city of Asmara. Although the importance of proximity is debatable in the era of globalisation, it is still important for networking since it reduces transaction and learning costs not only because of physical closeness, but also because of the homogeneity of the participants' social background, which facilitates trust. What lies behind this idea is the need to establish trust and penalise opportunism in a network of business relationships through a corresponding network of social relationships and geographical proximity. Geographical proximity between network members facilitates the personal contact between the parties in the relationships, which is critical to develop trust among them.

Why the Ugandan and Netherlands footwear and textile export markets?

During the baseline study conducted in April-May 1999, the researcher came to know that two principal export markets, Europe and Great Lakes region (Africa) were valued more by manufacturers. Furthermore, a London based consulting firm, Manderstam International Group Ltd. conducted a Techno-Economic Feasibility study of the leather industry in Eritrea in 1997 and has identified these two markets as alternative target export markets for the footwear manufacturers in Eritrea. Jabati (1996) also suggested that the Great Lakes region is a potential market for Eritrean footwear manufacturers. Eritrea has cultural and historical links with Italy, one of the leading footwear manufacturing firms in the world. It also has cultural and historical links with the UK again one of the leading footwear and textile markets. The central geographical location to Europe is another reason why Europe is important to Eritrea. Eritrea also has geographical and cultural proximity to the East African and Great Lakes market. However, as the European and the Great Lakes region footwear and textile export markets have different market structures, they require a radically different marketing approach. The difference in market structures makes comparison between the two markets interesting.

1.4 Outline of this thesis

This thesis has twelve chapters. The first chapter introduces the reader to the main research problem, and research sub-questions. Chapter two gives an overview of the current state of conceptual knowledge on export barriers to manufacturing firms from developing countries. This chapter concludes with a classification of the major export problems: barriers associated with the company, industry, market and macro environment. Chapter three reviews the current state of practical knowledge on measures undertaken by firms and governments in developing countries to encounter the export marketing problems of manufacturing firms. It compiles and synthesises the empirical results contained in the relevant studies, and draws lessons to the footwear-and textile-manufacturing firms in Eritrea. Chapter four reviews four theories of inter-organisational co-operation that are useful to conceptualise the experiences reviewed in chapter two and three and ultimately to construct a theoretical framework for the empirical research. Chapter five has two Sections: the first Section builds a research framework that represents the relationships between the concepts and theories reviewed in the previous chapters. It draws a schematic diagram of the research framework so that the reader can visualise the theorised relationships. Section two addresses the overall research strategy, data collection, and data analysis. It identifies the appropriate research strategy to answer our main research problem. It also describes how we select the site, cases, and the method of data collection. Eventually, we portray how we analyse the data.

In chapter six and chapter seven we identify the requirements that the footwear and textile manufacturers in Eritrea have to fulfil to do business with wholesalers, buying organisations and retailers in the Netherlands, and Uganda. In chapter eight we conduct a preliminary study to identify the export problems that are important and difficult to solve for the footwear and textile manufacturers in Eritrea.

Chapter nine conducts an in-depth study on selected cases to examine further the export problems that are regarded as important (see chapter eight). This chapter also verifies whether there are networking opportunities with footwear and textile buyers in the Netherlands and Uganda. Chapter ten conducts a comparative study between the Netherlands and the Ugandan footwear and textile export markets. It identifies the factors that influence the entry strategy to the two export markets. Chapter eleven, designs horizontal business network relationships among the footwear and textile manufacturers in Eritrea. Moreover, it portrays vertical business network relationships between the leather and cotton suppliers and footwear and textile manufacturers in Eritrea, and between footwear and textile manufacturers in Eritrea and footwear and textile buyers in the Netherlands and Uganda. Finally, in chapter twelve we draw our conclusions and forward relevant recommendations.

PART II

LITRATURE REVIEW

Chapter 2

A Review of Empirical Literature on Export Problems of Manufacturing Firms from Developing Countries

2.1 Introduction

The objective of this chapter is to give an overview of the current state of conceptual knowledge on export barriers for manufacturing firms from developing countries. It has been concluded with a classification of the major export problems: barriers associated with the company, industry, market and macro environment. Furthermore, some trends in the research on export marketing problems for developing countries have been identified. This helps us to answer our first research question stated in chapter one as *what are the export problems of manufacturing firms in developing countries.*

The chapter is structured as follows. The first part discusses the method adopted in gathering and analysing the literature. The second part covers the literature review. Internal and external export barriers have been discussed in separate sections in line with the conceptual framework. It has been concluded with a qualitative model to study export problems of manufacturing firms from developing countries.

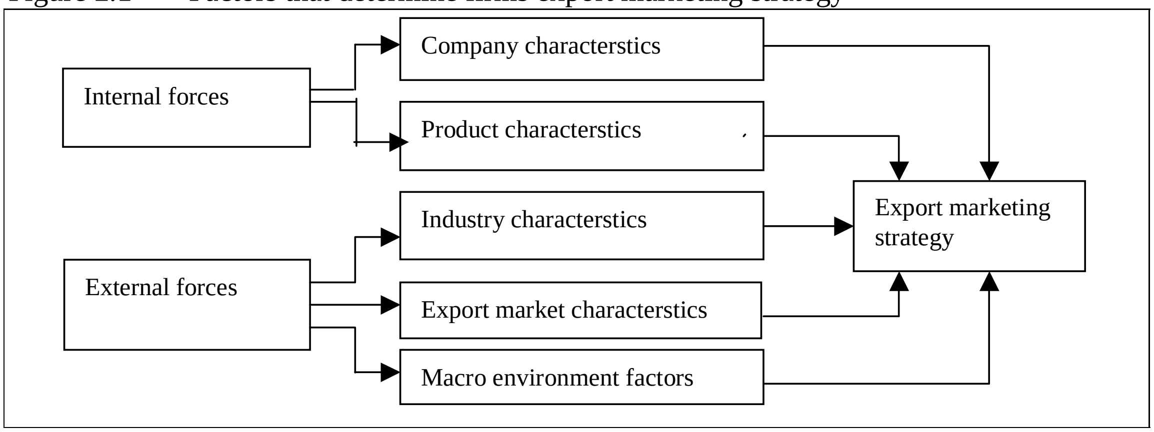
2.2 Method

In the literature export barriers have been operationalzed as export obstacles/ inhibitors, problems or impediments. They all refer to, attitudinal, structural, operational and other constraints that hinder the firms' ability to initiate, develop, or sustain international operations (Leondidou, 1995). This definition of export barriers includes several factors, which go beyond the marketing domain. Lall (1991, p.139) restricted his definition only to marketing barriers. He defined marketing barriers as "those gaps, which need to be filled before the competitive producer becomes a successful exporter." Since the focus of this research is on export marketing problems the latter definition is suitable to this study.

Although Lalls's definition was specific to marketing barriers, it included all export problems that hindered the producer from being competitive in the international market. He suggested that the marketing barriers should not be analysed in isolation but studied in a broader perspective. Studying the marketing problems from a broader perspective helps us to have a comprehensive idea not only about the problems themselves but also the factors that are contributing to their existence. In line with this argument, we investigated problems related to company, industry, market and macro environment factors that influenced the export marketing strategy of the firm. The export marketing strategy framework (Cavusgil and Zou, 1994 p.3), adopted to characterise the main export problems of manufacturing firms in developing countries, supports this argument. This framework took the company, product, industry, and export market characteristics into consideration. The Cavusgil and Zou (1994) framework classified the macro environment factors under the industry and export market factors.

Cavusgil and Zou (1994) investigated the marketing strategy-performance relationship in the context of export ventures. They pointed out that those internal forces, such as firm and product characteristics and external forces, such as industry and export market characteristics determine the marketing strategy in an export venture. The performance of the export venture, in turn, is determined by the export marketing strategy and firm's capability to implement the export marketing strategy. The framework is relevant for our study because the analysis of export performance will not only specify whether targets are attained but also what the major problems are in the organisation of export marketing. The framework shows how export-marketing problems influence the firm's export marketing strategy and also facilitates the classification of export marketing problems. We thus take this framework as the starting point and aim to modify it for the specific research area; export problems of small and medium-sized manufacturing firms in developing countries.

Figure 2.1 Factors that determine firms export marketing strategy



(Source: Adapted from Cavusgil and Zou, 1994)

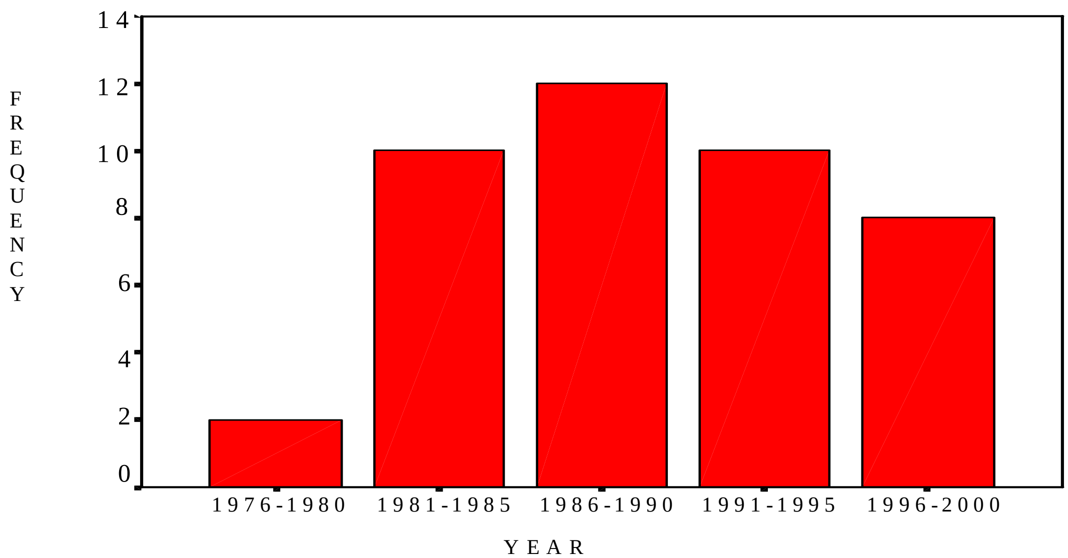
A disadvantage of the framework is that all factors rooted in the macro environment have been treated as industry or export market characteristics. The literature review showed us that the importance of barriers resulting from government policies, which were difficult to classify under these headings (Christensen and Da Rocha, 1994; Seringhaus, 1987). Factors such as a national recession, exchange rate instability, government regulations, and political instability stem from government policy and were not specific for an industry or export market. Moreover, government barriers come often from both the domestic and the foreign government. In order to accommodate these factors the macro environment dimension has been added to the framework.

Several information sources have been consulted and a systematic electronic and manual search was conducted to collect the literature. WebCat, and EBSCO Academic service[2] were among the electronic data bases visited. These contain bibliographical references of articles of over 12500 periodicals on all scientific fields published since 1992. Articles before 1992 were manually searched. The manual search helped us to track the articles that consider the export problems as a secondary importance. The references of major export marketing studies were used to facilitate the manual search. The following criteria were adopted to identify the relevant literature. The articles should focus on export problems and should concern manufacturing firms. Moreover, the focus should be on small and medium sized manufacturing firms from developing countries. In the literature different criteria have been

[2] Web Cat is a large collection of full-text electronic documents, provided by libraries from the Netherlands, Germany, the US and international publishers. EBSCO academic service contains bibliographical references of scientific periodicals in the field of business, social sciences, humanities, general science, physics and education sciences. It contains about 3000 articles.

used to define developing countries. The World Bank (2001) definition that states developing countries to have a GNP per capita lower than $9265 has been adopted. The key words that have been used to identify and collect the articles were export barriers, export problems, export obstacles, export impediments, and export inhibitors.

Figure 2. 2 Number of articles reviewed by year[3]



The search engine selected 120 articles. Out of which 38 have been found relevant. The articles excluded from this study were focusing on developed countries, the agriculture or services sector and macro policy issues. Furthermore, some of the excluded articles were focusing on the export problems of multinational companies and their subsidiaries. Out of the 38 articles analysed 26% were the result of an exploratory study conducted to identify export problems. A number of articles (21%) discussed the export problems in relation to export performance of firms, while 53% of the reviewed literature discussed export problems in relation to export development, market entry strategy, and export initiation. The articles published in 1990-2000 focussed on identifying the effect of the export problems on company performance, export development, market entry strategy and export initiation. This could be taken as a sign of maturity of the research on export problems in developing countries. The focus is shifting from exploratory studies (theory development) aimed at identifying export problems, to studies analysing export problems in relation to a certain performance indicator (theory testing).

Compared to the literature on export problems in developed countries the literature on export problems in developing countries has been from a more recent date. Many articles on export problems in developed countries were published in the 70s (Alexandrides, 1971; Rabino, 1980; Bilkey and Tesar, 1977; Bilkey, 1978; Rabino, 1979), while the results of our literature review suggest that the export problem for manufacturers in developing countries was put on the research agenda only in the 80’s. No article on export barriers for developing countries published prior to 1976 has been found.

[3] The number of articles in this bar graph does not include the data gathered from different books

The following Sections review the existing literature. In line with the conceptual framework (Figure 2.1) first internal export barriers and, subsequently, external export barriers will be discussed.

2.3 Internal export barriers

Internal export barriers are intrinsic to the firm and are usually associated with insufficient organisational resources for export marketing. For instance; problems pertaining to meet importer quality standards and establishing the suitable design and image for the export market (Czinkota and Rocks, 1983; Kaynak and Kothari, 1984; Rabino, 1980); problems related to the poor organisation of export departments and the firm's lack of competent personnel to administer exporting activities (Yang et al., 1992); the inability to finance exports; insufficient information about overseas markets (the identification of appropriate overseas distributors and communications with overseas customers). Although quite fragmented, they constitute internal issues that influence export performance.

In this Section the internal export problems in the literature are divided into problems related to company and product characteristics. Company problems identified in prior research concern, primarily, the organisational capacity of the firm to execute the marketing function (Katsikeas and Morgan, 1994). Most notably investigators have discussed obstacles associated with designing and implementing the marketing function such as marketing knowledge and information, and financial and human resource barriers. Product problems are related to quality and technical requirements of the targeted export market segment: export product design, style, quality, packaging and labelling requirements and product adaptation or modification (Keng and Jiuan, 1989). A summary of internal export problems is given in Table 2.1.

-*Company barriers*

Firm capabilities and constraints profoundly influence their choice of marketing strategy and ability to execute that marketing strategy (Aaker, 1988; Porter, 1980). Key assets and skills of a firm constitute its source of competitive advantage. The reviewed literature showed that the company barriers can be regrouped under the following headings: marketing knowledge and information, financial resources and human resources (Katsikeas and Morgan, 1994). Possession of such assets and skills enables an exporter to identify opportunities in the export market, develop appropriate export marketing strategy and execute it effectively.

Marketing knowledge and Information. Lack of knowledge to locate foreign opportunities and promising markets have been perceived as a major barrier for exporting SMEs from developing countries (Colaiacovo, 1982; Luis 1982; Dymsza, 1983; Bodur, 1986; Karafakioglu, 1986; Cardoso, 1980; Weaver and Pak 1988). Marketing knowledge is dependent on the relevance and depth of marketing information available to the firm. Firms that use relevant, accurate and timely information are in a better position to respond to export problems. Information about exporting and more specifically marketing information was mentioned as a serious problem for manufacturing firms from developing countries (Weaver and Pak, 1988; Figueiredo and Almeida, 1988; Brooks and Frances, 1991; Kaleka and Katsikeas, 1995; Burgess and Oldenboom, 1997; Bodur, 1986; Karafakioglu, 1986). Getting concrete information on prospective foreign markets is essential before exporting can occur. In design intensive industries, regardless of the location of the producer, the need for close and continuous information flows between design setters and manufacturers has been paramount (Lall, 1991). This problem is severe for small and medium sized firms in developing countries because they often lack the internal resources providing access to essential information, while large firms frequently have special departments geared to gathering information and promoting their products overseas. Furthermore, the average SME in developing countries can neither digest nor use effectively the vast quantity of general information and flood of statistical data that are routinely handed to them in response to their enquiries. Many of them lack the ability to sift through this mass of details and pull out the parts relevant to their specific and short-term operations.

Distribution has been a major problem area in exporting (Cardoso, 1980; Gereffi, 1992; Christensen and Da Rocha, 1994). Many SMEs in developing countries lack information about marketing channels and fail to establish marketing networks. Gereffi (1992) pointed out that the lack of internationally recognised company brand names, and appropriate marketing and retail networks were export barriers to Taiwan's indigenous manufacturers. Getting a reliable distributor who would adequately represent the company viewed very difficult (Cardoso, 1980).

Researchers have also identified several other marketing barriers that can inhibit exporting. For instance, pricing of the product in the international market. Christensen et al. (1987) concluded that successful exporters rely on international competitive prices as a benchmark and do not ask for premiums for exchange and extraordinary risks. This example shows that pricing a product is difficult for a manufacturer from a developing country with insufficient information about the export market. Deficient advertising and promotion programs are also mentioned as other factors that constrain export activities (Fluery, 1986; Brooks and Frances, 1991; Kaleka and Katsikeas, 1995; Weaver and Pak, 1988; Burges and Oldenboom, 1997).

Financial barriers. A sound financial position is one of the keys to secure price advantage in the target market. Many SMEs in developing countries run into problems for lack of timely and adequate working capital, which not only adds costs but can also endanger the entire production operation (Cardoso, 1980; Weaver and Pak, 1988; Kaleka and Katsikeas, 1995; Dicle and Dicle, 1992). Frances (1987), in his study of 75 Venezuelan exporting manufacturers identified unsatisfactory financial facilities as the major export barrier. Credit unworthiness and transaction costs have been reported as major factors that reduce access to credit. According to Collier and Gunning (1999), in Kenya more than half of the trade credits were extended, and delaying payments was the most common form of dealing with unexpected liquidity shocks. Because credit rating agencies have not been developed, manufacturing firms have to gather information about the customer in order to be able to access his credit worthiness. Bodur (1986) mentioned the high costs involved in export credit as a problem for Turkish manufacturing firms.

Human resource barriers. The success of the firms' export marketing activities depends on the attitudes and characteristics of the managers. Export marketing knowledge problems can be attributed to a large extent to the lack of trained and experienced human resources. Agarwal (1986), for instance, indicated that the quality of manufactured products in Venezuela, Argentina and Chile has stayed stubbornly at a low-level due to low quality human resources. A company that takes into account the requirements for international activities in its human resource management practices, particularly for its managerial and professional employees, is more likely to do better in its export attempts (Gomez-Mejia, 1988). The impact of human resource strategies on export performance of small and medium sized manufacturing firms in developing countries is well documented (Christensen and Da Rocha, 1994).

Table 2.1 Internal export problems of manufacturing firms from developing countries

Company barriers	
Marketing knowledge barriers	
Lack of knowledge about export markets and exporting (South Korea, Latin America, Turkey, Brazil)	-Weaver and Pak, 1988; Bodur, 1986; Karafakiolu, 1986; Colaiacovo 1982, Dymsza, 1983, Fluery, 1986.
Lack of experience in exporting (Brazil)	-Cardoso, 1980.
Inadequate market information (Brazil, Venezuela, South Korea, South Africa, Venezuela, Chile, Costa Rica, Turkey)	-Figueiredo and Almeida, 1988; Brooks and Frances, 1991; Kaleka and Katsikeas 1995; Weaver and Pak 1988; Burgess and Oldenboom 1997; Bodur 1986; Karafakioglu, 1986.
Ability to identify customers/buyers in foreign markets and difficulty in communicating with clients overseas ((Brazil, Cyprus)	-Christensen and Da Rocha, 1994; Kaleka and Katsikeas, 1995, Cardoso, 1980.
Lack of own internationally recognised brand names (Taiwan)	-Gereffi, 1992.
Financial barriers	
Lack of financial resources to conduct market research in overseas markets (Brazil)	-Cardoso, 1980.
Lack of financial resources to finance exports (South Korea, Venezuela,, Turkey)	-Weaver and Pak, 1988; Frances, 1987; Dicle and Dicle, 1992.
Credit unworthiness (Kenya)	-Collier and Gunning, 1999.
Human resource barriers	
Lack of management emphasis/commitment to develop export activities (Cyprus, New Zealand, South America, Brazil)	-Kaleka and Katsikeas, 1995; Gray, 1997; Agarwal, 1986; Christensen and Da Rocha, 1994.
Lack of personnel trained and experienced in export marketing (Cyprus)	-Kaleka and Katsikeas, 1995;
Lack of managerial capacity (Latin America)	- Colaiacovo, 1982.
Product barriers	
Quality barriers	
Poor product quality (Brazil, Peru, Venezuela and Chile, Turkey)	-Figueiredo and Almeida, 1988; Cardoso, 1980; Agarwal, 1986; Bodur, 1986; Karafakioglu, 1986.
Short product life cycle/fashion sensitivity (Brazil)	-Cardoso, 1980.
Product adaptation barriers	
Poor quality control techniques (Brazil)	-Figueiredo and Almeida, 1988; Cardoso, 1980.
Poor quality of raw materials (Brazil)	-Figueiredo and Almeida, 1988.
Packaging and labelling requirements (Venezuela, Peru, Chile, Costa Rica)	-Brooks and Frances, 1991; Agarwal, 1986.
Strict product design and specification (Venezuela, Peru, Chile)	-Brooks and Frances, 1991.
Narrow product lines (Hondurans, Guatemala, Pakistan)	-Dominguez and Sequeira, 1993, Hasan, 1998.
Lack of experience to adapt products (Brazil)	-Christensen et al., 1987.

(Source: Literature on export problems of manufacturing firms in developing countries)

In addition to the lack of financial resources to develop human resources a negative managerial attitude toward exporting also constrains SME's activities in the international market. In several articles a lack of management commitment to develop export-marketing activities is reported (Kaleka and Katsikeas, 1995; Christensen and Da Rocha, 1994; Agarwal 1986). In conclusion, trained human resources, management attitudes and commitment towards exports are important factors that enhance export performance (Naidu et al., 1997). A firm is not likely to become a successful exporter unless management has an international vision and consistent export goals.

-Product barriers

The product barriers that influence the export marketing strategy of the firm could be grouped into quality and technical adaptability.

Quality barriers. Quality is often indicated as one of the most important conditions for entering and remaining in foreign markets (Christensen and Da Rocha, 1994). It concerns packaging, meeting importers quality standards and establishing the suitable design and image for export markets. There are different quality standards in developing countries. However, many of the quality problems are the result of inadequate knowledge about market requirements, product characteristics and production technologies. A product, which sells well in a developing country, may not sell at all in a developed country (Lall, 1991). Daniels and Robles (1985) conclude that product quality was a key competency for Peruvian exporters. The studies of Figueiredo and Almeida (1988), and Cardoso (1980) mentioned poor product quality and fashion sensitivity, as problems to Brazilian exporters. Agarwal (1986) pointed out that manufacturers in countries such as Venezuela, Argentina, and Chile were facing product quality problems. Christensen et al., (1987) indicated that lack of emphasis on research and product service and quality characterise the profile of Brazilian firms that eventually ceased exporting. As low value added product marketers they faced direct competition from any marginal cost rival that bursts on the scene.

Technical/Adaptation barriers. Several researchers (Lall 1991; Katsikeas and Morgan, 1994) indicated that local product standards, customer standards and buying habits may be unsuitable for foreign sales and may require adaptation. In most studies, successful firms adapt their products to foreign markets. Christensen et al. (1987) showed that, although Brazilian firms were exporting standardised products, they could have done better if the product was adapted to the requirements of the target market. This was attributed to lack of experience and inadequate technical capacity to adapt the products. Inexperienced exporters may find it simpler to export standardised products and rely on the importers branding, design and promotional skills (Wortzel and Wortzel, 1988). Most of the technical/adaptation problems mentioned in the literature have been due to a lack of knowledge of market requirements or a lack of resources to meet the requirements: poor quality control techniques (Figueiredo and Almedia, 1988; Cardoso, 1980), poor quality of raw material, (Figueiredo and Almedia, 1988), packaging and labelling requirements, strict product design and specification (Brooks and Frances, 1991). Although product line management has not been extensively investigated, Christensen et al. (1987) concluded that companies with multiple product lines are more successful in their export activities.

2.4 External export barriers

Many researchers have recognised that the origin of a substantial number of exporting problems is rooted in the external environment. The nature of these problems tend to vary widely: distinctive foreign consumer preferences, unfamiliar business protocols and practices, the imposition of tariff barriers and regulatory import controls by overseas governments, fierce competition, exchange rate fluctuations and limited hard currency for international trade. The aforementioned problems will be discussed in the following Section. The problems are classified into industry; export market and macro environment barriers. A summary of external export problems is given in Table 2.2.

-Industry barriers

The intensity of exporting activities and the nature of export marketing strategies vary considerably across industries. Porter (1980) noted that, this is largely due to the varying nature of industries. Kerin et al., (1990) considered industry structure as a key determinant of a firm's strategy in the domestic market context. In order to develop a proper export marketing strategy the differences between market systems, firm sizes and presence of foreign competitors across markets should be taken into account. In addition, Jain (1989) stressed that technology intensiveness and intensity of price competition in the industry were important determinants of the marketing strategy.

Industry structure. Firm size has been most associated with firms export activities and interest in exporting (Bodur and Cavusgil, 1985). The firm's size is a key determinant of the propensity to export. The larger the firm, the greater the size advantage over the smaller firms; and this will usually have a positive impact on the export activity. Reid (1987) mentioned that larger firms possess more "slack" in managerial and financial resources as well as production capacity, thus enabling them to direct greater efforts to exporting than smaller firms. According to Naidu et al.(1997), Indian enterprises expressed their concern that MNCs were better equipped for the export market. Figueiredo and Almeida (1988), and Cardoso (1980) mentioned firm's size and high industry concentration as important export barriers to small firms. Rauch (1991) stressed that firms that have been graduating from the small informal status showed up on the radar screens of regulators and tax collectors and suffered the consequences. In line with Rauch's argument, Little (1987) indicated that Indian small manufacturing firms not only had to cope with much more difficult licensing procedures but also had to contend with higher labour costs and substantially higher excise duties.

The impact of technology on export performance has often been discussed in the international literature. Christensen et al., (1987) stated that if exporters marketed their products in developed countries, technology could be an important source of competitive advantage over local producers. However, in less developed countries other sources of competitive advantage, such as low cost, could be more important. Studying the Brazilian footwear industry, Neto (1982) observed that manufacturing of footwear showed better results in terms of export performance if they were more ready to change to new production techniques, to develop new products and to invest in production capacity. Dicle and Dicle (1991) mentioned lack of new technology as an export barrier to Turkish manufacturing firms. They went on to say neither the development of new production technology, nor improvement of new technology for exporting has been given sufficient consideration. The literature review also showed that technology has been a barrier to SMEs in developing countries. However, mere possession of a specialised technology does not create a competitive advantage. It depends on how the firm takes advantage of it.

Another factor, which is important for exporting SME's in developing countries, is the supply of raw materials. Collier and Gunning (1999) reported that firms also face unreliability in their supplies from other domestic firms. In Zimbabwe firms carry large stocks of supplies, on average three months, resulting in high transaction costs and uncertainty to conclude long-term contracts with foreign buyers.

Competition barriers. In principle competition should not be considered a barrier if no information asymmetries existed among competitors in the market. However, in practice information on export opportunities is costly and not easily available. Furthermore, the type of competition perceived by a firm affects its interest in exporting. Burgess and Oldenboom (1997) note that international markets for South African companies were demanding new and unexpected competencies to compete effectively. They show that the inability to meet foreign competitor prices was a barrier for most exporters. In the reviewed literature competition in both foreign and domestic markets was consistently seen as a serious obstacle to exporting. Price competition (Cardoso, 1980; Fluery, 1986) aggressive competitors in the foreign market (Cardoso, 1980), lack of competitive prices and fierce competition in export markets (Kaleka and Katsikeas, 1995) were reported as export barriers. Especially small firms were vulnerable because their limited financial and human resources hamper the collection of adequate information (Burgess and Oldenboom, 1999). Mohy-ud-Din and Javed (1997) mentioned tough competition, from other yarn producing countries, as a main reason for the deteriorating yarn export from Pakistan.

-*Export market barriers*

The literature review showed that the factors that affect the export marketing strategy were related to customer requirements in the export market, the country of origin, cultural similarity and brand familiarity. Similarity of legal and regulatory frameworks of the exporting and importing countries and familiarity with market export procedures were also mentioned as export market barriers. These factors are regrouped into procedural and customer barriers.

Procedural barriers. Exporting requires knowledge about export procedures. One of the most cited obstacles with regard to exporting concerns the time and paperwork required in order to comply with foreign and domestic market regulations. Governments do not solely impose these procedural requirements. Independent organisations such as banks, shipping organisations and insurance companies have their own procedures.

Lack of information about export procedures has been mentioned as an export barrier in many studies (Haidari, 1999). A firm that wishes to enter the export market or intends to increase its export activity will have to acquire the knowledge and skills to deal with administrative procedures. For inexperienced managers, in particular, foreign documentation and paper work may appear very difficult to cope with (Dymsza, 1983). The upshot is that the mere perception of inability to process the paperwork, either because of cumbersomeness or due to lack of time, tends to act as a barrier to exporting. Often, the documents are not properly completed, causing delay in payments and thus creating cash flow problems for the exporter. Haidari (1999) showed that delays in the refund of duty and Sales taxes were affecting the cash flow of many small tanners in Pakistan. Because the small tanners had a limited working capital any delay provoked a serious constraint for their export operations. Brooks and Frances (1991) argued that when the government is highly involved, official procedures may lead to red tape, which is difficult to manage for those just starting to export. Adjusting to different cultures, including business customs and attitudes in foreign markets was also mentioned as a second major problem to Korean small and medium sized manufacturing firms (Weaver and Pak, 1988): sixty five percent of the sample reported at least some problems in this regard.

Customer barriers. Customer barriers stem from the customer's perception of product characteristics. An important issue here is that in addition to specific quality problems, exporters from developing countries face the poor reputation of their country. Ford et al. (1987) indicated that the country of origin effect hampered the growth of Indian consumer durable exports. Mohy-ud-Din and Javed (1997) reported that precipitated by the declining export demand for low quality textiles, the Pakistan yarn manufacturers have lost market share in virtually all their major markets due to image problems. The reviewed literature also reported the following customer export barriers for manufacturing firms in developing countries: bad image of products in the foreign market (Cardoso, 1980), insufficient foreign demand (Cardoso, 1980), culture and language differences (Brooks and Frances, 1991), country of origin effect (Lall, 1991).

-*Macro environment barriers*

Macro environment barriers are factors beyond the firm's control such as the lack of proper trade institutions, unfavourable exchange rates, the absence of a stimulating national export policy, and international agreements. They are mainly related to the domestic and foreign external environment to the firm but difficult to classify under industry and export market barriers due to their dual behaviour. The problems cited in the reviewed literature are classified as direct and indirect export barriers. Direct barriers are rooted in sectoral policies of the government, while indirect barriers result from general macro economic policies of the government.

Direct export barriers. Government authorities and agencies can raise direct export barriers**.** Government regulations may relate to tariff and non- tariff barriers. In the literature review export regulation of the domestic government (Figueiredo and Almeida, 1988); inadequate diplomatic support, protectionist barriers, import substitution (Cardoso, 1980; Figueiredo and Almeida, 1980; Frances, 1985, Dymsza, 1983) were mentioned as export problems. Beside this lack of export promotion and assistance programmes sponsored by the government (Kaleka and Katsikeas, 1995; Figueiredo and Almeida, 1988) and the fact that in some cases the government assigns itself the highest priority in foreign exchange allocation (Ortiz-Buonafina, 1984), were noted as export problems to SMEs in developing countries. Colaiacovo (1982) concluded that infrastructure difficulties were still important factor constraining export activities in Latin America.

Exporters often suffer because of the inadequacy of government export promotion policies. This includes lack of gathering and provision of information on available export opportunities and ineffective promotion of the countries exports overseas (Naidu et al., 1997). Morawitz (1981) reported that in a survey in Taiwan, government export promotion agencies were regarded as being the least useful of seven sources of market information. Similarly he noted that in a study in Columbia, not one of the exporters he interviewed credited the country's export promotion office. This inadequacy of government export promotion service is a serious bottleneck for firms in developing countries as many (potential) exporting companies lack the necessary export market knowledge and marketing skills. However, even the available export promotion programmes become ineffective due to high government involvement. Naidu et al. (1997) mentioned that although India has created complex bureaucracies to promote exports the results are dismal. He concludes that high levels of government interference have effectively inhibited international entrepreneurship. In general the literature review showed that frequent changes in export related polices and ineffective governmental assistance agencies are major export barriers to SMEs in developing countries.

Indirect export barriers. Indirect export barriers are rooted in the macro economic policy of the country and international trade agreements. Morawitz (1981) addressed both macroeconomic and firm level issues and found that foreign exchange rate policy was a major determinant for international competitiveness of the Colombian clothing industry. Luis (1982) stressed that exchange rate policy influenced export financing programs and the availability of foreign currency. Similarly Juarez (1993) indicated that the loss of competitiveness in

Table 2.2 External export problems of manufacturing firms in developing countries

Industry export barriers	
Industry structure	
Firm Size (Brazil, India, Turkey)	-Figueiredo and Almeida, 1988; Little, 1987; Bodur and Cavusgil, 1985.
'High Industry concentration (Brazil)	-Cardoso, 1980.
Lack of new technology (Turkey, Brazil)	-Dicle and Dicle, 1992; Neto 1983.
Choosing the right technology (Peru)	-Daniels and Robels 1985.
Ill prepared to face large MNCs (India)	-Naidu et al.1997.
Unreliability in supply of raw materials (Zimbabwe)	-Collier and Gunning, 1999.
Competition	
Fierce competition in export markets (Cyprus, Turkey, Pakistan, Brazil)	-Cardos 1980; Fluery 1986; Kaleka and Katsikeas 1995; Karafakioglu 1986; Hasan, 1993.
Export market barriers	
Customer barriers	
Image of products in foreign market (Brazil)	-Cardoso, 1980; Lall, 1991.
Insufficient foreign demand (Brazil, Pakistan)	-Cardoso 1980; Mohy-ud-Din and Javed., 1997.
Culture and language differences (Peru)	-Brooks and Frances,1991.
Brand familiarity (Taiwan)	-Gereffi, 1992.
Procedural barriers	
Methods of payment/ delays and bad debts (Peru)	-Brooks and Frances 1991.
Complexity of paperwork involved, procedural complexity (Cyprus, Turkey, Venezuela, Peru, Costa Rica)	-Kaleka and Katsikeas 1995, Bodur, 1986, Brooks and Frances 1991.
Delay in duty drawbacks (Pakistan)	-Haidari, 1999.
Macro environment barriers	
Direct export barriers	
Protectionist barriers (Brazil)	-Cardoso 1980; Figueiredo and Almeida, 1988
Transport service and infrastructure (Peru, Venezuela, Chile, Costa Rica)	-Brooks and Frances 1991.
Special Customs requirements (Peru)	-Brooks and Frances 1991.
Lack of export promotion and assistance programs sponsored by the government (Cyprus, Brazil)	-Kaleka and Katsikeas 1995; Figueiredo andAlmeid 1988.
Complex government bureaucracies (India)	-Naidu et al 1997.
Import substitution (Latin America)	-Dymsza 1983.
Lack of import Licenses (China)	-Simyar and Argheyd 1985.
Indirect export barriers	
Exchange and interest rate uncertainties (Brazil, Colombia, Latin America, Hondurans, Costa Rica)	-Cardoso 1980; Figueiredo and Almeida 1988, Luis 1982; Morawitz 1981, Juarez 1993; Ortiz-Bounafina, 1984 ; Dymsza, 1983).
International agreements (Brazil)	-Cardoso, 1980; Figueiredo and Almeida, 1988;
Cost of transportation (Costa Rica, Cyprus)	Brooks and Frances, 1991; Kaleka and katsikeas, 1995.

(Source: literature on export problems of manufacturing firms in developing countries)

Colombian manufactured products was among other factors due to an appreciation of the real exchange rate. Brooks and Frances (1991) found that Venezuelan and Peruvian exporters were obliged to change their foreign currency earnings at the official exchange rate, roughly half the free market rate. At the same time they could only buy foreign currencies, to import inputs and spare parts, at the free market rate.

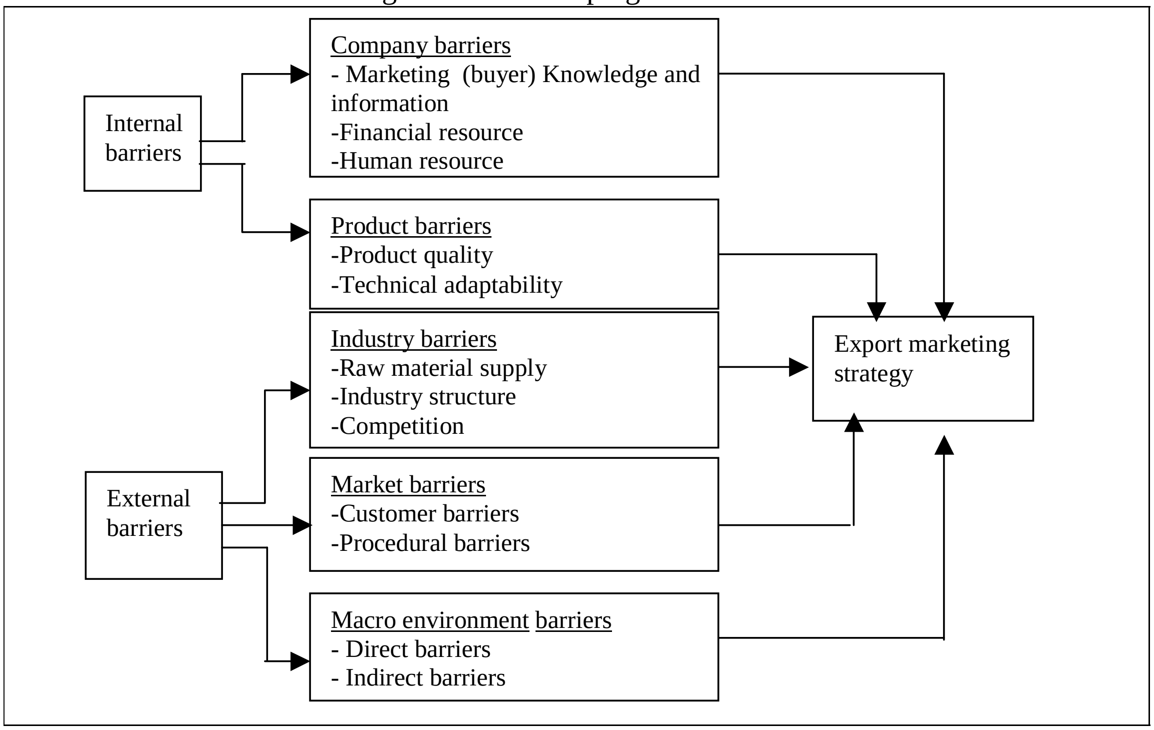
The other factor is related to international trade agreements. Trade agreements may open markets to companies in participating nations, but they can also discriminate against third party traders. The gradual loss of North American companies of some European markets to European community members was for example, a result of the treaty of Rome (Brooks and Frances, 1991). Simyar and Argheyd (1985) find that import license requirements and other entry barriers hindered exports to China. Similarly, Dicle and Dicle (1992), observed that strict and time consuming procedures for imports of manufactured goods constrained exports to Turkey. In the reviewed literature exchange rate uncertainties and international agreements (Cardoso, 1980; Figueiredo and Almeida, 1988) were mentioned as export barriers. A number of authors mentioned the importance of exchange rates as a tool to promote exports. Moreover, cost of transportation (Brooks and Frances 1991); and transport service and infrastructure (Brooks and Frances, 1991; Colaiacovo, 1982) were mentioned as export problems. Infrastructure problems are still widespread in even relatively well-developed exporting countries. A well-designed and manufactured product will not gain export markets unless it can be transported and delivered to import markets safely, punctually and reliably (Lall, 1991).

2.5 Conclusion and implications to the empirical research project

Increasing exports from developing countries is widely regarded as an important condition for further development and growth in poor countries. SMEs in developing countries are confronted with many export barriers when they attempt to enter markets in developed countries. The export marketing problems of small and medium-sized manufacturing firms are multi-dimensional. The discussion shows that the problems are closely interrelated and that they can be classified in five problem categories: company, product, industry, export market and macro environment, (Figure 2.3). The classification provides a comprehensive understanding of the export problems that affect the marketing strategy of a firm and is useful for the formulation of suitable marketing strategies and national export assistance programmes.

SME’s in developing countries may need assistance before they can become competitive in the international market. In order to provide effective and timely assistance identification of the export problems they are facing is critical. In order to understand these export problems and to undertake effective export assistance a close co-operation between the government, its promotional institutions, the business community, and the private sector at large is important. The highest growth rates of SME’s exports have been realised by countries in which such relationship has been built (Ceglie and Dini, 1999, Seringhaus and Rosson, 1990, Seringhous and Botschen, 1991). The upshot of this literature survey is that sound export strategies (firms) and policies (governments) should take all the issues into account. An active export promotion policy, for example, is useless if other government policies are unfavourable or if major industry or product barriers are neglected. The qualitative model (in Figure, 2.3) provides an overview of the potential export problems that an exporter should consider before an export venture is undertaken. The world market may provide many promising opportunities. The challenge is to organise exports while solving the major export barriers.

Figure 2.3 Internal and external export problems that influence export marketing strategy of manufacturing firms in developing countries



(Source: Adopted from, Cavusgil and Zou, 1994)

Two trends were observed in the reviewed literature. Firstly, the research focus is shifting from exploratory research, aimed at identifying export problems, to testing the effect of export problems on export initiation, export development and export performance of the firm. In particular the reviewed articles, published during the last two decades, have discussed export problems in relation to one of these issues. Secondly, most of the export problems identified in developing countries, except 'the country of origin barrier', exist in the developed world especially for small and medium sized companies (Moini 1995; Kedia and Chhokar, 1986; Morgan and Katsikeas, 1997; Ghauri and Herbern, 1994; Shoham and Gerald, 1995). Although the degree of difficulty and the importance of export problems vary, there is similarity among the major issues. This implies that manufacturing firms in developing countries can learn some interesting lessons from the experience of the developed world in solving export problems.

Chapter 3

Measures Undertaken to Encounter Export Problems of Manufacturing Firms from Developing Countries

3.1 Introduction

The objective of this chapter is to review the measures undertaken by manufacturing firms and governments in developing countries to encounter export-marketing problems. The empirical results contained in the relevant studies have been compiled and synthesized and lessons for the footwear-and textile-manufacturing firms in Eritrea have been drawn.

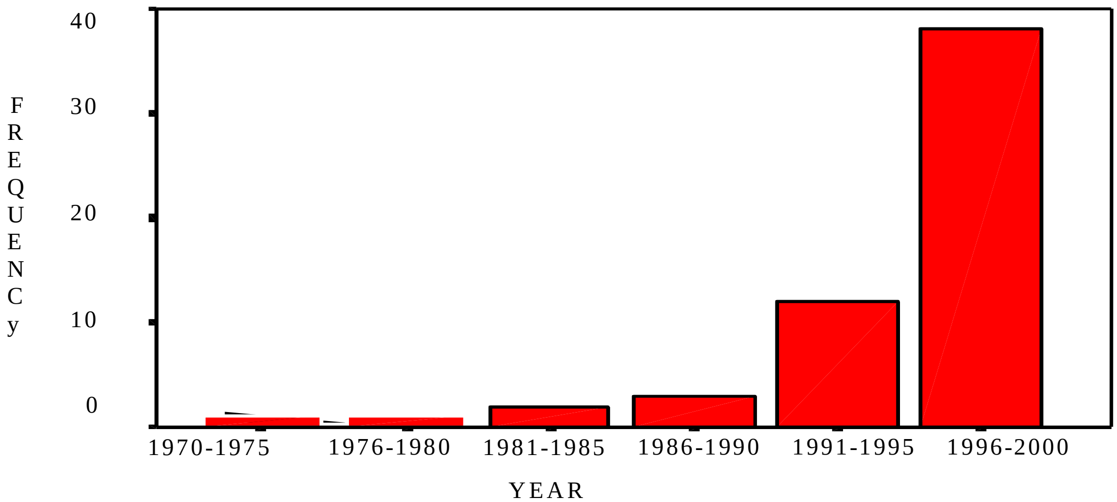
3.2 Method

The method applied to collect and classify the articles in this Section was similar to the one used in chapter two. The key words used to search the articles were: export promotion, export marketing, export management, export marketing channel, networks, subcontracting and co-marketing alliances. Compared to the previous chapter the number of articles generated by the search engine was larger in number. This was because we had many key words, which were searched independently. Out of 963 articles generated by the search engine 57 were found relevant and reviewed. A large number of articles discussed export promotion (18%) and export networks (29%). The remaining 53% of the articles discussed export measures in relation to inter-firm collaboration, export marketing channels, inter-organisational linkages, and export assistance.

Only 10 articles had cases that concerned experience in developing countries and comprised firms involved in vertical and horizontal business network relationships. In the first group we found: (1) the Nike/Reebok and Asian footwear producers subcontracting network (Rosenzweig, 1994), (2) the Brazilian Sinos Valley and the Mexican footwear subcontracting network (Ceglie and Dini, 1999), (3) the lightening subcontracting network (Sarathy, 1994), (4) the networks of foreign multinationals and their Ukrainian partners (Suzan, 1999) and, (5) the Korean business networks (Kienzle and Shadur, 1997). In the second group we found: (1) the Peruvian export grouping network (Visser, 1996), (2) the Nicaraguan export grouping network (Ceiglie and Dini, 1999), (3) the Chilean export grouping network (Humphrey and Schmitz, 1995), (4) the Jamaican export grouping network (Ceglie and Dini, 1999), and (5) the Chinese export grouping network (Welch, *et al.*, 1996).

The information provided in the last four articles was incomplete and did not allow us to verify the relevance of the comprehensive model presented in Figure 3.3. For example, only the positive aspects of the networking programme were described in the Jamaican and the Chilean export grouping networks. Beside this, neither the role of the network members in the networking programme, nor their interaction, was properly documented. Similarly, only the role of outside change agents has been discussed in the Chinese networking programme. The Ukraine case dealt mainly with multinationals. In order to remedy this problem we included three well-documented experiences with export grouping networks in developed countries. As we have already mentioned in the introduction, experiences in developed countries may provide useful insights. The following cases were selected: (1) the Australian oaten hay processors' export grouping network (Welch, et al., 1996), (2) the Norwegian manufacturers' export grouping network (Leonard, 1983) and (3) the Finland furniture producers' export grouping network (Kautonen, 1996).

Figure 3.1 Number of articles reviewed by year[4]



Only three articles had cases on export promotion. These are the Indian Trade Promotion System (Naidu et al., 1997) the Austrian Export Promotion System (Seringhaus and Botschen, 1991) and the Canadian Export Promotion System (Seringhaus and Botschen, 1991). In addition to these three cases the Chilean Networking Programme (Humphrey and Schmitz, 1995) and (4) The Jamaica Institutional Networking Programme (Ceglie and Dini, 1999) are discussed under this section. The Jamaican and Chilean governments initiated these programmes as part and parcel of their export promotion programme.

More recent articles (see Figure. 3.1. above) were analysed in here than in chapter two. This shows that the export research is shifting from problem identification to problem solving. However, the distribution of the articles analysed here varies along the topics discussed. In this chapter there were more articles related to networking than export promotion. Moreover, the articles on networking were more recent. The evidence from the literature also showed that networking theory has been popular. International organisations such as UNIDO have adopted networking in order to encounter export problems and build institutional capacity. UNIDO supported networking projects have been implemented in Nicaragua, Jamaica and Chile.

3.3 Measures undertaken by firms

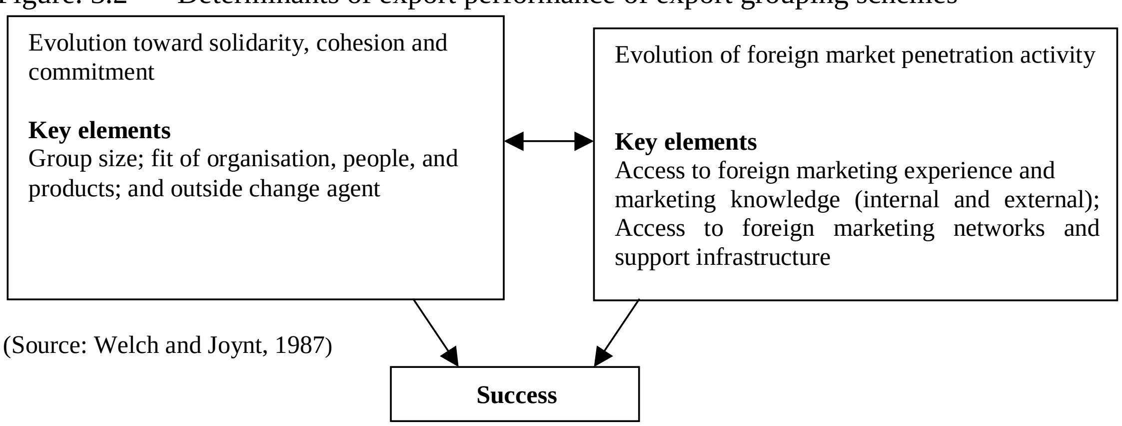
Firms in developing countries have taken different measures to alleviate the 'internal' and/or 'external' export problems. Networks have been often used for this purpose. The extent to which marketing systems are characterised by vertical long term relationships or networks of firms clearly expresses the preference for non-market governance over market or hierarchical forms of governance (Iyer, 1997). Marketing has become a network of strategic partnerships among designers, manufacturers, distributors and information specialists (Webster and Frederic, 1992). Consequently, the marketer manages relationships with suppliers, buyers,

[4] Number of articles in this bar graph does not include the information gathered from different books.

resellers and even other producers in the industry. Lewis (1990) stressed the opportunities for co-operation among competitors: horizontal network relationships. Global competition does not exclude that some firms in the same business may co-operate in order to realise their marketing objectives (Baumol, 1990; Teece, 1986 and Hippel, 1988). Although competition is more likely to occur among actors who occupy a similar position it can be mitigated if actors are tied to each other (Garcia-pont and Nohria, 1999; Zaheer and Zaheer, 1999).

In analysing the network measures the emergence of a network from the process of network development have been distinguished. Meulenberg (1998) focused on the first phase when he formulated three conditions for the emergence of a successful export marketing co-operative network. Firstly, a common problem or opportunity should exist in the market. This usually refers to a lack of export market information, limited financial capacity and trained human power or a lack of capacity to meet market requirements such as quality, and design. Secondly, companies should prefer to respond jointly and finally, the product marketed by the co-operative should be important for the income formation of the related companies. These conditions are in line with Van de Ven's (1976) conclusion that inter-organisational relationships are formed either because of an internal need for resources or a commitment to an external problem or opportunity. Welch and Joynt (1982) focus their analysis on the second phase, the process of network development, and outline two determinants for the successful operation and performance of export grouping networks (Figure 3.2).

Figure. 3.2 Determinants of export performance of export grouping schemes



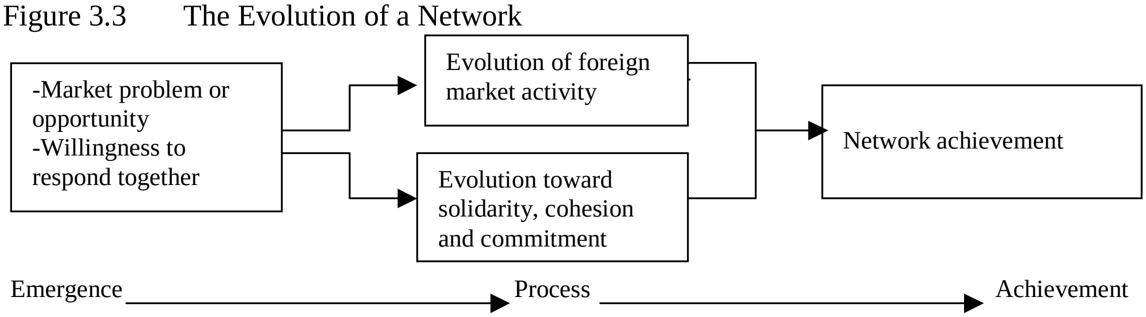
(Source: Welch and Joynt, 1987)

The first determinant concerns the group's evolution towards solidarity, cohesion and commitment. The success of the group depends on how the group process develops and builds toward cohesion. Group cohesiveness is defined as "the degree to which members are attracted to one another and share the group's goals", (Robbins, 1994, p.104). Heide and John (1992, p.13**)** defined solidarity as "bilateral expectation that there is a common interest and feeling that a high value is placed on the relationship." Solidarity involves the preservation of particular memberships in the relationship (individual preservation) as well as preservation of the larger relationship (collective preservation) (Lee, 1998). It implies that the parties to the relationship expect the relationship to continue for a long time and have a sense of unity. Macneil (1981) notes that when the interests of each party become the interests of the other party unity may occur in spite of high conflict or little "love lost". The network as a structure that creates more benefits for the contributing actors than individual contributions is realised in societies dominated by a certain level of solidarity (Monsted, 1995). Commitment is the most common dependent variable used in buyer seller relationship studies (Anderson and Weitz, 1990). Commitment implies importance of the relationship to the parties and a desire to continue. Commitment to groups has traditionally been considered as contribution in two forms; financial and personnel. Committed members invest more financial and personnel resources. When the partners have a mutual understanding concerning how to co-ordinate their exchange activities, they are prepared to invest in the relationship and to extend co-operation by including other activities as well. Thus relationship commitment can be affected positively by relationship understanding.

The actual number of companies involved is of some importance to group cohesiveness. “Group cohesiveness tends to increase with the time members are able to spend together.” However, as group size expands, interaction with all members becomes more difficult, as does the ability to maintain a common goal (Robbins, 1994). The composition of the group is important: “the greater the substitutability of different firms’ products, the more this is likely to promote competition instead of co-operation” (Rossen and Blunden, 1985, p.4). However it is not always true that co-operating firms have complementary products. To some extent the element of competition can be managed if the groups export operation is handled by a relatively independent party, such as combination of export managers (Lawal, 1975). A common external threat to the group’s members may also draw them together.

The ability to make the grouping concept work also depends on the people involved and in particular on their ability to work together (Stenburg, 1982). Outside change agents or facilitators may facilitate this process. They are individuals that may initiate the idea of co-operation to the would-be partners and help them towards its realisation. The outside change agent plays a crucial role in ensuring that the group is positively guided in its grouping activities, as well as providing a link to the support infrastructure.

Figure 3.3 The Evolution of a Network



The second determinant for success in the Welch and Joynt framework concerns the evolution of foreign market penetration activities. This factor comprises initiatives of the network to acquire foreign marketing experience and market knowledge (solving ‘internal’ and ‘external’ export problems) contacts with foreign partners and support infrastructure (Figure 3.3). Welch and Joynt argue that early market activities facilitate the network’s evolution towards solidarity, commitment and cohesiveness. However, they also warn that the firm should build a strong network relationship before it starts to penetrate foreign markets.

Based on the above-mentioned literature we identify three stages in the evolution of a network. These are; (1) the emergence of the network (2) the network development process and (3) finally, the achievement of the network. The relationship is depicted in figure 3.3. By network achievement we mean the extent to which the firms are able to achieve their objectives. In all the cases that will be discussed in the following Sections of this chapter, market penetration is mentioned as the main objective of the network. Other related objectives may concern improving product quality, achieving product standardisation and improvement of gross margins. Market penetration in the achievement stage should not be confused with the export marketing activities in the process of network development. While the former concerns the realisation of the overall network objectives, the latter refers to foreign market activities undertaken to attain the objective.

Although Meulenburg (1998), Van de Ven (1976) and Welch and Joynt (1982), have applied their theories to horizontal networks their contributions are also relevant to subcontracting networks. This is because there is a long-term business relationship between the principal and the subcontractor. Both work to improve the quality of the product. To achieve this objective the principal sends his staff to supervise the production process and supports the subcontractor to improve his manufacturing capability. When the product is demanded in the market the principal gets a better return and at the same time the subcontractor secures a larger order. To foster this mutual objective the existence of solidarity, cohesion and commitment is important. At the same time, the successful penetration of foreign markets is a prerequisite for a sustainable contract.

This model (Figure 3.3) will be applied to analyse the cases that have been selected. This will help us (1) to see how networks have been used to solve the export marketing problems and (2) to test the relevance of the stages and variables that we have identified in the qualitative model. The next two subsections will discuss the experiences with some horizontal and subcontracting networks.

3.3.1 Horizontal networks

Horizontal networks are defined, as co-operative network relationships among manufacturers who want to solve a common problem or exploit a market opportunity. Most of these initiatives are known as export-grouping networks.

Export grouping networks

The aim of export grouping networks is to encourage firms within industries to co-operate with one another in export markets. By co-operating they create opportunities that would be unavailable to individual companies. With long term collaboration members gain competitive advantage through benefits of size, and working on common projects such as joint export marketing, manufacturing and research and development (Chetty and Holm, 2000). Welch et al. (1996) pointed out that the underlying logic of the export grouping schemes is clearly network-related. Firstly, any type of export grouping scheme inevitably involves the development of a variety of linkages between the companies involved. Secondly the benefits that arise from grouping schemes can be interpreted in network terms. In particular the benefits can be understood in terms of changes resulting in the relations among firms within the group and with other firms and organisations.

Five case studies of export-grouping networks have been described in this Section. These are: (1) the Australian oaten hay processors export grouping network (2) the Norwegian manufactured products export grouping network, (3) the Nicaraguan export grouping network (4) the Peruvian, Gamarra, textile producers export grouping network and (5) the Finland’s, Lahti region, furniture producers grouping network. These cases have been selected because they describe the emergence, evolution and achievement of the export grouping networks.

-*The Australian oaten hay processors export grouping network*

Welch et al. (1996) studied a co-operative network of oaten hay processors, initiated by the Australian trade commission (Austrade), a semi-government organisation that promotes and supports international operations of Australian firms. The vehicle in this case is called a Joint Action Group (JAG). The network approach used here is demand driven in that JAGs are formed only when a specific opportunity has been located in a foreign market, (Ibid.). At Austrade's instigation, a Joint action Group of oaten hay processors was formed in October 1992 in order to develop a more co-ordinated and market responsive organisation of exports to the Japanese market, particularly addressing the issues of quality and reliability of supply. Ten major processors representing about 75% of Australian oaten hay exports to Japan have contributed financially to establish an export company, Australian Hay Pty. Ltd. The JAG comprises direct competitors, who jointly own a registered trademark: Australia Oaten Hay, with a distinctive logo. Welch et al. (1996) mentioned that the network enabled the hay processors to produce a better quality product and strengthen the co-operative relationship among the members. Several joint initiatives were undertaken like the development of quality standards, sharing of information about production methods and the Japanese market, and joint promotion through the network members developed personal bonds and trusting relations, which did not exist before.

-*The Norwegian manufacturers export grouping network.*

Leonard (1983) studied an initiative by a group of small firms in Norway aimed at improving their export performance. The program reflected a wider concern within the government to encourage the internationalisation of Norway's many smaller companies at a time when the national economy faced the rapid growth of the oil sector. The initiative for the scheme came from outside change agents rather than the participating companies. The change agents were the National Institute of Technology and a large Norwegian management consultancy firm with ample international experience. The gap between the parties at the outset was considerable and much time and effort had to be put into the process of building a viable group entity (Ibid). In the Norwegian case considerable emphasis was given to building a strong support infrastructure to facilitate foreign market penetration. Out of the three groups established only one actually became operational in a foreign market. In one group the main reason for failure was a high degree of interpersonal conflict. In the second group the members could not agree on the targeted foreign market or distributor.

-*The Nicaraguan export-grouping network*

Ceglie and Dini (1999) studied a network project (UNIDO) in Nicaragua that started in 1995. During the first phase of the project a team of seven national consultants assisted by short-term international consultants created some 20 horizontal networks. One of the network export organizations was Ecohamaca, comprising of 11 enterprises operating in the handicraft hammock production sector. The interesting aspect of this network relationship was that while the network members all competed with one another in the local market they tried to collaborate in an attempt to enter foreign markets. None of the local producers had direct exporting experience. Through the project the producers were assisted in standardizing their production process in order to collectively reach quantities suitable for export and, at the same time, in order to improve the quality and design of the products and the pricing systems. The business network relationship was successful since it permitted the group to export on eight different occasions to destinations such as Sweden, Finland, USA, and Peru and over 3,000 hammocks were exported on average every month. In order to consolidate results and further common work, the group acquired a legal status and hired a manager. His tasks included the organization of training for the workers, the search for technical and financial assistance from a variety of local SME support institutions, and the strengthening of the marketing strategy.

-The Peruvian textile producers export grouping network

Visser (1996) studied the co-operative linkages between Peruvian textile producers. No outside agent was involved in establishing the group. The major objective of this group was to facilitate export. A group of small firms exported jackets to the former USSR. In 1992, one of the participants received an export order from a German importer who had favourably judged his samples. The order was far too large for his production capacity. Confronted with competition from increasing imports of especially Korean and Chinese garments in Peru he decided finally to organise five local task groups of ten firms specialised in a particular product (sportswear, jeans, t-shirts, shirts and ties). The objective was to expand capacity and improve product quality through mutual advice, professional training and the replacement of equipment, in order to enter export markets.

The founding of five task groups involving 50 entrepreneurs only took six months. The author considered this to be a short time, as the leading actors initially could not find an appropriate legal status fitting with the groups' purposes, whereas the objective to export sharpened selection criteria. The selection of partners was guided by past business experience, personal knowledge and relationships, and took place in two steps. First, the initiator selected the leaders of the subgroups who, subsequently, had to organise the subgroup. After the export group managed to get a special credit, a marketing specialist was hired. Initially, this person examined the domestic market for orders from public and private institutions. In a month the marketing agent had reeled in three orders, of 10,000 T-shirts each, from two breweries and an ice-cream making firm. These achievements were essential for generating trust between the agent and the producers. Visser (1996) mentioned that family ties have been an important factor for the network establishment and success.

-The Finland furniture producers export grouping network.

Kautonen (1996) studied 14 export-grouping networks of furniture producers of the Lahti region in Finland. According to the firm's managers and the author's estimations, these have not been all that successful. Nevertheless, it would not be justified to claim that these projects were of no worth at all. Kautonen explained that only three to four groups could be evaluated as total failures due to bankruptcies, personal conflicts between firm managers or incompetent or even dishonest export consultants. Seven to eight of the projects were partly successful, for being a start of export activities or the entry of a new market. The member firms exchanged information about market risk and customers. Whenever profitable, transportation was organised jointly. The experiences of the networks also served as a lesson for building co-operative inter-firm relationships.

Discussion

This Section applied the network model (Figure 3.3) in order to test whether it could explain the observed failures and successes. We note that the authors of the case studies used different methodologies and focussed on different problems. This explains why not all the variables, as described in the model, were not discussed in this section extensively.

- *Network emergence*

The Australian export-grouping network was established to develop the oaten hay export market in Japan. The objective was to exploit the market better by co-ordinating the export activities of the individual manufacturers. The ultimate goal of the Nicaraguan networking project was to develop exports for some particular commodities through solving problems that constrain export initiatives. Production was standardised in order to realise the necessary quantities and the design and quality to meet export market requirements. The objective of the Peruvian export-grouping network was similar to that of Nicaragua. It was initiated to expand capacity and improve product quality through mutual advice, professional training and the replacement of equipment, in order to enter export markets. The Norwegian export network was established to facilitate market penetration. For this case no information was given about the ex ante identification of an export market.

Overall, at least four out of the five network initiatives were taken to exploit an available market opportunity or to solve an existing export problem. As network membership was voluntary in all the cases, some willingness to co-operate was existent. Therefore we conclude that the results are in line with the model.

- *The group's evolution towards group solidarity, cohesion and commitment*

In the Finland case, it was mentioned that personal conflicts between firm managers and incompetent or even dishonest export consultants were the reasons for the failure of four groups. Besides, it was reported that two Norwegian groups failed because of the inability of two individuals in the group to work together. Personal conflicts were mainly attributed to the lack of strong personal relationships and mutual interests.

In the Peruvian case family ties were found important in strengthening the personal relationships and facilitating network establishment. However, personal or family ties were important only if they were coupled with mutual interest. The size of the firms involved in the network relationship can affect their interests to ward a market. In the Norwegian case large differences in firm sizes were observed and put forward as one of the reasons for disagreement among the group members on the targeted market.

Outside change agents can facilitate the evolution of the network relationship by helping network members to solve their internal problems. The Norwegian, Australian, and Nicaraguan cases support this idea. In the Norwegian case the change agents were independent institutions, while the Australian network was initiated by a semi-government organisation. The Nicaraguan organisation that took the initiative to constitute several export groupings explicitly aims at the establishment of network relationships between enterprises and institutions that allow enterprises to overcome their isolation and reach new collective competitive advantage beyond the reach of individual small firms. However, the Peruvian case showed that export-marketing networks could be established and remains successful without the involvement of outside change agents.

We conclude that the case studies support the model we developed by confirming that cohesion; solidarity and commitment are crucial factors in the development of export grouping networks.

- *Evolution of the networks foreign market penetration activity*

The literature indicates that the Norwegian network had access to a supporting infrastructure and the marketing experience of the outside change agents. The Australian oaten hay producers also enjoyed the marketing expertise of Austrade. The Peruvian network benefited from the marketing expert hired by the group and he was able to generate sales. Visser indicated that the early sale was important to build trust among network partners. However, unless they are based on a solid, cohesive and committed group 'early' market penetration activities or access to support infrastructure may not lead to success. The Norwegian case supports this idea. Some of the firms were not able to adjust to the group concept and frustrated it's functioning. This shows that some operational issues have to be settled before concrete activities in the export market can be undertaken: structure, composition, mode and timing of operation. This helps the group to remain strong enough to face internal and external problems and ensure that all members have the potential to gain from the targets chosen.

- *Network Achievement*

In the Peruvian case Visser (1996) reported that the network members were successful in penetrating the North American textile market. The Gamarra textile producers evolved into a large network of small companies. In August 1995, the organisations comprised 157 members and seven consortia. It also extended its activities towards joint market research and international marketing with Dutch development aid bringing another external agent on stage. Strong partner network relationships and family ties were mentioned as contributing factors to the success of the group. Welch and Joynt (1982) concluded that the results of the Norwegian grouping scheme were rather bleak. Out of the three groups only one actually reached the stage of operating in a foreign market. However, this group failed to extend its scope of operations in the following years.

In the Australian case a clear positive market outcome has been generated (Welch, et al. 1996). The increased sensitivity to the quality required by the Japanese customers shows that processors were trying to meet demand. The informal contacts among processors have been sustained, even with member's no longer part of the JAG and despite personality clashes. Various joint activities have been undertaken, including the development of quality standards, sharing of information about production methods and the Japanese market, and joint promotion (Ibid.). Resources have been pooled to obtain government grants and knowledge has been developed and shared among members. These achievements have contributed to the expansion of the foreign market activity in the Japanese market**.**

In Finland, Kautonen (1996) reported that exports of furniture have increased rapidly ranging between 500 and 600 millions of FIM in the 1980s, 643 million FIM in 1991, 706 million FIM in 1992 and in 1993 as much as 1086 million FIM (187 MECUs). The Lahti export-grouping network successfully addressed the logistic problems and quality requirements. Ceglie and Dini (1995), mentioned that the network strategy in Nicaragua proved to be very successful since it permitted the group to penetrate markets in the EU, US, Sweden, Finland and Peru. The network also enabled partners to achieve product standardisation, better quality and improvement in pricing systems.

Table 3.1 The emergence, development process and achievement of export grouping networks in the five cases

Phases	Norwegian JAG	Australian JAG	Peruvian Gamarra	Finlands Lahti	Nicaragua *EcoHamaca*
1 Emergence					
Objectives	To facilitate market penetration	To facilitate market penetration	To expand production capacity improve product quality	To enter new markets	To develop export and solve export problems
2. Development process					
Identification and establishing contact with prospective candidates for group formation.	Institution of national technology Consultancy firm	Austrade	Group co-ordinator	Group co-ordinators	UNIDO and National consultants
	Banks, Export Council, etc	None	Banks (loan) Extended families	None	UNIDO
Creation of a climate of co-operation and formal establishment of the group	Group co-ordinator	Austrade	Group co-ordinators	Group co-ordinators	UNIDO
Business development	Group co-ordinator and group members	Group members	Group co-ordinator & members	Group co-ordinators	Not mentioned
	Suppliers, financial, institutions, marketing organisations	Australian government	None	Government through subsidies	UNIDO
Problems observed	Gap between partners Interpersonal conflict Bankruptcy Disagreement about target market & foreign distributor	High government intervention Personality clashes Strains due to growing competition	Lack of punctuality in meetings Bad perception of partners on employees Tacit knowledge Risk averseness	Personal conflicts -Bankruptcy -Incompetent, dishonest export consultants	UNIDO and National consultants
3. Achievement					
Direct and indirect results	Export support infrastructure Learning	Improved quality Personal bonds, trust and learning	Capacity building Close personal ties Learning	Product standardisation Learning	Product standardisation Quality and design improvement Improvement pricing systems
	Two failed and one penetrated to the US market	Japanese market penetration	US Market penetration	Three failed and eight penetrated foreign markets	Market penetration to EU, US, Sweden, Finland and Peru

(Source: The literature on Norwegian, Australian, Peruvian, Finish and Nicaraguan Export grouping networks)

We conclude that the experiences presented in this sub section are in line with the model (Figure 3.3). The successful networks were characterised by the existence of a concrete market opportunity (threat), a willingness to co-operate, some form of early market penetration together with a process creating solidarity, cohesion and commitment among group members. It has also been learnt that personal (family ties) contribute to the emergence and development of the network (Visser, 1996). The next subsection discusses vertical networks.

3.3.2 Vertical networks

Vertical networks are defined as: cooperative relationships between suppliers, producers and buyers who are interested to solve joint marketing problems, achieve production efficiency, or exploit market opportunities. In this sub-section we discuss three cases on subcontracting networks.

Subcontracting Networks

Subcontracting opens an opportunity for firms in developing countries to participate in the international market. Subcontracting networks occur when a manufacturer sells products to a specific buyer for a considerable period of time, while the latter specifies the design of the products and supervises the production process. A subcontracting agreement may also specify how a third company distributes a commodity for a specific period of time.

"Subcontract manufacture is the process by which a subcontractor (i.e. an organisation with business objectives which is independent of those of the principal), performs all or part of the manufacture of the principal's product, to a customised specification (of varying detail) provided by the principal. Activities which support this manufacture (e.g. materials procurement, production planning, etc.) can be carried out by either party, subject to prior agreement." (In Webster and Adler, 1997, p.2)

Subcontracting agreements are made for a variety of reasons. A categorisation has also been proposed which distinguishes between the "capacity", "specialised" or "economic" subcontract (Imrie, 1994). According to Imrie the capacity subcontract, normally short-lived and unstable, is set up to meet unexpected or exceptional increases in demand. Whereas, the specialised subcontract, by contrast, is longer-term and enduring established by the principal to access specialised expertise or technology, which is not available in-house. Finally, economic subcontracting is established where cost benefits can be obtained by outsourcing parts of the production process. In all cases, outsourcing provides the principal with a greater degree of flexibility over its operations. The benefits to the subcontractor are rarely considered explicitly, but as subcontractors are usually small companies, the benefits tend to relate to business generation and organisational survival. It is important to note that the subcontracting relationship only starts after the principal has already identified a market.

Small and large companies in different countries have practised subcontracting networks[5].

[5] *In the literature there is a vast discussion about outsourcing and subcontracting networks in Japan and Korea. Modern Japanese subcontracting contracts rely on clustered control, in which firms at the top buy complete assemblies and systems components from a concentrated base of first-tier subcontractors, which in turn buy specialised parts from a group of second-tier subcontractors, which buy discrete parts and labour from third-tier subcontractors, and so on (Hiroshi 1996, p.208). The Korean subcontracting network is similar to that in Japan in that long-term grouping of companies (chaebol) exist in a similar form to the Keiretsu of Japan. However, Whitley (1991) noted that Korean chaebols are closely associated with personal ownership and lower levels of formal co-ordination than are Japanese Keiretsu. Ghauri and Prasad (1995)*

The cases included in this sub-section can be characterised as economic subcontracting. In this sub-section we present two cases of a subcontracting network between American companies and Asian producers. The third case compares the Brazilian (Sinos Vally) network with a Mexican footwear producer's cluster.

-The Lightening goods subcontracting network

Sarathy (1994) studied a subcontracting relationship between an American lightning goods company and a group of producers in Asia. Catalina Lighting began importing and distribution lighting fixtures into the United States in 1985. It specialised in the design and distribution of the commodities, while production was outsourced to factories in the Far East. Catalina's designers visit lighting trade shows in the United States and Europe to identify new styles most likely to appeal to fashion conscious consumers. Catalina then designs similar fixtures and provides them to factories in the Far East. Initially, Catalina bought from a few factories in Taiwan. Over time it became the largest buyer of lighting fixtures in Taiwan, and it currently subcontracts manufacturing with over 70 factories in four countries. Using Catalina the Asian manufacturers are able to get access to the American market.

-Nike/Reebok and Asian footwear producers subcontracting network

In a similar study Rosenzweig (1994) investigated the subcontracting relationship between two American footwear firms and a group of Asian subcontractors. Nike and Reebok are specialising on product design and product marketing. They rely on a network of contractors in South Korea, Taiwan, China, Indonesia, Thailand and the Philippines that produce shoes according to the required specifications and precise delivery schedules. By working with subcontractors, Nike and Reebok do not have to manage the manufacturing operation, and do not have to tie up working capital in raw materials or work in process. In 1982, Nike imported 70% of its shoes from South Korea, 16% from Taiwan, 7% from Thailand, Hong Kong and the Philippines and manufactured only 7% in the United States.

-The Sinos Valley and Mexican footwear subcontracting network

Nadvi (1995) studied the Sinos Valley footwear manufacturers network. Sinos Valley comprises approximately 500 shoe producers that make up the core of the cluster. He showed that the shoe producers were successful and were able to export about 70% of their produce to the United States. According to Schmitz (1994) three factors are critical to Sinos Valley's success. First, the backward linkages that shoe producers have with local suppliers of inputs, machinery and producer services; second, the forward linkages between producers and buyers, especially export agents; and third, the strategic intervention of local support institutions in facilitating the cluster's ability to "shift gear" and move into higher value added product markets. Because of the importance of the first two factors we consider this case as a vertical network.

also contrast keiretsu and chaebol in terms of inter-group rivalry, the dominant type of relationship, the network functional control and the role of the lead bank. chaebol are distinguished from keiretsu by having less intergroup rivalry. Also, a familial type of relationship exists within chaebol rather than having a contractual based relationship as in keiretsu. In chaebol, functional control is by the founding family and not by the lead firm. The Japanese and Korean subcontracting networks focussed on industrial products and have become very complex. As a result we preferred to omit them from our discussion.

Nadvi (1995) shows that the shoe producers were linked with suppliers of raw materials, new and second hand machinery, shoe component producers as well as consultants for managerial, financial, technical and other business problems. Ruas (1994) noted that the producers were also linked with the local ranching sector that supplies the footwear industry with leather. Seventy locally based export agents, some of them representing leading US retailers, connect the local producers to outlets in the US and Europe, as well as Brazil. Export agents, both local and foreign, play a crucial function as intermediaries between producers and fashion conscious retailers. They are a source for technical and marketing know-how in the cluster; they inspect product quality and production schedules on site and they organize the transport and payment arrangements."

In contrast to Sinos valley the Mexican footwear manufacturing industry did not show much progress. Nadvi reviewed two groups of Mexican shoe producers in terms of the backward ties with their suppliers and the forward ties with their buyers. In contrast to Brazil (Sinos Vally), the Mexican shoe producers are largely inward oriented, and were not successful in penetrating the US market. The case study draws from Rabellotti's (1993, 1995) work on the shoe clusters of Leon and Guadalajara in Mexico. According to Nadvi, the Mexican shoe sector, despite the advantage of being closer to the US market and operating in sectorally specialized clusters, has not been as competitive as the network in Brazil. This raises some obvious questions: why did the Mexican shoe sector lagged behind? Why has the potential offered by clustering, through inter-firm ties which add to firm level efficiency and enhance prospects for technical progress, not been fully exploited in the Mexican shoe clusters? In spite of the fact that the Mexican shoe clusters consist of a larger number of shoe producers and have experience in the shoe industry for more than seventy years, neither cluster displays the dynamism as observed in the Sinos Valley. The author explains this by the weak backward ties between producers and their component suppliers and the weak forward linkages with buyers in the Mexican case.

Discussion

Next, we discuss the reasons for the emergence, evolution and achievement of the subcontracting relationship using our model in Figure 3.3.

- *Emergence of the subcontracting network.*

Nike and Reebok contacted the Asian subcontractors because they wanted to keep their costs down. The same applies to Catalina and the Sinos Valley footwear producers. In the latter case the network was established to get raw materials and components from domestic supplies with the intention to produce an export standard shoe for the US market. All cases show that the market opportunity was clearly defined when the network emerged and therefore we conclude that the cases are in line with our model.

- *The groups' evolution towards group solidarity, cohesion and commitment*

The authors of the cases did not mention how the principal and the subcontractors build solidarity, cohesion and commitment. However, it was indicated that there was a common objective and in all the three cases the principal was highly involved in the network relationship. Catalina was active in searching the sample design and its staff supervised the production process. Nike and Reebok were also engaged in similar relationships with their subcontractors. In general, it can be said that both the principal and the subcontractor were eager to improve the quality of the products so that they would be successful in the export markets. This objective could not be achieved without the partner's solidarity, cohesion and commitment to the network relationship. Evidence from the above cases also shows that the developments of backward and forward ties are critical for network success.

- *Evolution of the networks foreign market penetration activity*

In the Catalina, Nike and Reebok cases, it was suggested that the subcontracting relationship evolved through time. It started with a few producers and subsequently; more producers were involved in these type of relationships. Currently, Catalina has seventy subcontractors in different Asian countries. Moreover, in the course of time, Nike closed its New Hampshire and Maine plants and imported all its footwear from Asian countries. These factors show that there was a gradual progress in market penetration, which finally led to a wider expansion. This is the result of continuous quality improvement through continuous principal and subcontractor interaction and learning.

-*Network achievement*

In the Sinos Valley case, Nadvi mentioned that the final outcome of the subcontracting and other network relationships were positive. The producers were able to penetrate the US market. The Catalina, Nike and Reebok cases are also examples of successful subcontracting relationships that enabled Asian footwear and light bulb manufacturers to get access to the US market. However, the Mexican shoe producers were not successful in the foreign markets and according to Nadvi this might be due to the lack of forward and backward ties between producers, suppliers and agents and distributors.

In this subsection we conclude that our model grasps the experiences presented in the three cases. The subcontracting networks were characterised by the existence of a concrete market opportunity (threat), a willingness to co-operate, some form of early market penetration together with a process creating solidarity, cohesion and commitment among group members. However the experiences in the Brazilian case also tell us backward and forward ties and trust are key factors for the networks success.

3.4 Measures undertaken by governments

Organisations responsible for the development and management of export promotion systems can be public or private or in some cases mixtures of both. Government initiatives stem from its concern about the participation of its foreign trade sector in the rapid expansion of global trade. This emerges from the widespread belief that stimulating export-led growth will lead to many positive outcomes in terms of economic development, higher employment, increased social prosperity and improved foreign exchange positions (Morgan and Katsikeas, 1997). In this Section, first we discuss the organisation of export promotion measures in some countries and next we see how Networking projects that have been initiated by governments were implemented in co-operation with UNIDO. We did not include these networking programs in our previous Sections because the government initiated them.

3.4.1 Export promotion

Export promotion programs are quite diverse, ranging from financing assistance for trade missions and trade fair space to University internship programs. Broadly, these programs may be classified into four categories, namely export information and advice, production planning, marketing support and financial guarantees.

In most countries, public institutions play a dominant role in export promotion. By and large, state programs are focussed on the small to medium-size manufacturer or agricultural producer. Private institutions (chamber of commerce, trade associations, consultants, universities etc.) also offer services that supplement public programs. The following sub-section analyses the organisation of export promotion in India, Canada and Austria. It has also identified different programs and techniques commonly used by these states to assist exporters.

-Indian Trade Promotion System

Naidu et al. (1997) studied the organisation of export promotion in India. He has reported that the public sector in India has a major responsibility to assist firms with resources and competence development. As part of the Ministry of Commerce the Indian Trade Promotion Organization was established and eleven export promotion councils and five commodity boards are operational. Each of these organisations plays a different function in promoting export. According to Naidu, the Director General of Commercial Intelligence and Statistics is expected to provide market intelligence to potential exporters. The advisory boards are expected to function as facilitating resources and the state cells are operating in the interface between the centre and the state for purposes of export promotion, and the Indian Institute of Foreign Trade as a training and educational centre. Naidu has also traced six export promotion zones where incentives have been provided to establish Export-Oriented Units. He has reported that the private sector in India has been organised around three leading institutions, namely the Associated Chamber of Commerce, the Confederation of Indian Industry, which includes over 2000 corporate members from private and public sectors, and the Federation of Indian Chambers of Commerce and Industry. In addition trade associations, private banks, and training institutions are part of private sector initiatives that offer services to exporters.

Naidu (1997) explained that the Indian institute of Foreign Trade and several Universities offer programs on international trade. There are three levels of programs, namely basic, intermediate, and advanced programs. The basic program is aimed at non-exporters to motivate them to seek more information on global opportunities. The intermediate program is aimed at sporadic exporters who may benefit from new incentives to improve their export portfolio, while the advanced programs are aimed at regular exporters to help them increase their international involvement. The organisation of different export assistance programmes for firms at a different export stage is based on the idea that firms at the pre-export stage have different support needs than firms that are already active in exporting (Reid, 1982; Cavusgil, 1993).

According to Naidu (1997) India has created complex bureaucracies to promote export. However the results from the promotion efforts have not met the expectations. While there has been a token growth in export volume, the relative position of India, measured as a percentage of world trade, has fallen substantially since independence. High government interference has been mentioned as an obstacle to international entrepreneurship. The lack of co-ordination, clear objectives and vision, and extensive duplication of effort have also been among the factors that are responsible for the failure of the export programs. Jaramillo (1987) pointed out that countries with highly successful promotion programs are those that have clearly defined priorities and ensure that resources are allocated to specific objectives.

-The Canadian Export Promotion System

According to Seringhaus and Botschen (1991) the federal government is the principal provider of export assistance to the business community in Canada. Additional provincial support is provided to exporters in line with region-specific objectives. This support may be evaluated as less comprehensive and mostly complementary to federal support.

The Canadian General export support service provides a diverse number of publications including market guides for specific geographic location, market opportunity studies such as 'Canadian Export Opportunities in the US. The Business Opportunity Sourcing System (BOSS) is a computerised data bank of Canadian products, services and companies used in foreign market contacts. Seringhaus and Botschen have also reported that the promotion of Canadian export sales is the major tasks of the Trade Commissioner Service (TCS). It also acts as an export consultant to both exporters and potential exporters.

The Program for Export Market Development (PEMD) offers subprograms to increase export sales. Seven activities that have been supported by PEMD are industry initiated and one is government planned. Industry initiated activities are participation in foreign trade fairs, individual visits to foreign markets, bidding on international projects, establishing permanent sales offices abroad and special support for marketing boards and agencies. The government initiates trade missions for a group of exporters to foreign markets, or groups of prospective customers from abroad to Canada. In addition, the government sponsors participation at certain international trade fairs (DEA 1988 quoted by Seringhaus and Botschen 1991, p.4).

Several private sector organisations have also been involved in the exporting process. The Canadian Export Association (CEA) is an umbrella organisation, which aims to advance the interests of Canadian exporters. The CEA is viewed as an interest group with minimal programs or efforts devoted to the promotion of exports at the firm level. Its activities however, include seminars on various export topics and publishing materials that concern export (CEA 1984a quoted by Seringhaus and Botschen, 1991, p.5). Among its published materials are newsletters with information on government policy, changes in regulations, and events useful to exporters, and a monthly export digest. Banks play a minimal role in export promotion and most of their support is advice on letters of credit and collection.

In Canada the government coordinates export promotion service. There is no clear strategic approach; rather, the systems operate under loose co-ordination. According to Seringhaus and Botschen (1991) the Canadian exporters rated the export services that have been offered as adequate for firm’s needs.

-The Austrian Export Promotion System

Seringhaus and Botschen (1991) indicated that the private and quasi-private sector organisations are the principal providers of export assistance in Austria. These organisations operate at the national level with emphasis geared to region specific needs. The government apart from providing extensive support for the financial part of the export transactions, including financing and risk coverage through guarantees and insurance, is not a key component in the export promotion system. Seringhaus and Botschen (1991) classify three private and quasi-private organisations. These are “Bundeswirtschaftskammer”, Industry Associations and Banks.

Table 3.2 The organisation of export promotion system in the three cases

Structural variables	**India**	**Canada**	**Austria**
1.Dominant players	Government and private sector	Government	Private sector
2.Organisational Structure	-Government departments -Chamber of commerce -Industry associations	-Government departments or government controlled organisations -Private organizations	-Government departments -Chamber of commerce -Industry Associations -Banks
3.Approach to export promotion effort	-Multi divisional set-up -Voluntary	-Co-ordinating among different levels -Voluntary	-Obligatory, structural ties with business community , strategic planning approach to international business process
4.Type of Export support offered	-Cash assistance, -Import replenishment -Duty drawbacks -Export information and advice -Education and training to different levels of exporters -Market intelligence to potential exporters	-Market opportunity studies -Guide books on how to use counter-trade -Information on sources of export financing -An information telephone service -Business opportunity sourcing system -Sharing of marketing costs to increase export sales -Marketing program over an extended period of time.	-Information service on export opportunities -Market reports -Preparation for export -Development of foreign operations -Programs cover information services -Counselling and consulting -Training and seminars -Promotional events -Cost participation
5. Performance	-Dismal due to bureaucracy and disincentives	Rated as less adequate for firm’s needs	Rated as adequate for firm’s needs

(Source: Extracted from the literature)

The “Bundeswirtschaftskammer” is a national chamber of commerce. However its mandate is more comprehensive than the role most of these chambers play in other developed countries. Membership is obligatory for all business enterprises. Nine provincial “Landeskammern” cover regional interests. The national office in Vienna plays the major role in providing export support services. Two branches of the “Bundeswirtschaftskammer” provide these services: the Economic Development Institute and the Trade Policy Department. Schinitt (1984) mentioned that Export support in Austria is targeted at all phases of export involvement, including preparation for export and development of foreign operations. Programs cover information services, counselling and consulting, training and seminars, promotional events and cost participation.

The Industry association functions primarily through its provincial branches. The national office deals with extra-regional concerns of economic and social policy. Regional industry associations offer assistance to firms on export statistics, procedures, documentation and firm specific market research. Buyer seller contacts are assisted through meetings in Austria or abroad, and members can participate in study visits and trade missions to export market. In addition to their financial involvement in exporting, banks offer information about export opportunities, provide market reports, and maintain close contact with government and regulatory bodies. Guidance and advice is also provided to exporters through bank's foreign branches (Credistanstalt-Bankverein, 1985, cited by Seringhaus and Botschen 1990, p.6). Furthermore, Moser and Sobatka, (1984) mentioned that various management institutes offer export seminars and training programmes to the business community. Exporters rate the Austrian export services as inadequate for firm’s needs.

-*Comparison of the Indian, Canadian and Austrian Export Promotion Systems*

A closer comparison of the Indian, Austrian and Canadian Export Promotion System shows that (Table 3.2), they all offer extensive support to the exporting process. At the preparatory phase, support is largely aimed at increasing awareness and motivation and at skill development. In the market entry phase, support includes market research, financial and organisational support for market visits and trade fair participation. All systems provide export insurance and financing support as well as advice on product standards, certification, packaging and labelling requirements and trademark protection. As a far as ongoing export operation is concerned, firms in Canada and Austria have access to data banks and reports on foreign market opportunities and contact enquiries from abroad. Indian firms do not have access to databanks. Foreign offices continue to be available to such exporters, as are the programs on market visits and trade fairs.

To have an insight about the performance of the export promotion system Seringhaus and Botschen (1991) asked exporters about the usefulness of services for them. The export promotion services received mixed verdicts about their usefulness. Austrian firms saw services as inadequate than did Canadian firms. The number of services available in Canada was considered adequate for firm's needs. Consultation with the private sector received the lowest rating. In other wards, export promotion organisations appear to perform poorly when it comes to involving the business community.

3.4.2 Networking as a government exports promotion programme

In this subsection we will deal with some networks that have been established under the auspices of the export promotion policy of the government.

-The Chilean Networking Programme

The purpose of the networking programmes in the Chilean woodworking industry was to pursue market opportunities nationally and abroad. According to Humphrey and Schmitz (1995), Chilean Proyectos de Fomento (Development Projects) or PROFOs for short, have been introduced by the Chilean government's SME promotion agency, SERCOTEC, in 1990. The PROFO programme aims at (1) creating small networks of firms to promote direct cooperation, (2) increasing take-up of the other services provided by SERCOTEC for SMEs and (3) creating focal points in local economies which will act as stimulants for development. The PROFO initiative has been based on the assumptions that "(i) the biggest problem facing small firms is isolation not size, (ii) the take-up of all of SERCOTEC's services needs to be improved, (iii) dynamic clusters of firms can have a positive impact on the locality as a whole, and (iv) cooperation between the private and public sectors is essential if localities are to develop"(Ibid. p.22). The role of the State (SERCOTEC) in this process is to stimulate the participation of private and public sector actors, to promote the coordination of activities of various agencies, and to promote change and innovation in the relationships between actors (Dini 1993 quoted by Humphrey and Schmitz, 1995).

One of the Network projects that have been initiated and funded by the government was the Chilean woodwork producer's network. Supported by export promotion policies and specific export promotion activities undertaken by bodies such as ProChile and ASEXMA (the export manufacturers association), SMEs in the wood products sector has began exporting in the mid-1980s. Messner (1993) mentioned that at first, they were totally unprepared for the challenges they faced and made basic mistakes: the "new exporters" had neither enough export know-how (transport, marketing, international quality standards, protectionism) nor sufficient manufacturing competence (knowledge of technology and the organization of work, management strategies, an adequately trained work force)' (Ibid. p. 41). Firms tried to offer too broad range of products, failed to guarantee quality, and did not appreciate the importance of reliable delivery. Exporting was a shock to these firms. They thought that their products were good enough for export markets until they tried to sell them.

However, with the help of ASIMAD, the association of small- and medium-sized enterprises, the woodwork producers network has been able to learn about export markets. ASIMAD has organized trade missions linked to international trade fairs and visits to overseas factories producing both furniture and machinery. It has also established links with a number of higher education institutes to create technical and design courses and to promote entrepreneurship, and has invited leading authorities on the sector from overseas to speak to its members. In other words, the entry to export markets pinpointed deficiencies and provided the impulse to try to overcome them. The leading firms has began to develop links with other firms and local institutions, and the growth of joint action in marketing is leading to more exchanges of information about design and technical problems. The size of export orders (much larger than those in the internal market) also tends to promote specialization and cooperation (horizontal and vertical). In this way, a sector, which was almost entirely oriented to the domestic market, has been able to move into export markets and create the mechanisms needed to make this move a success. Messner (1993) indicated that the exports of wood products (furniture, processed construction materials, boards, laminates etc.), increased substantially from 1985 to 1992.

-The Jamaica Institutional Networking Programme

The Jamaica project was initiated in 1994, with the second phase having been launched in 1997 for duration of 3 years (Ceglie and Dini, 1999). UNIDO was requested by the Government of Jamaica to assist the public development agency, JAMPRO, in implementing a support strategy for the local SME sector.

The activities of the Jamaican project have been implemented through the staff of the Productivity Centre. An international chief advisor, funded by the project, has been requested by JAMPRO to assist the local team. The project has two features: institutional capacity building and network promotion. The institutional capacity building component consists of strengthening the capabilities of the Productivity Center to act as a networking promotion agency, and of creating specialized centers, that have been coordinated by JAMPRO, to provide "real services" to the SMEs. As a result of the project, the Productivity Center is now performing the following functions: identifying SME needs and designing the public institutional answer to meet these needs; networking and coordinating actions with other local institutions active in SME-related fields (such as HEART [Human Employment and Resource Training], the national training agency, community colleges, the University of West Indies, vocational schools, specialized service centers, etc.); favoring streamlining and specialization of services; acting as an information hub on issues related to SMEs; and acting as a network broker. Specialized centers have been created and upgraded (mainly within existing institutions) by the project in fields such as garments and fashion, furniture, food processing, handicraft, and in the metalworking sector. The centers provide technical services to the entrepreneurs and act as "second-level" networking institutions, also linking the entrepreneurs with other service providers for services they do not offer.

An institutional support network has been established involving educational, training, and technical institutions to help the Jamaican SMEs operating in the fashion sector. At the heart of the network is the JAMPRO Design Center which offers the following services through its fashion division: information on fashion trends, advice to manufacturers on design improvements using computer aided design (CAD) systems, linkages between manufacturers and local and foreign designers, and information on suppliers of inputs for the fashion industry. Other important actors in the networks are the two Apparel Technical Centers - one in Kingston and one in Montego Bay - to provide training and technical assistance to producers in areas such as computerized pattern making and grading, product development, and flexible manufacturing systems. These centers have the function of both diffusing best manufacturing practices and stimulating SMEs to network for joint purchase of raw material, joint marketing, etc.

Ceglie and Dini pointed out that the challenge of the Jamaican network projects has been how to help the support institutions to formulate and implement a coherent fee structure to recover, at least, part of the service costs from the client enterprises.

The two cases in this subsection have shown that governments could act as sponsors for networking projects. However, government help neither should be imposed from the top nor dictate the group evolution process. It should be provided after the problem is identified and after the network requests for help. Furthermore network members should be the owners of the project.Otherwise, when governments withdraw their support, the project would not be sustainable.

3.5 Conclusion and implications to the empirical research project

This chapter has shown that networks have been used to solve export-marketing problems of manufacturing firms in developing countries. It is a useful approach to solve ‘internal’ export problems concerning quality, organisational, financial or information problems. It can also accommodate ‘external’ export problems related to the export market or the industry by establishing direct contacts among exporters, buyers and input suppliers. Our model captures the variables related to the emergence, the development process, and the achievement of networks. The case studies provide a lot of support for this model and complemented it with some additional variables: trust, learning, personal relationships and backward and forward linkages that are critical for the network success.

Network development should be demand oriented. The model makes this explicit as it stresses the importance of a market problem or market opportunity. This means that a network must be based on a thorough analysis of the problems or market opportunities. While networking projects, could be initiated on the basis of a beneficiary’s demand, some beneficiaries need support to formulate their demand properly. Especially in developing countries, where small enterprises have a weak capacity to develop a strategic response to export challenges, this approach is useful.

Network development is highly influenced by two key factors. These are (1) the evolution of the foreign marketing activity and (2) the evolution toward solidarity, cohesion and commitment. The networks success in penetrating foreign markets, access to foreign marketing experience and marketing knowledge and access to support infrastructure facilitate the network development. The more the parties work together the more the bonds and relationships grow stronger. The longer the duration of the relationship the more the trust among the members of the network.

Outside change agents may play a paramount role in the group establishment and operation process. The experiences of UNIDO proves that it is possible to initiate and develop effective network relationships among independent entrepreneurs based on collaboration and production integration even if the entrepreneurs had no previous relationships with each other. Since manufacturing firms in developing countries face financial constraints and often lack a skilled labor force, network change agents can play an important role in the network emergence and development process. Three of the five export grouping networks; heavily rely on the outside change agent. However, it is worth noting that no amount of incentives from outside parties will substitute for a clearly perceived logic of relationships and beneficial outcomes. Mutual interest and active participation of group members are preconditions for group success and are in fact presupposed by the model.

In the literature, we observed that public institutions play a dominant role in export promotion. Private institutions (chamber of commerce, trade associations, universities etc.) also offer services that supplement public programs. The marketing of manufactured exports often requires public support, at least in the early stages of market development. Local producers seeking to develop export production frequently lack information on foreign markets, quality and design requirement, and contacts with overseas buyers. Public policies may facilitate the export process. However bureaucracy often frustrates these policies. The participation of governments and international organisations in networking projects recognises the potential advantages that smaller firms can derive from a network. Several countries and international organisations are funding relationship brokers to encourage the establishment of such networks (Ceglie and Dini, 1999; Humphrey and Schmitz, 1995).

In general four alternative networking strategies are available to the footwear and textile manufacturers in Eritrea through which they can enter into the international footwear and textile market. These are: a) flexible supply contracting, b) subcontracting, c) joint venture and d) export grouping networks

Flexible supply contracting is suitable for buyers who prefer to enter into obligational contractual relations with independent suppliers owned by local firms rather than owning and running their own factories in an unfamiliar and difficult operating environment. This form of business network is common among the European footwear and textile importers and Asian footwear and textile manufacturers.

The second business network alternative is a subcontracting agreement. By signing a subcontracting agreement with buyers in Europe, the footwear and textile manufacturers can get access to a distribution channel, good level of technical and product knowledge, potential for repeat orders and assistance with product design and development. Subcontracting agreements have been dominant form of collaboration in simple labour intensive export industries, such as garments and leather products (Sarathy, 1994; Rosenzweig, 1994; Whitley et al, 1996; Nadivi, 1995).

Joint venture agreements make the third business network alternative. Joint ventures are not discussed in this chapter, as we did not find cases that can accommodate the three stages. However we believe that it is another possibility and it should be open to the Eritrean manufactures. Joint venture between an Eritrean footwear and textile manufacturer and foreign partners can be useful to the footwear and textile manufacturers in Eritrea. It provides the manufacturer with an established external market network, technical and marketing know how, and external trade management capability, as well as the badly needed financial resources and capital goods.

Export grouping networks are horizontal business network relationships among manufacturers in order to solve their export problems: marketing knowledge, production capacity and financial problems.

Chapter 4

Theories of Inter-organisational Co-operation

4.1 Introduction

This chapter will review theories of inter-organizational co-operation: (1) to conceptualise the experiences we reviewed in chapter two and three and ultimately (2) to construct a theoretical framework for the empirical research. The framework helps us to examine and understand the export problems of footwear and textile manufacturing firms in Eritrea and the opportunities in the export markets. Although there is no universally accepted theory of inter-firm co-operation it is possible to offer a systematic overview of the main theories that contribute to our understanding of the subject. Four theories have been identified to serve for this purpose: (1) resource dependence theory, (2) transaction cost theory (3) strategic management theory, and (4) network theory.

4.2 Review of relevant theories

Each of these theories explains the motive, organisation and form of the inter-organizational relationship differently. However, all of them are useful in explaining the co-operative relationships between firms. As an extension to our analysis we will have a Section in which we are going to compare the four theories and draw the implications in the empirical research project.

4.2.1 Resource dependence theory

Building on early work in social exchange theory, resource dependence theory views inter-firm co-operation as a strategic response to conditions of uncertainty and dependence (Heide, 1994). Pfeffer (1992) mentions three key assumptions that stem from work in sociology and motivate the resource dependence perspective. First, the primary goal of organisations is to maximise power. Second, to survive organisations need to obtain resources from the environment and third, the environment of organisations is uncertain. Given the underlying assumption that few organisations are internally self-sufficient with respect to their critical resources, two potential problems are created. First, a lack of self-sufficiency creates potential dependence on parties from whom the focal resources are obtained. Second, it introduces uncertainty into a firm's decision making, to the extent that the resource flows are not subject to the firm's control, and may not be predicted accurately (Ibid.)

In line with the first problem mentioned, Pfeffer and Salancik (1978) reported three factors critical in determining the dependence of one organisation on another. First, there is the importance of the resource, the extent to which the organisation requires it for continued operation and survival. The second is the extent to which the interest group has discretion over the resource allocation and use. And third the extent to which there are few alternatives, or the extent of control over the resource by the interest group, is an important factor determining the dependence of the organisation. Dependence then can be defined as “the product of the importance of a given input or output to the organisation and the extent to which it is controlled by a relatively few organisations”(Ibid.). A resource that is not important to the organisation cannot create situations of dependence, regardless of how concentrated control over the resource is. Also, regardless of how important the resource is, unless it is controlled by a relatively few organisations, the focal organisations will not be particularly dependent on any of them.

Research has shown that resource dependence between organisations triggers co-operative ties such as, vertical integration, and business alliances (Pfeffer and Salancik, 1978; Burt, 1983). Pfeffer and Salancik (1972) observed that the analysis of intraorganizational power strategies have pointed out the co-operative role of manoeuvres such as integrating special committees to reduce the actual constraint imposed by powerful outsiders on the strategic player. The main argument of these studies is that the actor seeks strategic allies in proportion to the intensity of constraint in a specific sector of his or her environment. As a result the main premise of resource dependence theory is that firms will seek to reduce uncertainty and manage dependence by purposely structuring their exchange relationships by means of establishing formal or semiformal links with other firms (Pennings, 1983; Ulrich and Barney, 1984). Heide (1994) claimed that the main implication of resource dependence theory is its identification of dependence and uncertainty as the key antecedent variables motivating the establishment of interorganizational relationships. However, he also criticised the theory in a sense that it offers only limited insight into the specific mechanisms that can be used to govern relationships, beyond "global" strategic alternatives like contracting and joint ventures.

The unit of analysis for resource dependence theory has varied from the organisation, to the linkages: a consideration of the set of interdependencies between organisations (Auster, 1994). Pfeffer and Salancik (1978) also mentioned that the level of analysis is primarily organisational where organisation is defined as a coalition of groups and interests, each attempting to obtain something from the co-operation by interacting with others, and each with its own goals and preferences. According to Pfeffer and Salancik the industry level is often introduced as an independent variable molding interorganizational linkages.

The standard operationalization of resource-dependence theory has neglected co-operative relations with actors on whom one has no direct dependence, since such ties are strategically inconsequential (Gargiulo, 1993). In the resource dependence literature, the motivation and rationale for interorganizational cooperation is to gain resources and power (Pfeffer and Salancik, 1978). Individual organisations make strategic choices to form or become part of a co-operative network of other organisations when it appears that the advantages to such an arrangement, especially enhanced survival capacity (Uzzi, 1996), outweigh the costs of maintaining the relationship, including any potential loss of operating and decision autonomy. Thus, much of what is known about the rationale for network involvement is based on an extension of the literature on interorganizational relations.

The resource dependence theory is relevant to our study because it is useful to evaluate the capacity of footwear and textile manufacturing firms in Eritrea and to explain how they can get access to market knowledge, financial and human resources, which are a bottleneck to the firm's participation in the international market. The theory sends a message that footwear and textile manufacturers in Eritrea can acquire the needed resources through co-operation with parties in their environment. In this respect two variables are important for our research. These are organisational capacity and opportunities for resource mobilisation. These variables will be discussed and defined in chapter five in detail.

4.2.2 Transaction cost theory

The transaction cost approach (TCA) has been used to explain the existence of the firm and has dominated economic thinking about institutions over recent years. Initially referred to by Coase (1937) as marketing costs, transaction costs have been widely incorporated into economics. The market versus hierarchy dichotomy has become an important issue in institutional economics, in the theory of the firm, and in parts of industrial organisation theory (Simon, 1959; Arrow, 1969). By confronting market and hierarchy as two fundamentally opposed allocation mechanisms, a research agenda arose in which it was tried to specify the theoretic conditions under which either of these mechanisms would be preferred. This led to valuable insights and applications of the so-called transaction cost economics (Williamson, 1989). According to the transaction cost approach a transaction is defined as the transfer of property rights of goods or services between economic actors.

Coase (1937) explained that a firm and a market are alternative means of organising economic activity, he emphasised that the use of the market place involves costs. These costs determine the market structure and shape transactions and interfirm relationships. When the cost of buying from other firms is relatively low, a firm is more likely to buy supplies from others than producing itself. Williamson (1975) argues that four basic concepts underline this analysis. These are: (1) markets and firms are alternative means for completing related sets of transactions, (2) the relative cost of using market or a firm's own resources should determine the choice, (3) the transaction cost of writing and executing complex contracts across a market " vary with the characteristics of the human decision makers who are involved with the transaction on the one hand, and the objective properties of the market on the other"; and (4) these human and environmental factors affect the transaction cost across markets and within firms.

Transaction cost theory deals with factors that explain both internal firm and industrial organisation. These are (1) bounded rationality (2) opportunism (3) uncertainty (4) asset specificity and (5) frequency (Williamson, 1985). While the first two are assumptions about human behaviour the last three factors are key dimensions that determine the transaction governance structure. Uncertainty, asset specificity and frequency are related to the manufacturer decision on distribution channels.

Uncertainty refers to "parametric changes" in exogenous forces (such as the market) compounded by unpredictability stemming from individuals limited information processing capabilities, as well as the consequences resulting from the opportunistic motives of other actors (Williamson, 1985). Opportunism is self-interest seeking with guile that include behaviours as lying and cheating as well as more subtle forms of deceit, such as violating agreements (Ibid). Simon (1957) embedded the uncertainty dimension to market choice and emphasised that in a world of great uncertainty, it may be difficult or costly to negotiate contracts that deal with all possible contingencies. As a result, firms may produce internally even though, otherwise, it would be cost effective to rely on markets. Thus, reliance on the market is more likely when there is little uncertainty; there are many firms and limited opportunities for opportunistic behaviour. When these conditions are reversed firms are more likely to produce for themselves than to rely on markets. Another dimension that determines the efficient way of organising transactions is asset specificity. In his 1985 analysis, Williamson gives more attention to asset specificity as a point of reference for choosing between transaction governance structures. Asset specificity refers to: durable investments that cannot readily be redeployed to other uses and which are made in support of particular transactions. The commitment of such assets locks the partners concerned into the given type of transaction**.** For export transactions involving high asset specificity and uncertainty, it is expected that export activities can be performed more efficiently within the firm by employees in a foreign subsidiary rather than outside the firm by agents or distributors (Bello and Lohtia, 1995).

Williamson (1985) classified the frequency of transactions into occasional and recurrent (Figure 4.1). In the first case he suggests that market contracting backed by third party assistance, such as arbitration and litigation, is an appropriate mode of governance. In the second case, he suggested that relational contracting and bilateral governance should prevail. In Williamson's opinion relational contracting involves a long-term investment in building relationships between the parties. Bilateral governance, however, implies that both parties invest in specific assets, which generate mutual dependence and serve as hostages against opportunism. In this view relational contracting and bilateral governance are examples of hybrid governance structures, intermediate between markets and hierarchies. Both hybrids can be considered as networks as defined in chapter one.

Table 4.1 Transaction co-ordination mechanisms

	Investment characteristics		
Frequency	Non-specific	Mixed	Idiosyncratic (Asset specific)
Occasional	Market governance	Trilateral governance (neo-classical contracting)	
Recurrent	(classical contracting)	Bilateral governance (relational	Unified governance governance)

(Source: Williamson, 1985))

Despite its well-known contribution TCA has been subject to criticism. In his examination of opportunistic behaviour in inter-firm relationships, John (1984) reaches contradictory evidence regarding the role of opportunism. He concludes that opportunism can be viewed usefully as an endogenous variable that is evoked by certain antecedents within a long-run relationship. In other words, individuals may not always behave opportunistically even if conditions permit such behaviour. Refusals to honour agreements and misrepresentation of intentions cannot be taken for granted**.** Rather, they are induced by certain other factors. To remedy this problem Nooteboom (1995) acknowledges the importance of trust and that a dynamic treatment of ongoing relations allows for the building of trust. Trust economises on the specification and monitoring of contracts as well as material incentives for co-operation and reduces uncertainty (Nooteboom, 1997; Powell, 1990). Therefore it is important to verify which instruments are available in a market to strengthen trust among actors. Nooteboom (1999) argues that institutions (certification, professional standards, benchmarking, and intermediaries) can produce trust. Furthermore, contracting may reduce the risk of opportunism, although detailed contracts are expensive and impossible to the extent that contingencies are complex and variable (Ibid.).

Consistent with the early work of Commons (1934), TCA's modal unit of analysis is the individual transaction. As a result, Nooteboom (1992) suggested that the tendency in previous empirical work has been to focus on how individual relationships or transactions are organised at a given point in time. This implicit tendency to focus on single transactions ignores the dynamic nature of interorganizational relationships. As Sahlins (1972) observes, "a material transaction is usually a momentary episode in a continuous social relation."

Expanding the unit of analysis beyond single transactions has important implications. First, past interactions or exchange episodes as mentioned by Hakansson and Snehota (1994) may influence how a new transaction is organised. For example, Gulati (1995) shows how the governance feature of earlier joint ventures between firms (i.e., the financial arrangements used) influences the governance of subsequent ventures. Gulati's general conclusion is that prior learning or experience with a particular exchange partner may reduce the need for more formal governance mechanisms in subsequent transactions.

Finally, in his conclusion Williamson (1991) suggested that whether transactions are conducted within the market, internalised within the firm, or conducted alternatively by an intermediate form of “obligational market contracting” will be determined by which governance mechanism that minimises transaction costs, and ultimately maximise efficiency. Based on this argument three concepts are important in determining the efficient transaction governance form for the footwear and textile manufacturers in Eritrea. These are asset specificity, uncertainty and frequency. Asset specificity is relevant in a sense that the Eritrean exporters have to be aware of the capital losses they may incur if they are to re-deploy their assets. Coping with uncertainty requires a form of organisation that is both adaptive and able to control opportunism. The greater the frequency or volume of transaction the more justifiable is a relatively expensive governance structure. These three concepts will be discussed in chapter five in detail.

4.2.3 Strategic management theory

The conceptual frame of reference of strategic management consists of a large and growing body of contributions from industrial economists (Chandler, 1962; Porter, 1980,1985), organisational theorists (Mintzberg, 1987; Pfeffer, 1982) and management theorists (Ansoff, 1965; Hoffer and Schendel, 1978).

Hymer (1972) was one of the firsts to apply market power theory to the study of co-operative strategy that distinguishes offensive from defensive coalitions. Offensive coalitions are intended to develop firm’s competitive advantages and strengthen their position by diminishing other competitors’ market share or by raising their production and/or distributions costs. Defensive coalitions mainly focus on raising the entry barriers to a certain market. Porter and Fuller (1986), in fact, qualified Hymer’s argument by indicating that offensive coalitions can have a negative effect through reducing the competitor’s adaptability in the long run. Among the factors that serve as entry barriers are economies of scale, switching costs, capital requirements, knowledge and learning, proprietary law, product design, brand identity and dense business network relationship with supplier and customers (Porter, 1998). Firms that have a weak position in the market in order to defend themselves against dominant players may also seek defensive coalitions.

Porter (1980, 1985) has made an important contribution in infusing the strategy discipline with economics and realised a greater coherence in the strategy field. In his book competitive strategy Porter (1980), argues that the relative position which firms occupy within their industry’s structure determines the generic strategies, which are the most viable and profitable for them. Firms choose to enter into some kind of co-operative relationship with other firms to acquire competencies that the firm lacks: learn how to operate in new markets whether domestic or foreign, to acquire resources, to diversify into new business; to capitalise on economies of scale; or to circumvent trade or foreign investment restrictions. Porter also states a co-operative strategy might offer a mutually advantageous opportunity for collaborating firms to modify the position, which they occupy within their industry. In other words, it may enable them to increase their market power.

Strategic approaches on inter-organisational linkages have tended to emphasise the competitive benefits of alliances in improving the firm's strategic posture within its industry. The parent firms are typically the primary unit of analysis. The two levels of analysis, which focus on the domestic research, are the firm level (parent and child) and the industry level. Porter (1985) defines the industry level, as a market, in which similar or closely related products are sold to buyers, is the highest level of analysis typically included. Porter (1998) identifies two broad types of linkages through which firms exercise co-operation with other firms. These are linkages with the value chain and vertical linkages with the value chains of suppliers and channels. "Competitive advantage frequently is derived from linkages among activities" (Porter, 1998, p.48).

Porter and Fuller (1986) used the value chain concept to distinguish between co-operative strategies according to the resources pooled by the partners. One type of strategy is for partners to bring similar resources together to generate economies of scope, rationalise capacity, transfer knowledge, or share risk. This strategy has variously been termed additive, scale, scope and symmetrical. Another type of co-operative strategy that of forming complementary alliances refers to situations where partners contribute different value chain activities, which allow them to build on their respective strengths and competitive advantages. This latter strategy links different activities to form a new value chain that realises complementarities and gives that alliance competitive advantage.

Strategic management theory emphasises that firms enter into co-operative relations in order to achieve expansion and growth as well as to secure efficiencies of the kind identified by transaction cost economics. In organisational theory and management, networking has come to be regarded as a competitive strategy. Jarillo (1988), Johanson and Mattsson (1988), and Miles and Snow (1984) all regarded networks as a mode of organisation that can be created by managers and entrepreneurs to position their firms in a favourable environment. In this framework, the competitive advantage of a firm lies in its capacity to gain access to, and exploit, valued external resources and expertise through the network. Consequently, establishing networks is regarded as an investment for future access to other firms' internal assets (Johnson and Mattson, 1988). Jarillo (1988) also focuses on investment but is more explicit in discussing the possibility of reducing transaction cost in networks via a conscious decision on the part of the entrepreneurs to invest in building mutual trust.

Strategic management theory draws attention to the external and contextual factors, which encourage co-operative strategy. In view of the firm environment interface Cavusgil and Zou (1994) provide both a theoretical basis for a model of export performance and a means of measuring export marketing strategy (see also chapter two). They define export marketing strategy as the means by which the firm responds to the interplay of internal and external forces to meet the objectives of the export venture. Their model is based on the principle that the fit between strategy and its environment has a positive impact on the performance of the firm. Exporting is seen as a strategic response by the firm to the interaction of internal and external forces. Their model implies that the internal and external forces determine the firm's decision to enter into relationship with other firms. The strategic management theory is criticised that socially organised relations are not considered as important and are often interpreted as collusion's reducing the level of competition.

The strategic management theory will help us to determine how the footwear and textile manufacturers in Eritrea can increase their competitiveness through the vertical and horizontal linkages and ultimately penetrate the foreign markets. However it is important to know that vertical linkages among the existing transacting parties in the target export markets can also be entry barriers to new comers. The variable “linkages” is important for our empirical research project to explain both aspects. This variable is defined and discussed in chapter five.

4.2.4 Network theory

Williamson (1981) emphasised the role of hierarchies where markets fail. Ouchi (1980) took a step beyond the markets/hierarchies dichotomy and introduced the "clan" as an additional pattern informing economic action under organisational conditions. More recently, organisational theorists like Thorelli (1986), Powell (1989), and Jarillo (1988) adopted networks as yet another frame for the analysis of economic organisation. Daft and Weick (1994) state that by maintaining, modifying and transforming multifaceted interorganizational relationships, organisations can construct their own environment and markets as they seek allies to which they can bond for periods of mutual benefit. Networks are seen as arrangements between “Markets and Hierarchies” (Thorelli, 1989, p.37). In this view networks are considered as the relationships of power and trust through which organisations either exchange information and resources (Thorelli, 1986), or take advantage of economic efficiencies (Jarillo, 1988). In such analysis the network has been viewed as an organisational actor, implying that strategic management of the network yields benefits to be distributed among the network members (see also the discussion in chapter one).

Powell (1988) claimed that simultaneous pressures towards efficiency and flexibility are pushing more and more firms to experiment with network arrangements. Moreover, the “networks as strategy” school mentions increased efficiency derived from networks, which enable firms to cope with flexibility in a complex environment (Miles and Snow, 1986). Webster and Frederic (1992) noted that Networks are replacing simple market based transactions and traditional bureaucratic hierarchical organisations. Compared to the traditional market analysis, the network approach is characterised by a multidisciplinary description of the behaviour of companies in a market and by its emphasis on relations of these companies with other companies (Beije and Groenewegen, 1992). The network approach views markets as “a set of actors with different role sets linked to each other by engaging in reciprocal exchange relations” (Snehota, 1990, p.117). Kamann (1993) describes the essence of networks as follows:

“(1) *No actor can fulfil his dreams without the assistance of other actors: this puts him in paradoxical position: he either remains independent (and sub optimal) or he increases his dependence (and improves his performance). (2) Relations are based on mutual trust and are the subject to social cohesion. But can change into opportunistic behaviour and betrayal. (3) The result of network behaviour is a synergetic surplus. (4) The nature of a relationship between two actors influences all other relations in the network. (5) Each actor tries to maximise his share of the synergistic surplus. (6) Each actor carefully balances dependence and freedom in order to improve the perceived optimal mix of effectiveness, efficiency, profitability and continuity.”*

Trust is at the centre of network management. Kamann (1993) claims that network relations are based on mutual trust and are subject to social cohesion. But he also warns that this can change into opportunistic behaviour and betrayal. Sako (1992) identifies three types of trust:

contractual, good will and competence trust. Contractual trust concerns mutual expectations that promises are kept. Suppliers normally agree to produce and deliver ordered goods on the basis of prior agreed specifications on the assumption that they will be paid later. Reliance on oral agreements rather than written ones is deemed to reflect more contractual trust. The second type trust refers to technical and managerial competence, i.e. confidence on trading partner's competence to carry out his task. Competence trust is ascertained with the inspection of the output. In goodwill trust there are no explicit promises, expected to be fulfilled. In this type of trust partners are expected to take initiatives to exploit new opportunities over and above what was promised while refraining from unfair advantage taking. According to Nooteboom (1999) good will trust (Intentional trust) comes from the existence of institutions (inspection institutions, banks, agents, courts of arbitration) that help in implementing the contract. Although the extent to which each actor may wish to rely on any of them differs from relationship to relationship, the three types of trust exist more or less in obligational contracting relations.

The literature on networks projects itself in two directions by addressing the causes and the functions of networks. On the one hand, researchers are interested in the origins of networks, in what brings networks into existence. On the other hand, researchers ask what networks accomplish that markets and hierarchies cannot. Hakansson and Snehota (1989) in their article entitled "No Business is an Island: The Network Concept of Business Strategy" examined the position adopted by the proponents of the network model of the organisation-environment interface. The network model referred to is the outcome of a fairly broad research programme dealing primarily with the functioning of business markets, which originates in the mid 1970's at the University of Uppsala. The research programme has spread to some other research institutions mainly in Europe. Hakansson and Snehota summarised the propositions of the network model as follows:

"(1) Business organisations often operate in a context in which their behaviour is conditioned by a limited number of counterparts, each of which is unique and engaged in pushing its goals, (2) in relation to these entities, an organisation engages in continuous interactions that constitute a framework for the exchange process. Relationships make it possible to access and exploit the resources of other parties and to link the party's activities together, (3) the distinctive capabilities of an organisation develop through interactions in its relationships that it maintains with other parties. The identity of the organisation is thus created through relations with others. And (4) since the other parties to the interaction also operate under similar conditions and organisations' performance is conditioned by the totality of the network as a context, i.e. even by interdependencies among third parties."(p.141)

The upshot of the above propositions is that if a network view is adopted considerable change may be required in the way a firm allocates its resources, structures its activities and relates itself to other organisations. Concerning the advantages of economic networks, the general consensus is that they provide inter-firm co-ordination coupled with flexibility; they guarantee the effective and reliable exchange of strategic information with the network with little investment and resources from each member of the network; they minimise the risks associated with the development of resource intensive technologies and market entry; and they allow for the pooling of human resources in high demand, high skill areas (Dunning et al., 1998). While the above paragraph emphasises on the positive aspects, networks also have disadvantages. We are to discuss the disadvantages in the later part of this subsection.

Networks are lighter on their feet than hierarchies (Powell, 1989). In network modes of resource allocation, transactions occur neither through discrete exchanges nor by administrative fiat, but through networks of individuals engaged in reciprocal, preferential, mutually supportive actions. Networks can be complex: they involve neither the explicit criteria of the market, nor the familiar paternalism of the hierarchy. A basic assumption of network relationships is that one party is dependent upon resources. In essence the parties to a network agree to forge an agreement that aims at sharing the resources.

Table 4.2 Managerial representation about the importance of networks

Importance of		Emphasis on joint creation	
		Low	High
Structural Autonomy	Low	Social networks	Value creating networks (*Hybrids)*
	High	Market based transaction (*Market*)	Vertical integration *(hierarchy)*

(Source: Campbell and Wilson, in Iacobucci, 1996, p. 129)

Network relationships comprise both personal and organisational relationships (see also our definition in chapter one). Personal networks consist of relations between pairs of individuals, whereas the actors in interorganizational networks are autonomous organisations with their own organisation goals. Formal co-operations between organisations quite often result from previously established networks of personal, informal relations (Hakansson et al., 1988). Consequently, the decision by firms to enter into a network relationship with other firms is influenced by management’s willingness to abdicate autonomy in order to acquire resources from the external environment. Campbell and Wilson (1996) postulate two dimensions along which managerial representations of networks can vary. The first dimension describes whether managers emphasise their own internal value-creation capabilities and performance, or look for external linkages to reinforce their own internal capabilities. The second dimension describes the importance to the firm to preserve its structural autonomy within its set of relationships. `According to Campbell and Wilson the combination of these two dimensions yields four types of representations: (1) social networks (2) market based transactions, (3) vertical integration and (4) value creating networks. Each reflects the influence of managers’ decision on firm's choice of strategy.

Market based transactions and vertical integration (hierarchy) in view of the transaction cost theory have been discussed in the previous Sections of this chapter. Here we will have a bird’s eye view on the two concepts in relation to the network theory. Although Campbell and Wilson put the firm’s decision to enter into networks as a function of its management’s willingness to abdicate autonomy in order to acquire resources from the external environment, implicitly the two dimensions (structural autonomy and emphasis on joint creation) take the transaction cost into consideration. The manager’s decision is often influenced by cost considerations. However the two theories use different dimensions to drive their conclusions.

Market-Based Transactions are observed in firms that have a low emphasis on joint value creation and attach high importance to maintaining their own autonomy (Campbell and Wilson, 1996). These firms pay little attention to the network of relationships in which they are embedded. Although it is possible for firms to conduct repeated transactions over time with the same buyers and suppliers, these relationships are conducted with high emphasis on price competitiveness. These firms depend on the market mechanism to regulate their relationship with outside firms. However, firms that recognise the potential for joint value creation but attach considerable importance to preserving their own independence are likely to vertically integrate to maintain control of the value creation process. In this classification vertical integration represents a traditional approach to capturing value by acquiring increased control in the value chain.

Lungren, (1995) defines social networks as a social system of interconnected relationships. Organisations recognise the value of having relationships in which individuals are spontaneously motivated to go beyond prescribed roles and perform above and beyond the call of duty. The sociological approach to networks refutes an old school of economic development and modernisation, associated with Parsons, that the embededness of economic action in non-economic relations is a barrier to economic development (Granovetter, 1990). The social embeddedness of economic exchange as mentioned by Granovetter (1985) implies that individuals may have an effective attachment to each other for its own sake. In a socially developed network, firms act for the benefit of each other because of the loyalty and involvement developed through friendship and strong personal ties. Socially developed networks provide the basis for parties to develop confidence in the stability of their relationships.

Value creating networks describe the purposeful co-operation between independent firms along a value-added chain to create strategic advantage for the entire group (Campbell and Wilson, 1996). Firms with this orientation recognise the potential for synergy in developing capabilities that reinforce rather than minimise their dependence on outside firms and create value to the customer. The key concept that derives value-creating networks is the delivery of superior customer value (Ibid.). Value creation can be seen as the dual of transaction and production cost minimisation. Accordingly, value creation, refers to the process by which the capabilities of the partners are combined so that the competitive advantage of either the network or one or more of the partners is improved. Thus value creation is a joint effect that occurs after the network is formed. Basic for the relevance of networks, in an economic sense, is that each participant acquires more than it puts into the network. The network must be more efficient than, or at least as efficient as, alternative organisational forms in the market. It must create value added greater in sum than when each of the participants operates on its own and it must deal with the division of costs and profits among the participants (Beije and Groenewegen, 1992).

While the total pattern of business networks appears relatively stable, new relationships develop and old decays overtime and, above all, the existing relationships between companies' change in content and strength (Hakansson and Snehota, 1995). However, the major task of management is to decide on how to assess and interpret the change, whether the company is to observe or promote change, and how to handle for its own advantage. Whether a company is striving to stabilise a certain situation or attempting to change it, the outcome of its efforts will depend on how its counterparts react and adjust. While the perceptions and interpretations of the individuals differ they are developed in some kind of common ground of shared understanding, or else the co-ordination of activities and mobilisation of resources would not be possible. Changes in network relationship could also be a source of conflict.

Ford et al. (1986) mentioned that conflict among the cooperating parties may arise from absence of mutuality because of changes in the objectives of either party or because of the processes of exchange are not being managed to the satisfaction of one or both parties (Easton, 1997). As a result, Ahor (1991) indicated that new organisations have to establish an alternative to litigation, arbitration, and bargaining/negotiation for adjudicating disputes without subjecting parties to adversarial positions. They will need to evolve quasi-judicial system within the firm. Gulati et al (2000), call the quasi-judicial system "tie modality" which refers to the set of institutionalised rules and norms that govern appropriate behaviour in the network. While these are sometimes spelled out in formal contracts most often they are simply understandings that evolve within the dyad and the network.

The network theory is conceptually rich and its attention to the details makes it relatively strong with respect to the empirical picture it paints of the relationships between the actors in the market. However being empirically strong the weakness of the network theory is its lack of ability to provide normative implications for managerial actions (Belenker et al., 1997). Norms are legitimate commonly shared guidelines to accepted and expected behaviour (Birenbaum and Sagarin, 1976). Compared to other forms of research and analysis, the development of normative theories of networks has been relatively neglected. Normative issues have been addressed to some extent from the perspective of the individual actor in the network: relationship development and management, investments in relationships, and managing a firm' position in a network (Contractor and Lorange, 1988; Hakansson and Snehota, 1989). However, the move to consider networks as specific organisational forms raises the possibility of formulating normative models for handling different business issues in the context of business networks (Hakansson, 1997). Moreover although the structural approaches describe the network structure and its impact on actors rather well, given the patterns of relationships with actors with certain attributes they do not explain how this structure and the nature of the attributes come into being (Kamann, 1998).

The network theory has also been criticised that management in network structures lacks the close control of manufacturing operations. Furthermore, innovations under the direction of management in another organisation are difficult to control and considered susceptible to being ripped off (Robbins, 1990).

In this study the network theory will be used to design a network relationship among the footwear and textile manufacturers, suppliers and buyers in Eritrea, the Netherlands and Uganda. To design the network structure we will draw a map of relationships and ultimately the type of network organisation that fits to our purpose. Moreover as argued by Gulati et al. (2000), the footwear and textile manufacturers, suppliers and buyers have to develop institutionalised rules and norms that govern appropriate behaviour in the network. Consequently, our study takes the contract enforcement institutions as a critical variable in the network development process. For detailed discussion on this variable the reader is referred to chapter five.

4.3 Summary of theories of inter-organisational co-operation

Through the four theories we have reviewed in this chapter we observed that inter-organizational relationships are important for developing the capabilities of the co-operating parties and for the possibility to achieve a better performance. To summarise the orientation and contributions of the four theories of inter-organizational co-operation we will use the following dimensions[6]: (1) key assumptions of the perspective, (2) key research questions; (3) reasons why linkages were created (4) basic assumptions; (5) primary unit of analysis;

[6] Auster (1994) used five out of the eight dimensions

Table 4.3 Summary of theories of inter-organizational co-operation

Dimensions for Comparison	Transaction cost theory	Resource dependence theory	Network theory	Strategic management theory
Key assumptions derived by	-Industrial organisation -Sociology -Economics	-Organizational sociology -Political science -Management science	-Organisational sociology -Anthropology -Management science	-Industrial organization -Management theory
Key questions	-How do characteristics such as asset specificity, uncertainty, and frequency affect the transaction costs associated with engaging in different forms of inter-organizational linkages?	-How does the formation of inter-organizational linkages help an organisation acquire resources and manage uncertainty?	-What are the interplay's relationships between activity, resource and actor layers in business relationships, and how do network firms interact and adapt to changes?	-What are the competitive benefits of creating alliances?
Reason why linkages are created	-To reduce transaction costs	-Maximise power to obtain resources and manage uncertainty	-Resource and knowledge acquisition motivated by social relationship, effectiveness and efficiency	-To maximise profit and improve strategic posture (Competitive advantage). -Access to competencies and or capabilities -Knowledge acquisition and learning
Basic assumptions	-Bounded rationality -Opportunistic behaviour	- No organisation is self contained -The primary goal of organisations is to maximise power -The Environments of an organisation is uncertain	-Transactions are embedded within networks of social relationships -One party is dependent on resources controlled by another	-Systematic and stable differences across firms exist in the extent to which they control resources and influence strategic behaviour -Differences in firms resource endowments cause performance differences -Firms seek to maximise their economic performance

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Dimensions for comparison	**Transaction cost theory**	**Resource dependence theory**	**Network theory**	**Strategic management theory**
Unit of Analysis	-Transaction	-Inter-organizational linkage -Interdependencies	-Network	-A dyadic relationship
Examples of relevant literature	-Coase (1937) -Williamson (1975, 1980)	-Pfeffer and Salancik (1978)	-Burt (1980) -Nohria ((1992) -Johansson (1986)	-Porter (1980, 1985) -Rumelet (1974) -Wernefelt (1984) -Mahoney (1992) -Hamel and Prahalad (1990)
Main contribution	-Answers the fundamental question why firms exist. -Opened a new approach for organisation theorists -Useful in choosing a governance structure for a specific transaction. -Introduced hybrid relationships as a governance structure for specific type of transactions	-Resources are important in determining firms behaviour -Shows the importance of dependence and its consequences.	-Has broader unit of analysis -Useful in designing and analysing network relationships - A tool for managing relationships	- Infused strategy into economics and realised a greater coherence in the strategy field -Shows how cooperation leads to competitive advantage
Main criticisms	-Focuses on cost minimisation -It neglects the role of social relationships in economic transactions. -Individuals may not always behave opportunistically even if conditions permit such behaviour - Learning and experience with a particular exchange partner can reduce the need for more governance mechanisms in subsequent transactions.	-Neglects co-operative ties with actors one have no direct dependence. -Neglects the influence of bargaining power	-Normative theories of networks have been neglected -Ambiguity in the concept used -Difficult in setting the boundaries of the network	-There is often more heterogeneity in the performance of firms within a single industry than there is heterogeneity in the performance of firms across industries. -Socially organised relations are not considered as important and are often interpreted as collusion reducing the level of competition

(Source: Extracted from the literature)

(6) examples of relevant literature, (7) main contribution, and (8) main criticisms. The aforementioned dimensions are useful to identify the similarity and differences among the theories. Table 4.1 provides a comparison of the four views. The first impression from the literature review is that the different perspectives tend to use different concepts and this leads to confusion. Commonly used labels such as coalitions, strategic alliances, collaborative agreements, industrial co-operation, and co-operation can be misleading because all the terms focus on partners working together toward mutually shared goals. This implies, there is a need for conceptual clarity and rigorous operational definitions, and movement toward consistency across perspectives.

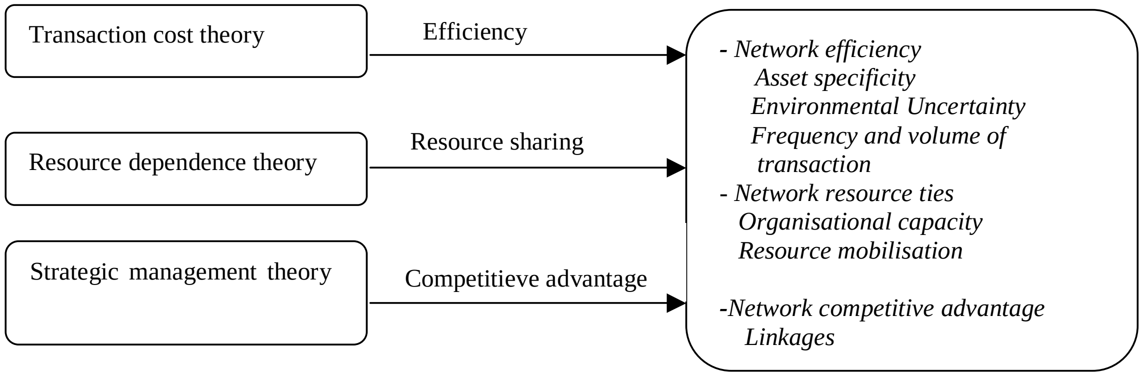
The literature review shows some of the theories that address co-operative relationships but the explanation why firms are entering into such a relationship seems to vary. Besides, the unit of analysis varies across the theories. While the transaction cost theory focuses on a specific transaction, the network theory focuses on the whole population in the network. According to the network theory, any relationship has to be analysed in relation to the whole set of relationships in which each partner is engaged. This variation in the unit of analysis creates limitations to the comparison between the findings from the different theories of inter-organisational co-operation. Another observation is that although the network theory assumes the past relationships are important in networks little attention has been devoted to a more longitudinal, dynamic, evolutionary view of inter-organisational relationships.

Longitudinal analysis is useful to understand, the evolution of inter-organisational linkages, history of the principal actors, the internal and external forces that derive them into linkages, and to explore the history of past relationships. There is a need to extend the time frame of analysis. Although most of the perspectives focus on dyad relationships, networks are important in broadening the unit of analysis. Networks define all relationships in a system and expand the unit of analysis even further. This has a reorienting effect on inter-organisational study. However, setting the boundaries of the system is critical for analysis and has to be properly defined. It can be defined by the researcher (normative approach) or socially constructed by those involved (realist approach) (Laumann et al., 1983; Welch et al., 1996). In Networks internal dispute resolution mechanism is preferred and the variable availability of contract enforcing institutions is one of the factors that influence the level uncertainty in the exchange process.

4.4. Conclusion and implications to the empirical research project

Although the theories that have been discussed above adopt different perspectives all are useful to our study. Each perspective has virtues. In our proposition, stated in chapter one, we explained that the footwear and textile-manufacturing firms in Eritrea could not embark export marketing operations individually because they have lack of knowledge, skilled human power, and financial resources. The resource dependence theory is useful to explain how Eritrean footwear and textile manufactures could acquire these scarce resources. Besides, the transaction cost theory helps us to identify the efficient type of governance structure to coordinate exchange between firms. The network theory is also useful for understanding the history of inter-organizational co-operation of the potential partners and to identify and design the future relationships. The inter-organizational network is viewed as a strategic mechanism to improve a firm’s competitive advantage through cost minimisation while maintaining flexibility. Finally, the strategic management approach is useful to understand the internal and external factors that shape the co-operative strategy and increase the firms competitive advantage.

Figure 4.1 Nurturing network theory: drivers of co-operation



From the literature review in chapter three, we learned that firms, governments and international organisations often use the network approach to encounter export problems. Besides the benefits from the network approach also comprise the benefits that could be derived from the resource dependence theory, transaction cost theory and the strategic management theory. Thus we conclude that firms develop and participate in networks for transaction cost motives, resource dependence and strategic considerations (Figure, 4.1). This implies that we can borrow some concepts from the three theories to design a business network relationship among the cotton, and leather suppliers, footwear and textile manufacturers and buyers. This argument is consistent with Araujo's (1989) argument that network theory is not only built on the interaction model, but is also integrated with organisational and interoraganizational theories. Therefore attempting to enrich the discussion of the nature of network relationships, it is important to integrate the ideas and relevant findings of the various theoretical streams that elaborate the specific nature of inter-organisational relationships.

Figure 4.1 is in line with Miles and Snow (1994) argument that networks are established to acquire efficiency from the functionally structured defender firm, flexibility and responsiveness from the prospector firm and ability to shift resources laterally from the analyser firm. The important aspect of business network relationships is the change and improvement in resource use, in the scope of activities and in the knowledge and capacity of actors. According to the Network approach relationships can compete to deliver value there by creating a competitive advantage for its members. The distinguishing features of these value-creating networks are a proiri value vision and the use of integrative relationships to accomplish the goals of the network. The analysis suggests that the distinctive capabilities within the network create value for the final customer: trust and co-operation are not enough. We need to identify the value creation abilities of networks and determine what capabilities are required to develop purposeful value creating networks. Basic for the relevance of networks, in an economic sense is that each participant acquires more than it puts into the network. The network must be more efficient than, or at least as efficient as, alternative organisational forms in the market. Finally, although it has been emphasised that network members should contribute complementary resources, partners could also contribute similar resources to realise economies of scale and scope. In this view, companies are better off by acting in combination than separately.

PART III

RESEARCH METHODOLOGY

Chapter 5

Conceptual Framework for Analysis and Research Methodology

5.1 Introduction

This chapter has two Sections. The first Section builds a research framework that represents the relationships between the concepts and theories reviewed in the previous chapters. In addition it defines the concepts in order to make operational for this study. Section two addresses the overall research strategy, data collection, and data analysis methods of the research project.

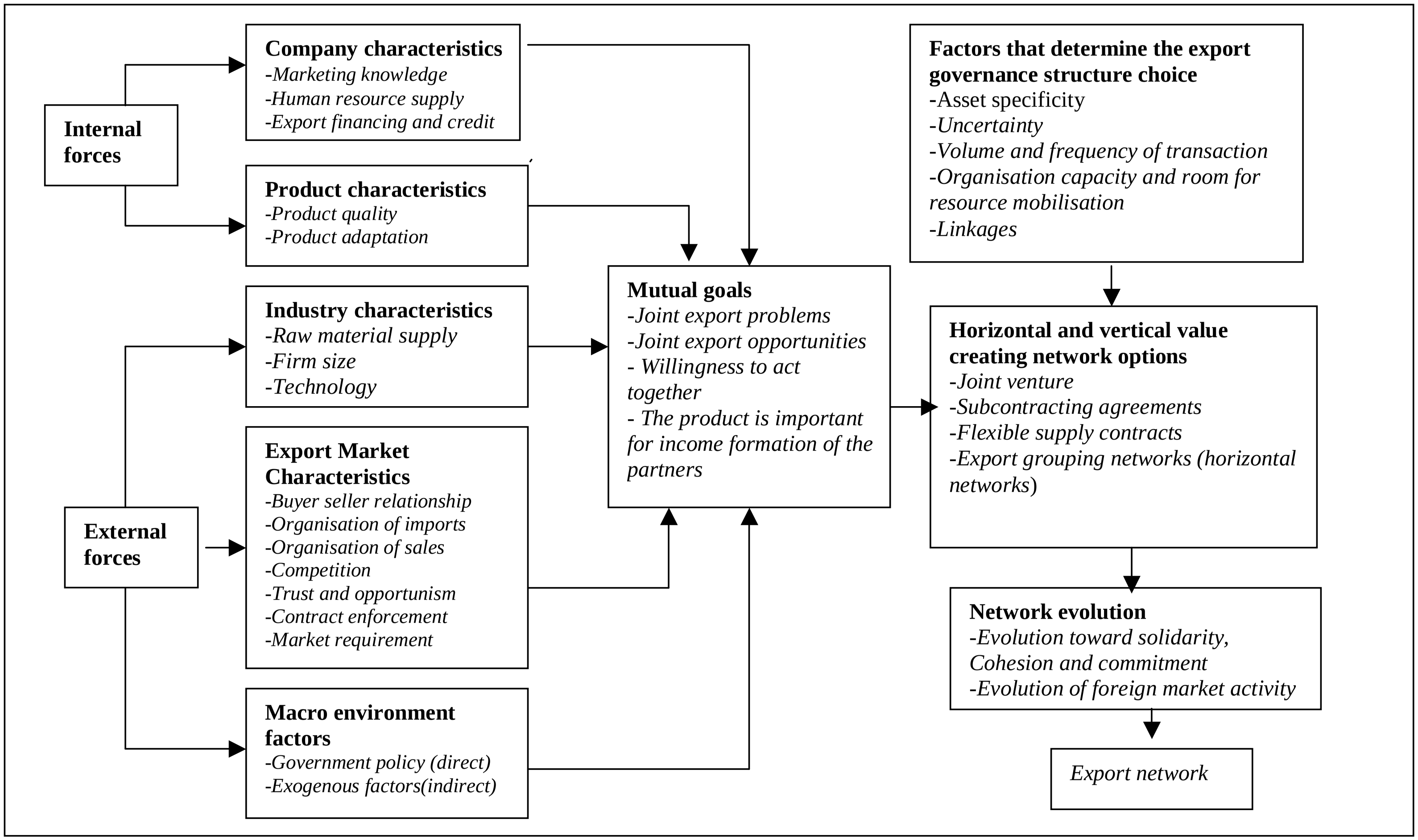
5.2 Conceptual framework for analysis

In chapter two of this thesis we have reviewed the current state of conceptual knowledge on export marketing barriers. We have compiled and synthesised the empirical results contained in the relevant studies of manufacturing firms in developing countries. Finally we came up with a group of export marketing problems that are common for manufacturing firms in developing countries. The findings in chapter two answer the first research question stated as: *What are the export marketing problems of manufacturing firms from developing countries?* We have adopted the variables related to export barriers of manufacturing firms in developing countries as a basis to examine and understand the export-marketing problems of the footwear and textile-manufacturing firms in Eritrea. These factors form the first part of our research framework as shown in Figure 5.1. However the reader is warned that some modifications have been made. In figure 2.3 the export market barriers section describes only the problems in the export market. Now we also need to identify the export market opportunities and willingness of the wholesalers and retailers in the export market to deal with the Eritrean manufacturers. In this case we chose a broader concept “export market characteristics” and we included some more concepts. These are: market requirement, buyer supplier relationship, competition, trust and opportunism, contract enforcement, organisation of imports and organisation of sales.

In the third chapter we have reviewed the current state of practical knowledge on measures undertaken by firms and governments in developing countries to encounter the export marketing problems. Our analysis led us to the conclusion that export-grouping networks, subcontracting networks and export promotion are the solutions adopted by firms and governments in developing countries to ease the export marketing problems. After merging these measures with the possible solutions discussed in chapter one, we have come up with four horizontal and vertical business network options. These are joint ventures, subcontracting network agreements, flexible supply contracts and export grouping networks (horizontal networks). These factors form the right hand side of our conceptual framework in Figure 5.1

From our discussion in chapter three we have learned that three factors are critical for the emergence of horizontal and vertical business network options. These are the existence of a market opportunity or a common problem, the willingness to act together, and the importance of the product marketed to the income formation of the two partners. The framework shows that these factors are related to the export problems of the footwear and textile manufacturers

Figure 5.1 Conceptual frameworks for developing export markets



(Export market and firm analysis) → (Preconditions for network emergence) → (Network development process) in Eritrea and the market opportunities in the Netherlands and Uganda. In our research framework (Figure 5.1) they are found next to the internal and external forces.

In our analysis in chapter three we have learned that two groups of factors are important for the network development process. These are evolution toward solidarity, cohesion and commitment (group size; fit among organisations, persons and products; previous relationship between the network members and presence of outside change agents or network instigators) and foreign market penetration (access to foreign market experience and marketing knowledge). These factors form the last part of our conceptual framework in Figure 5.1. The findings in the third chapter answer our second research question: *How are networks used to alleviate the export problems of manufacturing firms in developing countries?*

The relevant theories that help us to analyse the findings in the empirical research study are discussed in chapter four. Eventually, we came to the conclusion that the concepts in the three theories (resource dependence theory, transaction cost theory and strategic management theory) nurture the network theory and influence the choice of export transaction governance structure (see Figure 4.1). The relationship among the variables discussed in the aforementioned three chapters and included in our research framework (Figure 5.1) can be described as follows:

The analysis of the internal and external forces determines the common export problems and opportunities beyond individual reach and influences the importance of the product marketed for the income formation of the parties and willingness to act together. When the conditions are fulfilled horizontal and vertical business network relationships (j*oint ventures, subcontracting agreements, flexible supply contracts, horizontal networks) can emerge. However five factors determine the type of the network relationship: asset specificity (sunk costs), uncertainty, volume and frequency of transaction, organisation capacity, room for resource mobilisation, and linkages. Eventually, the network partners need to evolve into solidarity cohesion, commitment and develop their export capability.*

Overall, our research framework emerges from the cross fertilisation of the literature discussed in chapter two, three and four. In the empirical research project, we will answer the last three research questions. These are 1) *what are the specific export problems of the footwear and textile-manufacturing firms in Eritrea? 2) How are networks used to alleviate the export problems of manufacturing firms in developing countries*? *And finally 3) how the footwear and textile-manufacturing firms in Eritrea can enter into vertical and horizontal business network relationship to increase their export capability, based on the experiences of manufacturing firms in other developing countries?* In this Section we operationalise the variables that determine the export governance structure choice (Figure 5.1).

Asset specificity

Asset specific investments are dedicated to a trading relationship and cannot be redeployed to alternative transactions without reducing their value (Williamson, 1985; Sachdev, Bello and Pilling, 1994). In the footwear and textile business the purchasing process starts with the identification of the right product for a specific market. The initiative to find the right product for the target market can be taken by the buyer, the manufacturer or both. When the manufacturer takes the initiative, he conducts a market research, prepares the product design, produces the sample, exhibits the sample, produces the footwear and textiles, and distributes them to the intended market. Sometimes the distribution function includes branding the footwear and textiles. Often wholesalers request for exclusivity and the manufacturer, cannot sell the same design to another wholesaler or retailer. In this case if the manufacturer is going to take the responsibility of conducting a market research and designing the footwear, he will incur four types of transaction specific investments. These are investment on market research, investment on product design, and investment on distribution mainly on training of sales people and branding the product.

High market research, product design, training and branding costs all present in the footwear and textile business, can force the manufacturer to externalise the distribution function or engage in inter-organisational relations.

Uncertainty

Uncertainty refers to “parametric changes” in exogenous forces (such as the market) compounded by unpredictability stemming from individuals limited information processing capabilities, as well as the consequences resulting from the opportunistic motives of other actors (Williamson, 1985). Dwyer and Welsh (1985) argue that the difficulty to collect and process information relevant to each customer and competitor can increase uncertainty. However, trust can economise on the specification and monitoring of contracts as well as material incentives for co-operation and can reduce uncertainty (Nooteboom, 1997; Powell, 1990). Goshal and Moran, (1996) argue that transaction cost theory displays a bias toward describing opportunistic behaviour rather than cooperative relations. In spite of Williamson’s acknowledgement of "atmosphere" as a relevant factor in transactions, he neglects the issue of trust. However, Nooteboom (1995) acknowledges the importance of trust and argues that a dynamic treatment of ongoing relations allows for the building of trust. He suggested that in order to study this, contributions from sociology and anthropology on trust and social exchange are needed. Nooteboom (1999) mentioned that institutions (certification, professional standards, benchmarking, and intermediaries) could produce trust.

The unavailability of information about the level of demand and supply in the market, lack of trust between the transacting parties, unavailability of uncertainty-decreasing instruments (letter of credit, quality inspection institutions and agents), and unavailability or poor functioning of courts of arbitration and litigation can force the manufacturer to internalise the distribution function.

Frequency and volume of transaction

The traditional approach of marketing channel theory is based on the notion that at a high frequency of transaction a manufacturer can exploit the marketing channel cost advantage enjoyed by middlemen (Sachdev, Bello and Pilling, 1994). For the high transaction frequency firms, the greater managerial time and effort devoted to decision-making on foreign market operations greatly enhances the organisational capacity of the firm to engage in foreign marketing (Bello and Lohtia, 1995). However, for the firm to devote the aforementioned resources, transaction frequency has to be supported by a reasonable volume of transaction. Williamson (1985) suggested that the high volume firm is simply better able to realise economics of scale. Thus, firms with a high export volume can economically self-perform most export functions. When exports are frequent but a small fraction of total sales the firm’s managerial resources tend to be devoted to the domestic market. In this situation firms may be forced to externalise the foreign operations. This can be conducted through co-operation with other manufacturers of similar products or selling directly to middlemen from the manufacturing site. Another volume related factor is market sales growth. Sales growth is defined as the rate of change in foreign market sales and indicates future levels of foreign sales volume. Because a firm's choice of governance mode for an export market is a relatively long-term decision that may be difficult to change, the governance decision is likely to be influenced by anticipated future channel volume (Root, 1994).

To sum up the higher the frequency and volume of transaction, the higher the sales growth and the higher the probability that the firm will internalise the distribution function.

Organisational capacity and opportunities for resource mobilisation

According to Welch and Luostarinen (1988), the firm's capacity to export, which refers to the ability to devote managerial, financial and capital resources influences the institutional arrangement in the marketing channel. This variable mainly focuses on the internal capability of the firm to raise the resources needed to conduct the foreign market operations. The basic indicators are financial capacity to finance exports, production capacity (machinery, raw materials, labour), and marketing knowledge. A manufacturer with a good financial position as well as a good production and marketing knowledge may prefer to internalise the export operations. As he develops the confidence and competence to manage the uncertainties and costs of operating in the international domain he prefers more internalised entry modes. However, firms with a few resources and experience in international operations prefer less involved forms (Forsgren, 1989). Their ability to administer and co-ordinate international operations is limited and the costs and complexities attached to internalisation are too high. Consequently, the manufacturer may choose to externalise or do it through co-operation with fellow manufacturers. Co-operative export marketing operations pave the way for resource mobilisation and spread risks. A firm that has limited access to financial resources, production and marketing knowledge cannot conduct a market research, design a product and sell to the specific market.

In conclusion, the better the firms access to financial, human and capital resources, the more it prefers to internalise the distribution function.

Linkages

Porter (1998, P.76) defines vertical linkages as "interdependencies between a firms activities and the value chains of suppliers and channels". Linkages with suppliers tend to centre on quality assurance procedures, delivery procedures, and communication. The linkages create the opportunity to lower the total cost of the linked activities and ultimately the competitiveness of the parties. Because such linkages are hard to match for other competitors the already established linkages can become entry barriers to other manufacturers who intend to enter the market. When the aforementioned entry barriers are high the new manufacturer is likely to decide to test the market by employing agents or selling to wholesalers and retailers stationed in the target export market. When the aforementioned business relationship is weak, however, the manufacturer may decide to enter the export market directly. The strength of the linkage between the wholesalers and retailers and their suppliers (manufacturers) can be explained by two important concepts: security and flexibility. To the buyer a long-term linkage with suppliers is meant to secure the source for the right quality of footwear or textile at the right time and price. Moreover the long-term linkage with their suppliers allows the buyers to avoid switching costs. By flexibility we mean the opportunity to change a supplier when he fails to fulfil his promises or his offer is not competitive. The flexibility strategy of the buyer is realistic when there are many suppliers who are competing for the orders.

In conclusion the stronger the linkage between the buyer and the manufacturer, the higher the degree of security for both the buyer and the manufacturer, and the stronger the entry barrier to newcomers. However, the higher the need for flexibility by the buyer, the lower the entry barriers and the higher the probability for new manufacturers to enter the market.

5.3 Research methodology

This Section focuses on the overall research plan and data collection procedures and techniques that are ultimately based on the research questions we described in chapter one. We will also discuss the method of data analysis and tools employed to test the validity and reliability of the research results.

5.3.1 Research strategy

In this study we need two types of data. These are (1) background data on the footwear and textile industry in Eritrea and (2) more detailed data from a limited number of cases in the footwear and textile-manufacturing firms in Eritrea and footwear and textile buyers in the Netherlands and Uganda.

Yin (1994) identifies five distinct research strategies: case studies, experiments, surveys, archival analysis and histories. Research methods are specific tools for conducting that investigation, which include interviews, questionnaires, document analysis and participant observation. Out of the aforementioned five research strategies only two are relevant for our study: survey and case study research.

Survey research is the appropriate mode of enquiry for making inference about large groups of people from data drawn on a relatively small number of individuals from that group (Marshal and Rossman, 1995).The basic aim of survey research is to describe and explain statistically the variability of certain features of a population. Surveys have limited use when there is a need to investigate complex social relationships (Ibid). In addition they often depend on questionnaires and do not involve systematic in depth interviews and direct observation techniques.

A case study is concerned principally with the interaction of factors and events. Sometimes, it is only by taking a practical instance that we can obtain a full picture of this interaction (Bell, 1993). Case studies are often based on a limited number of cases and conduct an in-depth study about the object or phenomenon under investigation. They allow the researcher to concentrate on a specific instance or situation and to identify the various interactive processes at work. These processes may remain hidden in large-scale survey but can be crucial to the success or failure of systems or organisations. Case studies often investigate the object or phenomenon from different directions and rely on multiple sources of evidence.

Yin (1994, p.4) put forward three criteria for choosing a certain type of research strategy. These are "*(a) the type of research question posed, (b) the extent of control an investigator has over actual behavioural events and (c) the degree of focus on contemporary as opposed to historical events.*" When our research project is evaluated using the three criteria the appropriate research strategy is the case study. First, referring to chapter one, our main research question is: *How footwear and textile manufacturing firms in Eritrea can enter into a horizontal and vertical business network to increase their export capability?* and this fits to the case study strategy. Yin noted that "how" and "why" research questions are likely to lead us to the use of case studies. Second, we do not control or manipulate the behaviour of the respondents. The researcher conducts in-depth interviews and observations to study the possibility of establishing the business network relationship between manufacturers, suppliers, and buyers. Finally, although historical data is needed to understand the past business relationship among the organisations the study focuses on the contemporary factors that are necessary to design a business network.

This study focuses on establishing a business network among footwear (textile) manufacturers, buyers and suppliers. In this endeavour an already established business network relationships in the potential export markets have been analyzed. For instance, the footwear and textile wholesalers and retailers in the Netherlands that have already established business network relationship with manufacturers in Southeast Asia. Often these network relationships are built in formal and informal relationships among the people in the organisations involved in the relationship. To understand these relationships the researcher needs to spend some time and has to interact with the people under study, which is inherent to the case study approach. This process requires flexibility. Case study employs open-ended questions and it gives the researcher much more room for flexibility than a survey.

However, some degree of prior knowledge is required for the suitable cases to be selected. "Surveys are used to identify the type of cases of particular interest for more intensive study" (Hakim, 2000, p.62). After a body of research evidence is accumulated on the topic, selective case studies can focus on particular aspects or issues highlighted by surveys (Ibid). In this study surveys are used to collect background information about the footwear and textile-manufacturing firms in Eritrea. The data collected using the survey method is useful in two ways. First, it helps the researcher to understand and describe the footwear and textile industry in Eritrea, and second, it offers a general background data useful to select the right organisations for the case study.

5.3.2 The case study design

A case study research design represents the overall strategy to gather the data needed to answer the research problems under scrutiny (Ghauri and Gronhaug, 2002). It is set up to decide on, among other issues, how to collect data, analyse and interpret those data, and finally, to provide an answer to the problem (Sekaran, 1992). It includes specifying the unit of analysis, case selection, data collection method and the techniques used to analyse the data. These issues are discussed in the following subsections.

Unit of analysis

The unit of analysis refers to the level of aggregation of the data during subsequent analysis. In this study the unit of analysis is the individual organisation and its relationships with other organisations. A selected number of suppliers, footwear and textile manufacturers, and buyers are studied on an individual basis.

5.3.3 Selecting cases

Footwear and textile manufacturers

To select the footwear and textile-manufacturing firms for the case study, background information from the manufacturers in the two industries was necessary. A semi-structured questionnaire was used to collect the background information. The manufacturers filled the questionnaire under the supervision of the researcher. The population in the footwear industry in Eritrea is two public and 52 private footwear manufactures. During the study the public footwear-manufacturing firms were under transition to private ownership. Although there are eight tanneries in Eritrea only one processes and supplies finished leather of bovine hides, which is mainly used for making footwear. Out of the 54-footwear manufacturing firms 10 changed their business because of market problems. Thus, the questionnaires were distributed to 44 footwear-manufacturing firms. While one manufacturer refused to fill the questionnaire the other two were out of the country during the study period. A total of 41 questionnaires were administered and all were properly completed. The researcher has been in touch with the respondents even after the questionnaire administration. In this study the term footwear refers to all types of leather footwear produced by the footwear manufacturers in Eritrea.

Similarly, the population in the textile industry consists of one public and 64 private textile companies. Out of the 65 textiles manufacturing firm's 57 produce sweaters. Yet, during the study period only 51 textile manufacturing firms were operational. Out of the 65 textile-manufacturing firms, 14, mainly sweater manufacturers, closed or changed to other business due to the closure of the Ethiopian market and the high competition in the domestic sweater market. Consequently, the questionnaires were distributed to 51 textile-manufacturing firms and 47 responded positively. While two refused to fill in the questionnaires, the other two did not honour their appointments. In this study the term textile refers to yarn, fabric, blanket, knitwear, sweaters, and garment produced by the textile manufacturers in Eritrea. The cotton used by the textile manufacturers grows in the western low lands of the country. The Alighider cotton Plantation Company takes care of the marketing aspect of the cotton. The Red Sea tannery, Alighider cotton marketing company, and all footwear and textile manufacturers are located in Asmara and its surroundings.

Table 5.1 Footwear and textile manufacturers included in the case study

Name of factory	Function of the organisation	Function of the interviewee
Expo shoe factory	Footwear manufacturing	General manager
Asmara shoe factory	Footwear manufacturing	General manager
Bini shoe factory	Footwear manufacturing	General manager
Dahlack shoe factory	Footwear manufacturing	General manager
Negusse shoe factory	Footwear manufacturing	General manager
Delux shoe factory	Footwear manufacturing	General manager
Asmara Textile factory	Textile Manufacturing	General manager
Eritrea Textile factory	Textile Manufacturing	General manager
Ambesa Sweater factory	Textile (sweater) making	Deputy general manager
Erikog	Garment making	General manager
Barokco Textile factory	Textile manufacturing	Deputy general manager
Asmara Sweater factory	Textile (Sweater) making	Deputy general manager

Note: The finance managers in Asmara textile factory, Dahlack shoe factory, Bini shoe factory, and Expo shoe factories were also interviewed. They represented the general managers at some stage of the interview. On average more than four contacts were made for each factory in different days.

The employment data from the footwear and textile-manufacturing firms show that there is some difference in size. In order to relate the case study data collected to the size of the enterprises, the footwear and textile enterprises are classified into small and medium size. Among the several indicators employed to measure firm size, number of full time employees and sales volume are the most popular. The choice of employment level as a criterion has several advantages. First managers are more willing to provide employment information than sales data. Second, employment figures are more stable because they are less affected by price changes. However, the review of SME definitions shows that even researchers that have taken employment as a criterion to classify SMEs in the same country could employ different definitions. In our case, we do not want to confuse the reader by adding another definition. For our purpose, the UNIDO classification criterion, that considers the ten or more persons cut point between small and medium enterprises, seems better (Ceglie and Dini, 1999). The footwear and textile manufacturers in Eritrea that employ fewer than ten employees are too small to be considered for the case study as it is very difficult to frame out questions that satisfy both groups at the same time. Our cases are selected from the footwear and textile manufacturers that employ more than ten employees.

Another criteria is needed to choose twelve footwear and textile manufacturers for the case study. These are (1) the organisation should have exported at least once, and (2), there should be prior willingness to co-operate with the researcher. There is no rule as to how many cases should be included in one research project. We have to deal with the issue conceptually: how many cases would give us confidence in drawing our conclusions. It also depends on how rich and complex the within case selections are. With high complexity, a study with more than 15 or more cases can become unwieldy (Miles and Huberman, 1994). There are too many data to scan visually and too many permutations to account. In this study out of the 15 footwear and 29 textiles manufacturing firms in Eritrea that employ more than ten employees six footwear and six textile manufacturers have been selected for the case study. Table 5.1 shows the footwear and textile-manufacturing firms in Eritrea included in the case study, and the function of the interviewee.

Export markets (wholesalers, buying organisations and retailers)

This case study on export markets focuses on Europe and the Great Lakes region (Africa). In chapter one we have explained why these two export markets are important for the footwear and textile-manufacturing firms in Eritrea. For the case study in the Netherlands we have contacted some chain retailers, buying organisations and wholesalers that are located in the Netherlands. The limited available funds for data collection in Europe have made it difficult for us to travel to markets other than the Netherlands. Like wise, the field research in the Great Lakes region have been conducted only in Uganda.

The list of footwear and textile middlemen in the Netherlands has been obtained from the Centre for Promotion of Imports from Developing Countries (CBI). Out of 50 footwear and 46 textile importers six footwear and six textile importers have been selected for the case study. The selection procedure is based on (1) the willingness of the importers for interview and (2) the existence of trade relationship with manufacturing firms in developing countries. The list of footwear and textiles importers in Uganda has been obtained from the Kampala chamber of commerce. Out of 19 footwear and 22 textile importers four footwear and four textile wholesalers and retailers were selected for the case study.

Table 5.2 presents the list of footwear and textile wholesalers, buying organizations, and retailers in the Netherlands and Uganda included in the export market case study. The buying organisations in the Ugandan footwear and textile export market are informal social groups.

Table 5.2 Footwear and textile wholesalers, buying organisations and retailers included in the study

Name of the company and function	**Function of the organisation**	**Function of the Interviewee**
The Netherlands		
Comforta	Footwear wholesaler	Managing director
Eegim Shoe	Footwear wholesaler	Marketing manager
Garant Schuh B.V.	Footwear buying organisation	Division manager
Euro-Holland	Footwear buying organisation	Managing director
Hoogenbosch retail B.V.	Footwear retailer	Purchasing manager
Scapino	Footwear retailer	Purchasing manager
Susan Fashion	Textile wholesaler and agent	Head of purchasing department
Vadotex	Textile wholesaler	General manager
Intres BV	Textile buying organisation	Buying manager
Centurion	Textile buying organisation	Manager of buying department
Zeeman Group	Textile retailer	Head of purchasing department
Hans Textiles	Textile retailer	Acting director
Uganda		
Fame Italian shoe	Footwear wholesale	Managing director
*Arafat Agencies	Footwear wholesale	Wholesaler
*Semuseka Enterprises	Footwear retail	Retailer
Mike Tusubira Enterprises	Footwear retail	Retailer
*Muyinza Trading company	Textile wholesale	Textile wholesaler
*Uganda General Merchandise	Textile wholesale	Textile wholesaler
School Outfitters Ltd.	Textile retail	Managing director
Nob traders	Textile retail	Textile retailer

Note: In Uganda second and third visits were conducted to ask for additional information on issues appeared after the interview is conducted. In the Netherlands after the interview is made a telephone contact was followed to collect additional information and clarify the information given during the interview.
*Shows the companies that have been re-interviewed as members of buying organization in Uganda.

Since the selected cases are part of the informal buying organisations they helped us to gather the data about the functioning of buying organisations in Uganda. Thus four of the footwear and textile retailers were re-interviewed.

5.3.4 Data collection methods

In this thesis we have collected both secondary and primary data. Secondary data has been collected from the documents of the National and Commercial Banks of Eritrea, Ministry of Trade and Industry, Shipping and Transit Agency Service, and Insurance Corporation of Eritrea. These organisations play a role in facilitating the export transaction. For different reasons the aforementioned organisations handle export data from Eritrea. Furthermore, secondary data about the export status of Eritrea in the 1960’s and the type of marketing channel that existed in the course of that time is collected from historical trade records of the Ministry of Trade and Industry in Eritrea. The publications from the Ugandan Ministry of Trade and Industry and the publications from the European Union are also other sources of the secondary data in the export markets. The secondary data about the Netherlands footwear and textile market are also collected from the documents of the Netherlands Central Bureau of Statistics, Center for the Promotion of Imports from Developing Countries (CBI), Eurostat and Textielvisie. CBI is an organisation engaged in promoting imports from developing countries funded by the government of the Netherlands and the European Union. Eurostat is the official publication of the EU. It gathers market data about consumer products in Europe and worldwide. Textielvisie is a fashion design and advertising company.

The primary data are collected through questionnaires and interviews and are collected in two phases. These are the preliminary study (survey) phase and the case study phase.

Questionnaire data

The purpose of the questionnaire is to collect data about the footwear and textile-manufacturing firms in Eritrea for two reasons. These are (1) to identify the suitable cases for in-depth study and (2) to have a preliminary understanding about the important and difficult export problems in the footwear and textile-manufacturing firms. The researcher has conducted a pilot study on two footwear and textile-manufacturing firms. The purpose of the pilot study is to test the questionnaire and see if the procedure of the data collection yields the data required for the overall study. To avoid misunderstanding of concepts, the researcher carried out the semi-structured questionnaire. The presence of the researcher gave him the opportunity to ask for explanations when necessary.

Interview data

The case study has two stages. These are: (1) conducting an in depth interview with the managers to investigate their answers to the questionnaire in the preliminary study; the organisation of the export business; the type of relationship they have with suppliers, buyers and other manufacturers; and their opinions as to how these problems could be eased. The interview also focuses on the overall attitude of the managers towards the business network relationship with other organisations. And finally, 2) respondents' value the feasibility of the alternative solutions discussed in chapter three. Afterwards we have interviewed the respondents to understand the reasons behind their choice of a certain solution. This is a good opportunity for the researcher to listen to what the managers say about their problems and their solutions.

The export market data in the Netherlands have been collected through interviews. Based on the list from CBI, we have contacted the footwear and textile retailers, buying organisations and wholesalers by telephone. We have given them information about the footwear and textile industry in Eritrea and the objective of the study. Finally, five wholesalers, four buying organisations, and four retailers have been interested in the study. We have conducted the recurrent interview on all the cases. We have dropped one case of footwear wholesalers because it focuses on high quality fashionable shoes. In Uganda six footwear and six textile wholesalers and retailers show an interest to participate in the case study. We have conducted the interview on all of them. However, we have dropped four cases because they import second hand footwear and second hand textiles only. Meanwhile the information collected from the second hand footwear and textile wholesalers is found useful to see the impact of the second hand shoe and textile on the new shoe and textile market. Unlike in the Netherlands, buying organisations in Uganda are informal social groups of wholesalers and retailers. On that account, we have posed the questions to the footwear and textile retailers, who are also the members of the informal purchasing group.

The questionnaire and recurrent and systematic in-depth interviews in Eritrea are directed at the general managers of the companies. However, additional data have been collected from the, marketing manager, production manager and personnel manager of the selected footwear and textile manufacturing companies. The key informant technique (i.e. gathering data from more than one informant from the same organisation) is used to assess the relative equivalence of their responses. This is based on the assumption that all four managers who held executive posts have substantial knowledge or are involved in the decision making process concerning the firms current and potential export operations. In the export markets the interviews are conducted mainly with the marketing and purchasing managers. The issues discussed in the two-export markets are the requirements of the Netherlands and Ugandan export markets, organisation of imports, buyer supplier relationship, competition, trust and opportunism, contract enforcement mechanisms, and the organisation of the footwear and textiles sales function (Figure 5.1).

5.3.5 Data analysis

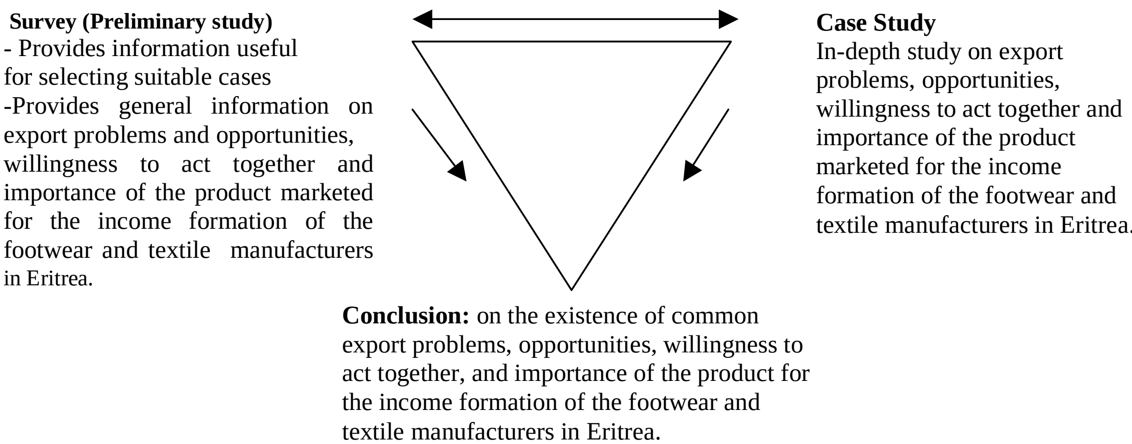
The data analysis process in this thesis has gone through three major stages. These are (1) processing and analysing interview data collected from the Netherlands and Ugandan footwear and textile export markets, (2) processing and analysing questionnaire and interview data collected from the footwear and textile manufacturing firms in Eritrea, and finally (3) conducting a cross case comparison between the Netherlands and Ugandan footwear and textile export markets in view of the findings from the footwear and textile manufacturing firms in Eritrea.

In the first stage, we have described and analysed the Netherlands and Ugandan footwear and textile export markets. The personal interview has been taped and transcripted as soon as the interview session is finished. We have drawn each response and established a chain of evidence to build our arguments. We build our conclusion by matching the evidence patterns in the different cases.

The second stage of the data analysis is further classified into preliminary study and case study phases. In the preliminary study phase 45 export problems were presented to the managers and were asked to indicate their importance on a five-point Likert scale: (1) not important at all, (2) somewhat important, (3) moderately important, (4) very important and (5) extremely important. Similarly, respondents were asked to value the degree of difficulty to solve these export problems. Once the questionnaires have been edited, the responses are coded. Numbers are given to each of the answers so as to facilitate analysis. We use the SPSS statistical package to tabulate the data and calculate the frequency, mean and standard deviation of the responses. Each export problem mean is tested against the value of 3, which holds a moderate value in the 5-point scale. Then the mean values are classified into two major categories. These are not important/not difficult and important/difficult. Moreover, to further examine the degree of importance and difficulty of the export problems, the latter category, important/difficult, has been split into two. These are moderately important/moderately difficult and very important/very difficult. Accordingly, all mean values less than three average points are termed as not important/ not difficult, all mean values greater than three but less than four are classified as moderately important/moderately difficult and all mean values greater than or equal to four are named as very important/very difficult. The highest standard deviation score in Table 8.6 and Table 8.7 is only 1.5 points. Regardless of this low standard deviation score, we investigate all standard deviation scores greater than one point. This is done to discern the reasons for the relatively high standard deviation score as compared to the lowest standard deviation score, 0.6, in the two tables. A discriminant analysis (Hair, et al., 1998, Malhotra, 1998) has been employed to test for the difference in perceptions between the footwear and textile-manufacturing firms, and the small and medium-sized firms.

In stage three, we have drawn a cross case conclusion on the market opportunities in the Netherlands and Ugandan footwear and textile markets (Figure 5.2). The comparative analysis focuses on linking the different chain of evidences and search for network possibilities between textile and footwear manufacturers in Eritrea and buyers in the aforementioned two markets. This analysis acknowledges the differences between the two markets. However, investigating and understanding the differences and similarities further helps to design a business network relationship that is appropriate for the two markets. In view of this we have analysed five variables identified in our framework (Figure 5.1). These are, asset specificity (sunk costs), uncertainty, volume and frequency of transaction, organisation capacity and room for resource mobilisation, and linkages (entry barriers). By doing this, we have drawn a cross case conclusions on market opportunities and network possibilities.

Figure 5.2 Triangulation of information



In conclusion both survey and case study have been used in this thesis. The use of the two approaches gives us an opportunity for triangulation of information (Figure 5.2). Ghauri and Gronhaug (2002, P.181) define triangulation as “the combination of methodologies in the study of the same phenomena”. They argue that triangulation can improve the accuracy of judgements and results by collecting data through different methods or even collecting different kinds of data on the subject matter of the study. In line with this argument, the findings from the survey of the footwear and textile-manufacturing firms in Eritrea are corroborated with the findings of the case study of limited footwear and textile manufactures in Eritrea.

5.3.6 Credibility of results

The language of everyday conversations contains a broader conception of validity and reliability. In ordinary speech the term “valid” refers to the truth and correctness of a statement. A person may be described as reliable, dependable and trustworthy. An agreement may be considered valid, strong and convincing. Validation in qualitative research involves checking the credibility of knowledge claims, of ascertaining the strength of the empirical evidence and the plausibility of the interpretation (Kvale, 1999). One of the basic characterises of qualitative research is that it reconstructs reality in line with certain categorical principle and analytical procedures (Tylor, 1979). The validation process requires the application and documentation of these procedures. By referring to the analytical procedures, it makes a room for someone to make sure that there is no bias in the information generated by the procedure. In the literature there are several mechanisms designed to check if the case study process and results are valid and reliable. In this Section, we have discussed how we have tested the construct validity and reliability of the research process and ultimately the research results.

Construct validity

Construct validity in case studies refers to developing operational set of measures for the terms and concepts used in the study (Burns, 2000). In chapter two of this study we have identified the export problems of manufacturing firms in developing countries. Similarly, the alternative solutions described and analysed in chapter three are also derived from an extensive audit of the export measures undertaken by firms and governments in developing countries to encounter export problems. From these two chapters we have learnt that different researchers use different definitions. For instance, concepts such as export barriers, export problems, export inhibitors were used to signify factors that often provoke failures in foreign business operations, bringing financial losses along with negative attitudes toward international activities among both current and would be exporters. Moreover the pilot study is useful to know if the terms and concepts can result in the type of information collected. Consequently, based on the recommendation of the respondents participated in the pilot study and to avoid misinterpretation of the terms and concepts, the researcher administered the questionnaire. In addition to improve the construct validity of the terms and concepts used in this project, the researcher makes use of multiple sources of information: questionnaire, recurrent interviews and site visits. This helps us to see the issues from different directions and establish a chain of evidence that links parts together. Beside, the key informant technique to collect the data from the footwear and textile manufacturers, suppliers, importers, and retailers give us a chance to compare the multiple data sources and see if the correct operational measures are established for the concepts being studied.

During the study period we have noted that most of the footwear and textile-manufacturing firms in Eritrea were hesitant to offer the exact figures of their sales data. Taking this point into account we have asked them to give us the highest and lowest figures from which the average has been calculated. However, seven footwear and textile-manufacturing firms were ready to submit audited financial statements. Only these figures have been used to draw the bar charts in Figure 8.1 and Figure 8.2.

Reliability

The case study protocol contains the procedures and rules that should be followed in the study (Burns, 2000). The reliability in case study is more focused on the dependability that the results make sense and are agreed upon by all concerned. To prove reliability of the case study process and enable others to replicate your work the steps and procedures must be clearly explicit and well documented in the final report. If the procedures are not repeatable, our descriptions and explanations will like wise be unreliable. In this project, the steps that are followed to collect the data have been described in detail so that other researchers can apply the case study process and achieve similar results.

5.4 Conclusion

There is no fully developed model that fits into our research question. The research framework depicted in Figure 5.1 emerges from the cross fertilisation of the literature discussed in chapters two, three and four. Using the information on the past three chapters, we have answered the first two research questions. With the help of the research framework (Figure 5.1), we will answer the last three research questions. The research framework enables us to explore and describe the export problems that exist in the footwear and textile-manufacturing firms in Eritrea and export opportunities in the footwear and textile export markets in the Netherlands and Uganda. Moreover it is important to understand the factors that shape up the problems and opportunities.

PART IV

EMPERICAL STUDY

Chapter 6

Empirical Study of Export Market Opportunities: The Netherlands

6.1 Introduction

The main objective of this chapter is to examine and understand the organisation of footwear and textiles exports to the Netherlands. The other basic objective is to identify the requirements the footwear and textiles manufacturers in Eritrea have to fulfil in order to do business in the Netherlands. To achieve these objectives interviews with six footwear importers and six textiles importers were conducted. The concepts discussed in this section, based on the framework given in Chapter five, are the buyer supplier relationship, the organisation of imports, the organisation of sales, contract enforcement mechanisms, trust and opportunism, competition, and the requirements of the Netherlands market.

This chapter has two sections: (1) the characteristics of the Netherlands footwear market and (2) the characteristics of the Netherlands textiles market. Conclusions will be drawn after the interview results have been discussed.

6.2 The Netherlands footwear market

For several reasons the Netherlands is a good starting point for footwear manufacturers from developing countries to commence selling to the EU. Firstly, due to its geographical location and limited natural resources, the Netherlands has a long tradition as a trade-oriented country. Importers are accustomed to working with footwear exporters from developing countries. The attractiveness of the market is accentuated by the fact that more than 90 % of national consumption consists of imports (CBI, 2001). To facilitate imports to the Netherlands, the government established a centre for the promotion of imports from developing countries (CBI) in 1971. The CBI supports small and medium sized enterprises and trade promotion organisations in developing countries in their promotion of exports to the European Union.

Table 6.1 Imports of total footwear in the Netherlands by area of origin, 1997-1999

	1997		1999		% Change in volume 1997-1999
	Mln pairs	Average price in US$	Mln Pairs	Average price in US$	
Total	102,095	11.23	134,028	9.97	+31.30
Of which from					
Other EU countries	34,146	17.65	36,922	15.17	+8.10
Developing countries	47,652	6.59	67,278	6.33	+41.20
Other countries	20,297	11.31	29,828	11.73	+47.00

(Source: Eurostat in CBI 2001)

Importers in the Netherlands travel worldwide to purchase merchandise, not only for the Netherlands market but also for sale to neighbouring EU countries. Footwear imported to the Netherlands is re-exported to Germany, France and Belgium. The amount of re-exports is estimated to be about 37% of the total footwear import. Despite its small production (3.8 million pairs), the Netherlands is a large trader in footwear. The country’s annual footwear import is estimated at about 100 mln pairs (Ibid.). Manufacturers from Italy, Spain and Portugal dominate the leather footwear segment whereas the non-leather footwear segment is dominated by imports from China (almost 45 % of total imports in volume) and other Asian countries such as Vietnam, Indonesia, Thailand, South Korea and Taiwan, which are classified as developing countries (see table 6.1).

Table 6.2 Types of retail channels by market share (in % of value) in major EU countries, 1999

Country	Footwear multiple stores	Independent specialised retailers	Department & variety stores	Mail-order houses	Hyper-/ super-markets	Sports shops	Other 1)	Total
Germany	31	31	5	11	4	8	10	100
United Kingdom	33	11	15	8	3	14	16	100
The Netherlands	40	40	3	2	1	8	6	100
France	38	23	3	3	11	13	9	100
Italy	8	54	6	0	7	10	15	100
Belgium	29	47	3	2	1	10	8	100

(Sources: OETH and Retail Intelligence in CBI 2001) Note: **1**) Clothing shops, street markets and other.

Wholesalers, buying organisations, and retailers are active in the Netherlands footwear market, the largest footwear wholesalers in the Netherlands being Eegim Shoe and Aspo. Retailers are independent speciality shops, multiple chains, department stores, clothing shops, and other small retailers. About 60 % of the independent speciality shops in the Netherlands belong to one of the four large buying organisations: Garant Schuh, Nord West Ring, Euretco and EuroHolland. The independent speciality shops account for 40 % of the market share. Multiple chains operate different chains of shops for specific consumer groups which extend from medium-price fashion shoes to cheap discount outlets. Multiples or chain stores account for 40 % of the Netherlands footwear market. The Netherlands has the highest number of footwear multiple stores in Europe (see Table 6.2). Discounters operate at the lower segment of the market. The multiple chains group comprises retailers like Hoogenbosch, Bristol, Scapino, Van Haren and Schoenenreus. Department stores sell footwear together with clothes and other related articles. They account for only 3 % of the market share. Clothing shops and other small retailers make up the rest of the market share (17%). The small retailers group consists of mail order houses, hypermarkets and supermarkets, sports shops and street vendors. The latter are involved in clearing stocks from wholesalers and retailers. All EU countries apply common customs tariffs to imports from outside the union.

Table 6.3 The Netherlands economy (2000) figures[7]

GDP	$ 388.4 billion	(Euro 422 billion)
GDP per capita	$ 24,400	(Euro 26,484)
GDP Growth rate	4%	
Inflation	2.6%	
Unemployment	2.6%	
Exports	$ 210 billion	(Euro 228 billion)
Imports	$ 201 billion	(Euro 218 billion)
Imports as of % of GDP	48%	

(Source: World Fact Book: Netherlands)

However, some kind of preferential trade agreement applies for many developing countries. Examples are the general system of preferences (GSP), and the 4th Lome convention for the African, Caribbean and Pacific (ACP) countries. The Lome Convention gives European

[7] In the year 2000 the exchange rate was $1=Euro 1.0854

importers the opportunity of importing footwear originating in the ACP countries, of which Eritrea is a member, without paying duties.

Table 6.4 Price range of footwear in the Netherlands footwear market

Type of shoe	**Target price (Retail) US$**
Men's casual	30-50
Men's dress shoe classical	60-100
Ladies closed shoe	25-40
Ladies (sandals)	15-35
Children's shoes	15-40

(Source: Survey 2000)

The classification system used for all products in the Netherlands and the European Union member countries is the Harmonised Coding System (HS) (Appendix 3). The quality and grading standards laid down by the International Standards Organisation (ISO) are applicable in the Netherlands. In general, single unit sizes are demanded for textiles and plastic footwear whereas leather and imitation leather must also be made in half sizes. The normal size range for ladies footwear is 36-41, for men's footwear it is 40-45 and for children it is 20-35 (girls) and 20-39 (boys). Care for the environment and the conscious use of the available resources are a major issue in the Netherlands (and in Europe). The box used for packing the footwear must be manufactured from at least 80 % recycled paper. Increased awareness of ecological issues has also played a part in dictating the latest fashion trend, with a move away from synthetic man-made footwear components towards more traditional, natural sources.

6.2.1 Footwear wholesalers

The interview results from two footwear wholesalers, Comforta and Eegim Shoe, are discussed below.

Comforta

Comforta is a footwear wholesale company, which is located in the southern part of the Netherlands in the district of Nieuwkoop. The company was established in 1971. Its current annual turnover is about $16.3 million and it employs 28 people. It imports leisure footwear for men, women and children who spend their weekend in jeans or go to school in casual clothing.

The company has been importing about 80 % of its footwear from South-east Asian countries for about twenty years. Its main suppliers are found in China, Taiwan, Vietnam, Cambodia and Indonesia. According to the managing director, the company has problems with China because the anti-dumping tax policy of the European Union applies to that country. When the size of the import exceeds the quota, importers have to pay 49.2 % tax on top of the 17.5 % sales tax. The managing director of Comforta said, " *Because of the quota the EU has imposed on footwear imported from China, we cannot buy what we want to buy from China.*" The Comforta process for purchasing footwear, mainly from South-east Asia, may be classified into three stages: (1) idea screening, footwear sample design and sample production, (2) exhibiting samples in trade fairs, and finally (3) placing orders, receiving orders and sales.

Firstly, a buyer for Comforta travels to major markets and trade fairs around the world, generally during March and April. The objective of the trip is to collect information on best-selling footwear. During his visit the purchaser makes a collection of footwear that he thinks will attract a high demand for the next season. He describes all the information including the sole, the upper and the last and communicates this to the designer. The designer is an independent person who has a close business relationship with Comforta and who makes a detailed sketch of the footwear according to the specifications prepared by Comforta. After the footwear design is ready, the purchaser travels to South-east Asia. The trip is often scheduled at the end of April. During his visit the buyer explains the design of the footwear he wants to buy to agents located in South-east Asia. After an agent receives the detailed information from the purchaser he selects possible manufacturers and negotiates the price and delivery time. The agent is useful in establishing the first contact between the wholesaler and the manufacturer.

The agents have been working with the suppliers for a long time. They have accurate information about the production capacity, the technical skill and even the reputation of the people running the factories. This makes the selection of the right manufacturer easier. When asked why the buyer did not bypass the agents and contact the manufacturers directly, he replied, " *Because the buyer handles many designs he does not have the time nor the capacity to find manufacturers for all the designs he has with him. It is easier to give the designs to a well-established agency in South-east Asia and let it follow the production progress and carry out the quality control itself. You cannot conclude an agreement with a manufacturer to produce only five or ten samples. In that case the cost would be far too high.*"

The agency in South-east Asia signs a contract with the manufacturers to make samples according to the sketches delivered by different footwear importers from all over the world. As soon as the agent and the manufacturer agree on the specifications of the product, the price and the delivery time, the manufacturer starts making the samples. During this period manufacturers produce only sample footwear. The agent and the manufacturer cover the production cost while the wholesaler pays the transportation cost of the samples to the Netherlands. The production cost of a pair of sample footwear is approximately $ 50 while the cost of producing normal footwear is about $10. The agent and the manufacturer cover the cost of making samples on the assumption that Comforta will accept at least some of them.

The second stage is receiving and exhibiting the samples. The sample from the manufacturing plant in South-east Asia has to reach the Netherlands during the first week of June. Comforta receives about one thousand samples from its agents most of whom are in Asia. The company makes a selection out of the one thousand samples of those that have a high probability of being purchased by the customers. The first selection is made by referring to the sketch given to the agency and from Comforta's earlier experience. The exhibition is first shown at the International trade fair in Italy and later in Comforta's shop in Nieuwegein, the Netherlands. The wholesaler displays those samples that pass the first selection at the international trade fair in Italy in mid-June. Buyers and designers from different corners of the world visit the trade fair, which is held twice a year in the months of June and January. The main reason that Comforta participates in this trade fair is to get reactions to the samples. After returning to the Netherlands, Comforta makes the second selection. Approximately only five hundred of the original one thousand samples pass the final selection criteria. The selected samples are then displayed at Comforta's shop in Nieuwegein, the Netherlands. The footwear centre in Nieuwegein contains the exhibition shops of seventy-eight wholesalers and buying organisations in the Netherlands.

Finally, the shops open for buyers in mid July. The first four days are reserved for large buyers such as Bristol, Scapino, Van Haren, and Schoenenreus. According to the managing director, these are large retailers each owning between 90 and 200 retail outlets. The large customers make their selections and place orders within four days. The next week the shop opens to small buyers. They also make their choices and place orders. After securing orders from the large and small buyers the Comforta personnel take a three-week holiday. They return from holiday in late August and contact their suppliers in Asia. After conducting final negotiations on the price and delivery dates Comforta makes an offer. If the manufacturer accepts the offer, Comforta places an order in early September. Following the placement of the order Comforta opens a letter of credit to help the manufacturer obtain money to purchase the materials required to produce the footwear. The managing director of Comforta said, *"At this stage trust is very important. The wholesaler has to be sure that the manufacturer has the capability and willingness to make and deliver the footwear on time. If the manufacturer produces inferior quality footwear the money is lost."*

The footwear has to be shipped at the end of December so that it reaches the Netherlands at the end of January. Comforta starts selling (delivering) the products to the buyers in late February. For the second order samples have to be collected and sketched from April to October. Comforta receives the samples from suppliers in December. It displays them first in the international trade fair in Italy in mid January and then at the exhibition shop in Nieuwegein in late January. Comforta places orders at the end of March and suppliers have to ship the order at the end of July. The footwear has to reach the Netherlands at the end of August to be sold in September.

Comforta has a long-term business relationship with its manufacturers. However, this long-term business relationship has not been transformed into a higher business relationship such as subcontracting or a joint venture. During the interview this question was posed to the managing director of Comforta. He said, " *Subcontracting or a joint venture is not to our advantage because we are small and we do not have the capacity to sell all the footwear produced by the supplier on a continuous basis. Besides, we are susceptible to political and economic changes in the countries where our manufacturers are located. To give you one example, currently the Euro is getting weaker and weaker against the dollar. At this time it is advantageous for us to buy footwear from EU member countries such as Spain and Portugal rather than going to South-east Asia. In the EU we deal with the Euro and we can avoid the effect of the strong dollar."*

When asked what his reaction would be if a footwear manufacturer from Eritrea approached him and explained to him that he could produce and supply the right kind of footwear for the European market, he said, " *For me a new supplier means additional expense. The benefit I would get from the Eritrean manufacturer must justify the additional cost I would have to incur. Before I would ask the manufacturer in Eritrea to produce a sample for me the manufacturer would have to show me what he is doing now. In this way I could decide if the footwear was good enough to be displayed in the international fairs. If it was OK I could place a trial order. However, before we were to start business I would have to know the Eritrean manufacturer well. I would have to be convinced that he has the capacity and skill to make the type of footwear I need to sell."*

Eegim Shoe

Eegim Shoe is the largest footwear wholesale company in the Netherlands. It is part of the Achten Fashion Group. Beside Eegim shoe, the Achten Fashion Group comprises large footwear wholesale companies such as Aspo and Orces. The former is specialised in footwear for men and children and imports mainly from Rumania. The latter is specialised in fashion footwear for young people and imports from Bulgaria. Eegim shoe is specialised in ladies fashion footwear mainly in the middle and higher segment of the market. Its import markets are China, Vietnam, Hong Kong, Korea, and Taiwan. The head office of Eegim Shoe is located in Waalwijk, the Netherlands. It employs 110 people and has an annual turnover of about $ 62 million.

The Eegim shoe purchasing process is similar to that of Comforta, the difference being that Comforta hires agents while Eegim shoe uses its branch office in Taiwan. The branch office in Taiwan is a co-ordinating centre for all imports coming from South-east Asia. It selects suppliers, expedites sample production and performs quality inspection. The staff in the Taiwan office know most manufacturers in the region and have long standing business relationships with many of them. There are thus fewer problems in matching the order to the right manufacturer.

When asked why the company opened a branch office in Taiwan instead of using an agent located in the region the sales manager said, " *In addition to the fashionable ladies footwear, we sell sports footwear and cheap house slippers. We work closely with the other two sister companies and we order footwear for them as well. Given our large volume of import the running cost of the office in Taiwan is less than the commission we would have to pay to an agent. Besides, the services we get from our office in Taiwan are a lot better than that of an agent. The orders we place always reflect the changes in fashion. To get the manufacturers to understand the changes we need to have close contact and communicate intensively. So it is important that we are close to the manufacturer."*

The sales manager mentioned that although Eegim shoe purchases footwear from many countries in Asia, it has only one or two manufacturers in each country. Given the small number of manufacturers we asked the sales manager how his company creates a balance between security and flexibility. He said, " *Unless there is a serious problem we do not want to change a manufacturer. For us price is less important than quality. We do not need to be flexible for the sake of a lower price. We only need manufacturers that can understand our needs. Once we get that right there is no need to change.*"

Eegim shoe asks its manufacturers to produce a sample twice. The first sample is simply used to see that the designs made by the styling department in Eegim shoe are appealing. At this stage comments on how to improve the sample are communicated to the manufacturer through the Taiwan office. The manufacturer makes a final sample after incorporating the necessary changes. The company has its own designers but it also employs freelance designers who prepare the styling and technical specification. The technical design is complex because it specifies all the sizes and structures of all the parts needed to make the footwear. Eegim shoe does not pay for samples. After participating in the footwear exhibition in Italy and Germany Eegim shoe invites its large buyers and agents from all over the world to its showroom in Waalwijk. The buyers cover all travel and accommodation expenses, however, Eegim shoe pays for dinner during the exhibition day. The company sells its footwear all over the world including in South Africa, where the company sells shoes through an agent.

Eegim shoe uses letters of credit to pay its manufacturers in South-east Asia. However, for manufacturers in India the arrangement is cash against delivery. The sales manager explained this as follows: "*There are quality problems. While the footwear coming from India is cheaper the stitching and quality of leather is not good. Sometimes buyers find it hard to put the footwear in their shops because of the bad smell of the leather. Before we pay the money we have to make sure that the footwear is free from stitching and smell problems.*"
When asked what his company would do if a manufacturer in China shipped inferior footwear and took the money from the bank made available by the letter of credit, he said, " *Our office in Taiwan carries out quality inspections for the first one or two years only. After that we leave all the responsibility to the manufacturer. There is a low probability that the manufacturer will cheat us. We buy in large quantities and if he loses our order he will have a problem. I cannot say that this does not happen but I am sure that such manufacturers would not remain in the footwear market for very long.*" He stressed the importance of trust between the buyer and the manufacturer. He said that manufacturers sometimes lie to the buyers to keep the business going. However, it is better to tell the buyer what has happened even if this creates conflict between the buyer and the manufacturer since it helps in solving problems in the future.

The sales manager mentioned that Eegim shoe has large footwear manufacturers (suppliers) in South-east Asia. For instance, a manufacturer located in China manufactures about 43 % of the total footwear that Eegim shoe imports from South-east Asia. When asked why the business relationship had not developed into sub-contracting or a joint venture, he said, " *We are wholesalers. We would like to have a business relationship with the manufacturers as long as they are good for us. If we sign a sub-contracting or joint venture agreement with the manufacturers in Vietnam we reduce our flexibility. Order based, long- term business relationships are good for us because they motivate the manufacturer to perform well so that he can get more orders.*"

Finally, when asked what his response would be if a manufacturer from Eritrea came to his office and showed him footwear that might be interesting to his customers, he said, " *It is possible that a manufacturer from Eritrea could show me an attractive type of footwear. However, there are other things I would need to know about the manufacturer. I would have to make sure that the manufacturer has the capacity to produce footwear the same as the samples. There is a difference between making a sample and producing thousands of pairs of footwear. The relationship between the manufacturer and the buyer is more important than a single product the manufacturer can show me. We cannot simply exchange footwear for money on the spot. There is a process that we have to pass through to produce the right footwear. To make the process successful we need to know each other and there should be a continuous flow of information. If he showed me a good footwear sample I could give him a trial order. However, the payment arrangement would be cash against delivery. If the footwear did not match the original sample given to us we would not pay for the shipment. He could also send samples to us.*"

6.2.2 Footwear buying organisations

Interviews with two buying organisations, EuroHolland and Garant Schuh were conducted. The results are described below.

Euro Holland

According to the managing director, a group of small footwear shop owners in the Netherlands came together forty years ago to discuss how to solve import problems such as locating producers, language problems, import documentation and payment. In 1957 they decided to establish Euro Holland as a co-operative organisation. Euro Holland is located in Nijkerk, the Netherlands and it represents 105 small footwear shops in the Netherlands. The 105 shops that own shares are the legal owners of the company. The shop owners sell footwear to the middle segment of the market in the Netherlands. Euro Holland employs 11 people.

Euro Holland does not directly import footwear for its members it is the shop owners themselves who import the footwear. Euro Holland offers support services that facilitate import of footwear by its members. Firstly, one week before the trade fair starts, often on the 28th of February, Euro Holland provides a fashion seminar for its members. The seminar focuses mainly on offering information about fashion trends for the next season. After the seminar has been completed Euro Holland invites footwear suppliers to display their footwear in its exhibition hall in Nijkerk. On the 2nd of March the early buying fair opens. Some suppliers who display footwear are ready to supply footwear within weeks[8]. These suppliers do not have a pending order and are ready to supply the footwear in less than three weeks. The normal order cycle takes three months. Some buyers present at the early buying exhibition are those who need the footwear as soon as possible. Usually, the suppliers give discounts to the early buyers. After the early buying fair has been completed the second fair, of children's footwear, starts on the 13th of March. The ladies and men fairs are held on the 23rd and 31st of March respectively. During the fairs Euro Holland invites the shop owners to visit the fair. Shop owners select the type of footwear they want to purchase and place orders. Although Euro Holland is a buyer's organisation it provides a market platform for both buyers and suppliers.

Euro Holland guarantees payment within fourteen days after delivery, for every order placed by the member shop owners. Although the individual shop owner signs the import contract the invoices are sent directly to Euro Holland. It also serves the small shop owners by handling their financial matters concerning import. Euro Holland receives a 3 % commission from both the buyer and supplier. The suppliers can be footwear manufacturers or importers based in the Netherlands. Euro Holland has indirect links with suppliers outside of Europe through wholesalers and agents located in Europe. As Euro Holland is a small buying organisation it does not have the financial capacity to send people to sign contracts with foreign manufacturers and monitor the orders. The wholesalers and agents in Europe guarantee that the orders arrive in the Netherlands at the right time. Euro Holland does not accept more than one member from a designated area. This is done to eliminate conflicts arising because of the similarity of the products the retailers handle in their shops.

When asked what his opinion would be if a footwear manufacturer from Eritrea approached him and made an offer to supply the type of footwear that its customers need to have, the managing director said, *" Often suppliers who have an agent in the Netherlands come to our organisation and tell us they have footwear to sell. We ask them to show us the footwear and if we find it acceptable[9] we let them participate in the fair and introduce them to our*

[8] *This happens when wholesalers are out of stock or see a window of opportunity to act faster. However, this kind of arrangement is not common in the footwear business in Europe.*

[9] *Euro Holland has a footwear specialist who examines the quality standard of the footwear that will be*

members. However, the decision to buy the footwear from the manufacturer lies in the hands of the shop owners. The key factor in the footwear business is how to build trust. We have not had any business relationship with the manufacturers in Eritrea. We only have limited information about the country. I think the best way for the footwear manufacturers in Eritrea to penetrate the European footwear market would be to have an importer/agent in the Netherlands to sell their footwear. After the footwear has been introduced to the European market they could deal with any buyer in Europe."

Garant Schuh

Garant Schuh is a footwear-buying organisation for 450 retail shops in the Netherlands, Germany and France with its head office located in Germany. The Netherlands' branch is located in Nieuwegein, the Netherlands. The organisation was established in 1950. Selling shares raised the capital to organise the company. The retail shops that bought a share own the company. The value of one share is $1300 and a member could claim this amount of money if he decided to withdraw his membership. The company has 250 employees.

According to the division manager, Garant Schuh is responsible for linking buyers and suppliers and administering the financial affairs of its members. It places an order on behalf of its members and makes follow-up contacts with the agent or importer located in Europe. The company receives 3 % commission from both buyers and sellers for its services. Garant Schuh requires its suppliers to offer an 8 % discount on all types of footwear ordered by the company. Garant Schuh buys all types of footwear for its members. The suppliers themselves come to its office in Nieuwegein to show their footwear. Until 1993, the company was open to all suppliers that could supply standard quality footwear. However, since then the company has changed its policy and has decided to do business only with wholesalers and agents located in Europe. The division manager explained this as follows: "S*ix years ago a manufacturer from India came to our office and showed us attractive footwear and made an offer to supply the footwear at a reasonable price. We accepted the offer and we placed an order for 10,000 pairs. After we received the shipment we realised that the footwear was different from the sample. There was nothing we could do with the footwear other than disposing of it at a loss. We did not want to file a lawsuit, because we knew that it would cost us more money than we could recover from the manufacturer. From that time onwards we decided not to buy footwear from a supplier who was not located in Europe."*

Garant Schuh has good business relationships with wholesalers and manufacturers located in Europe. The wholesalers and manufacturers bring their collections to the Garant Schuh exhibition in Nieuwegein. The marketing manager selects the footwear. The selected samples are communicated to the retail shop owners in two ways. First, if there is an exhibition day already planned the retail shop owners come and view the samples in person. If the shop owners are interested in the sample they ask Garant Schuh to place an order for them. Garant Schuh is also responsible for making sure that the order has been carried out according to the terms of the contract. Secondly, Garant Schuh exhibits the samples in the magazine that is distributed to its members. The magazine shows the picture of the footwear and describes the materials it is made from, its colour and price, and the name of the company that is offering to supply the footwear. The trade magazine also includes an order form that a retail shop owner needs to complete if he/she wants to order footwear described in the magazine. After collecting the order forms Garant Schuh places a formal order to the importer or agent who has already made the offer.

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displayed in the show.

When asked what his reaction would be if a manufacturer from Eritrea showed him footwear that could be suitable for his customers, the division manager said, "*If the footwear is in line with our standard requirement I do not care where it comes from. But it is impossible for us to create a direct contact with the producers in Eritrea. They would need to have an agent or wholesaler in The Netherlands.*"

6.2.3 Footwear retailers

The results of the interviews conducted with a multiple chain and a department store, Hoogenbosch and Scapino, are described in this section.

Hoogenbosch

Hoogenbosch is a footwear retail company which is a holding of the Macintosh Company. Hoogenbosch is located in Den Bosch, the Netherlands. The company has five types of retail outlets aimed at the middle and higher-class footwear consumers. These are Dolcis, Invito, Manfield, Pro-Sport and Olympia Sports. Its main markets are the Netherlands, Belgium and Germany. The company owns 243 retail outlets and has 3500 employees in the aforementioned three countries. Hoogenbosch imports footwear from Europe and South-east Asia. The company imports about 60 % of its leather footwear from Italy. China, Rumania, Vietnam, Pakistan and India are the major markets for non-leather footwear such as canvas.

Although Hoogenbosch is a retailing company it follows a purchasing process almost the same as the one used by footwear wholesalers such as Comforta and Eegim shoe. The difference is that Hoogenbosch does not exhibit its footwear. If the sample prepared by the manufacturer matches the sketch Hoogenbosch places an order. The stages of the Hoogenbosch purchasing process are: (1) idea screening, sample design, (2) sample production and quality test, and (3) placing orders and sales. Hoogenbosch sometimes uses the internet to send designs to its manufacturers in Italy. However, the final contract is only signed after discussions between the purchasing and selling managers of the two companies have been held. According to the purchasing manager, when the contract involves leather footwear personal interaction is important. The purchaser has to see and feel the quality of the leather to determine if it meets his specifications.

When asked how his company establishes the first contact with agents and manufacturers in Italy and countries in Asia, the purchasing manager said, "*We find the name and address of the agent on the internet. However, it is often difficult to find the right agent. For instance, we had an agent who represented us in China and Vietnam. Our objective was to buy most of our footwear from Vietnam, but the agent wanted to buy all the footwear from China. Despite the dissatisfaction we had with the agent we continued to use his services until we got another agent. While this was going on we hired a buyer who was working for another footwear company in the Netherlands. Fortunately, the buyer knew a good agent in China. We contacted this agent and we have been working with him for almost five years. If you have the right agent it is his job to establish contact with good manufacturers.*" If Hoogenbosch does not have any prior business relationship with the agent or manufacturer it makes a background check. For this purpose it requests information about the agent or manufacturer from the Ministry of Trade and the Chamber of Commerce in the country where the agent or manufacturer is located.

Three years ago Hoogenbosch designed a strategy to buy cheaper leather footwear from Asian countries. Hoogenbosch then ordered leather footwear from India. As part of the agreement Hoogenbosch gave the footwear design to an Indian footwear manufacturer and asked him to make a sample. The samples were OK but the products delivered were different from the sample. Hoogenbosch displayed the footwear in its retail outlets but consumers were not interested in it. As a result Hoogenbosch did not continue with the Indian manufacturer. Hoogenbosch uses payment against delivery. The payment is made thirty days after delivery. However, when the business relationship with the manufacturer is at its initial stage, it opens a letter of credit. When asked what his company would do if the footwear shipped to the Netherlands was found to be unsatisfactory after it arrived in Hoogenbosch's store, the purchasing manager said, " *The first thing we would do is to contact the agent and tell him the footwear is unsatisfactory. After that, there are some alternative measures we can take. However, the measures we would take depend on the size of the order. If the order was large (1) we would ask for discount (2) we would stop payment until the goods were displayed in the retail shops and we knew the reaction of the consumer and finally (3) if the first two measures did not work we would send the footwear back to the supplier. If the order was small we would take the risk and break all further business dealings with the manufacturer.*"

Unlike the buying organisations, Hoogenbosch tries to ignore wholesalers located in the Netherlands. When the company is going to buy footwear from wholesalers located in the Netherlands it always asks for exclusivity. Exclusivity means the wholesaler has to promise not to sell the same footwear bought by Hoogenbosch to other retailers or wholesalers in Europe. The purchasing manager mentioned that the wholesalers usually do not keep their promise in regard to exclusivity. When asked why his company requires exclusivity from the supplier, he said, " *We are dealing in the middle and higher level of the footwear segment. Our customers need to be unique. As footwear marketers we have to satisfy their need."* The purchasing manager explained that Hoogenbosch has been working with some Italian manufacturers for about 15 years. When asked why the long-term business relationship had not evolved into a more advanced business relationship such as subcontracting or a joint venture, he said, *"In Europe specialisation is very important. If you want to be successful in your business you have to be good in one thing. We are good in retailing. It is easier for us to expand into other retail business than into footwear production. Moreover, we do not want to tie ourselves to one manufacturer and put all our eggs in one basket."*

In response to the question what his reaction would be if a manufacturer from Eritrea came to his office and told him he could supply the kind of footwear his company wants to have, he said, " *We already have manufacturers in Italy and South-east Asia. It is true that we are dissatisfied with some of them and we might want to change them. However, if we were going to buy footwear from manufacturers in Eritrea, there would have to be something that we could not get from our current manufacturers. Going to a new place involves many risks. We do not have previous business experience with Eritrean footwear manufacturers. If we were going to do business with Eritrean manufactures there would have to be an advantage that we could not get from our current manufacturers."* According to the purchasing manager, if the footwear manufacturers in Eritrea want to conduct business with his company he would first need to see what they are doing now. For this purpose Eritrean manufacturers would have to prepare five or six prototypes of fashionable footwear. If he found them acceptable he could place a trial order. Stressing the importance of samples he said, "*Most of the time when manufacturers come here and ask me if I want to buy footwear my answer is I do not want anything because I already have manufacturers or suppliers*." According to him, the best way to deal with retailers and wholesalers is to show what you have and negotiate how to make it better.

Scapino

Scapino is a footwear retail company established as a family business in 1973. It has 200 retail outlets throughout the Netherlands. The annual turnover of the company is about $310 million. It imports footwear from countries such as China, Vietnam, Brazil, Taiwan, Spain, Portugal and Italy. Scapino operates in the lower segment of the footwear market. It sells footwear for children, men and women. The head office of Scapino is located in Assen, the Netherlands. Scapino purchases footwear from three sources. These are (1) from wholesalers located in the Netherlands, (2) from export trading companies located in South-east Asia and finally (3) from manufacturers in South-east Asia.

The purchasing manager explained this as follows: *"Each source has its own advantages. Although they are expensive we always buy footwear from wholesalers located in the Netherlands. The reason is that the wholesalers are closer to the Netherlands market and have good knowledge of the fashion trend. They invest time and money to obtain footwear that is fit for the Netherlands market. It helps us to cope with other competitors who buy footwear from the wholesalers."* Export trading companies in Asia are independent organisations that have close working relationships with manufacturers. They make their own collections. According to the purchasing manager, export trading companies in Asia supply cheaper footwear in comparison with the wholesalers in the Netherlands. The export trading companies make collections for buyers coming from all over the world. Consequently, they are not specialised in a particular market. To correct this problem the purchasing manager from Scapino has to recommend modifications to make the footwear saleable in the Netherlands market. If everything is all right the purchasing manager places orders to the export trading company. The export trading company in turn passes the order to its manufacturers.

When asked why Scapino does not bypass the trading companies and buy footwear directly from the manufacturer, he said, "*In the footwear business the larger the order the easier it is to work with manufacturers. In order to deal with manufacturers we must have an order size of at least 25,000 pairs of footwear. If we have a smaller order size we go to the export trading company. The export trading company is free to sell a similar type of footwear to wholesalers and retailers operating in markets other than the Netherlands. For that reason it can fill the minimum order from other buyers."* Scapino uses a letter of credit to pay its suppliers. When asked what his company would do if a manufacturer in South-east Asia shipped inferior footwear and took the money from the bank, he said, "*The fact that we do not carry out any quality inspection at the production site could make us susceptible to such kind of problems. However, we have never experienced this kind of problem. If we think it is important we can include a clause in the letter of credit that says full payment will be made after Scapino has inspected the goods and confirmed to the bank that there are no problems with the shipment."* Scapino has no styling department.

The purchasing manager mentioned that Scapino has a long history in dealing with suppliers mainly in South-east Asia. When asked why this long-term business relationship had not evolved into subcontracting or joint venture relationships, he said, " *We know that the manufacturers with whom we are dealing in South-east Asia use subcontractors to make the footwear we order. The advantage is that the manufacturers have the production knowledge* *and can control everything. However, we are retailers and we are not specialists in production. It is better for us to remain as retailers."* Finally, when asked what his response would be if a manufacturer from Eritrea came to his office and told him he could supply the right kind of footwear to Scapino at a lower price, he said, *"Eritrea has no track record of footwear production. Not only the manufacturer but also the country is new to us. We do not know importers in the Netherlands that have purchased footwear from Eritrea. Given this it would be important for us to get informed about the country. Knowledge about the culture of the people, the business practices, the type of footwear manufactured, the availability of footwear component producers and the price level is important. If everything was in order I could place a trial order*."

6.2.4 Discussions of the interview results

The discussion is based on the seven export market characteristics mentioned in figure 5.1. These are the buyer supplier relationship, the organisation of imports, the organisation of the sales function, competition, trust and opportunism, contract enforcement mechanisms and the requirements of the Netherlands export market.

Buyer and seller relationship

The evidence from the cases discussed above reveals that the business relationship between the footwear importers (wholesalers and retailers) in the Netherlands and manufacturers in South-east Asia is based on a previous business relationship. The Netherlands footwear importers prefer to share the risk over a long time period with a few manufacturers in the hope that the benefits which result from building up trust outweigh the costs involved in not being able to freely switch manufacturers as price dictates. Arms length contracting barely exists. Even if it does, it only serves as a stepping-stone to a future long-term business relationship. Before a real transaction exchange starts buyer and seller have to pass through certain stages. These are understanding the fashion trend, generating new product ideas and designing a sample, producing the sample, exhibiting the sample and modifying samples based on the suggestions given by customers and designers during the exhibition (Figure 6.1)[10]. The level of performance of the first order affects the buyer's willingness to send additional orders to the manufacturer. In their footwear transaction exchange process, two factors are most important to the wholesalers and retailers in the Netherlands. These are security and flexibility.

By security is meant the degree of guarantee the wholesalers and retailers get from the manufacturer that the latter will ship the right footwear at the right time. Flexibility concerns the degree of freedom the footwear wholesalers and retailers have to replace a manufacturer. The reason may be lower price, faster delivery or better quality. However, flexibility incurs transaction costs. When the wholesaler changes a manufacturer he breaks the business relationship that he has established with his previous manufacturer. Both the wholesaler and the manufacturer have invested time and money to build the business relationship. Moreover, when the wholesaler or retailer decides to replace the existing manufacturer there is a risk that

[10] These stages in the purchasing decision process are more or less similar to those described by Johnston and Lewin (1996) with reference to the work of Robinson, Faris, and Wind (1967) Webster and wind (1972) and Sheith (1973). However in this thesis the buying organizations in the Netherlands perform more activities than the buying centres described in the literature. Not only they place orders on behalf of their members but also they administer the financial affairs of their members and give guarantee of payment to the suppliers (manufacturers).

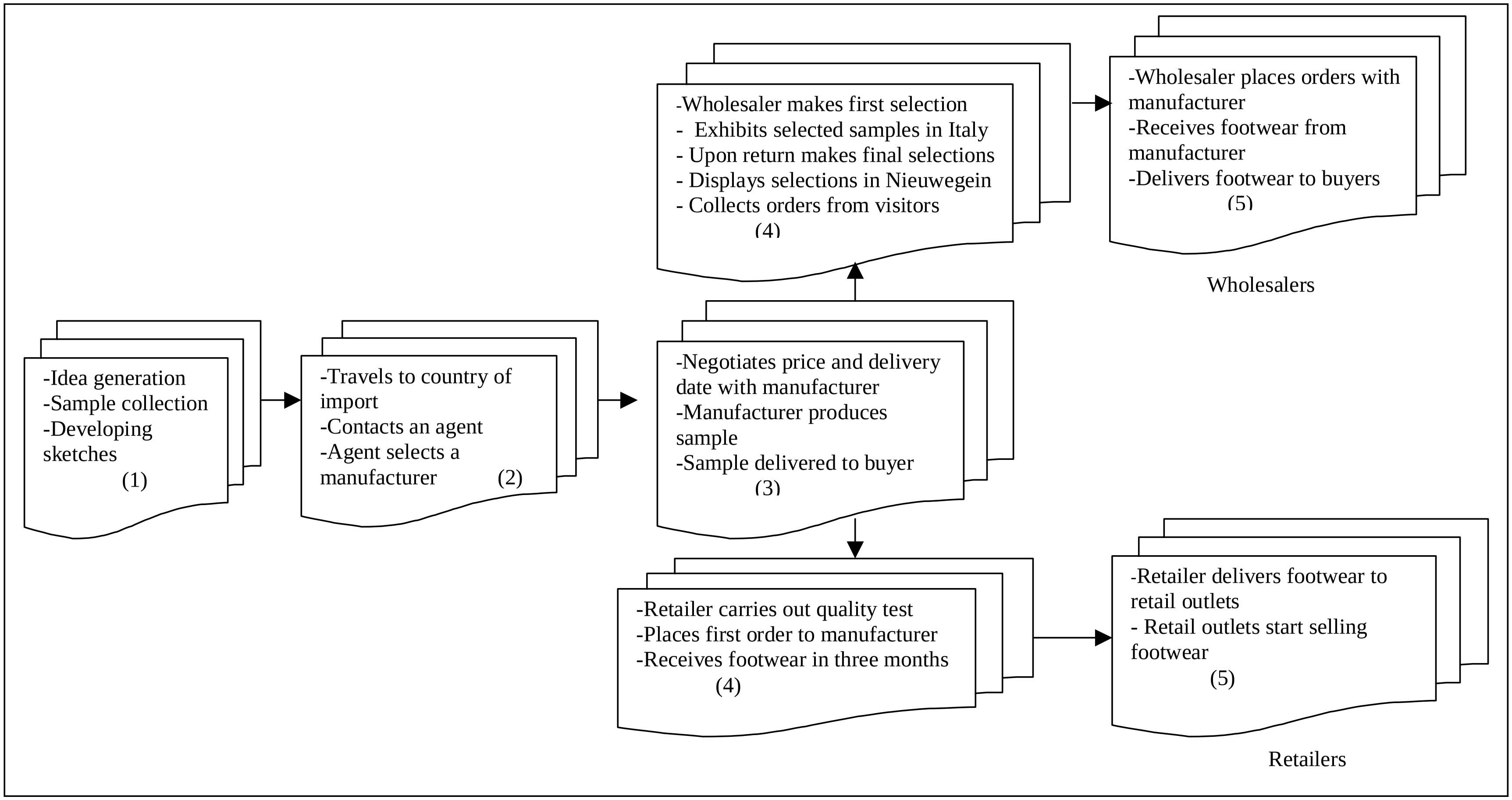
a wrong manufacturer might be selected. Even if we assume that the wholesaler finds the right manufacturer it takes time to build trust and conduct real business.

The need for security is influenced by the fashion sensitivity of the footwear. Fashion sensitive footwear requires more buyer seller interaction. For wholesalers such as Eegim shoe, which sells in the fashion sensitive segment of the market, security is much more important than flexibility. However, wholesaler and retailers do not want to close the door on flexibility. Established business relationships can be terminated due to controllable and uncontrollable factors. By controllable factors we mean a poor performance on the part of the manufacturer in relation to product quality, price or delivery time and small size of order. Uncontrollable factors are economic and political changes in the countries from which the wholesaler imports the footwear such as civil unrest, exchange rate volatility and other political problems. For instance, when the dollar was appreciating against the euro in late 2000, Comforta shifted its purchases from South-east Asia to Spain and Portugal. To accommodate the need for flexibility wholesalers prefer order-based, long-term business relationships with manufacturers. They are not interested in subcontracting and joint venture agreements. Table 6.5 summarises fourteen important elements of business relationships identified in the cases under study.

Organisation of the import and sales function

Wholesalers and retailers in the Netherlands import footwear mainly from manufacturers in South-east Asia. While the big retailers import footwear themselves, the small retailers buy footwear from wholesalers located in the Netherlands. The wholesalers are highly specialised in the import business. They have departments responsible for market research, product design and purchase. However, footwear wholesalers sometimes contract out the aforementioned services. In the purchasing process depicted in Figure 6.1, stages 1-3 are common to both wholesalers and retailers. They conduct the market research, develop the footwear design, travel to the import market, and negotiate on sample delivery time and price. The wholesalers exhibit the samples in trade fairs in Milan and Nieuwegein. This is done mainly to find buyers and get feedback from visitors. The wholesalers place orders with the manufacturers after they have secured orders from their customers in the Netherlands and other European countries. The retailers receive the samples and make sure that the samples meet the specifications. If the results are positive the retailers place orders with the manufacturers. In this case the manufacturers in South-east Asia are highly dependent on the orders from wholesalers and retailers. The study reveals that the traditional marketing chain logic that gives a great deal of power to the manufacturer does not work in the footwear market. Manufacturers have limited power to influence the decisions of wholesalers and retailers. In fact what can be seen is that the footwear manufacturers are highly dependent on the wholesalers and retailers in the Netherlands for up to date footwear design and orders. After the footwear arrives in the Netherlands the wholesalers pass it to the customer who previously placed orders. In turn the retailers distribute the footwear to their retail outlets (see Figure 6.1). The retailers also buy footwear from wholesalers. The wholesalers conduct a detailed market study and the footwear design they develop is superior in quality. To compete with retailers in the Netherlands who buy footwear from the wholesalers, the big retailers reserve some percentage of their purchases for the wholesalers.

Figure 6.1 Import procedures followed by footwear wholesalers and retailers in the Netherlands



(Source: Market research 2000)

Competition

Competition in the Netherlands footwear market is intense. Three factors determine the competition in the footwear business in the Netherlands. These are cost, design and business network relationships with customers. The large importers enjoy low-cost advantages due to economies of scale. Eegim shoe imports large quantities of footwear through its import office in Taiwan. Wholesalers and retailers who develop a good footwear design have a better market. To keep their competitive strength through exclusive superior footwear design, wholesalers and retailers ask the manufacturers for exclusivity. However, exclusivity is related to the nature of the market segment the firm is dealing with. The higher-class customers are more interested in uniqueness than price. The retail outlets that sell to this segment are sensitive to fashion. To satisfy the high fashion requirements by their customers, retailers such as Hoogenbosch ask manufacturers for exclusivity. Nevertheless, retailers like Scapino who deal in the fashion insensitive footwear segment also ask for exclusivity. Scapino asks for exclusivity to make sure that the footwear that it has purchased does not fall in to the hands of its competitors at least for a short period of time. The main factor that influences the manufacturer's decision whether to accept the request for exclusivity is the size of the order placed by the buyer. If the order is large it can justify the cost of sample development and the manufacturing cost so that the manufacturer can accept the request.

Footwear buying organisations such as Garant Schuh and EuroHolland give power to their members to negotiate with manufacturers. This also helps them to compete with larger multiple chains. They work to build trust between buyers and suppliers in the sense that the suppliers know they will get their money from Garant Schuh and Euro-Holland. The companies reduce the administrative cost of the shop owners by handling the documentation and payment functions. However, the footwear buying organisations do not have direct business relationships with manufacturers outside Europe. The reason for only dealing with wholesalers and agents located in Europe is their limited personnel, financial capacity and the volume of their turnover. The strong business network relationship between the Netherlands wholesalers and their customers can be a barrier to newcomers.

Trust and opportunism

The interview results show that the business relationships with the manufacturers in South-east Asia are based on trust. In the footwear business there are at least three stages where trust is important. When the footwear wholesaler or retailer is introduced to the manufacturer, when the manufacturer commences production and when the goods are shipped to the Netherlands. When the wholesaler or retailer is introduced to the manufacturer the former has to make sure that the manufacturer has the competence to produce the footwear according to the specifications (competence trust). This concerns the sharing of information about the type of machines, production capacity, knowledge of employees and business experiences of the manufacturer. If the wholesaler or retailer is convinced that the manufacturer can do it, he gives the manufacturer a design to make a sample for him. If the samples meet the specifications the wholesaler or retailer places an order with the manufacturer. This is possible when the wholesaler or retailer pays the manufacturer some money to buy materials.

At least two factors restrict the opportunist behaviour of footwear manufacturers. These are the large volume of business and the risk of losing reputation. The orders placed by the wholesalers or retailers in the Netherlands to the manufacturers in South-east Asia are very large and most manufacturers cannot afford to lose that business opportunity. If the

Table 6.5 Summary of fourteen elements of business relationships identified in the cases under study

Description	Wholesalers		Buying organisations		Retailers	
	Comforta	Eegim Shoe	EuroHolland	Garant Schuh	Scapino	Hoogenbosch
Previous business relationship	Important	Important	Important	Important	Important	Important
Importance of trust in the business relationship development process	Very important	Very important	Very important	Very important	Very important	Very important
Presence of agents in the exporting country	Important	Important	Not important	Not important	Important	Important
Design produced by the buyer	Very important	Very important	Not important	Not important	Not important	Very important
Sample exhibition before placing an order	Very important	Very important	Important	Important	Not important	Not important
Need for security	Very important	Very important	Very important	Very important	Very important	Very important
Need for flexibility	Moderately important	Moderately important	Moderately important	Moderately important	Important	Important
Subcontracting agreements	Not important	Not important	Not important	Not important	Not important	Not important
Joint venture agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important
Flexible supply contracts	Very important	Very important	Very important	Very important	Very important	Very important
Form of business establishment	Private limited company	Private limited company	Association	Association	Private limited company	Private limited company
Source of capital for establishing the organisation	Private capital	Private capital	Shares	Shares	Private capital	Private capital
Source of revenue for the organisation	Profit	Profit	Commission	Commission	Profit	Profit
Exclusivity of supply to the buyer	Important	Important	Moderately important	Moderately important	Not important	Very important
Willingness to establish **direct** business relationship with footwear manufacturers in Eritrea	Yes	Yes	No (Indirect)	No (Indirect)	Yes	Yes

(Source: Extracted from the interviews)

manufacturer deceives a particular wholesaler the business relationship normally breaks down. Moreover, information travels fast among the wholesalers and retailers. Consequently, to keep the business going and preserve their reputation manufacturers usually try to fulfil their obligations. According to the managers in the wholesale and retail organisations in the Netherlands, most of the time a dispute with the manufacturer arises when the samples do not match the order. This is mainly because the manufacturers spend a lot of time and energy in producing good samples but do not have sufficient capacity to translate the sample into a large volume identical to the sample.

Contract enforcing mechanisms (conflict resolution)

The footwear importers in the Netherlands regard legal proceedings as expensive and prefer to avoid conflicts with manufacturers. When disagreements arise they develop internal mechanisms to solve them. The wholesaler or retailer expresses his dissatisfaction and asks for compensation such as price discounts or extra time to display the products in his/her retail outlets. This shows that disputes are settled through internal mechanisms in the business relationships.

Enforcing formal contracts between the retailer and the manufacturer takes time and costs money. In the Netherlands buying organisations, agents, banks and courts of arbitration play a role in enforcing contracts whenever necessary. Buying organisations give a guarantee of payment to the manufacturer for any transaction concluded with their members. Fourteen days after shipping the manufacturer can claim his money from the buying organisations. When a dispute between the importer and the manufacturer arises the buying organisations often mediate between the two parties.

Finally, banks play a role in the contract enforcement process as they check the bill of lading and inspection and insurance documents when the manufacturer claims payment. When the aforementioned contract mechanisms do not work the importer and manufacturer can go to courts of arbitration. However, the interview results show that disputes are often settled through negotiations.

Market requirements

The requirements of the Dutch footwear market vary with the stage of the import process. Accordingly five stages has been identified (Table 6.6). These are establishing a first contact, sample production, first order, second order and payment terms. The orders are split into first and second because the requirements vary considerably. A first contact between the manufacturer (seller) and the importer (wholesalers and retailers) can be established in two ways. Firstly, the manufacturer can take the initiative and show the manufacturer a sample. The sample can also be sent to the buyer through the Chamber of Commerce or by advertising in CBI bulleting. Secondly, the buyers can take an initiative and visit the manufacturing site. However, for the buyer to travel to the import market, he needs to have sufficient information about the state of footwear manufacturing in that country. When the first contact has been established and the buyer is convinced that the manufacturer has the required competence trial sample production can start. Nevertheless, for the business relationship to strengthen the buyer requires an agent in the import market who takes care of agency functions on his behalf. Due to the tax advantage footwear importers in the Netherlands prefer to import footwear from manufacturers located in countries that are entitled to benefit from the Lome Convention and General System of Preferences (GSP).

Table 6.6 Requirements of the Dutch footwear market

Stage of the buyer seller relationship	Footwear wholesaler and retailer requirements
Stage 1. *Establishing the first contact*	**Sellers initiative** ▮ Footwear manufacturer in Eritrea approaches a wholesaler or retailer in the Netherlands and shows him a sample. ▮ Footwear manufacturer in Eritrea makes a sales offer announcement in the CBI bulletin. ▮Chamber of Commerce or Ministry of Trade in Eritrea organises a footwear exhibition in Eritrea and invites wholesalers and retailers in Europe. **Buyers (Importers) initiative** ▮ Footwear wholesaler or retailer in the Netherlands asks embassies of Eritrea in Europe for information about footwear manufacturing in Eritrea. ▮ Footwear wholesaler or retailer in the Netherlands contacts manufacturers in Eritrea for information related to types of products, production capacity, and experience in exporting. ▮Footwear wholesaler or retailer in the Netherlands visits the footwear manufacturers' outlets in Eritrea to have first hand information on the status of footwear manufacturing and possible signing of a supply contract. ▮Footwear wholesaler or retailer in the Netherlands meets Eritrean manufacturer in Trade fairs.
Stage 2. *Sample production*	▮ Footwear manufacturer's willingness to produce free samples according to wholesalers' or retailers' specification, to deliver on time and to accommodate changes on samples. ▮ Footwear manufacturer's willingness to keep exclusivity of footwear produced according to a design given by the footwear wholesaler or retailer. ▮ Presence of an agency organisation in Eritrea that certifies the quality of footwear and textiles produced by the manufacturer. ▮ Footwear wholesaler and retailer prefer to import from a country, which is a beneficiary of the GSP agreement and Lome Convention. ▮ Footwear manufacturer is expected to respect European product grading and quality standards.
Stage 3. *First order*	▮ Footwear manufacturer's willingness to accept small size first order usually less than 500 pairs. ▮ Footwear manufacturer should have good production and fashion knowledge. ▮ Footwear manufacturer (agent) should guarantee quality control procedures. ▮ Footwear manufacturer should give a guarantee to deliver the footwear in three months. ▮ Manufacturer has to keep the promises he made during the agreement (trust). ▮ Footwear manufacturer has to accept flexible order- based business relationship. ▮ Footwear manufacturer in Eritrea should offer price lower than the one offered by the current manufacturer in the Far East (to cover switching cost). ▮ Availability of sea transport, airfreight in Eritrea and effective bank service. ▮ First order, letter of credit.
Stage 4. *Second order*	▮ Footwear manufacturer's capacity to process an order up to 60, 000 pairs of footwear in three months. ▮ Failure to respect delivery date by the footwear manufacturer in Eritrea results either in price discount or cancellation of contract. ▮ Wholesaler or retailer has the right to return products differing from the sample. ▮ Footwear manufacturer's financial capacity to finance exports. ▮ Second order, cash against documents.
Stage 5. *Third order*	▮ Third order, open account.

(Source: Market Research 2000)

As the business relationship between the footwear importer and footwear manufacturer gets stronger the mode of payment becomes more relaxed. In the beginning the importer opens a letter of credit for the manufacturer. However, to avoid the costs incurred in opening a letter of credit the payment for the second order is made via cash against documents. Finally, starting with the third order the payment is made through an open account.

6.2.5 Conclusion

The discussion above indicates that there is indeed a business opportunity and room for a long-term business network relationship between footwear importers (wholesalers and retailers) in the Netherlands and footwear manufacturers in Eritrea. However, before they would enter into any business network relationship the footwear retailers and wholesalers in the Netherlands would need to know the Eritrean footwear manufacturer well. They would require information about the type of footwear the manufacturer is producing, his production capacity, the type of machinery in use, his financial capacity to finance exports and above all his honesty. To sum up, the following conclusion can be drawn:

-The evidence from the case studies shows that there is a business opportunity for the Eritrean footwear manufacturers in the Netherlands footwear market. All the footwear wholesalers and retailers studied are willing to establish an order-based business network relationship with footwear wholesalers and retailers in Eritrea. However, the success of the business network relationship would be highly dependent on the competence of the Eritrean footwear manufacturers.

-The presence of an agency organisation in Eritrea is critical in establishing a business network relationship and to develop trust between the footwear manufacturers in Eritrea and footwear wholesalers and retailers in the Netherlands.

-As a general rule footwear wholesalers and retailers in the Netherlands do not want to enter into subcontracting and joint venture agreements with manufacturers in developing countries.

-A business network relationship with footwear buying organisations in the Netherlands is possible through wholesalers or agents located in Europe.

6.3 The Netherlands Textiles Market

The textiles market in the Netherlands is classified into five product groups. These are fibres and yarns, garment and clothing fabrics, sanitary articles, carpets and floor coverings and household and furnishing textiles. In this section attention will be paid to the garment and fabric sub-sector, which includes the potential exportable products in Eritrea: T-shirts, sweaters and clothing fabrics.

The garment market in the Netherlands is classified into casual wear and leisurewear. Casual wear includes outerwear and sportswear for men and women, unless otherwise specified. Outerwear for women includes blouses/shirts, dresses, knitwear (both conventional and casual) skirts and suits of all types, trousers/jeans and shorts, jackets, coats and rainwear. Outerwear for men includes shirts of all types, knitwear, trousers/jeans, shorts, suits of all types, jackets and coats. Knitwear for men and women includes T-shirts, jerseys, sweaters, pullovers and polo shirts. Moreover, the following products are classified as basic leisurewear: denim trousers and jackets, T-shirts and polos, shorts, and sweaters. T-shirts for both sexes are mostly classified as underwear. It has to be noted that these garments can be used for many purposes. Functions vary from use as underwear, especially in the winter months, to use as outerwear for sports- and nightwear. About 90 % of the T-shirts imported to the Netherlands are made of cotton (CBI, 1998). An increasing share of T-shirts came from outside the EU (81 percent in 1998). About 64 million items or 58 percent of total imports came from developing countries, of which Bangladesh accounts for 28 % (25 million units). T-shirts and sweaters are among the most important product groups in the knitted sector imported by the Netherlands (Eurostat, 1996).

The ten leading suppliers of casual knitwear in terms of weight to the Netherlands were: Bangladesh (12.4%), followed by Turkey (10.0%), Hong Kong (6.7%) and Germany (6.1%). India, Indonesia, Italy, Belgium, China and Portugal make a total of 28.9 %. In total 64 % of all imports into the Netherlands came from these 10 countries (CBI, 1996). Fabrics are one group of textiles exported to the Netherlands. The name of a fabric is associated with the name of the fibre. Woven fabrics, knitted fabrics and non-woven fabrics are made from textile fibres. The fibres can be divided into those made from natural sources and those made from man-made sources. The generic names of natural fibres are cotton, wool, silk or flax. The generic name of man-made fibres refers to the chemical group. Eritrean textiles manufacturers make fabrics out of cotton. Cotton is put to a wide range of uses, such as underwear, blouses, T-shirts, dresses, suits etc. The import of fabrics in the Netherlands is about 3.5 times higher than the national production (Ibid.). The total import of fabrics into the Netherlands in 1996 was about 56.5 million tons in volume or 566 mln ECU in value (Eurostat, 1996).

Table 6.7 Imports of total outerwear in the Netherlands by area of origin, in terms of volume and average import prices 1998-2000

	1998		1999		2000		% Change in volume 1998-2000
	Mln Units	Average price in US$	Mln Units	Average price in US$	Mln Units	Average price in US$	
Total	512	8.93	541	8.21	608	6.74	18.8%
Of which from							
Other EU countries	113	15.05	122	12.55	103	11.72	-8.8%
Developing countries	301	6.39	319	6.08	403	5.05	+33.9%
Other countries	98	10.94	100	9.62	102	8.37	+4.1%

(Source: Eurostat in CBI, 2001)

Wholesalers, buying organisations and retailers are active in the Netherlands textiles market. The largest wholesales in the Netherlands are Teidem BV/Doancawear, Leisure Textiles, Susan Fashion, and Vadotex. The textiles buying organisations in the Netherlands are Intres, Euretco, Centurion, Deco and Hadac. Retailers active in the Netherlands market are independent clothing and sports speciality shops, clothing multiples, department stores, and other small retailers. The clothing and sports speciality shops account for 32 % of the market share. The important speciality shops in the Netherlands are Hunkemoller, Livera, and Lindessa.

Multiples or chain stores operate different chains of shops for specific consumer groups from medium price fashion textiles to cheap discount outlets. Multiple chain stores account for more than 34 % of the Netherlands textiles market. Discounters operate at the lower segment of the market. The clothing multiples group comprises retailers such as, C&A, Hennes &

Mauritz, Peek & Cloppenburg, Zeeman, Wibra, Hans Textile, Scholtens, Bentex and Henk ten Hoor. Department stores provide the customer with an opportunity of buying a wide range of products under one roof. Well-known department stores include Vroom and Dreesman (V&D) and De Bijenkorf which have about 10 % of the market share. While independent retailers account for 32 %, mail order, hyper- and supermarkets and others account for 24 %. Table 6.8 gives an overview of how the consumer is reached in several major EU member states. Finally, it is worthwhile noting that the tariffs, grading standards and environment regulations discussed in the footwear subsection also apply to the textiles market.

Table 6.8 Types of retail channels by market share (in % of value) in major EU countries, 2000.

Country	Clothing multiples 1)	Independent retailers	Department & Variety stores	Mail-order	Hyper- and super-markets	Sports stores	Other 2)	Total
Germany	29	29	12	13	5	6	6	100
United Kingdom	32	14	28	10	3	8	5	100
Italy	16	54	6	3	11	4	6	100
France	34	26	6	8	15	5	6	100
The Netherlands	34	32	10	5	6	4	9	100
Spain	18	43	14	3	12	3	7	100

1) Including textile discounters and value retailers 2) including street markets. (Source: Eurostat in CBI, 2001)

6.3.1 Textiles wholesalers

The interview results from two textiles wholesalers, Susan Fashion and Vadotex that import textiles mainly from developing countries are presented in this subsection.

Susan Fashion

Susan Fashion is a branch of the B-H (Belgium and Holland) group BV. The B-H Group has a long history as a textiles organisation. Susan Fashion merged with the group in 1967. At present, Susan Fashion is the branch that sells fashion and fabrics to customers all over Europe and it is specialised in garments such as T-shirts, underwear and leisurewear for ladies, men and children. According to the purchasing manager, specialisation is important for selling textiles in Europe as it saves time consumers spend in looking for a shop that sells the textiles they want to buy.

Susan Fashion was established in 1892 as an agency company. Its main business was to create a link between fabric manufacturers in Greece and buyers in Europe. Fifteen years ago, the purchasing manager of the company travelled to Bangladesh to see if there were textile manufactures that wanted to sell textiles through an agent based in Europe. However, the purchasing manager decided to buy textiles directly from Bangladesh and sell them in Europe. Currently Susan Fashion's business is divided into agency (5%) and wholesale (95%).

When asked how his company selects the textiles manufacturers it wants to represent in Europe, the purchasing manager said, "*First, Susan Fashion writes a letter to foreign embassies in Europe asking for information about the status of textiles manufacturing in the respective countries. The letter includes a request for the name and addresses of the textiles manufacturers in each country. Based on this information, Susan Fashion writes a letter to the manufacturers asking if they need an agent to link them to buyers in Europe. If the response is positive, Susan Fashion requests the manufacturers to send information about the* *type of products they produce, their production capacity and if they have export experience."* According to the purchasing manager the communication between Susan Fashion and the manufacturers can go on for months before they make any real contractual agreement. If Susan Fashion is convinced that there is an opportunity of conducting business with the manufacturers, the purchasing manager travels to meet the manufacturers and to verify the information. If things go well, there are two alternatives: he can either sign an agency contract or decide to buy some of the products.

Before Susan Fashion enters into an agency contract, it requests the manufacturers to fulfil some preconditions. These are, firstly, that the production capacity should generate a reasonable amount of commission, about $ 50,000 per three months. Susan Fashion's commission rate is 5%. Secondly, the manufacturer should have several product lines. The last requirement is that there should be at least six manufacturers in the same country. Susan Fashion offers market information and product designs to its clients. Design expenses are shared as follows: (1) Susan Fashion sends the invoice directly to the manufacturers to pay the bill or (2) both the manufacturer and the agent share the cost fifty-fifty. He also said, *"If the volume of business is large the design cost is immaterial. For that reason the agent takes care of it."* When asked if his company has an interest in diversifying into production through subcontracting or a joint venture, he said, *"We prefer to remain as an agent and a wholesaler because Susan Fashion is better in marketing than production."* Some of the retailers who buy textiles from Susan Fashion are Hema, V&D and Aldi. During the interview the purchasing manager mentioned that Susan Fashion is ready to start communicating with textiles manufacturers in Eritrea.

Vadotex

Vadotex is a textiles wholesale company located in Maastricht, the Netherlands. Vadotex B.V. was established in 1979 as a division of the Van Dooren Trading Company. It has been an independent entity since 1987 and employs 20 persons. The activity of the organisation consists of designing, importing and distributing night and leisurewear. The company's main import markets are Turkey, Bangladesh, India and China. The purchasing process of Vadotex is similar to the one adopted by Susan Fashion. Vadotex makes collections and exhibits the samples to its customers. The customers place orders with Vadotex which Vadotex then passes to the manufacturer. The manufacturer delivers the goods to Vadotex and ultimately Vadotex sends the goods to the buyer.

Normally Vadotex does not handle stocks. However, it does maintain a small stock in case the buyer's order is less than the manufacturer's requirement. Vadotex sells the textiles to Benelux countries (40%), Germany (25%), France (25%), and others (Denmark, Italy, Spain, the Czech Republic, and Greece) in total 10%. In all cases Vadotex buys the textiles through agents located in the import market. The agents are expected to recruit new suppliers, conduct quality control and monitor the order. The agent has to send the final inspection report to Vadotex before each shipment. He is also required to send, preferably by mail, a detailed weekly status report on all orders monitored by him. Furthermore, the agent has to deliver information concerning developments in local currency rates, duty drawbacks, quota charges, civil unrest and recruitment of new manufacturers. A manufacturer identified by an agent can only deal with Vadotex through the agent. All communication of Vadotex with the manufacturer passes through the agent. The general manager said, *"Vadotex follows this strategy because it is important to build trust between the buyer, agent and manufacturer."*

When asked how his company/agent selects manufacturers, he said, *" Vadotex prefers to deal with medium sized family-owned manufacturing firms. Owners often run these firms and the manager is always at the company. In this situation communication is easy. We also prefer to deal with manufacturers that have long experience with garment manufacturing and exporting to European markets. Moreover, a manufacturer should have the capacity to execute orders up to 60,000 pieces."* To establish the first contact with agents and manufacturers Vadotex uses information from the CBI, embassies, Chambers of Commerce and suppliers it already knows. The general manager also mentioned that it could take a year before the buyer and the manufacturer make profits.

The general manager also reported that his company believes in long-term business relationships with manufacturers based on mutual trust and respect. He said, " *Business in some seasons can be high and in some seasons can be low, but we want the business relationship to continue even during that kind of situation."* According to the general manager his company believes that by communicating properly and responding fast to new market developments, all parties that are part of the chain (manufacturer-buyer's agent-buyer-consumer) can benefit.

When asked how his company creates a balance between security and flexibility in dealing with its suppliers, he said, "*The more you change agents and manufacturers the higher the risk of selecting the wrong agent or manufacturer. However, this is the risk that we have to take. We sacrifice some security to be flexible. To minimise the risk of security we always recruit two or three manufacturers in one country. We continue to develop relationships with all of them. If something is wrong with one of them we go to the other*." In response to the question whether his company had a plan to diversify into production, he said that despite its long-term business relationship with some manufacturers his company does not have any plans to enter into subcontracting or joint venture relationships with manufacturers.

Vadotex uses letters of credit, cash against documents and open accounts to pay manufacturers. For orders placed in the first year of contact Vadotex opens a letter of credit. Afterwards the manufacturers are required to work on terms of cash against documents or open accounts. Open accounts are used when the business relationship has become strong. Small orders (with value less than US$ 2000) are paid on open account basis and payment is made five days after the delivery of the goods to Vadotex's warehouse. When asked what his company would do if the supplier shipped inferior textiles and took his money from a bank because a letter of credit had already been opened, the general manager said, "*The important thing in business relationships is trust. If there is no trust between the parties, the written contracts have a lot of loopholes that either party can use to deceive the other. To answer your question directly we would lose the money but we would not have any kind of business relationship with the manufacturer in the future."* The general manager mentioned that worse than this the manufacturer and the agent sometimes co-operated to take money from the buyer. They do this by pretending that they were shipping the required goods to the buyer while in practice they shipped a completely different, inferior product.

According to the general manager, a good manufacturer tells the truth. This way the importer can understand and consider the problems of the manufacturer and a business relationship can develop. He said, "A *few months ago a manufacturer from Bangladesh told us he would be shipping the textiles after a week. Two months later he told us the same story. This is something that we do not accept. Because not only are we losing the goods but our programme is also being disrupted. If he had told us he could not deliver the goods in two* *months we would have told our customers to wait for some time."* To avoid any complications in solving problems Vadotex asks the manufacturers to agree to a clause that states, *"In case of dispute the Netherlands court will be entitled to solve the problem"* so that Netherlands law applies.

Finally, in response to the question what his answer would be if a manufacturer from Eritrea told him he could produce and supply the type of textiles his company wants to have, he said, " *My first question to him would be to explain what is the unique advantage that should drive me to Eritrea. Subsequently I would want information about his machines, production capacity and the types of products he makes and his lead-time. If it seemed OK I could give him samples to produce for me."* Before contracts are signed, Vadotex gives agents and manufacturers detailed information about the rules and regulations under which it works. Contracts are signed if they agree with these rules and regulations.

6.3.2 Textiles buying organisations

This sub-section describes the results of the interview conducted with two buying organisations in the Netherlands: Intres and Centurion.

Intres

The name Intres is an abbreviation of International Retail Support Services. Intres is a textiles buying organisation established in 1996. However, its history dates back to the 1950's and 1960's. It emerged as a merger among small textiles buying co-operatives that represented retail shops in the Netherlands. The idea of the merger was to obtain a better quality, better price and better services. Intres represents 2200 textiles retail shops in the Netherlands. The company is organised as a share company with the value of one share being $ 4000. The company employs 350 persons and its member shops have a total annual turnover of about $600 mln.

Intres imports textiles on behalf of its members. Some textiles are also kept in stock on the assumption that members may need the products some time in the future. Intres adds its operating cost and a certain profit margin to the product price. The Intres product price is a manufacturer CIF price plus operating cost and profit margin. Any profit generated by the company is distributed to the members as dividend. Intres tries to avoid any use of agents in the import market. When asked why his company prefers to avoid agents, the buying manager replied, "*Agents cost money and sometimes their services are not satisfactory. To minimise our costs and avoid any uncertainty we prefer to deal directly with producers. To check the quality of the products we employ an inspection institution like SGS*[11]." Intres prefers to employ an international inspection organisation like SGS. According to the buying manager, SGS has a more comprehensive knowledge of the washing standards, shrinkage, weight and detergents used in Europe than the local agents in the foreign market.

Intres has legal experts, marketing specialists and designers. It offers services to its members on shop design, taxation, promotion and legal matters. The company has two types of members. The first group consists of independent textiles retail shops that use their own business name. The second group consists of franchise shops. The franchise shops use names such as Livera, Jambelle, and Duthler. In 1999, Livera had 33.7 % of the Netherlands ladies

[11] SGS is a Geneva based company engaged in the field of inspection, testing, analysis and certification. It has representatives in more than 140 countries and employs about 40,000 people.

underwear market. In the franchising agreement Intres requires its members to have a computer link to the Intres mainframe computers. This is in order to facilitate the flow of information between the shops and Intres. The main import markets of the company are Portugal, Italy (high quality products), Turkey, India (cotton knitwear) and China.

The Intres purchasing process starts with collection of ideas. The trend watcher, mostly someone from the styling department, gathers ideas about the fashion trend for the next year. The ideas are collected from trade fairs, manufacturers and members. The design department prepares a design from the ideas. A group of marketing specialists and some selected members discuss the feasibility of the sketches and makes a selection. The buyer takes the designs to manufacturers in South-East Asia and concludes an agreement with the manufacturers to produce a sample. After the sample has been shipped to the Netherlands the company invites its members to its exhibition room to view the textiles. The members make their selection and ask Intres to place orders. However, there are situations where Intres places an order before the samples are displayed in the exhibition room. This happens when Intres thinks it is going to be too late to place orders after the exhibition. Sometimes the company buys raw materials in one country and contracts productions in another. However, the buying manager reported that such cases were very rare. Intres uses payment against documents.

When asked what his response would be if a textile manufacturer from Eritrea came to his office and told him he could make and supply T-shirts, sweaters and fabrics that could be interesting to the members of Intres, he replied “ *We have long-term business relationships with our customers in South-east Asia. It took us a lot of time and energy to understand each other. If we were going to shift to Eritrea, there would have to be a clear gain that would justify our switching cost. The textiles manufacturers in Eritrea would have to show us what they are doing.”*

Centurion

Centurion is an association of 130 textiles retailers in the Netherlands. The retailers own a total of 170 shops. It was established in 1932 and currently employs 18 people. The purpose of the association is to give the small textiles retailers the power to compete with multiple chains. The power comes mostly from the payment arrangement made with suppliers and sometimes from the combined volume of purchases. Centurion pays suppliers within ten days after delivery. The company operates in the ladies medium and higher segment and in the men’s textiles segment. The textiles purchased by the association or its members are mainly suits, trousers, jackets, T-shirts and pullovers. Often members buy themselves, however, Centurion also buys for its members in two ways.

The first alternative is used when the combined orders from members are large enough to negotiate discounts from suppliers. When the discount is substantial Centurion uses its own private label. The goods are delivered directly to Centurion and members take the goods from its warehouse. When asked why suppliers give more discounts if Centurion uses its own private label, the purchasing manager said, *"Manufacturers work for many buyers. It is advantageous for them to have additional orders with private labels even with a small profit margin. Additional orders allow manufacturers to work at full production capacity. If they manage to get a certain order level they can work for the rest at variable costs."* Centurion does not make any profit or hold stock. It is registered as an association and does not pay taxes. Centurion takes commission from the members and the suppliers in order to cover all expenses.

In the second case converters are used. First collections of samples from fairs, magazines and shops are made. A committee of some Centurion staff and retailers looks at the collections and makes a choice. After the selection has been made the committee decides on two alternatives. These are (1) whether to buy a garment or (2) to sign a conversion contract with manufacturers. The decision depends on the respective cost of each alternative. In order to reach a final decision the committee has to analyse factors such as the availability and cost of the fabric, the lead-time of the manufacturer and the cost of conversion. If the materials used to make the garment can be found easily and at a cheaper price Centurion chooses for conversion. Centurion purchases the materials and sends them to converters in Hong Kong and Portugal. An agent in both countries supervises the conversion process. In this case Centurion adds its cost and a certain risk margin to the final price. It also pays a 5 % commission to the agents located in Hong Kong and Portugal.

Centurion also deals with suppliers outside Europe through wholesalers and agents located in Europe. The purchasing manager explained this as follows: *"We are a small company. Our orders do not justify the cost that we would have to incur in travelling abroad. Despite the higher price that we have to pay, we prefer to deal with agents and wholesalers in Europe."* Sometimes Centurion buys textiles from suppliers who made an offer. It prepares exhibitions five times a year. The suppliers that made an offer can participate in the exhibition in person. However, they can also send their textiles and Centurion can do the exhibition for them. If the suppliers are present at the exhibition members place orders with them directly.

Centurion makes payment in two ways. These are (1) letter of credit and (2) cash against documents. A letter of credit is used in the case of conversion. Cash against documents is used when Centurion or its members buy ready-made textiles. When asked how his company contacts and selects suppliers, the purchasing manager said, *" We have been in this business for more than a century. We know many agents and manufacturers in Europe. We have a long-term working relationship with most of them. So we do not have any problem in contacting agents or manufacturers in Europe."* The purchasing manager stressed the importance of trust between the buyer and the seller in the textiles business. He said, "*A piece of paper is like a patient. You can put so many things in it…the important thing is building confidence between the buyer and the seller."* When asked how his association and its members maintain a balance between security and flexibility, he said "*Our association deals with limited number of suppliers and we do not change suppliers much."*

Finally, when asked what his answer would be if a manufacturer from Eritrea told him that he could produce and supply the kind of suit his members want to have, he said, *"…it would be difficult for us to go to Eritrea and sign a conversion contract with the manufacturers, unless there was a unique advantage the Eritrean textile manufacturers could give us. However, we are ready to work with wholesalers located in Europe who buy textiles from manufactures in Eritrea and sell them in Europe."*

6.3.3 Textile retailers

The results of the interview carried out with the buying departments of two large multiple chains and department stores in the Netherlands, Zeeman and Hans textile, are presented here.

Zeeman Group

Zeeman group is a textiles retail company, which was established by Jan Zeeman in 1967. The company has a total of 560 retail outlets in the Netherlands, Belgium, Germany and France. The head office of the company is located in Alphen aan de Rijn, the Netherlands, the town where Jan Zeeman opened his first textiles supermarket 33 years ago. Currently the company employs 4000 persons and has an annual turn over of approximately $ 240 mln. A board of directors administers the company.

The aim of the company is to offer affordable household textiles and clothing to its middle and lower class customers. The philosophy of the company is, *" Let the consumer choose from a complete range, and offer the best possible quality at the lowest price."* The key factors that allow Zeeman to offer customers good quality textiles at the lowest possible price is its centralised bulk buying and efficient logistics. Prices are kept low due to the enormous quantities that the Zeeman group purchases for its Zeeman textiles supers. The company has a sound logistic basis. It owns a fleet of trucks that make deliveries to the stores. Each of the stores is visited three times a week. Instead of returning to the distribution centre in Alphen aan de Rijn empty the trucks collect out of season items, packaging material and waste from the stores. This way the trucks are idle for short periods only.

Zeeman's major textile suppliers are found in China, Indonesia, Pakistan, India, Bangladesh and the Philippines. Zeeman Supermarkets sell children's, ladies' and men's underwear and outerwear. The supermarkets carry a wide range of textiles but are not necessarily sensitive to fashion. Zeeman purchases its supplies in two ways. These are: 1) textiles purchased from suppliers who made an offer to the company 2) textiles purchased from manufacturers according to design specifications prepared and communicated by Zeeman.

The first purchasing strategy refers to the textiles purchased by Zeeman from suppliers who make an offer. According to the purchasing head of Zeeman, many agents, wholesalers and manufacturers come to the company and offer a sample of a product they would like to sell. Concerning these offers the purchasing head said, *" If we find the quality and price of the product acceptable to our middle and lower class consumers, we place an order. Normally we place up to ten orders at the same time. The first order has two objectives. It serves as a testing mechanism to see if the supplier has the capacity to supply the product. It helps us to see if the product has a demand in the market. If the supplier keeps his promise and the demand in the market is encouraging we continue to place orders."* However, the purchasing head mentioned that this purchasing strategy consumes much of her time and sometimes discourages some suppliers who make an offer to her company. She said, *" The major problem is that most of the suppliers who make an offer to us do not know what type of company we are, the type of products we sell and most importantly they do not know the profile of our customers. Sometimes they come with a high quality standard product, which is out of the price and quality range of our customers. When we tell them we cannot buy the product they are astonished."*

To avoid the aforementioned problem, Zeeman requests suppliers to visit its supermarkets before they make any offer. This is done to give the suppliers an idea about the type of textiles sold in Zeeman supermarkets and the price range. The purchasing head believes that this strategy has a long-term advantage to suppliers because they could also get new ideas of the products they could supply to Zeeman. Moreover, the strategy saves time wasted on negotiations. This group of suppliers includes, agents, wholesalers and manufacturers in and outside of Europe. For this group of suppliers Zeeman makes payment after receiving and inspecting the textiles. The reference used for the inspection is the sample that was given to Zeeman when the contract was signed. If there is a significant deviation of the order from the sample Zeeman does not make any payment to the supplier. In this purchasing process Zeeman requires the suppliers to keep their promises.

The purchasing head mentioned how a manufacturer from Zimbabwe failed to keep his promise. She said, " *Five years ago a manufacturer from Zimbabwe came to our company and showed us a sample of trousers that he wanted to sell to us. The quality of the product and the price were acceptable. We placed the first order and he carried it out well. Later we signed a one-year contract to purchase the product on a continuous basis. After five months he refused to supply the trousers because he was not making money out of it. For us that was the end of the business relationship."* When asked why her company did not sue the supplier for breach of contract, she said, *" We decided not to sue him because litigation would have cost us more money than we could recover from the manufacturer. This is the main reason why we always look for reliable suppliers."*

The second purchasing strategy is similar to the one used by Vadotex in the textiles wholesale business. The difference is that while Vadotex sells the textiles to retailers Zeeman distributes the textiles to its supermarkets. When asked if Zeeman has long-term business relationships with its suppliers, the purchasing head replied, " *We have long-term business relationships with some of our manufacturers. The longer you conduct business together, the more you know each other. This makes business simple, fast and efficient."* In response to the question why some of the business relationships had not evolved into subcontracting or joint venture agreements, she said, "*We are retailers and we would like to continue as retailers. Besides, in a subcontracting relationship, after two or three orders the manufacturer takes the incoming orders for granted and there is less initiative to keep the quality in line with the specifications made in the agreements. We refrain from signing subcontracting or joint venture agreement with manufacturers. Rather we would prefer to have order based long-term business relationships."*

When asked why the company does not look for opportunities in other parts of the world than South-east Asia, she replied, "*The first reason is lack of time to travel to many parts of the world. In the purchasing department we only have four staff members. We need to plan our time carefully. The second reason is that before we decide to travel to a foreign country we need enough information about the status of the textiles manufacturing in that country. For instance, the main reason why we are not buying from Africa is that we do not have many suppliers coming to our company to make an offer. Since we cannot travel to every country in the world it is useful for manufacturers to take an initiative themselves."*

The final question posed to her was what her answer would be if a manufacturer from Eritrea approached her and made an offer to supply her company with T-shirts and sweaters. She said, "*We have a policy of soliciting new suppliers and* we *do not mind about the source of the textiles that are supplied to us. Our main requirement to the Eritrean supplier would be that first he would have to show us the type of product he wanted to sell to us. Second, if we found it acceptable, price and quality wise, we would place an order. But we would really need him to keep his promise to fulfil the contract that we sign. If he fulfilled the requirements we could establish a long-term business relationship."* According to her, the European market offers many opportunities for suppliers for inexpensive good quality textiles. Her company plans to offer European consumers between fifty and seventy new stores every year, most of which will be located in Germany, Belgium and France.

Hans Textile

Hans Textile is a textiles retail company that owns 150 retail outlets. It was established in 1960. The company is expanding rapidly and has a plan to open 15-20 retail outlets every year. It employs 1000 people and has an annual turnover of about $ 60 mln. It operates in all segments of the textiles market and sells underwear and outerwear for children, ladies and men. Its main import markets are Bangladesh, Hong Kong, China and Pakistan.The purchasing process of the company is the same as that of Zeeman. Often, staff from the purchasing department travel to South-east Asia to fix a final deal on the quotations. According to the purchasing manager, the company has a long-term business relationship with suppliers in South-east Asia. However, this relationship continues only so long as the suppliers can offer Hans Textile a benefit that it cannot get from other manufacturers. For instance, the price offered by a manufacturer who has a long-term business relationship with Hans Textile must be competitive. When asked how the company keeps the balance between security and flexibility, the purchasing manager said, " *The balance is determined by the performance of our manufacturers. If the manufacturer fails to keep his promises we need to be flexible. Otherwise we always prefer to work with manufacturers we already know."*

Hans Textile uses letters of credit to pay its manufacturers who are mainly in South-east Asia. To avoid any cheating by manufacturers Hans Textile hires an agent to inspect the textiles before they are shipped to the Netherlands. When asked what his response would be if a textiles manufacturer from Eritrea came to his office and showed him textiles that could be interesting to his customers, he said" *If the textiles were good we would give him a trial order. We would not expect the Eritrean manufacturer to design a product that could be interesting for us. To avoid this problem we would give the manufacturer in Eritrea our designs and see what he could do with it. If he made a good product out of it, there would be a possibility of doing business."*

The company experiments with two new manufacturers every year. The purchasing manager said, " *If we think it is interesting way we do not hesitate to give new orders to starters. We have a lot of expertise in textiles and if the manufacturer can benefit from our expertise we are ready to share it with him. However, the help we offer to the manufacturers is not on a structural basis.*" He also mentioned that if textiles manufacturers in Eritrea are going to conduct business with the company they must be honest. Hans Textile distributes all the textiles through its 150 retail outlets in the Netherlands.

6.3.4 Discussions of the interview results

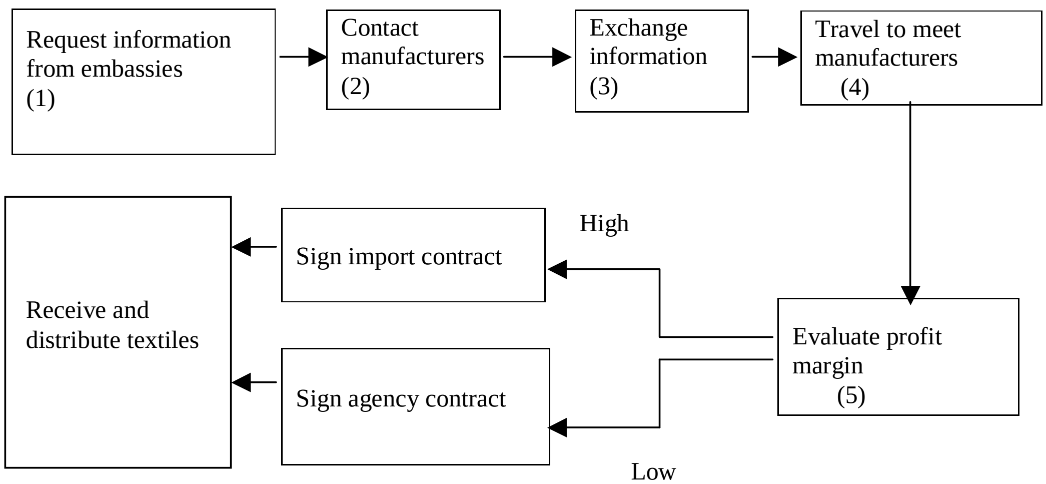
For convenience the discussion is based on the seven export market characteristics mentioned in figure 5.1. These are the buyer supplier relationship, the organisation of imports, the organisation of the sales function, competition, trust and opportunism, contract enforcement mechanisms and the requirements of the Netherlands export market. Because there is high similarity between the business practices in the footwear and textiles markets in the Netherlands the findings in the textiles market will be compared with the findings in the footwear market. The main similarities and differences between the two markets are highlighted.

Buyer and seller relationship

In support of the findings in the footwear market, the evidence in this sub-section reveals that the wholesalers, retailers and buying organisations in the Netherlands prefer to buy the textiles from manufacturers with whom they have business relationships since it avoids switching costs and gives the importer a guarantee of a continuous supply of textiles. By switching costs is meant the time and money spent on finding a new textiles manufacturer who understands the buyer's requirements. For the buyer changing a manufacturer means incurring additional cost. However, it has also been noticed that wholesalers and retailers deal with two or three manufacturers in the same country of import. This is done to mitigate the losses that might occur if a manufacturer defaults.

One difference between the footwear and textiles buyers in the Netherlands is that in the textiles market a company called Susan Fashion conducts wholesale and agency business together. The two business units give Susan Fashion the opportunity of choosing the contract that maximises its profit. If the profit margin is high Susan Fashion chooses import (Figure 6.2), otherwise it signs an agency contract. In the short run, Susan Fashion's decision to act as a wholesaler or an agent can affect the manufacturers with whom it deals, positively or negatively.

Figure 6.2 Decision process of Susan Fashion in its business relationship with manufacturers



(Source: Market research, 2000)

If Susan Fashion chooses for import it is beneficial for the manufacturer because he can sign a sales contract without delay. However, if Susan Fashion chooses for an agency contract it affects the manufacturer's prospect of establishing long-term business relationships with other wholesalers in Europe negatively. Susan Fashion is a wholesale company and other textile wholesalers in Europe could consider it as a competitor. The wholesalers know that if the offer is attractive Susan Fashion will buy the textiles for sale in Europe. This perception on the part of the wholesalers can hinder the agency function from being effective.

Organisation of imports and sales

The import and sales function in the textiles market is organised in the same way as in the footwear market. The textiles wholesalers and retailers in the Netherlands conduct market research, design the textiles and place orders. When the textiles reach the Netherlands the wholesalers pass them to the customers who have already placed orders. However, the retailers who import the textiles themselves distribute the textiles to their retail outlets. Due to the strict requirements the textile buyers in the Netherlands place on their manufacturers in South-east Asia, highly specialised agents are employed to inspect the textiles. For instance, Intres prefers to employ an international inspection company known as SGS rather than locally based agents. This is mainly because SGS has a comprehensive knowledge of the washability and shrinkage of the textiles in Europe and the types of detergents used. Moreover, while the footwear buying organisations in the Netherlands are limited to the European market, Intres has direct contacts with textiles manufacturers in South-east Asia.

Competition

The competition in the Netherlands textiles market is mainly centred on design, price and delivery time. The design is a function of the scope and depth of the market study made by the wholesalers and retailers and the effort to transform the market information into design. Often, the wholesalers and retailers with a good design win the competition. The lower segment of the textiles market is well known for its affordable prices and unfashionable products. For that reason the importers in the Netherlands experiment with two new manufacturers every year to see if they can get a better deal.

Textiles buying organisations such as Centurion and Intres enable small retailers to compete against wholesalers and retailers. The central payment function of Centurion and Intres gives the supplier the confidence to deal with every member. Centurion and Intres also enable small retailers to get discounts from suppliers. However, the services rendered by the buying organisations to their customers differ with the financial and human resources of the organisation. The legal form of their establishment is also different. For instance, while Intres is a private limited company Centurion is an association. Accordingly while Intres can make a profit out of its operations and pays tax to the government, Centurion cannot declare a profit and does not pay any tax. Intres and Centurion also differ in the scope of their functions. Centurion administers the financial affairs of the members, links buyers with suppliers and buys textiles for its members when the supplier allows a special discount. Centurion, however, engages in a conversion process when buying fabrics and converting them into a garment is more profitable than buying a ready-made garment. The idea of conversion by Centurion is mainly designed to increase the competitiveness of its members. The conversion contract enables Centurion to cut out some of the manufacturer's and wholesaler's profit margins. Unlike other buying organisations, Intres sends staff to South-east Asia to conclude contracts with manufacturers. The financial position of Intres is strong because it generates a profit. The profit also gives Intres the financial leverage to import textiles on the assumption that members may need them some time in the future. Meeting the delivery period is an important factor that determines competitiveness in the textiles business. The type of textiles sold in a specific store is mainly dependent on the prevailing season. If a wholesaler fails to meet his delivery time the textiles can be out of season.

Table 6.9 Summary of fourteen elements of business relationships identified in the cases under study.

Item	Wholesalers		Buying organisations		Retailers	
	Susan fashion	Vadotex	Intres	Centurion	Hans Textile	Zeeman
Previous business relationship	Important	Important	Important	Important	Important	Important
Trust	Very important	Very important	Very important	Very important	Very important	Very important
Presence of agents in country of export (production)	Important	Important	Not important	Important	Important	Important
Design production before order is placed by the buyer	Very important	Very important	Very Important	Important	Very important	Very important
Sample exhibition before placing an order	Very important	Very important	Important	Important	Not important	Not important
Need for security	Important	Very important	Very important	Very important	Very important	Very important
Need for flexibility	Very important	Moderately important	Moderately important	Moderately important	Important	Important
Subcontracting agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important
Willingness to engage in joint venture agreement with manufacturers	Not important	Not important	Not important	Not important	Not important	Not important
Willingness to engage in flexible supply contracts with manufactures	Very important	Very important	Very important	Very important	Very important	Very important
Source of capital for establishing the organisation	Share capital	Private capital	Share capital	Share capital	Private capital	Private capital
Form of return	Profit	Profit	Profit	Commission	Profit	Profit
Exclusivity of supply	Important	Important	Moderately important	Moderately important	Important	Important
Willingness to establish **direct** business relationship with footwear manufacturers in Eritrea	Yes	Yes	Yes	No (Indirect)	Yes	Yes

(Source: Extracted from the interview)

Trust and opportunism

As in the footwear business trust in the textiles business develops through time. The effective accomplishment of the five stages, mentioned in Table 6.6, is the key to facilitating the trust development process between the manufacturer and the importer. What is different in the textiles market is that wholesalers such as Vadotex try to state the court and the law they would like to follow in case a dispute arises. Knowledge of rules and regulations helps the transacting parties to build contractual trust. Moreover, the effectiveness of the communication channel between the importer and the manufacturer is another factor that facilities trust between the parties in the exchange process. Communication with small family-owned firms is faster than with the larger ones. Communication in the textiles market is important because it determines the length of time it takes before the parties are engaged in real business. If the communication is slow it could take about a year before the buyer and the manufacturer conduct any real business. To tackle this problem wholesaling companies such as Vadotex prefer to conduct business with small family-owned manufacturing firms in South-East Asia. Communication with small companies is faster because owners run the small firms and the manager is always at the company. This is also an opportunity for small and medium sized textiles manufacturers in Eritrea since owners manage most of the textiles manufacturing firms there.

On the whole the interview results with the textiles buyers in the Netherlands show that opportunism rarely occurs as the penalties are high. Often opportunist manufacturers are those who fail to continue as manufacturers of textiles. Consequently appraisal of the financial position of the manufacturer by the potential importer can help the latter to take pre-emptive action against opportunist behaviour.

Contract enforcing mechanisms (conflict resolution)

From the case studies it has been learnt that, although a sound business relationship is mainly dependent on the degree of trust between the transacting parties, prior agreement on the court and the law that is going to be applied when a dispute arises can build contractual trust between the parties. Vadotex provides its suppliers with rules and regulations on how to do business with the company. It specifies the court and the law that will apply if a dispute arises. The parties go to court when the contract enforcing mechanisms mentioned in the previous sections (negotiation, agents, banks, buying organisations and courts of arbitration) do not work properly. Moreover Vadotex and its customers know that if they have to go to court, they will incur costs.

Market requirements

The requirements the textiles buyers in the Netherlands place on their manufacturers in South-East Asia are similar to those in the footwear business. Thus the market requirements in Table 6.6 are relevant to this sub-section. Among the main market requirements of Zeeman are product quality acceptable to the company’s lower and middle class textile consumers, lowest price possible and suppliers having to keep their promises. The last requirement is as important as the first two because the buyers in the Netherlands do not want to enter into long legal proceedings with their suppliers. Before any order is placed Zeeman wants to make sure that the supplier is someone who will fulfil his promises. The last requirement shows that legal contracts are not enough for the buyer to obtain textiles according to his specifications. Thus the buyer applies additional measures such as setting strict supplier selection criteria and making payment after delivery. The requirements concerning quality and price vary with the type of market segment the company is dealing with. While Zeeman and Hans Textile focus on lower price Vadotex focuses on quality.

Given the cheaper labour costs in Eritrea, the textiles manufacturer in Eritrea could supply T-shirts, sweaters and fabrics to Zeeman and Hans Textile. However, the manufacturers should not expect a higher price but they can use Zeeman and Hans Textile as a channel for introducing their textiles to the European market. Furthermore, it is better to deal directly with a retailer such as Zeeman and Hans Textile than through a wholesaler as it saves the profit margin of approximately 30-40 % taken by the wholesaler. If Zeeman and Hans Textile were satisfied with what the Eritrean textiles manufacturers are doing at present they could move to a better business relationship such as producing textiles according to specifications submitted by Zeeman and Hans Textile. However, in order to establish a business relationship with Hans Textile and Zeeman the presence of an agency organisation that certifies the quality of footwear and textiles to be exported from Eritrea is a precondition.

6.3.5 Conclusion

The overall conclusions in this sub-section are no different from the conclusions in the footwear industry. The only difference is that, unlike in the footwear industry, one of the buying organisations in the textiles industry has direct business relationships with textiles manufacturers in developing countries. In view of this difference the following conclusion can be drawn.

1. Out of six textiles wholesalers, buying organisations and retailers interviewed in the Netherlands, five are prepared to establish preliminary contacts with textiles manufacturers in Eritrea. One buying organisation would wish to have a link with the manufacturers through agents, wholesalers and retailers based in Europe.

2. Out of the six cases discussed in this sub-section, five would require an agency organisation or international quality inspection organisation in Eritrea.

3. None of the textiles wholesalers and retailers discussed would wish to enter into a joint venture and subcontracting network relationship with textiles manufacturers in developing countries. However, a conversion contract could be possible as long as the Eritrean textiles manufacturers are competitive.

Chapter 7

Empirical Study of Export Market Opportunities: Uganda

7.1 Introduction

The main objective of this chapter is to understand the organisation of the Ugandan footwear and textile export market. Another basic objective of the chapter is to identify the requirements of the Ugandan export market that the footwear and textile manufacturers in Eritrea need to fulfil in order to do business with wholesalers, buying organisations and retailers in Uganda. To achieve this objective we conducted an interview with four footwear importers and four textile importers in Uganda.

This chapter has two sections. These are, (1) the characteristics of the Ugandan footwear market and (2) the characteristics of the Ugandan Textile market. After a discussion, each subsection ends with a conclusion.

7.2 The Ugandan footwear market

Uganda is a country located in East Africa. The country has a population of about 21 million (1998 estimate). It is attractive for the Eritrean footwear manufacturers for various reasons. Firstly, there are no locally based strong footwear manufacturers and there is no fierce competition in the market. Ugandan consumers prefer imported footwear. The local manufacturers are mainly engaged in the production of unfashionable synthetic shoes. Uganda is situated centrally in the Great Lakes region, and there is an opportunity to establish a base for re-export to Rwanda, the Democratic republic of Congo, Tanzania and Southern Sudan. The surrounding countries do not have an established strong footwear-manufacturing industry. Finally, the fact that there are good bilateral relation between Eritrea and Uganda can facilitate trade between the two countries. No visa is required for Eritrean and Ugandan passport holders who travel between Uganda and Eritrea.

The main players in the domestic footwear production are Bata and the Uganda Shoe Company. Uganda Bata Shoe Company is a subsidiary of the Canadian multinational Bata shoe company. The annual footwear consumption in Uganda is estimated to be about 17.6 million pairs. Out of this the domestic production accounts for only 16%, or 2.8 million pairs. While the import of new shoes accounts for 61% the import of second hand shoes accounts for 23%. Out of the 2.8 million pairs of footwear produced in Uganda, leather shoe has the lowest volume, which is 820,000 pairs. Although there are plenty of hides in Uganda there is no tannery to processes the hides. Thus the Ugandan footwear manufacturers use imported leather. This makes domestic leather footwear production expensive.

While 70% of the footwear sold by the Uganda Bata Shoe Company is produced in Uganda, 30% is imported from sister companies in India and Singapore. The footwear imported from sister companies is superior in quality to that produced by the Uganda Bata Shoe Company and it is meant for higher-class Ugandan customers. Bata is known for the back to school range, which includes men’s classic shoes, ladies synthetic sandals, children’s shoes, army boots, and gumboots. While Uganda Bata Shoe Company accounts for 53% of domestic footwear production, Uganda Shoe Company accounts for 15% of this. The rest, 32%, of the domestic footwear production comes from small/medium-sized enterprises, workshops, and small artisans scattered all over the country. Both the Uganda Bata Shoe Company and the Uganda Shoe Company sell wholesale and retail. Uganda Bata Shoe Company has ten retail outlets throughout the country.

Table 7.1 Retail price range of footwear in the Ugandan market

Type of shoe	Target price (Retail) US$
Men's casual	15-25
Men's dress shoe classical	40-50
Ladies closed shoe	15-25
Ladies (sandals)	15-20
Children's shoes	13-20

(Source: Survey February 2001)

The Ugandan import market comprises both wholesalers and retailers of new and second-hand footwear. The new shoe wholesalers import from countries such as the Emirates, Thailand, Pakistan, Germany, Italy, and the UK. Wholesalers of second hand footwear import container loads of second hand footwear and clothes from Canada, UK and Holland and sell this to retailers and hawkers in Uganda. The second-hand footwear market in Uganda is located in a specific area called Owino. However, it is also common to see hawkers selling second hand footwear on the roadside and in offices. Retailers in Uganda get supplies either by importing these themselves or by buying from the wholesalers in the domestic market. The retailer importers are mainly suitcase importers. This group comprises a large number of small traders who combine tourism with business. They usually purchase footwear with other products (clothes and cosmetics) in small quantities as part of their personal effects for sale in return. The UK is usually a favourable destination. On the lowest category of the marketing chain we have petty traders/Hawkers (direct sales).

Hawkers take footwear in small quantities (perhaps half a dozen) from wholesalers and retailers and sell to individuals on the roadside, in offices or in open markets. Wholesalers and retailers hire hawkers mainly to clear stock. There are two types of hawkers: registered and unregistered. When a wholesaler wishes to hire a Hawker he makes him register in the work licence office. In this case the hawker has a licence to work and he pays taxes. The licence number is written on the back of his brown uniform to show the police that he works legally. Police follow and confiscate the goods handled by unregistered hawkers. Because Ugandans buy footwear and other articles on the roadside, in recreation areas and in offices, hawkers clear large stocks of footwear every year.

It has been estimated that 5% of the Ugandan population use expensive imported leather shoes, 20% buy medium and low priced shoes and 60% wear slippers (Jabati, 1996). The remaining 15% are considered not to wear shoes. Excluding those who wear slippers and assuming that 25% of the population wear two pairs of reasonable quality shoes per year, there is a market for 10.5 million pairs of footwear per year in Uganda. Deducting the 2.8 million pairs produced in the domestic market leaves a market for 8.7 million pairs of imported footwear per year. Slippers are ignored because the high transportation cost from Eritrea to Uganda precludes transporting cheaper footwear like slippers. Moreover Kenya is specialised in producing cheap plastic shoes.

The potential problem to the Eritrean footwear and textile manufacturers in the Ugandan market is the high transportation cost from Eritrea to Uganda. This is attributed to the absence of a direct shipping line from Massawa (Eritrea) to Mombassa (Kenya). The footwear has to be sent via Jeddah, Port Sudan, or Djibouti for transhipment to Mombassa. From Mombassa to Kampala there is only land transport. The sea transport cost from Massawa to Mombassa for a twenty-foot container is $1700. The land transport cost from Mombassa to Kampala is $1500. Because a twenty-foot container contains 7000 pairs of shoes, the transportation cost from Massawa to Kampala per pair of shoes is $0.46. The transportation cost per pair of shoe from Mombassa to Kampala is $0.21. This explains why it is important for the Eritrean footwear manufacturers to trade in high value added leather shoes. The higher the value added in the shoe the lower the transportation cost as a percentage of the selling price. The airfreight from Eritrea to Kampala is $1.43 per pair of shoes, which is very expensive.

Table 7.2 The Ugandan Economy (2000) figures[12]

GDP	$ 26.2 billion	(U.Shillings 430859 billion)
GDP per capita	$ 1100	(U.Shillings 18089500 billion)
GDP Growth rate	6%	
Inflation	6.5%	
Unemployment	N.A%	
Exports	$ 5001million (f.o.b. 1999)	(U.Shillings 228 Million)
Imports	$ 1.1 billion (f.o.b. 1999)	(U.Shillings 1599 Billion)
Imports as % of GDP	4%	

(Source: World Fact Book, Uganda)

Clearing and forwarding agents in Kenya often perform the clearing in the port of Mombassa. The clearing cost depends on the speed of action taken by the clearing agent. If he acts as soon as possible the clearing cost including the agent's fee is about $ 400 for a 20-foot container. If the clearing agent acts late the clearing cost can go up to $650 for a 20-foot container because of the warehouse and other port related charges. As soon as the clearing is finished the Kenyan customs police escorts the goods up to the Ugandan border. This has two objectives. The first objective is to protect the goods that are meant for Uganda from entering to Kenya as contraband. Secondly, to protect the goods from thieves on the inland road heading from Mombassa to Uganda. Similarly, after the goods arrive at the Ugandan boarder the Ugandan customs police escort the goods until they reach their destination.

Table 7.3 Taxes applicable to imported footwear in Uganda

Type	Rate
Duty	4%
VAT	17%
Surcharge	10%
SGS post shipment surcharge	3%

(Source: Market research, February 2001)

As a member of COMMESA, Eritrea qualifies for preferential tariffs. The tariff rate is 24% (without the ten percent surcharge) compared to 34% for non COMMESA members. The break down of the charges is shown in table 7.3. The import trade in Uganda has been liberalised and import licensing has been abolished. However an import certificate, which is non goods specific with a validity of six months is required. The certificates take the place of import licences. Neither quota nor health and safety regulations are imposed on imports of footwear to Uganda.

The high selling periods for footwear are October and December and on holidays. As far as market segmentation is concerned Eritrean footwear can cover the middle class or middle-income groups, which can afford to buy a pair of shoe from $ 15 to $ 40. While imported

[12] In 2000 1$= 16445 U. Shilling. In 1999 1$ = 14541 U. Shilling.

leather shoes with good finishing are sold for about $30, a similar Eritrean leather shoe with inferior finishing is sold at $15. This shows that if the Eritrean footwear manufacturers can improve their finishing to the level of other shoe exporters to Uganda they can enjoy a price as high as $ 25. In the expensive shoe segment it is important to come up with better quality shoes that can compete with new, imported European footwear.

7.2.1 Footwear wholesalers

In the following sections we discuss the interview results of two footwear wholesalers that import footwear from Italy and the Emirates. Although the Emirates is not known for its footwear production it is a central market for footwear produced all over Asia, the Middle East, and North Africa. Thus many wholesalers in Uganda use Dubai as their import market. The two wholesalers are Fame Italian Shop and Arafat Agencies.

Fame Italian Shop

Fame Italian shop is a footwear wholesale company established in 1993. It is a joint venture between Italian and Ugandan partners. The company initially started its operations as an exporter of agricultural products from Uganda. Currently the company is engaged in footwear wholesale on a large scale and retail on a small scale. It employs five people as sales persons.

Joint ventures between a foreign investor and a Ugandan partner are rare in Uganda. The reason is lack of trust and the opportunist practices, which are common in Uganda. When asked how she convinced the Italian investor to be her partner, the Ugandan partner and managing director of the company, Mary Thandle said, " *There were two factors that favoured us working together. The first factor was the Ugandan government investment policy at that time. The investment code of Uganda at that time used to require foreign investors to have Ugandan partners. In this case my partner had to find a Ugandan partner. The second favourable factor was my relationship with an Italian friend who used to work for the British embassy in Uganda. The Italian friend gave my partner a full guarantee that he would take responsibility for any harm to the Italian partner that might arise through my partnership with him*."

When asked how her company decided to enter into the footwear business, she said "*While we were exporting agricultural products from Uganda to Italy, Ugandan customer asked us to import a container full of footwear, which is about seven thousand pairs, for him. We accepted his request and we brought in the footwear. However, our Ugandan customer refused to take the footwear and pay us the money so we decided to sell the footwear ourselves. We opened this shop for that purpose and we are still importing and selling footwear from Italy*." The company imports both men's and women's footwear from Italy. While the Italian partner undertakes the buying, the Ugandan partner runs the wholesale and retail business. When asked how her company connects to its suppliers in Italy, she said, " *We just go and buy the footwear from shops in Italy. We also visit manufacturers but because we buy in small quantities of each footwear style that we think has a good demand in the Ugandan market, the Italian manufacturers do not accept our orders.*" At the present time the company does not take advance orders from wholesalers in Uganda, Kenya, Congo and Rwanda. It carries out the market study itself and imports the footwear that it believes has a demand in the Ugandan market.

When asked why the company does not take orders from wholesale buyers in Uganda and the surrounding countries, the managing director said, *" Our experience has taught us that the wholesale buyers are unreliable. There is no guarantee that they will take the footwear they have ordered. When they do not take the footwear they ordered, it is difficult for us to sell footwear that was ordered by another party. Thus we decided to carry out the market study ourselves and import the footwear. If the footwear is not sold on a wholesale basis we can sell it retail."* The company has shipments from Italy every two weeks. It uses air transport to import the footwear to Uganda. The wholesale customers in the aforementioned countries come to the shop every two weeks and see what is there. Often they buy the footwear they would like to have from the available assortment.

The company does not give credit to its customers. The managing director explained this as follows; "*In Uganda if you give credit to a customer you are paving the way for him to stop buying from you. Usually customers who take credit from us do not show up again. They buy footwear from other suppliers. While the objective of giving credit is to attract more customers, in Uganda the result is the reverse*." The company has its own mechanism for helping customers who have immediate financial shortages. When a wholesaler wants to buy footwear from the company but he is in short of money, he can choose the type of footwear he wants to buy and pay a deposit. In that case the company keeps the footwear for him until he pays the full amount. The waiting period allowed by the company for such an arrangement is usually one week. When asked if her company uses a letter of credit to import the footwear from Italy, she said, "*Because we buy the footwear from many customers we cannot open a letter of credit for each of them. What we do is to buy the footwear and pay the money on the spot*." She also mentioned that for every order her partner has to go to Italy to check the footwear. The company cannot order footwear from Italy because the wholesalers and retailers in Italy do not have catalogues. Besides, if the footwear that has been ordered is delivered to Kampala and is found to be the wrong quality, there is little probability that the shop owner in Italy will take the footwear back.

According to Thandle, because her company imports fashionable footwear the competition from second-hand shoes is minimal. She said, "*Bata is facing stiff competition from second hand shoe dealers because its shoes are neither fashionable nor durable. When people see the same model more than once they prefer to go to the second-hand shoe market and buy a better design. To avoid competition from the second-hand shoe dealers it is important to follow the fashion trend."* She also mentioned that where the shoes are made is important in the Ugandan market. She went on to say, "*Ugandans think foreign made footwear is superior in quality. The made in Italy stamp is imperative to the success of the firm in its sales. Because of this we abandoned our plan of manufacturing footwear in Uganda and continued to import from Italy*." According to Thandle her customers are middle-income families in the four countries mentioned above. When asked how a middle income Ugandan family can afford the expensive shoes, whose price range is from $30-80 while the average monthly salary is about $220, she said, "*The income of a Ugandan family is multidimensional. If the husband is a public servant his wife is engaged in trading merchandise in the market. We think the combined income is enough to buy our shoe*."

Finally, when asked what her response would be if a footwear manufacturer from Eritrea came to her and told her that he could supply footwear the same as that which her company is importing from Italy, she said, "A*s I have mentioned before the country of origin is important. If it is possible to manufacture footwear in Eritrea with a label made in Italy then we can do* *business with Eritrean footwear manufacturer. This is taking the expertise of the Eritrean footwear manufacturer for granted."*

Arafat Agencies

Arafat Agencies is a footwear wholesale outlet located at William Street in Kampala. Six footwear wholesalers occupy the outlet. Because of the high outlet rent in Kampala it is common to see as many as seven wholesalers sharing the same outlet. Each wholesaler or retailer has his own space in the outlet and shares the rent accordingly. The traders in Arafat Agencies are engaged in wholesale business. However, they also act as retailers when they need to clear footwear not sold on wholesale.

Mulando Jjemba is one of the traders who operate in the outlet. He started the footwear business in 1996. Before he started in the footwear business he graduated from Makarere University in civil engineering. He also worked as an engineer for a construction firm in Kampala. When asked how he entered the footwear business, he said, "*Previously I used to work for a construction company as a civil engineer. Unfortunately the company collapsed and I had to find another job. Since it is difficult to find a job in Uganda I decided to trade footwear with the money I saved when I was working for the construction company. The idea came to me because my brother was in the footwear business and I had a clue as to how it works*." Jjemba also mentioned that another compelling reason that made him choose the footwear business was because, compared to textiles footwear requires little display space and this is important to reduce the outlet rent. He said, "*Currently we are paying a total outlet rent of $ 2800 for three months. This is $ 155 per trader per month. If we were textile traders the number would be smaller, possibly four. Textiles require more space for display. In this case the outlet rent per person would be $233 which is $ 78 more*."

When asked how he imports the footwear that he sells, he said, "*We acquire the footwear in two ways. Firstly, we import the footwear, usually from Bangkok and Dubai ourselves. Secondly, we use carriers. In the latter case what we do is this. When some one is travelling abroad to import footwear, he/she could be from the same outlet or outside, he/she informs his/her relatives and friends about the trip. We raise the money and ask him/her to bring footwear for us as well."* This type of arrangement is made in two ways. If the relationship is strong, the person who is travelling abroad to import footwear asks nothing for his services. Otherwise, the traders who are asking him to bring footwear for them are also obliged to share the transportation and accommodation costs. In this case the carrier can ask the retailers who are requesting him to import footwear for a fifty percent cost sharing. In some cases the carrier can ask only a small fixed amount of money from each retailer. Usually the carrier has the freedom to bring back the type of footwear he thinks is good for the Ugandan market. When the riders operating in the same outlet get the same type of footwear it is natural to think that this would aggravate competition amongst them. When asked how they handle this problem, Jjemba said, "*When we get the same type of footwear we just fix the price. In that case six wholesalers could receive a customer who visits our outlet. But he buys the same footwear for the same price. As to where the customer wants to buy depends on chance and the previous relationship of the customer with the traders*."

When the carrier brings back footwear that he/she thinks is good for the Ugandan market, a difference of perception between the carrier and the traders on what is good can lead to disagreement. To avoid this problem traders prefer to ask someone whom they trust. Jjemba said, " *We Ugandans lack trust. The lack of trust starts in the family. A husband and wife in a*

Ugandan family prefer to have different bank accounts. This is mainly because they do not trust each other. This has an influence on the way we do business. For instance, it is not common for a footwear trader in Uganda to give credit to his customers. Most of the customers who take credit do not pay back. Besides people do not want to use formal business practices such as a letter of credit as they want to evade taxes." Jjemba also buys footwear from wholesalers who operate in the domestic market. He said, "*The problem with the wholesalers who deal in the domestic market is that their profit margin is very high and this makes their price expensive. Besides due to the high inflation of the Ugandan shilling, the wholesalers continuously increase their price.*"

Jjemba sells footwear for both men and women. However he prefers to have more women's footwear. When asked why he prefers to have more women's footwear, he said, " *While the average life of women's footwear is six months, that of men is about one year. This means women buy footwear more frequently than men. The turnover is higher in women's footwear than men's footwear.*" He also mentioned that his classmates and friends often buy footwear from him. When asked if he buys footwear from domestic footwear producers such as Bata and the Uganda Shoe Company, he said, "*These companies produce reasonable quality footwear. Their problem is that they are not flexible. They produce the same kind of footwear for a long time. The footwear from the domestic producers cannot compete with the foreign imports as the foreign imports are superior in quality."* Regarding the competition from the second- hand shoes he said, "*The competition is not stiff because the customers who buy from me are the one who want to follow the fashion trend, not durability."*

Finally, when asked about business opportunities with Eritrean footwear manufacturers, he said, *"I heard that a good type of footwear is produced in Eritrea. I had a plan to visit Eritrea, to see what is there. My plan was interrupted because of the war between Ethiopia and Eritrea. When the war ends I may go there and look for business opportunities with Eritrean footwear manufacturers."*

7.2.2 Footwear buying organisations

Footwear buying organisations in Uganda are informal social groups. Traders, who have a close personal relationship, usually friendship or blood ties, import footwear for each other. The interesting aspect of the arrangement is the cost-sharing scheme. When the trader asks the carrier, usually his friend or relative, to import footwear for him, he/she shares the transportation and accommodation costs. The percentage of the costs that the trader has to share depends on the strength of the relationship between the carrier and the rider. The stronger the personal relationship between the carrier and the trader the lower the cost the trader has to pay the carrier and vice versa. Sometimes when the carrier is the trader's brother or sister the carrier asks nothing for his services. The traders always ask a carrier whom they trust.

7.2.3 Footwear retailers

In the following section we describe the interview results of two footwear retailers. These are Mike Tusibira Enterprises and Semuska Enterprises Ltd.

Mike Tusibira Enterprises

Mike Tusibira Enterprises is a footwear retail outlet shared by six entrepreneurs. According to Milly, one lady started the operations of the outlet in 1983. When she could not afford the rent, she allowed other five footwear retailers to operate with her. Milly is one of the footwear retailers operating in the outlet. She started her footwear retail business in 1988. To a visitor, Mike Tusibira Enterprises looks like a well-staffed shop with many sales persons. However, each of the entrepreneurs in the outlet has his/her own footwear and six different entrepreneurs receive a visitor. When asked how she started the footwear retail business, Milly said, "*Previously I was a house wife. My husband is a public servant. Because his salary was not enough to run the family I proposed to him that I should trade merchandise in the market. He was against it. One day he had a car accident and he thought that it was important for the family to have additional income. He gave me some money and I started buying and selling footwear in small quantities on the roadside. When I had made some money I started importing footwear myself.*"

Milly imports footwear from England and sells it retail in Kampala. However, the quantity of footwear she imports is not more than 500 pairs per month. When asked how she affords the transportation expense when she is importing no more than five hundred pairs of shoes per trip, she said, "*I go to England only once a year. When I go there I do two things. Firstly, I choose the footwear that I think is good for the Ugandan market. Secondly, I write down the serial number of the footwear I selected. I also write down the serial number of other type of footwear not included in my current choice but which could be good for the Ugandan market. When I return to Uganda, I see the market reaction to the footwear that I imported. If the reaction is good I just send a fax to the retailers in England that includes the catalogue of the footwear I need to buy. I deposit the money at a bank in Kampala and they send me the footwear.*"

She imports high standard footwear whose price range is from $ 30-100 per pair. When asked how an average Ugandan citizen can afford to buy the footwear, she said, "*Ugandans believe that footwear imported from the foreign market is of high quality. They always want to have foreign made footwear. Even the low income citizens want to buy footwear from this shop.*" According to her most of her customers are women who want to keep up with the prevailing fashion. She said, "*Ladies like to have unique things and always want to change.*" When asked about the competition from the second hand shoe dealers, she started her explanation by classifying the imported footwear market into two groups. The first group is the new shoe market and the second group is the second hand shoe market. There are two classes of shoe in the new shoe market. These are fashionable leather shoes and synthetic shoes. The fashionable leather shoe segment is expensive and only the few top class customers can afford it. Usually the middle and lower class Ugandan customers purchase synthetic shoes. The market for the fashionable synthetic shoe is broader than that for the fashionable leather shoe. People in the middle class who would like to have durable leather shoes but cannot afford to buy new ones go to the second hand leather shoe market. In general, this group includes middle-income customers who like to have durable leather shoes at an affordable price and low-income customers whose income does not allow them to buy new shoes.

She also said that local made footwear is neither fashionable nor durable. The price is also not competitive. According to her there is no demand for non-fashionable leather shoes with bad finishing in the domestic market. The problem is that though they are expensive because of their leather content people would like to have them at a lower price. If not, they go to the second-hand footwear market. She also said that in the Ugandan footwear market trademark of the footwear and the country where it is made are as important as the quality of the footwear. "*It is easier to convince customers by saying it is made in Italy or England than to explain the real nature of the footwear.*" When asked about her relationship with her suppliers, she said, " *I go there and select the type of footwear I need to have and pay the money. There is no credit.*" Milly does not use a letter of credit to import the footwear.

A year ago Milly bought leather footwear from an Eritrean manufacturer. When asked how she felt about it, she said, " *The price was good but the quality could not compete with the European shoes. If the Eritrean manufacturer is going to penetrate the Ugandan leather shoe market he has to improve his quality.*" According to her even the lower class Ugandan consumer wants to have good quality footwear. If he or she cannot afford to buy new they go to the second-hand market and get it at an affordable price. Thus for casual leather shoes either it has to be good or it will not be bought by Ugandans. Reputation, fashion and durability are important in the Ugandan footwear market.

Semuska Enterprises Ltd.

Like any other retail outlet in Uganda, Semuska Enterprise Ltd. is a collection of four footwear retailers. The objective of such an arrangement is to minimise the outlet rent so that each of the four retailers can afford it. Kyeyube Nmymbi is one of the retailers who operate in the shared retail outlet. He has been in the footwear retail business since 1996.

Nmymbi explained that before he came to the current retail outlet he used to sell footwear with his brother in the centre of Kampala where there were small shops owned by traders. When the government decided to demolish the small shops Nmymbi had to find another place. He said, "*During that time I had a small amount of money and it was difficult for me to rent a retail outlet individually. The difficult part of renting a retail outlet in Kampala is that the landlords ask a three-month rent in advance. To solve this problem I consulted with another friend who had a similar problem. We agreed to create a sort a joint venture. We combined our money and we were able to rent a space in a retail outlet where other people also operate.*"

When asked how he gets the footwear he sells, he said, " *I get the footwear in two ways. First I ask friends or relatives who travel abroad to bring footwear for me. In this case I only pay some money for the accommodation and travel expenses of the carrier. The other source is to buy footwear from wholesalers in the domestic market. This is when I cannot find a friend or a relative who can import footwear for me. In this case the price is always higher.*" Although it was only for a short period Nmymbi and his partner also imported footwear from Dubai on their own. When he wanted to buy the footwear he always had to go there. When asked why he did not order the footwear while he was in Kampala, he said, " *The problem with distance trade is that there is no guarantee of getting what you expected. Even when I go to Dubai there is always a problem on the side of the suppliers. They show me one type of footwear but they pack another.*" He stressed that checking before the footwear leaves the supplier's outlet is important. No agent is involved in the marketing chain.

At last Nmymbi and his partner were successful in accumulating enough money to rent a retail outlet individually. When asked how they managed to be successful, he said, "*In a joint venture business, faithfulness and continuous exchange of views is important. In short the partners should be open to each other. When you do not hide anything from your partner* *communication is fast. This helps to solve problems on a daily basis. When this is the case there is a high probability that the joint effort will become successful."* When Nmymbi and his partner had accumulated enough money to rent a space in a retail outlet individually they decided to split. Nmymbi said, *" I was interested in staying in the footwear retail business while my partner wanted to shift into the textile business. For this reason we had to find our own way."* Currently Nmymbi is buying footwear from wholesalers who import footwear from Dubai, China and Thailand. When asked about his business relationship with the wholesalers, he said, *"I deal mainly with wholesalers of men's shoes. The advantage of dealing with men's shoes is that fashion is not fast and you can sell the same type of footwear for a long time. Besides there is less imitation and it is possible to have the originals."* According to Nmymbi ladies footwear fashion changes fast and he could not cope with it as he does not import himself.

According to Nmymbi credit from wholesalers depends on how long the wholesalers have known the retailer. They also want to know the place where the retailer is operating. However, even if these factors are met, the wholesalers hardly give any credit. He explained that in the Ugandan business culture few people settle their debts. Nmymbi also complained that the difficult part of dealing with footwear wholesalers is that they are reluctant to take back footwear damaged due to bad packaging and shipping. When asked about the competition from the second hand shoe dealers, he said, *"While the new men's shoes that I am selling are synthetic and highly priced, the second-hand shoes are mainly durable and cheaper. People have a point when they prefer to buy footwear from the second-hand shoe market."* He also mentioned that the tax rate is a contributing factor to the expensiveness of new shoes. In Uganda the tax rate for second-hand shoes is much lower than that for new shoes.

Finally, when asked what would be his answer if an Eritrean footwear manufacturer came to him and told him he could deliver the same type of shoe as that he was buying from the wholesalers, he said, "*First I would need to see the shoes. If the quality and price are ok I will do business with him*."

7.2.4 Discussions of interview results

For convenience our discussion is divided into seven concepts. These are the buyer supplier relationship, the organisation of imports, the organisation of the sales function, competition, trust and opportunism, contract enforcement mechanisms, and the requirements of the Ugandan export market, (figure 5.1).

Buyer seller relationship

The cases discussed above show that the business relationship between the Ugandan footwear importers and foreign footwear sellers is short term. Previous business relationships or acquaintance between the buyer and the supplier is secondary (Table 7.4). The buyers (footwear wholesalers and retailers) in Uganda are more flexible than the footwear buyers in the Netherlands. They are more flexible in the sense that they do not have just one or two suppliers who supply footwear. They always shift from one supplier to another and even from one market to another market. The Ugandan traders pursue the strategy of risk spreading by trading with many wholesalers and retailers in the import market. The possibility of obtaining the best prices depends on the relative bargaining power of the Ugandan buyers and their suppliers. When there are many suppliers in the import market, mainly in Dubai, and there is excess capacity in the industry it increases the probability that the Ugandan footwear buyers will get a better price in the import market. The need for flexibility originates from the lack of a definite plan as to what kind of footwear to buy and where. The Ugandan wholesalers and retailers travel to import markets such as Dubai and Bangkok without a detailed market study. There is no proper description of the type of footwear they want to buy, instead they buy what they think is good for the Ugandan customers. If it is profitable back home, they repeat. If not, they shift to another market or wholesalers and retailers in the same market.

In the Ugandan footwear market security is guaranteed through continuous presence of the wholesaler at the purchase point. The buyer's presence in the import market serves as a mechanism in making sure that the quality, quantity, and price of the footwear are satisfactory. In general we can conclude that the lack of distance trade between the Ugandan footwear importers and their foreign suppliers increases the transaction costs. This is aggravated by the lack of interest in using letters of credit and agents.

Organisations of import and sales

The Ugandan footwear market constitutes wholesalers, retailers and buying organisations. Although the purpose is the same, the footwear buying organisations in Uganda are informally constructed social groups. In Uganda membership of the buying organisation is earned when a retailer or wholesaler belongs to a certain social group. This group can be defined as (1) a group of wholesalers and retailers operating in the same retail or wholesaler outlet, (2) having a strong friendship with a footwear importer, and finally (3) having a personal relationship, mainly blood ties, with a trader who is engaged in importing footwear. In the cases of friendship or personal relationship they go beyond one retail or wholesale outlet. Often a friend or relative who operates in one footwear retail or wholesale outlet imports footwear for a friend or relative who operates in another retail or wholesale outlet. What we see here is that while the lack of distance transaction between the Ugandan buyers and the suppliers increases the transaction costs, the informal buying organisations in Uganda are useful in minimising the transaction costs.

The sales function of the wholesalers is organized in such a way that the wholesalers wait until the buyers come to them. There is no proactive sales promotion.

Competition

In the Ugandan footwear market we find four types of footwear. These are new footwear imported from Europe, new footwear imported from Dubai, second-hand footwear imported from the US, Europe and Canada and new footwear produced in the domestic market. While the footwear imported from Europe is targeted at the top-level segment of the market, the footwear imported from Dubai and produced in the domestic market is targeted at the middle segment of the market. The top-level segment in the Ugandan footwear market is limited in size since only a few people can afford to buy the footwear. It is a knowledge and capital intensive segment. The middle level segment has a large market size and is characterised by high competition. The domestic footwear poses some competition to the footwear imported from Dubai but often fails due to poor design. The second-hand footwear is targeted at the lower segment of the market. Because the second-hand footwear is durable and better in design it attracts customers even from the middle level segment. In the Ugandan footwear market design and price determine the competitiveness of a certain wholesaler or retailer

Table 7.4 Summary of fourteen elements of business relationships identified in the cases under study.

Description	Wholesalers		Buying organisations (Informal social groups)	Retailers	
	Fame Italian shop	Arafat agencies		Mike Tusibira Enterprises	Semuseka Enterprises Ltd.
Previous business relationship	Less important	Less important	Less important	Important	Less important
Importance of trust in the business relationship development process	Less important	Less important	Very important (With carriers)	Less important	Less important
Presence of agents in country of production	Not important	Not important	Not important	Not important	Not important
Design production by the buyer	Not important	Not important	Not important	Not important	Not important
Sample exhibition before placing an order by the buyer	Not important	Not important	Not important	Not important	Not important
Need for security	Important	Important	Important	Important	Important
Need for flexibility	Very important	Very important	Very important	Very important	Very important
Subcontracting agreement	Not important	Not important	Not important	Not important	Not important
Joint venture agreements	Not important	Not important	Not important	Not important	Not important
Flexible supply contracts with manufactures	Moderately important	Moderately important	Moderately important	Moderately important	Moderately important
Form of business establishment	Private Limited Company	Private Limited Company	Social organisation	Private Limited Company	Private Limited Company
Source of capital for establishing the organisation	Private capital	Private capital	No capital is involved	Private Capital	Private capital
Source of revenue to the organisation	Profit	Profit	Good relationship	Profit	Profit
Exclusivity of supply to the buyer	Less important	Less important	Less important	Less important	Less important
Willingness to establish **direct** business relationship	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)	Yes (But small size order)

(Source: Compiled by the author)

Moreover, wholesalers and retailers who handle foreign footwear have more competitive advantage. Ugandans think imported footwear is superior in quality. In both the Ugandan and Dutch footwear markets trademark stimulates demand. However, unlike in the Netherlands, the gap between wholesalers and retailers in the Ugandan footwear market is narrow. The wholesalers in Uganda are also retailers. Often the wholesalers diversify into retail when they want to clear stocks. This makes the competition between footwear wholesalers and retailers intense.

Trust and opportunism

Unlike the Netherlands footwear market the Ugandan footwear market is characterised by lack of trust. The exchange is concluded in the presence of the buyer and the seller. Distance transaction exchange hardly exists. Because the Ugandan importers buy footwear from wholesalers and retailers in the import market the quality of the footwear is checked on the spot. Agents and banks play no role in the exchange process. The payment for a specific transaction is made on the spot. Wholesalers and retailers hardly give credit to their customers. In Uganda it is normal for a customer to take credit and change his address. In this case allowing a customer to take a credit means losing possible future orders from the same customer.

In general, since there is no trust in the marketing chain the degree of opportunism is very high. The question here is whether the Ugandan buyers can shift from these short-term oriented tactical business relationships to long-term business relationships based on trust and mutual benefit. For Ugandan footwear importers to shift to long-term business relationship the volume of business in a specific transaction must increase. This can be done in two ways.

Firstly, the Ugandan buyers must develop a sense of specialisation so that one buyer can buy a large volume of footwear from one supplier, and secondly, the informal buying organisations should develop into formal buying organisations that supply their members with a large volume of footwear. If these two criteria are fulfilled the Ugandan buyers will be able to buy footwear directly from manufacturers at cheaper prices.

Contract enforcing institutions (conflict resolution)

The court is the only contract enforcing institution in Uganda. Because there is high level of corruption in the country it can take years before a case is completed. Buying organisations in Uganda have no role in enforcing contracts. They are informal social groups with no connection to the exporter. Because, there is no trust in the exchange process buyers and sellers prefer to take all the necessary measures, which they think will save them from the opportunist behaviour of their exchange partners. Some of these measures are internalisation of transaction, personal supervision of the exchange process, and avoiding exchange instruments such as the letter of credit. Because the volume of the transaction is very small and the buyer has little acquaintance with the supplier there is a high possibility for opportunism. This is further aggravated by the lack of internal conflict solving mechanisms in the business relationship.

Market requirements

The major market requirements in the Ugandan footwear market are good quality footwear, low price and willingness to accept small order size. The first two requirements have different influences on the respective customer segments in the footwear market. While the high level segment in the Ugandan footwear market focuses on quality, the middle and lower segments focus on price. However, the last two segments always aim to maximise quality in a given price range. The Ugandan footwear buyers place small orders from each design and manufacturers do not want to deal with them because the small orders do not give manufacturers economies of scale. Consequently, the unit footwear productions cost are increased. To deal with the Eritrean footwear manufacturers the Ugandan buyers will have to increase their orders. If this does not work the Eritrean footwear manufacturers will have to make a study on the Ugandan footwear market, produce the appropriate footwear and deliver it to Uganda. This will help the manufacturers to enjoy economies of scale by collecting orders from all segments of the Ugandan footwear market. Another alternative way for the Eritrean footwear manufacturers to form business relationships with the Ugandan buyers is to display their products in a third market (Dubai). This alternative can give the Eritrean manufacturers a chance to meet buyers from other African countries.

7.2.5 Conclusion

The evidence given in the discussion stated above has shown that the business relationships between Ugandan footwear importers and their foreign suppliers is characterised by loose business network relationships. The business relationships are short term oriented and lack trust. This mistrust results in high transaction costs on both sides. Importers have to travel all the way to the import market to select the type of footwear they want to buy and make sure that the supplier is packing the right type of footwear for them, and the foreign suppliers always have to deal with new buyers. This means they have to repeatedly spend time on negotiating the price. The fact that they do not have customers who buy footwear on a continuous basis means that the footwear the foreign wholesalers make available for sale is always made scrutiny of by new customers in the import market. The following conclusion can be drawn:

1. There is market opportunity in Uganda for the footwear manufacturers in Eritrea. However, the order size from each product type is small.

2. The horizontal business network relationship between a group of wholesalers and retailers in Uganda is much stronger than the vertical business network relationship between foreign footwear suppliers and footwear importers in Uganda. The horizontal social bond between footwear wholesalers and footwear retailers in the Ugandan market contributes to the minimisation of the transaction costs.

3. The Ugandan wholesalers are not interested in joint venture and subcontracting agreements.

4. The Ugandan market is characterised by lack of trust and lack of institutions that facilitate transactions.

7.3 The Ugandan textile market

Uganda used to have a large and well-established textile manufacturing sector. Six large textile companies have formed the bulk of the domestic textile manufacturing sector in Uganda. These are Uganda Blanket Manufacturers (1987) Ltd., Nyanza Textile Industries Ltd., United Garment Industry Ltd., Uganda Rayon Textile manufacturers Ltd., Uganda Garment (1973) Ltd. and Mulco Textiles Ltd. These textile manufacturing firms used to produce quality textile for both the domestic and the foreign markets. In the 1960's and 1970's Uganda was producing enough cotton for the manufacturing firms to cater for a substantial portion of the local textile and garment demand. All school uniforms, security forces uniforms and garments for daily use were produced by the aforementioned six textile manufacturing firms (Eleazu, et al, 1995). The textile sector in Uganda ranging from cotton growing to garment making, used to employ more than 5000 people and earn more than US $100 million per year. To day the sector barely employs 1000 people and hardly earns any foreign exchange (Ibid).

The textile market in Uganda is divided into three segments. These are lower end, middle end, and upper end. In the lower end segment of the market we find the second-hand clothes imported from Europe, the USA and Canada. Companies in the aforementioned countries, called sorters, collect the second hand clothes. The second hand clothes wholesalers in Uganda import the textiles in containers and distribute them to retailers and Hawkers. This segment has established itself as the most appealing market to the low-income segment of the population. The middle segment comprises polyester garments imported from Thailand, Taiwan, the Emirates, Korea, and Indonesia. Cotton fabrics imported from Kenya, Pakistan, India and China also fall in this segment. The upper end segment comprises cotton and blended suiting mainly from Kenya, superior cotton fabrics and garments as export only rejections from India, Pakistan, China and stock lots from Europe.

In 1995 the total demand for textiles in Uganda was estimated to be 144.57 million square meters. This demand was met almost entirely by imports of new fabrics and new clothes amounting to 20.4 million square meters and imports of second hand clothes accounting to for 100.3 million square metres. In 1995 there was no domestic production of new fabrics as all the textile mills in Uganda had closed down. Imports of second-hand clothes increased from 70 million square metres in 1993 to 100.3 million square metres in 1995 representing an annual growth of 15.5 %. Imported second hand clothes account for 52% of the domestic demand for textiles in 1993 as compared to 69.4% in 1995. The problem is further compounded by the fact that some of the parliament members and their spouses are important importers of second hand clothes. The customs duty for cotton fabrics and polyester is 30%. Cotton fabrics are not being imported to Uganda in a very large volume as they are expensive and the weather is mainly hot. Because cotton absorbs heat and Uganda has high temperature Ugandan customers prefer to have cotton and polyester blended T-shirts.

Textile wholesalers, retailers, and hawkers operate in the Ugandan textile market. To clear stock the textile wholesalers are also engaged in the retail business. The high quality textile importer, Wina Classic, lies in this group. Others are middle level wholesalers that import textiles from Thailand, the Emirates and Hong Kong. There are also small wholesalers that import textiles from Kenya and Tanzania. Generally textile retailers in Uganda are divided into three groups. These are: (1) textile retailers who import from foreign countries, (2) those who import through carriers, and finally (3) those who buy from wholesalers in the domestic market. However, it is common to see some retailers importing from foreign markets and buying from the wholesalers in the domestic market. The retailer importers combine tourism with trade. They avoid taxes by pretending to be tourists.

7.3.1 Textile wholesalers

In the following sections we discuss the interview results of two textile wholesalers who import textiles from the Emirates, Thailand, and Tanzania. These are Ugandan General Merchandise and Muyinza Trading Company.

Uganda General Merchandise

Uganda General Merchandise is a textile wholesale company. It started its operations in 1998. The main activities of the company are import and wholesale of textiles for men, women and children. Like other wholesale outlets in Kampala six textiles entrepreneurs share Uganda General Merchandise. One of the wholesalers operating in the company is Tumwne Martin.

When asked how he entered the textile business, Martin said, "*After I graduated from Makerare University, I started working as an accountant for a private company. While I was working for the company my sister asked me to lend her some money. She wanted the money to start a textile business. I lent her the money and encouraged her to proceed with her idea. At the same time I had some problems with the company I was working for. Later, I resigned and decided to trade textiles."* When asked why he chose textiles*, he said*, "*The reason I chose textiles was because I saw my sister making good money. I asked my sister to give me the money I lent her back. She gave me the money in terms of textiles. She gave me the textiles at cost so that I got my money and some profit by selling them. However, the timing was not good and I nearly lost all the money. The month was February, during which every Ugandan family tightens its spending to send its children to school. Finally, I managed to get through the month of February and obtain some customers. I took off from that and continued to make money."* For some time Martin was depending on his sister for importing textiles. Martin started his foreign business by travelling to Dubai with his sister. He said, " *Previously she used to import the textiles for me. Later I asked her to take me with her. We went together to Dubai and that was my first time of importing textiles by myself.*" Later Martin changed his import market from Dubai to Thailand. When asked how he comes into contact with the suppliers in Thailand, he said, " *I get the address of the suppliers in Thailand from Ugandan friends who import textiles from Thailand."* According to Martin, although there is a market for both expensive European textiles and cheap Asian textiles in Uganda, the latter has a higher sales volume.

Martin complained that the difficult part of dealing with textile suppliers in Thailand is that they tend to choose the textiles for the buyer. He said, "B*efore I go there I always fax them to make some assortment for me. However, when I arrive there nothing is ready. Sometimes even if the textiles are ready, they are often not the textiles I requested. I always have to go and check the textiles myself."* When asked what would happen if he ordered the textiles while he was in Uganda and the suppliers sent him a wrong type of textile, he said, " *There is no way I can return the textiles back. Often when they send me the wrong type of textiles they do it on purpose. Thus there is no way they will accept them back."* Martin sells the textiles to customers in Uganda, Tanzania, Rwanda and Zaire. Although the price has to be adjusted to the prevailing market price, many customers from the aforementioned countries buy textiles from Martin regularly. Martin operates in the same outlet with six entrepreneurs and he only brings samples to the outlet. When a customer wants to buy in large quantity Martin brings the textiles from the nearby store. According to Martin the difficult part of dealing in the textile business is to know what the customers want.

When asked if he had imported textiles from surrounding countries such as Kenya and Tanzania, he said, "*The problem with the textile manufacturing firms in the surrounding countries is that they imitate foreign made textiles. Who the hell is going to buy an imitated product while the original one is being sold in the domestic market? I prefer to import textiles from Dubai and Thailand. At least they will be unique in the market until other traders import them to the Ugandan market."*

Finally, when asked what would-be his response if a textile manufacturer from Eritrea came to him and told him that he could supply textiles the same as those he is importing from Thailand, *Martin said, " I do not care about the source of the textile if it is OK with my customers as far as quality and price are concerned."*

Muyinza Trading Company

Muyinza Trading Company is a collection of seven textile wholesalers who operate in one sales outlet. The company is located in Ben Kiwanuka Street in Kampala. The entrepreneurs in Muyinza Trading Company have their own space in the outlet and share the rent and other related expenses. One of the traders who operate in the outlet is Lialigo Jamal.

Jamal started trading textiles in Muyinza Trading Company in 1996. Currently Jamal employs six people. He sells t-shirts, sweaters and other textiles for men, women and children. His main supplier is the Sun Flag Textile Manufacturing Company in Tanzania. When asked how his import is organised, he said, "*When I need to buy textiles I always have to go to Tanzania and place the order. It is not something I order and they make for me. I just go to the store and choose from what they have*." Sun Flag does not give credit to Jamal. He said, " *Why should they? They are not Ugandans."* According to Jamal credit is possible only from a Ugandan supplier to a Ugandan buyer. When asked how he affords the transportation and accommodation cost in Tanzania if he has to go there every time, he said, "*I always have to pay for the transportation cost. However, my accommodation cost is low because I have a relative in Tanzania who takes care of me."* Although Jamal is mainly a wholesaler he also sells textiles retail. When he sells the textiles wholesale he gives priority to the retailers operating in the same outlet. However, there is an implicit agreement that if Jamal does not finish selling the textiles, the retailers in Jamal's outlet have to sell the textiles they bought from him to other retailers outside the outlet. This is done to avoid competition with Jamal. When asked why the retailers operating in the same outlet with Jamal do not ask him to bring the textiles from Tanzania for them, he said, " *Most of the retailers are too small to raise money for import. Even when they buy the textiles from me they pay the money after they sell the textiles."*

When asked about his business relationship with the Sun Flag Textile Company in Tanzania, he said, "*Sometimes they try to sell me textiles of different size to those I wanted to have. If I find out the textiles are wrong while I am in Tanzania I can automatically return them. However, it is difficult to return the textiles after they reach Uganda. Instead we renegotiate on the price and it is always difficult to reach into agreement*." According to Jamal the price is very important in the textile business. Price negotiation is normal in Uganda because the list price is always twice as much as the selling price of the textiles. When asked why he chose to import the textiles from Tanzania, he said, *"The textiles produced by Sun Flag Company are* *fit for the lower and middle class Ugandan customers. I also import textiles from Kenya when I can not find the type of textiles I want to buy from Tanzania. The second reason is because Tanzania and Kenya are neighbouring countries and I can go any time I want and bring back the textiles. This means I do not need a large amount of money to conduct the business."*

Finally, when asked what would be his answer if an Eritrean textile manufacturer came to him and told him he could supply acceptable quality T-shirts and sweaters to him, he said, *"I am happy to buy textiles from Eritrea. This will help me to diversify my source. However, I must say that the price is a very important component of the transaction. For the same quality textiles the price should be at most equal to that of the Sun Flag textile company in Tanzania."*

7.3.2 Textile buying organisations

The way the textile buying organisations in Uganda are formed and the benefits they give to their members is similar to what we have discussed in the footwear business. What we have seen different in the textile business is that even though the wholesalers are ready to bring textiles for their friends who operate in the same outlet, the retailers do not use the opportunity because they can not raise enough money for importing textiles. However, the textile wholesalers help the retailers who operate in the same outlet by giving them priority to buy the textiles that the wholesalers have imported. The retailers obtain the textiles on credit and pay back when they sell them. This is another arrangement made by the parties who operate in the same outlet to benefit each other. The wholesaler gives credit to the retailers who operate in the same outlet because they can be controlled easily.

7.3.3 Textile retailers

In the following section we discuss the interview results of two textile retailers. These are School Outfitters Ltd., and NOB Traders.

School Outfitters Ltd

School Outfitter Ltd. is a textiles retail company that supplies uniforms to schools, churches, and manufacturing organisations. It was established in 1984 in the centre of Kampala. The company showed rapid growth and currently it employs 30 people.

When asked how she entered the textile business, the owner and manager of the company, Munich Erapu said, "*Before I came here I used to live in Kenya. In Kenya all the schools had uniforms. There were also companies that supplied the schools with uniforms. However, when I came to Uganda in 1983 small disparate tailors that had limited production capacities were producing uniforms to the schools. I saw a business opportunity and I established this company to supply the Ugandan schools and other organisations with better quality uniforms.*" The company imports sweaters and fabrics. While the sweaters are imported from Kenya the fabrics are imported from China. The fabrics are sewn in the company in Kampala.

When asked how she contacts the schools, churches and other organisations that buy the uniforms, she said, "*We contact them in two ways. When the respective organisations have a role to play in buying the uniforms, we approach and tell them that we can supply the uniforms at a lower price. If there is a tender we participate. However, if the organisations do not play a role in buying the uniforms we ask them to tell the students or their employees that* *we have the uniforms at a lower price. On top of that, since we have been working in this business for many years they know us very well. Many customers come themselves*."

Two years ago the manager of the company met an Eritrean sweater manufacturer who was exhibiting his sweaters in Kampala. After a long discussion the Eritrean manufacturer agreed to sell sweaters to the School Outfitters Company. A verbal agreement stating that the Eritrean manufacturer was to supply the sweaters at $3 per piece was reached. However, the agreement did not specify the price terms, and furthermore, the payment terms were not clearly specified. The understanding of the Eritrean manufacturer was that he had to deliver the sweaters F.O.B. Massawa[13] and the transportation cost from Massawa to Kampala would be added to the price. Furthermore, the manufacturer assumed that the payment term was cash against documents. The manager of the School Outfitters understood the business dealings in a different way. The price term was C.I.F. Kampala and the payment term on credit. While the arrangement was in limbo the sweaters arrived in Kampala and School outfitter was asked to pay $ 4 per piece, price plus transportation cost, and to take the sweaters. School Outfitters did not accept the sweaters and they were sold to another wholesaler in Kampala. Because of this misunderstanding the supply contract failed.

When asked about the incident, the Eritrean sweater manufacturer said, *" We had a verbal agreement with the manager of School Outfitters that she would pay me as soon as I delivered the sweaters. However, later she changed her mind and started to deny what we had agreed."* The answer to the same question by the manager of School Outfitters was different. She said, "*I could only buy the sweaters at $3 per piece and that was my assumption. Because the transportation cost from Eritrea to Uganda is very expensive it makes the sweaters uncompetitive."* She also explained that because of the location advantage Kenyan sweaters are lower priced.

When asked if the second-hand clothing market is affecting her business, the general manager of School Outfitters said, "*In principle the second- hand clothing market cannot affect the uniform business because it is difficult to find the same kind of second-hand clothing that can serve as a uniform. The problem is some schools, churches and manufacturing firms tell their students or members to wear uniforms in black or in blue. They do not care about the design of the uniform. In this case the buyers go to the second hand market and buy any clothes in black or blue."*

When asked about the level of competition in the uniform business the manager of School Outfitters said, "*Previously my company was the only company that was supplying uniforms. Later those who were working with me, including my sister, have opened their own company and are competing with me*." Finally, in response to the question about business opportunities for Eritrean textile manufacturers, she said that if the price was acceptable to the Ugandan customers she would buy the Eritrean sweaters. However, she stressed that because the schools open in February and the business is seasonal any delay in shipment can lead to cancellation of the contract.

NOB Traders

NOB traders are a group of textile retailers located in Benkiwanuka Street in Kampala. As mentioned in the previous cases, in Uganda 4-8 people usually share one outlet. All retailers share the rent and other costs and this makes the outlet rent affordable by the traders. NOB

[13] Massawa is one of the two ports in Eritrea.

traders are five in number and all trade textiles. One of the traders in the outlet is Natouo Gerald. He is the only retailer importer in that outlet. Others buy from wholesalers and sell retail.

Gerald started trading textiles in 1997. When asked how he entered the textile business, he said, "*My father died while I was at school in grade six. I am the oldest son in the family and there was no one else who could take responsibility. I stopped going to school and I started buying and selling textiles with the money my father left. Mainly I was buying the textiles from the local wholesalers and selling them retail*." Currently Gerald buys men's, women and children's wear from Kenya and sells these in Uganda. Gerald knows that his suppliers in Kenya bring the textiles from Thailand. The question here is why Gerald goes to Kenya to buy textiles imported from Thailand while there are wholesalers in Uganda who import the same textiles from Thailand. When this question was posed to him, Gerald said, *" I do not know the reason but the same quality textiles imported from Thailand are a lot cheaper in Kenya than Uganda."*

The reason the same quality textiles imported from Thailand are cheaper in Kenya than in Uganda is because of (1) the high profit margin of Ugandan wholesalers and (2) the higher VAT in Uganda. After the textiles arrive in Mombassa it takes another three days to transport them to Uganda. Coupled with the long delay in the custom office in the boarder between Kenya and Uganda the longer time to transport the goods hampers Ugandan wholesalers from getting the textiles on time. To cover this loss in time and capital (tied up) the Ugandan wholesalers charge higher prices. However, for the Kenyan wholesalers the transportation cost is lower and they have an advantage of 2% VAT. While the value added tax in Kenya is 15% it is 17% in Uganda. By going to Kenya Gerald is reaping the benefit of the difference between the higher profit margin of Ugandan wholesalers and the lower profit margin of Kenyan wholesalers, which is approximately 20%.

To import the textiles from Kenya Gerald has to go himself. When he travels to Kenya he has to change Ugandan Shillings to US dollars in Uganda and he has to change US dollars into Kenyan Shillings in Kenya. When asked how he contacts the suppliers in Kenya, Gerald said, " *They are found in one vicinity in Nairobi. They have small shops where they display the textiles. I go and see the sample and if it is OK with me we negotiate on the price. If we agree on the price they bring the textiles from their stores."* When asked how he knows which textiles are in demand in the Ugandan market, he said, " *The customers always come and ask me if I have a particular textiles. From this I can understand which textiles are scarce in the market. Based on this information I go to Kenya and bring the textiles. In addition to the information from customers I make a survey on the market and see the type of textiles other wholesalers and retailers have. When I go to Kenya I try to bring something different."*

Gerald sells the textiles to customers from Uganda, Rwanda, Zaire, and South Sudan. He also mentioned that his customers comprise the lower segment of the society that can afford to buy new textiles at a lower price. When asked how a low-income Ugandan family can afford to buy new textiles, he said, " *It is true that compared to the income of an ordinary Ugandan family the textiles are expensive. However, when they have money Ugandans do not think about tomorrow*." Gerald does not have any clue about the term letter of credit. His business practice is cash against delivery oriented. Gerald also mentioned that he brings textiles for his friends and relatives from Kenya. They also do the same for him when they go to Kenya. Gerald prefers to bring goods for friends who are engaged in trading other products such as footwear. The reason is that Gerald wants his textiles to be unique in the market at least for a short period of time. If he brings the same textiles for his friends he loses the competitive advantage that emanates from the uniqueness on his textiles in the Ugandan market.

When asked what he could say if an Eritrean textile manufacturer came to him and told him he can supply T-shirts and sweaters similar to those he is importing from Kenya, he said, “ *In this market quality and price are important. If it is good and my customers can afford to buy it I will do business with the Eritrean manufacturer*.” According to Gerald when he goes to Kenya it does not matter from whom he is buying the textiles. He always looks for a textile supplier with good quality and affordable price.

7.3.4 Discussions of the interview results

Due to the similarity between the business practices in the footwear and textile markets in Uganda we will only compare the findings in the textile market with those in the footwear market and highlight the similarities and differences between the two markets.

Buyer seller relationship

The textile wholesalers and retailers in Uganda follow similar business practices to those of the footwear wholesalers and retailers in Uganda. The business relationship is characterised as short term and skewed towards “arms length” transactions. Among the major characteristics of the Ugandan textile importers are: (1) continuous travel to the textile import market and personal supervision of orders, (2) lack of long-term business relationship with suppliers and (3) purchase of small quantity of textiles from each textile design. The Ugandan importers travel every time to the import market to select and check the quality and quantity of the textiles they intend to import. The importers do not have long-term suppliers. When they depart from Uganda they do not have a definite plan as to what type of textile to buy in the foreign market. They visit large number of wholesalers and retailers in the import market to get the textiles they think are right for the Ugandan market. The textiles buyers in Uganda buy the textiles from the wholesalers and retailers in the import market. Because they buy in small quantities they cannot satisfy the manufacturers’ order requirements. This means the textile manufacturers in Eritrea need to study the Ugandan textile market and make an assortment suitable for the Ugandan consumers.

Organisations of import and sales

The textile wholesalers, retailers and buying organisations in the Ugandan textile market follow the same import procedures as the Ugandan footwear wholesalers, retailers and buying organisations. The difference here was a retailer who imports textiles from Kenya also expressed his reservations on importing textiles for friends and relatives. He explained that he prefers to bring goods for friends engaged in business other than textiles, e.g. footwear. This explanation helps us to pin point two important facts. First, even though a trader has reservations on importing similar textiles for his friends and relatives he still continues to do so. This shows that the social network between traders in Uganda is strong. When a trader rejects a request to import textiles for friends and relatives he can be considered to be someone who does not respect his friendships and personal ties. In this case the social sanction is tough. The second point is that importing similar textiles for friends and relatives has a penalty. It aggravates competition and erodes the competitive advantage of the importer. The interesting point in this arrangement is to see how social relationships influence the personal decision of a trader as to whether to accept or reject requests from friends and relatives to serve them as a carrier. In this case we can say that the horizontal business relationship between traders is highly embedded in social relationships. This is an opportunity for the textile manufacturers in Eritrea if they can relate to a certain group, which is highly bonded with social relationships. The organisation of sales in the Ugandan textile market is the same as that of the footwear market.

Competition

The competition in the Ugandan textile market differs from the Ugandan footwear market in the sense that the textile importers do not face competition from domestic textile manufacturers. Unlike the domestic footwear industry, the textile industry in Uganda has been out of the market since 1995. The textile retailers in Uganda are classified into three groups. These are (1) importer retailers (2) retailers who import textiles through friends and relatives (carriers) and (3) retailers who buy textiles from the domestic market. The first group of retailers is financially strong. They import the textiles themselves and compete directly with wholesalers. This group of retailers has a competitive advantage over wholesalers because it owns retail outlets. Often they import small quantities of expensive textiles and this helps them to avoid taxes by pretending to be tourists. The second group of retailers is highly dependent on friends and relatives. Particularly when the retailer is a beginner, friends and relatives take the responsibility of importing the textiles for him. The help provided by relatives and friends can go as far as introducing the beginner to the import market. The last group of retailers is financially weak and always dependent on importers in the same outlet for supplies. In these cases the retailer's financial position or his business network with other importers are keys to the retailer being able to compete in the Ugandan textile market. He uses his social network with family members or friends to get the textiles at lower cost. By doing this he can sell textiles at a price similar to that of other importers. Often, given a certain quality level, the one who has a cheaper source of textiles wins the competition.

Trust and opportunism

The exchange process between the Ugandan textile importers and exporters in foreign countries such as Dubai and Thailand is characterised by personal supervision. This is mainly due to the lack of trust and long-term business relationship between the Ugandan textile wholesalers, retailers and foreign suppliers. The lack of trust and long-term business relationship between two business partners increases the transaction costs. Moreover, it blocks the smooth flow of information and finance between the buyer and seller. In Uganda it is the supplier (wholesaler or retailer in the import market) who is expected to give credit. This can be explained using two marketing concepts. These are the reverse marketing concept, and the traditional marketing concept. In the reverse marketing concept it is the buyer who helps the manufacturer to produce textiles according to the buyers specifications. In the traditional marketing concept it is the manufacturer who is expected to promote his products so that they will be demanded in the export market. This is similar to what we see in Uganda. The Ugandan wholesalers and retailers expect their suppliers to give them credit to buy the textiles. However, the stumbling block in this business relationship is that the Ugandan buyers are not ready to repay their debts. Because of the opportunist behaviour of the Ugandan

Table 7.5 Summary of fourteen elements of business relationships identified in the cases under study

Description	**Wholesalers**		**Buying organisations (Informal social groups)**	**Retailers**	
	Uganda General Merchandise	**Muyinza Trading company**		**School Outfitters Ltd.**	**NOB traders**
Previous business relationship	Less important	Less important	Less important	Less important	Less important
Importance of trust in the business relationship development process	Less important	Less important	Very important (with carriers)	Less important	Less important
Presence of agents in country of import	Not important	Not important	Not important	Not important	Not important
Design production by the buyer	Not important	Not important	Not important	Not important	Not important
Sample exhibition before placing an order by the buyer	Not important	Not important	Not important	Not important	Not important
Need for security	Very important	Very important	Very important	Very important	Very important
Need for flexibility	Very important	Very important	Very important	Very important	Very important
Subcontracting agreement	Not important	Not important	Not important	Not important	Not important
Joint venture agreement	Not important	Not important	Not important	Not important	Not important
Flexible supply contracts	Moderately important	Moderately important	Moderately important	Moderately important	Moderately important
Form of business establishment	Private limited company	Private limited company	Social organisation	Private limited company	Private limited company
Source of capital for establishing the organisation	Private capital	Private capital	No capital is involved (Social relationship)	Private Capital	Private capital
Source of revenue to the organisation	Profit	Profit	Good social relationship	Profit	Profit
Exclusivity of supply to the buyer	Important	Important	Important	Important	Very important
Willingness to establish **direct** business relationship with textile manufacturers in Eritrea	Yes (but small order)	Yes (but small order)	Yes (but small order)	Yes (but small order)	Yes (but small order)

(Source: Compiled by the Author)

buyers the foreign suppliers sell the textiles to wholesalers and retailers in Uganda on a cash basis. When this is not possible they establish a direct presence and integrate the export operations in Uganda. This shows us that the two markets are different and need different marketing approaches.

Contract enforcing institutions (conflict resolution)

The business relationship between the Ugandan textile buyers and their foreign suppliers is largely that of transactions at arms length. Consequently, relational dispute resolution mechanisms hardly exist. Agents are often seen as an instrument for the buyer through whom he controls the activities of the manufacturers. By doing this the buyer can minimise the opportunist behaviour of the manufacturer. However, while agents in the import market play a great role in facilitating the buying procedures followed by the buyers in the Netherlands, agents in Uganda have no role in the purchasing process followed by the Ugandan buyers (Table 7.5). This is due to three reasons. Firstly, the Ugandan wholesalers and retailers do not trust others. For this reason they prefer to perform all the activities themselves. Secondly, the Ugandan buyers do not have specifications. The lack of specifications prohibits agents from playing a role in the purchasing process as there is no basis for the agent to go to the suppliers and say what type of textiles are to be bought. Finally, the quantity of textiles purchased by the Ugandan wholesalers and retailers does not justify a role for an agent. Ugandan wholesalers and retailers buy in small quantities and the commission that could be generated from this small amount of purchasing does not attract agents. As the textiles are checked and the payment is made on the spot there is less possibility for a conflict to emerge. The seller is not responsible for any complaint that may come from the buyer after the goods pass title. This shows us that the exchange process in Uganda is "arms length" and is governed by the rules of the market.

Market requirements

As mentioned in the previous sections, the requirements in the Netherlands textile market are centred on the background of the manufacturer and his production competence. The requirements in the Ugandan textile market focus mainly on the characteristics of the product, and its price. If the aforementioned two factors are acceptable to the Ugandan wholesalers and retailers, exchange can take place on the spot. In the Netherlands market we have seen that wholesalers and retailers may take months before they transact with each other. The Netherlands buyers demand information from the manufacturers before they place orders. In the Ugandan case the background of the supplier and the business practices in the import market are secondary. First the Ugandan buyer wants to see the product. If the product is the right quality he negotiates on the price. If an agreement is reached the Ugandan wholesaler or retailer receives the textiles and pays the money. The Ugandan buyer leaves for Uganda after he makes sure that the textiles are on board the ship. The exchange process between the Ugandan buyers and their suppliers is short and fast. This is mainly because unlike in the Netherlands the Ugandan buyers buy the textiles from wholesalers and retailers.

7.3.5 Conclusion

The state of vertical and horizontal business network relationship in the Ugandan textile market is similar to that of the footwear market in Uganda. However the two markets differ in their market structure. While the domestic footwear production still has a market share of about 30% and it poses a certain degree of competition to imports, domestic textile manufacturing plays no role in Uganda. The domestic textile production discontinued in 1995 due to lack of cotton and dilapidated machinery. Currently the domestic market is supplied almost 100% by imports. The absence of domestic textile manufacturing signals the importance of imports in the Ugandan textile market. However, it is important to note that few Ugandans wear tailor-made clothes. About 90 % of the Ugandan consumers wear ready-made garments. This tells us that while there is a market for T-shirts and sweaters the market for fabrics is minimal. Currently, the Asian suppliers are working to supply affordable textiles to the Ugandan consumers. If the textiles manufacturers in Eritrea are going to win the competition their textiles have to be cheaper than those supplied by Asians and the quality should be competitive. The following conclusions can be drawn for the case studies:

1. There is a market for T-shirts and sweaters in Uganda. However competition from Asian exporters and second-hand clothes dealers is high.

2. Many Ugandan wholesalers and retailers travel to Dubai to buy textiles.

3. Due to the lack of trust agents hardly operate in Uganda.

4. The horizontal business network relationship between a group of wholesalers and retailers in Uganda is much stronger than the vertical business relationship between foreign textiles suppliers and textiles importers in Uganda.

5. The Ugandan wholesalers are not interested in joint venture and subcontracting agreements.

6. The Ugandan market is characterised by lack of trust and lack of institutions that facilitate transactions.

Chapter 8

Empirical Study of Export Marketing Problems of Manufacturing Firms in Eritrea: Preliminary study

8.1 Introduction

The objective of this chapter is to answer the third research question stated in chapter one "*What are the specific export problems of footwear and textile manufacturing firms in Eritrea?*" This chapter has six main parts. In Section 8.2 we introduce the reader to the organisation of the two industries. In Section 8.3 and Section 8.4 we discuss the export problems that are important and difficult to the firms. In Section 8.5 we identify the export problems that discriminate the footwear and textiles manufacturing firms. In the same Section we identify the export problems that discriminate the small and medium size manufacturers. In Section 8.6 we measure the attitudes of the managers towards establishing business networks with suppliers, fellow manufacturers and buyers. Finally, in Section 8.7 we state our conclusions.

8.2 Background of the footwear and textile manufacturing industries in Eritrea

8.2.1 The Eritrean footwear industry

Modern footwear manufacturing in Eritrea dates back to the Italian colonisation era in the 1940's. In the 1950's and 1960's the footwear industry produced civilian footwear for the Eritrean and Ethiopian markets. Under normal conditions Eritrea produces 5.0-5.5 million pairs of footwear per year of which 609,000 pairs are leather footwear (MIT, 1998)[14]. It imports about 291,000 pairs of footwear, mostly fashionable leather and non-leather footwear. The total production capacity of the footwear industry is estimated at around 11.5 million pairs of which 71% are plastic footwear sandals, 17% are leather footwear and 12% are canvas and jogging footwear. Currently about 60% of the production capacity is estimated to be idle, 6.9 million pairs (Ibid.). This is mainly the result of the closure of the Ethiopian market and lack of access to other alternative markets. Leather footwear accounts for about 34% of the idle capacity.

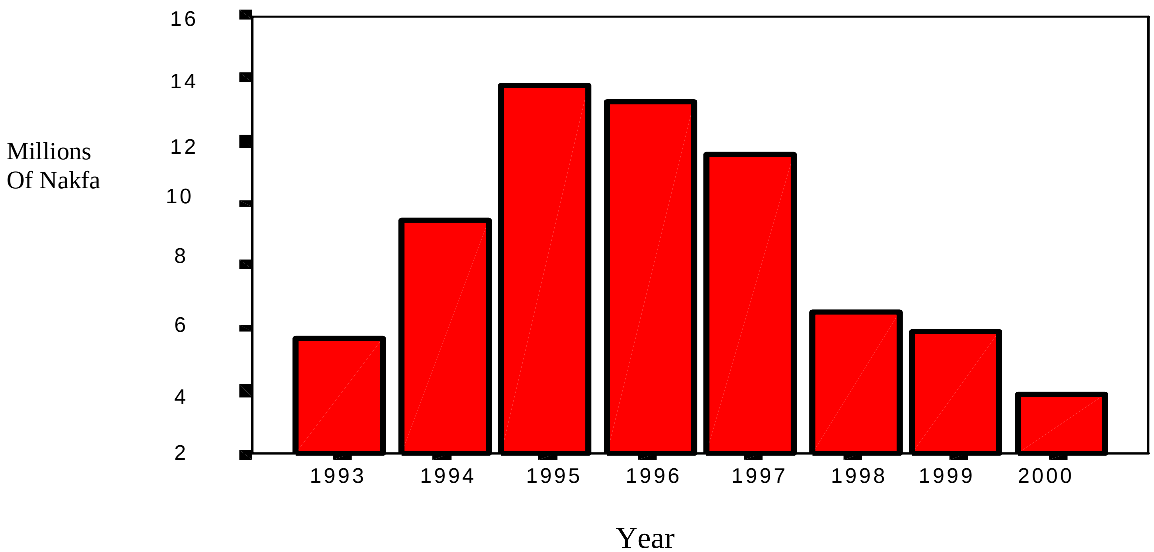
The current level of demand in Eritrea is insufficient to support the footwear manufacturing firms. The total footwear requirement of the country is 1.1-1.2 million pairs per year (MIT, 1998). To work at full production capacity the footwear manufacturers need to export about 10.3-10.4 million pairs of footwear per year.

The footwear manufacturing industry in Eritrea consists of medium and small size firms. The first group comprises a few former public footwear manufacturing firms that have been privatised recently and several medium size footwear-manufacturing firms that have been under private ownership. The public footwear manufacturing firms category comprised of three companies: the Dahlack footwear factory, the Delux shoe factory and the Bini shoe factory. These factories have relatively large production capacity and used to dominate the

[1] Estimates of Eritrea Ministry of trade and industry, 1998.

Ethiopian market. The medium size private firms category is comprised of the Selamawit shoe factory, the Gazella shoe factory, the Expo shoe factory, the Asmara footwear factory, the Dehab Kibrom shoe factory, the Hadera and Sons shoe factory, the Negusse shoe factory, the Stif quality shoe factory, the Selam shoe factory etc. The third group is comprised many small footwear manufacturers producing for the domestic market.

Figure 8.1 Average sales volumes of four footwear-manufacturing firms in Eritrea before and after the closure of the Ethiopian market



Note:
- Before November 1997 exports to Ethiopia were made in Ethiopian Birr.
- From November 1997-May 1998 exports were made in US dollars.
- The Ethiopian market was partially closed in 1997 and in totally in 1998.
(Source: Expo, Dahlack, Delux and Bini shoe factories)

The footwear industry in Eritrea consumes more leather than the leather articles producers. The footwear manufacturers in Eritrea obtain leather from the domestic market. Although there are several tanneries that process skins there is only one big tannery that processes hides. Currently, due to the lack of foreign currency for importing chemicals and parts used to make synthetic plastic footwear, the manufacturers are focussing on producing leather footwear. Leather is available on the domestic market and there is no need for the manufacturers to search for foreign currency to import it.

The public enterprises were inherited from the Italian investors during the colonisation era. They were nationalised in 1975 by the Ethiopian socialist government of that time. Not having adequate marketing knowledge to react quickly to the structural changes in the market that occurred after 1991 forced the public enterprises to limit themselves to the Ethiopian market. When the Ethiopian market was closed in 1998 the sales volume decreased simultaneously (Figure, 8.1) and it became clear that a major restructuring of the production process and the marketing function were important in order to enter other alternative markets. However, to implement the aforementioned structural changes it was necessary to invest in marketing research and to investigate the requirements of the international market. This was done on a very limited scale due to acute financial shortages and lack of skilled manpower in export marketing. Thus the progress made in finding an alternative market has also been minimal.

Since the proclamation of the privatisation policy in 1996, the Eritrean government has privatised three footwear companies. The transfer of the three public footwear companies into private ownership has intensified competition in the domestic market. One of the three shoe factories, Bini shoe factory, which was privatised in 1997, has become the leading men and children leather footwear manufacturer in the country in terms of quality. This compelled other medium sized footwear manufacturing firms like Selamawit, Expo, Gazella, and Hardera to focus on the production of ladies footwear. The competitors of Bini shoe factory in the men's leather footwear segment are the Negusse shoe factory on a large scale and the Asmara footwear factory on a small scale.

This subsection introduced the reader to issues related to the industry, market and government policy that have affected the Eritrean footwear industry. In the following subsection we do the same for the textiles industry.

8.2.2. The Eritrean textile industry

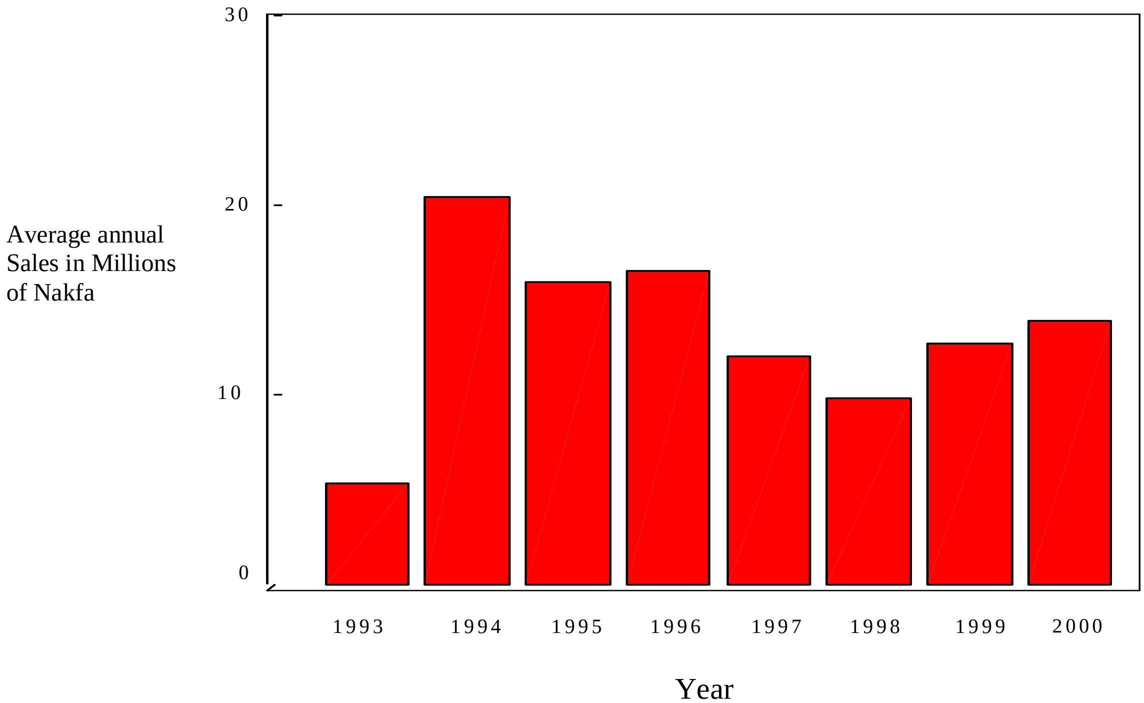
Modern textile manufacturing in Eritrea started in the 1940's with the advent of Italians to Eritrea. Similar to the Eritrean footwear industry the textiles manufacturing industry in Eritrea is divided into two groups in terms of size. These are medium and small size. The first group comprises the public textile manufacturing firms that have been privatised recently and other textiles and sweater manufacturing firms that have been under private ownership. The second group represents several small but fast growing sweater factories. The first group is made up mainly the Asmara textile factory, the Eritrea textile factory, the Ambesa sweater factory, the Harambe sweater factory, the Asmara sweater factory and the Barokco textile factory. Except for T-shirts, all the products from the aforementioned factories were consumed both in the domestic and the Ethiopian market. After the Ethiopian market was closed to the Eritrean textiles, the factories sold most of their products to the Eritrean Army. Due to the border war between Ethiopia and Eritrea the size of the Eritrean army increased considerably and this offered a good market opportunity mainly to the medium size textiles manufacturers.

The sales volumes of the textiles manufacturing firms after the closure of the Ethiopian market (Figure 8.2) reveals that they are in a better position than the footwear manufacturing firms. With the establishment of Erikog, a publicly owned garment factory, in 1995, the fabrics produced in the textile factories are sewed and then supplied to the army. The Asmara textile factory and Eritrea textile factory supply T-shirts and other garments to the Army. Asmara sweater factory supplies sweaters to the Army and the police. However, the situation will change if peace prevails in the country and the size of the army is reduced. The annual fabric production capacity of the textile-manufacturing firms in Eritrea is estimated at 35 million square metres (BTTG, 1997) where as the local demand, calculated at 3.96 square metres per head, is estimated at 11.4 million square metres. To operate at full production capacity the textile manufacturing firms in Eritrea have to export 23.6 million square metres of fabric per year. The production capacity of T-shirts and sweaters are given in subsection 8.2.3.

The second group comprises about 57 sweater manufacturers in the country. This group had shown a rapid growth until 1998. In addition to the Asmara Sweater factory, other sweater factories (Anbesa Sweater factory, Harambe Sweater factory and Yemane Haile Sweater factory) had introduced new machinery and raised their production capacity to 250 sweaters per day. This group of sweater producers was also highly affected by the closure of the Ethiopian market as it was selling about 80% of its production to the Ethiopian market. About

10 sweater manufacturers closed and changed into other business. Currently, only the Asmara Sweater factory is exporting sweaters to Italy on a small scale.

Figure 8.2 Average sales volumes of three textiles manufacturing firms in Eritrea before and after the closure of the Ethiopian market



Note:
- Before November 1997 exports to Ethiopia were made in Ethiopian birr.
- From November 1997-May 1998 exports to Ethiopia were made in US dollars.
- The Ethiopian market was partially closed in 1997 and totally in 1998.
(Source: Asmara textiles factory, Eritrea textiles factory and Asmara sweater factory)

The textiles manufacturing firms in Eritrea obtain cotton from the domestic market. The cotton is produced in the lowlands of the country at Alighider (Table 8.1). Local farmers started the production in the 1920's. Modern cotton plantation came into effect in the 1960's started by an Italian company called Barattollo Share Company. The objective of the company was to integrate the cotton supply with the production of textiles. The aforementioned textiles factory acquired the land and introduced a modern irrigation system. The farm was nationalised in 1975 by the Ethiopian socialist government and deteriorated due to inefficiency, neglect, and the effect of the civil war. After independence, in 1993, the new Eritrean government allocated the land to ex-combatants and returnees as part of its demobilisation programme. The number of ex-combatants and returnees who were engaged in cotton production in 1999 reached 5000. Currently the ex-combatants and returnees supply cotton to the Asmara textile factory, the Eritrea textile factory, and the Barokco textile factory through their Sales office in Asmara. Given the total area of 5000 hectares under cultivation, Alighider cotton plantation can produce about 112,500 tons of seed cotton annually, or 4,375 tons of lint based on a 35% ginning percentage (Ibid). The 4,375 tons of output is in line with the estimated annual consumption figure of 3900 tons for the four spinning mills in the country. There are two in the Asmara textile factory, one in the Eritrea textile factory and another one in Barokco textile factory. In addition to Alighider cotton plantation there are small and medium sized farmers who produce cotton around the Gash River. Thus we can say that Eritrea is self sufficient in cotton production. The cotton supply can increase further because the government allocates land to private investors who would like to grow cotton.

Table 8.1 Cotton growers and their share of production in hectares

Name of cotton grower	Capacity (in hectares)
Alighider	3000 hectares
Ex-combatants and out-growers	650 hectares
Adi Umer	500 hectares
Wedi Legesse	1000 hectares
Total	5150 hectares

(Source: Interview 2001-2002)

Finally, it is worthwhile mentioning that the economic and political episodes that were mentioned in the discussion about the footwear industry also apply to the textile industry in Eritrea.

8.2.3 Background of the footwear and textiles manufacturing firms included in the study

In this study 88 footwear and textile manufacturers were included. The breakdown is 41 footwear manufacturers and 47 textile manufactures. The questionnaire data suggests that men dominate the ownership of footwear and textile manufacturing firms in Eritrea. Out of the 88 footwear and textile manufacturing firms, women own only 4 footwear and 7 textile manufacturing firms. The age of the 47 managers who run the footwear and textile-manufacturing firms is above 51 years. Since there is no training institution that offers courses in textile and leather technology the older managers are the only source of knowledge for the younger population in Eritrea. Therefore, transfer of the footwear and textile knowledge from the aged managers to the younger generation is indispensable. All the managers have attended formal education but few possess higher college degrees. Out of 88 managers only 17 attended University level education. However, the managers are rich in experience. Out of 88 managers, 59 have worked in the footwear and textile manufacturing firms for more than ten years (Appendix 1).

Table 8.2 Size of the footwear and textile manufacturing firms included in the preliminary study

Industry	Small	Medium	Total
Footwear	26	15	41
Textile	18	29	47
Total	44	44	88

Note: Small ≤ 10 employees, Large > 10 employees. (Source: Survey 2001)

While 44 of the managers who are now running their own firms used to work in the manufacturing firms that were established by the Italians, 10 acquired their knowledge from predecessors. It is likely that the predecessors were also linked to the Italian investors in one way or the other. While 23 managers acquired the knowledge themselves, 1 manufacturer was encouraged by friends to start the business and another 10 managers, joined the business as employees of other Eritreans.

The footwear and textile manufacturing firms have long experience in the field. Out of the 88 firms only 13 have less than 10 years experience while the other 75 firms have experience ranging from 11-39 years. Despite the long experience in footwear and textiles manufacturing, the firms have been limited to exporting to the Ethiopia market. At present only 3 textiles and 11 footwear manufacturing firms are trying to enter the Ugandan, Kenyan and European footwear and textile export markets. One of the strategies adopted to expose the Eritrean footwear and textiles manufactures to the international market was participation in trade fairs. However, out of the 88 manufacturers only 19 have participated in trade fairs (Appendix 1). The main reason for the low participation in trade fairs is lack of financial resources to cover the cost of transport and accommodation. The government and donor organisations have offered financial help to 15 manufacturers to participate in trade fairs. Yet, the financial help is concentrated on large manufacturers and small manufacturers expressed complaints about the government policy that favours the large manufacturers only. While 18 manufacturers received access to credit from the public owned Commercial Bank of Eritrea another 30 could not obtain credit because they did not have collateral. Beside this only 19 manufacturers participated in training related to marketing research. Small manufacturers have complained that only the large manufacturers enjoy priority for credit and training.

The production capacity of the 41 footwear manufacturing firms included in the preliminary study is 2,422,500[15] pairs. In the years 1993-1997 the footwear manufacturing firms produced 1,680,000 pairs of leather footwear per year. However, with the closure of the Ethiopian export market in 1998-2000, the footwear manufacturing firms produced only 522,000 pairs of footwear per year. The production capacity of the 47 textiles manufacturing firms is divided into three categories: sweaters, fabrics and yarn. The standard annual production capacity of the sweaters manufacturing firms included in the survey is 1,580,400 pieces. In the years 1993-1997 they produced 1,281,000 pieces per year. When the border war started in 1998-2000, the annual actual production was only 690,600 pieces. While the standard annual production capacity of T- shirts is 2, 100,000 pieces, the actual production is 1,700,000. Since T-shirts are exported to Switzerland and Uganda the production was relatively less affected by the closure of the Ethiopian market. The standard annual production capacity of fabrics is estimated at 35 million square metres. The footwear and textiles manufacturing firms employ 1397 and 3431 persons respectively (Appendix 1).

Table 8.3 Factory gate prices of footwear and T-shirts as a percentage of. estimated consumer prices in the Netherlands

	Average (%)	Footwear (Euro)	T-shirt (Euro)
Consumer price in the Netherlands	100	25	3
VAT (17.5% of net selling price)	15	3.75	0.45
Net selling prices	85	21.25	2.65
Retailers margin	28	7	0.84
	57	14.5	1.81
Wholesalers margin	9	2.25	0.27
	46	12.25	1.54
Charges	3	0.75	0.45
	43	11.5	1.09
Transport and insurance	2	0.5	0.03
Factory gate price	41	11	1.06

Note: The transport and insurance cost is 2% for footwear and 1% for T-shirt
(Source: Market research 2000 and CBI 1998, Appendix 5)

Some key production factors that determine competitiveness in the footwear and textile industries are labour, cotton, and leather. Two products, one from each industry, were taken as a sample to analyse the competitiveness of the Eritrean footwear and textile industries. These

[15]To calculate the annual standard production capacity, the daily standard production capacity is multiplied by 300 working days.

are export standard causal men's leather footwear and export standard 100% cotton polo shirt. The total manufacturing cost of Model M/036/95 casual men's leather footwear is about Euro 5. The cost break down is materials (leather, soles, eyelet, and glue) 73 %, labour 11% and overhead costs 16% (Appendix 5). The factory gate wholesale price for the aforementioned product in Eritrea is Euro 7. The retail prices of a similar product in the Netherlands and Uganda are Euro 25 and 17 respectively. The estimated factory gate price of the footwear for the Netherlands and Uganda are Euro 11 and Euro 7.48 (Table 8.3 and Table 8.4). Both are higher than the actual factory gate price in Eritrea.

The manufacturing cost breakdown of an export standard 100% cotton polo shirt in the Eritrean textile industry is materials (cotton and chemicals) 55%, labour 16% and overhead costs 29% respectively. The wholesale price of export standard and export reject 100% cotton polo shirts in Eritrea is Euro 0.90 and Euro 0.70. While the retail price of an export standard 100% cotton polo shirt in the Netherlands is Euro 3.00, the price of an export reject 100% cotton polo shirt in the Ugandan market is Euro 1.70. The estimated factory gate price is Euro 1.06 in the Netherlands and Euro 0.75 in Uganda (Table 8.3 and Table 8.4). So from our calculation, the estimated factory gate price is higher than the actual factory gate price. Since the purchasing power in Uganda is lower only an export reject 100% cotton polo shirt is sold in that market. Another method of reducing the production cost for the polo shirt for the Ugandan market is to blend polyester with cotton. In the Ugandan T-shirt market a polyester blend polo shirt is preferred to a pure cotton polo shirt.

Table 8.4 Factory gate prices of footwear and export reject t-shirts as a percentage of estimated consumer prices in Uganda

	Average (%)	Footwear (Euro)	Export reject T-shirt (Euro)
Consumer price in Uganda	100	17	1.70
VAT (17.4 % of net selling price)	15	2.55	0.26
Net selling prices	85	14.45	1.44
Retailers margin	15	2.55	0.26
	70	11.90	1.18
Wholesalers margin	10	1.70	0.17
	60	10.20	1.01
Charges	13	2.21	0.22
	47	7.99	0.79
Transport and insurance	3	0.51	0.02*
Factory gate price	45	7.48	0.75

*Note: The transport and insurance cost is 3% for footwear and 1% for T-shirt
(Source: Market survey 2001)

The data (Appendix 5) suggests that the labour cost in the footwear manufacturing firms in Eritrea is relatively more expensive than in the textiles manufacturing firms. The reason for this difference is that more skilled workers are needed in footwear manufacturing than in the textiles industry. While making leather footwear requires skill and flexibility in different kinds of designs, the textile industry is relatively technology intensive and most of the workers perform a standardised task. The overhead cost (electricity, water etc.) is higher in the textiles industry (29%) than in the footwear industry (16%). This is mainly due to the higher consumption of electricity and water in the textiles industry compared with that in the footwear industry.

The availability of leather, cotton and cheap labour are the main competitive advantages for Eritrea. During the study period, while the price per square inch for Grade "A" leather in Eritrea was about \$1.00 a similar quality leather in the international market was sold for \$2.00

per square inch. However, the Eritrean leather has some quality problems that can be improved without additional cost. The lower cost of the domestic labour and leather can give Eritrean footwear manufacturers a competitive advantage especially over their competitors in the European footwear market. Moreover, the leather footwear accessories such as soles, eyelets and glue that can be made in Eritrea. Currently more than five footwear manufacturing firms in Eritrea produce soles.

Eritrea is self sufficient in cotton production but production inefficiency and war-related destruction has made the price of cotton almost the same as that in the international market. The textile manufacturers can import lower quality cotton from other African countries by paying in US dollars. The problem is that the Eritrean banks are not offering foreign currency and consequently the textiles factories have to buy the US dollars on the black market. While the official exchange rate to one US dollar was about ten nakfa on the black market it was fourteen nakfa. Thus, even though the Eritrean cotton growers charge the textiles manufacturers a higher price, the textiles manufacturers have an advantage because the payment is made in nakfa. This price is expected to be lower when the cotton farms are reinstated and produce at least at their average production capacity. Yarn accounts for 73% of the production cost of sweaters (Appendix 5). However, since the yarn used by the Eritrean sweater manufacturing firms is imported the only competitive advantage of the Eritrean sweater manufacturers is the cheap labour, which accounts for 16% of the production cost. Substituting with domestic yarn production for the imported yarn is the key to reducing the production cost of sweaters for export.

Table 8.5 Monthly wage rates in selected developing countries (2000)

Countries	Monthly payment Rate US$
China	50-80
Vietnam	50
Indonesia	30-60
Eritrea	40

(Source: ILO yearbook and Ministry of Trade and Industry of Eritrea)

The labour cost in Eritrea, which contributes 11% and 16% of the production cost of footwear and polo shirts respectively, is lower than the labour cost in the leading footwear and textile producing countries in Asia (Table 8.5). Besides this Eritrean footwear manufacturers have a location advantage to Europe compared to competitor manufacturers in Southeast Asia. This shows that the Eritrean industry can be competitive in the European and Great Lakes market.

8.2.4 Experiences of the footwear and textile manufactures with organizations that facilitate export

The textile and footwear-manufacturing firms included in the study mentioned three co-operative and one government sponsored marketing organisations. The cooperative marketing associations were “Eritrean footwear producers association”, “Eritrean sweater producers association” and Horn of Africa and Great Lakes Marketing Share Company (HAGL). The export promotion company affiliated to the ministry of trade and industry is called Allied Afri Trading House (AATH).

During the Ethiopian administration (1961-1991), the footwear and sweater-manufacturing firms in Eritrea had associations. The associations were established inline with the socialist principles of the government of Ethiopia of that time. Despite that they were useful to the manufacturers. The sweater manufacturers imported yarn with the help of the Ethiopian

Domestic Distribution Corporation (EDDC). Furthermore, the association helped the footwear manufacturers to buy leather from the Red Sea Tannery in groups. The membership of the aforementioned two associations was compulsory and there was a monthly membership fee of three Ethiopian birr. After independence both associations were dismantled because neither the current Eritrean government nor the Chamber of Commerce supported for their continuation. The problem with these associations was that they were perceived as an extension of the administrative structure of the socialist government of Ethiopia in Eritrea that ended in May 1991.

Table 8.6 Experience of footwear and textile manufacturers with groups established to assist export in Eritrea

Factor	ESPA(1975-1996)	EFPA (1975-1996)	HAGL (1999-	AATH (1997-
Initial drive to co-operate	Ethiopian government policy	Ethiopian government policy	Footwear manufacturers	Eritrean government policy
Objective	To create socialist oriented institutions	To create socialist oriented institutions	Foreign market identification	Foreign market identification
Membership	Compulsory	Compulsory	Voluntary	No membership
Contribution	Monthly contribution	Monthly contribution	Lump sum payment	No contribution
Principal agent relationship	Controlled by the government	Controlled by the Government	Lack of control mechanisms	No clearly defined relationship
Government support	Supported by the Ethiopian government (1975-1991)	Supported by the Ethiopian government (1975-1991)	Supported by the Eritrean government	Fully supported by the Eritrean government
	No support from the Eritrean government (1991-1996)	No support from the Eritrean government (1991-1996)		
Manufacturers participation	Passive	Passive	Active	Moderate
Achievement	Raw material supply	Raw material supply	Market identification	Market identification

Note: ESPA, Eritrean Sweater Producers Association, EFPA, Eritrean Footwear Producers Association HAGL: Horn of Africa and Great Lakes Marketing Company, AATH, Allied Afri Trading House. (Source: Survey 2001)

The third co-operative marketing organisation is the Horn of Africa and Great Lakes Marketing Company (HAGL). The closure of the Ethiopian market to Eritrean products encouraged the footwear and textile manufacturers to assess new opportunities and reorient exports from Eritrea to a wider international market. A few footwear and textile producers in Eritrea started to travel to the Great Lakes, South Africa and Europe to exhibit their footwear and textiles. This was done with the help of the government and donor institutions such as USAID and PRODEC.[16] Encouraged by the opportunities observed during the trade fairs, nine Eritrean footwear manufacturers established a private marketing consortium called the Horn of Africa and Great Lakes Trading Share Company, (HAGL). Although the company started its operation earlier it was formally licensed in February 1999. The company was established with a contribution of $10, 000 per member and an overdraft loan from the bank. According to the general manager of the Asmara footwear factory, a board member of HAGL, there has been disagreement as to what the objective of the company should be. Every member wanted to solve his/her problems through the company. For instance, some members wanted the company to import soles for

[16] PRODEC is a donor organization from Finland. It used to give short-term training in product design and marketing to the Eritrean footwear manufacturers

them. However, this was opposed by the Asmara footwear factory as it represents an Italian company that exports soles to Eritrea. To solve the conflict of interest, the members agreed that the main purpose of the company should be to look for new markets for their footwear particularly in the Horn of Africa and the Great Lakes region. The company also has a mandate to look for any market opportunity in the aforementioned areas.

A board of directors and a general manager administers the company. The company was expected to reduce the costs of foreign market penetration. For instance, the costs of a round trip to the Great Lakes region for a business traveller amounts to $ 2,800 – 3000. If each of the nine shoe producers were to send a marketing representative to the Great Lakes the total cost would be about $ 23,000, which is very expensive. However, the costs of a round trip for HAGL personnel to the Great Lakes region is only $ 5000, assuming that the marketing manager is a professional marketing researcher who has a better knowledge and capability than the individual manufacturers.

The general manager of HAGL visited Uganda, Yemen, and Kenya early in 1999. After visiting the different markets, the manager of HAGL informed the nine footwear manufacturers that there was a market opportunity for their footwear in Kenya. They accepted his recommendations and agreed to send one container full of footwear (about 7000 pairs). Moreover, they gave him $20,000 to finance the port and tax charges. The objective was to sell the footwear during Christmas 1999. The manager of HAGL claimed that the shipment was late and he could not sell the footwear. Two HAGL members were sent from Eritrea to Kenya to investigate the matter. Their report showed that there was a problem on the part of the manager in identifying the market opportunity and administering sales. The fact that the footwear for two member companies was sold in the market this raised a question as to whether the quality of the footwear was the problem. In connection with this the manager of the Asmara footwear factory said that it was a pity they lost the business opportunity in Kenya for about two years.

The above incident shows the difficulties with the principal agent relationship. The board of directors trusted the manager to sell the footwear and to inform them about any problem he might face in the Kenyan market. Because of the costs involved they did not put in place any control mechanism to make sure that the manager was working as intended. In April 2001, the board of directors of HAGL called a meeting to discuss the matter. During the meeting they decided to appoint a new manager for the company and follow the case of the old manager through legal procedures. This decision is evidence of the members' determination to co-operate in penetrating alternative foreign markets.

Parallel to the establishment of HAGL, the Eritrean government established a company called Allied Afri Trading House (AATH). The Eritrean Ministry of Trade and Industry administers the company. The objective of the company is to promote Eritrean products in a wider international market. According to the General Manager of AATH, planning for establishing this company started early 1997. This was the time when the Ethiopian border police were harassing the Eritrean traders and manufacturers. Despite the free trade agreement signed between the two countries the Ethiopian border police sent products that were meant for export to Ethiopia back to Eritrea. The company started its first export operations to Uganda in September 1998. Prior to the start of the export operation, people from different sectors led by the managing director of AATH were dispatched to study the Ugandan market. However, the delegation failed to observe the Ugandans' foot size, the competition from second-hand shoes importers, the Indian traders' network and the characteristics of the Ugandan traders. Thus the study was less useful in identifying the products that could be sold in the Ugandan market. Instead all the manufacturing firms in Eritrea were asked to submit their stocks to AATH and 16 containers full of 20 different kinds of products were delivered to Uganda. Only a few were sold and most of the products are in store in Kampala. The consequence of the marketing strategy followed by AATH was high sales outlet and store expenses, redundant staff recruited to administer the different types of products, and finally not being able to sell the goods in the market.

Originally the AATH was established to clear the stocks from the public manufacturing firms that were meant for the Ethiopian market. Later it extended its links to private manufacturers. Two problems were observed in its business relationship with the private institutions. Firstly, since the company is government affiliated the private manufacturers are not confident enough to deal with it openly. The second and major problem is that because the company takes the products on consignment basis, the private traders complain that they do not get their money in time. The general manager of the Dahlack footwear factory said, "*AATH is supposed to pay us after selling our footwear. But there is still payment to be settled although the products have been sold*." Eventually, without guaranty for payment the private manufacturers are no longer prepared to give their products to the company. Thus, although the company has accumulated some experience in the Ugandan market, it has not been used by the manufacturers due to the lack of communication and the low level of trust between the company and the manufacturers.

Concluding remarks: The discussion above shows that the Eritrean footwear manufacturers association and the Eritrean sweater producers association that were established before independence could not continue because they were not in line with the new industrial policy of the government. Allied Afri Trading House, which was initiated by the government, performed badly due to the wrong marketing strategy followed by the company. Finally, the start of HAGL was good and the government supported the company by allowing an overdraft loan without any collateral (Table 8.3). However, the lack of trust between the principal and the agent and the lack of control mechanisms forced the company to start all over again. From this we can conclude that for a successful co-operative business relationship among the manufacturers in Eritrea certain factors have to be fulfilled. These are (1) the drive for co-operation has to come from inside, (2) there should be trust between the principal and the agent or the principal has to design effective control mechanism for the agent's activities, and (3) support from the government is necessary. Despite the disappointing experiences the findings show the relevance of our model in the network development of process.

8.3 Internal export marketing problems

Questions concerning the internal export problems are classified into five groups of export problems based on the literature review in chapter two. These are marketing knowledge barriers, human resource barriers, financial barriers, product quality barriers, and product adaptation barriers. In the following discussion we focus on the importance and difficulty of the aforementioned export problems in the Eritrean footwear and textiles industries.

- *Export marketing knowledge barriers*

The important export marketing knowledge barriers revolve around 'lack of specific information regarding foreign agents, distributors and potential buyers' (4.06), 'lack of export marketing research by manufacturers' (4.06), 'lack of knowledge to locate foreign market opportunities' (4.02) and 'lack of pricing knowledge for foreign markets' (3.43). Solving these problems was rated as moderately difficult. Language problems were not perceived as major export barriers (See Table 8.7 and Table 8.8).

Foreign market information is scarce in the footwear and textile industries in Eritrea. The manufacturers use footwear and textile magazines as sources for their designs. They copy the designs and distribute samples to their customers. However, because of the expensiveness of designing and lack of copyright, product differentiation is very low. The lack of information and knowledge about the foreign market emanates from the limited export experience of the manufacturers. Before independence, the footwear and textile manufacturers were highly dependent on the Ethiopian market. The Ethiopian Domestic Distribution Corporation (EDDC) assumed legal responsibility for distributing the products. EDDC had links with the then established "Kebele"(city or village) shops all over the country. Consequently, the centralised distribution system did not give the footwear and textile manufacturers a chance to conduct market research to identify the needs of their customers.

- Human resource barriers

Six variables measured the importance of human resource problems. Three issues were rated as very important: 'lack of personnel trained and qualified in export marketing' (4.06), 'lack of experience in planning and executing export operations' (4.22) and 'lack of management exposure to other cultures and to different methods of doing business' (4.31). The last issue scored the highest standard deviation (1.05). An investigation of the individual responses related to this variable suggests that the higher standard deviation is mainly due to the difference in the manager's experience in travelling to foreign markets. While those who had travelled abroad to import materials (footwear components, and chemicals etc.) and to participate in trade fairs perceived the problem as moderately important, those who had not travelled abroad perceived the problem as very and extremely important. The export problem variable rated as moderately important is 'lack of domestic experts in export consulting' (3.25). Remarkably, 'low management (owner) emphasis on developing export market activities' (1.60) and 'lack of authority for management to decide on exports' (1.45) were rated as not important. The textile and footwear manufacturers rated the degree of difficulty in solving these problems in the same order. About 80% of the footwear and textiles manufacturing firms depend on family labour. The border war further reduced the availability of skilled personnel as many people were mobilised. Beside this, experts in export consulting are scarce. Although over one hundred individual consultants are registered at the Ministry of Finance only one labels himself as a management consultant for manufacturers. Most domestic experts are accountants involved in the preparation of feasibility studies (estimation of profitability and cash flow). The lack of local training programmes in leather and textile processing technology and management aggravates the problem.

-Financial barriers

Out of four financial problems included in the questionnaire the 'inability of the firm to self-finance exports' has been rated as very important (4.05). The other export problems rated as moderately important are: 'high cost of capital to finance exports' (3.45), 'strict credit requirements of the bank' (3.45), and 'lack of private sector firms providing credit' (3.50). Inability of the firms to self-finance exports scored the highest standard deviation (1.21). Examination of the individual responses to this question shows that some of them can obtain credit through collateral, while others lack the fixed assets that are needed for such purpose.

Table 8.7 Response frequencies to the importance of exporting problems

Export problem factor	Not important at all				Extremely important		Std. dev.	Std. Error mean
	1	2	3	4	5	Mean		
1) Marketing knowledge barriers								
Lack of knowledge to locate foreign marketing opportunities	0.00	0.02	0.08	0.75	0.15	4.02†	0.5668	0.06043
Lack of specific information regarding foreign agents, distributors and prospective buyers	0.00	0.03	0.05	0.74	0.18	4.06†	0.6026	0.06424
Lack of export marketing research	0.00	0.03	0.06	0.72	0.19	4.06†	0.6214	0.06624
Language problems in communicating with overseas customers	0.20	0.44	0.21	0.09	0.06	2.35	1.0832	0.11550
Lack of pricing knowledge for foreign markets	0.02	0.08	0.42	0.40	0.08	3.43	0.8414	0.08969
2) Human resource barriers								
Lack of personnel trained and qualified in export marketing	0.00	0.01	0.25	0.41	0.33	4.06†	0.7930	0.08454
Lack of experience in planning and executing export operations	0.01	0.05	0.15	0.29	0.50	4.22†	0.9435	0.10060
Lack of domestic experts in export consulting	0.01	0.11	0.57	0.23	0.08	3.25‡	0.8059	0.08591
Low management (owner) emphasis on developing export market activities	0.67	0.16	0.11	0.01	0.05	1.60	1.0454	0.01114
Lack of management exposure to other cultures and to different methods of doing business	0.01	0.09	0.10	0.16	0.64	4.31†	1.0564	0.11260
Lack of authority for management to decide on exports	0.72	0.15	0.07	0.06	0.00	1.45	0.8565	0.09130
3) Financial barriers								
Inability of the firm to self- finance exports	0.07	0.07	009	029	0.48	4.05†	1.2121	0.12920
High cost of capital to finance exports	0.06	0.11	0.21	0.55	0.07	3.45‡	0.9815	0.10460
Strict credit requirements of the bank	0.03	0.15	0.22	0.53	0.07	3.45‡	0.9458	0.10080
Lack of private sector firms providing credit	0.03	0.11	0.23	0.57	0.06	3.50‡	0.8970	0.09562
4) Product quality barriers								
Product quality problems	0.00	0.03	0.21	0.34	0.42	4.14†	0.8649	0.09220
High sensitivity of products to fashion	0.02	0.06	0.24	0.52	0.16	3.73‡	0.8775	0.09354
5) Product adaptation barriers								
Lack of adequate skill to adapt products for foreign markets	0.01	0.14	0.47	0.35	0.03	3.26‡	0.7804	0.08319
Difficulty in meeting importers product quality standards	0.03	0.14	0.64	0.19	0.00	**2.98***	0.6864	0.07317
Meeting export packaging and labelling requirements	0.05	0.20	0.60	0.14	0.01	**2.86***	0.7456	0.07948
Lack of ability to supply required quantity on continuous basis	0.02	0.07	0.17	0.23	0.51	4.13†	1.0741	0.11450
6) Industry structure								
Lack of adequate quality of raw materials	0.08	0.28	0.09	0.18	0.37	3.46‡	1,4300	0.15240
Too small in size to initiate export operations	0.00	0.13	0.16	0.28	0.43	4.02†	1,0502	0.11200

Continued…

7) Competition								
Strong competition from domestic producers in the foreign market	0.31	0.44	0.14	0.08	0.03	2.09	1,0354	0.11040
Strong competition from other foreign producers in potential markets	0.05	0.11	0.25	0.51	0.08	3.46‡	0.9583	0.10220
8) Customer barriers								
Poor image of products in foreign markets	0.03	0.38	0.43	0.16	0.00	2.71	0.7724	0.08233
Insufficient foreign demand	0.07	0.35	0.47	0.10	0.01	2.63	0.8049	0.08580
Country of origin effect	0.07	0.33	0.49	0.11	0.00	2.64	0.7737	0.08248
9) Procedural barriers								
Lack of knowledge about export procedures and practices	0.08	0.56	0.32	0.03	0.01	2.34	0.7253	0.07320
Extensive export documentation requirements	0.09	0.59	0.28	0.04	0.00	2.26	0.6694	0.07136
Problems in making arrangements for getting paid	0.09	0.44	0.28	0.15	0.04	2.59	0.9665	0.10300
Problems in making shipment arrangement and meeting delivery dates	0.00	0.05	0.08	0.41	0.46	4.29†	0.8046	0.08577
Restrictive foreign tariffs, rules and regulations	0.01	0.07	0.26	0.53	0.13	3.69‡	0.8215	0.08757
10. Government policy								
Lack of government assistance in overcoming export barriers	0.05	0.11	0.60	0.24	0.00	**3.03***	0.7342	0.07827
Red tape in public institutions	0.77	0.08	0.09	0.06	0.00	1.43	0.8814	0.09396
Lack of export promotion programmes sponsored by the government	0.05	0.09	0.23	0.28	0.35	4.17†	0.8649	0.09220
Lack of export promotion programmes sponsored by international organisations (eg. UNIDO)	0.05	0.08	0.50	0.37	0.00	3.20‡	0.7755	0.08267
Protectionist barriers	0.05	0.09	0.17	0.57	0.12	3.63‡	0.9730	0.10370
Inadequate diplomatic support	0.08	0.07	0.26	0.58	0.01	3.37‡	0.9385	0.10000
11. Exogenous economic barriers								
Political instability in foreign markets	0.05	0.11	0.24	0.38	0.22	3.61‡	1.0874	0.11590
Lack of private sector firms providing export services	0.05	0.12	0.44	0.33	0.06	3.22‡	0.9063	0.09661
High interest rates	0.05	0.09	0.45	0.40	0.01	3.23‡	0.8164	0.08703
High freight costs to foreign markets	0.02	0.07	0.32	0.53	0.06	3.53‡	0.8016	0.08545
High international communication costs (telephone fax, travel)	0.03	0.14	0.42	0.40	0.01	3.21‡	0.8228	0.08771
High value of domestic currency	0.08	0.16	0.48	0.26	0.02	**2.98***	0.9159	0.09764

Note: † Denotes very important problems, ‡ Denotes moderately important problems, * Each export problem mean is tested against the value of 3, which is the mid point of the 5-point scale. The values with mean in bold differ significant from 3 at the .05 level.

It is moderately difficult for the firms to find solutions for the financial problems. All the aforementioned problems are given more or less the same rating. The factories need foreign currency to import raw materials such as yarn, glue, soles, nails, colours, buttons, and different types of chemicals used to make footwear and textiles. The sweater manufactures are highly affected by this problem as they import the yarn they use to make the sweaters and pay in foreign currency. Currently the Eritrean banks have stopped offering foreign currency and the importers have to buy it on the black market[3]. Because of the high foreign currency-selling rate on the black market, the cost of the imported raw materials has increased.

The Commercial Bank of Eritrea (CBE) requires collateral (only buildings, trucks, and bank accounts are accepted) for export credits. The value of the collateral has to be 150% of the credit offered, which further restricts the smaller firms' export activities. Manufacturers consider the bank loan interest rate as very high: 8.5% for exporters. Moreover, the pre and post shipment credit, so critical to facilitate export transactions, is not readily available. The criteria that CBE uses for granting overdrafts depend primarily on the value of the collateral and the past relationship with the bank, rather than on factors such as earning streams, profitability and payback capability for the underlying project or transaction. The monopoly of the banking service in Eritrea by the government is another factor that tightens the credit requirement. Although proclamations Nos. 93/1997 and 94/1997 laid the regulatory basis for the establishment of additional financial institutions within the country, at present all commercial transactions are carried out through the government-owned Commercial Bank of Eritrea.

The bank requires a financial statement and feasibility studies of the project that the applicant is planning to implement as a precondition for credit. Most small businesses in Eritrea do not prepare financial statements. They have limited resources and it is expensive and time consuming for them. Moreover the entrepreneurs hardly possess the basic knowledge of an accounting information system. This is mainly aggravated by the fact that the bank has no mechanism to collect information from the SMEs. Consultants in Eritrea require a significant amount of money to fill these gaps. To sum up, the current export financing system in the country and the financial sector in general are too rudimentary to meet exporters financing needs. Exporters rely on self-finance or the overdraft facilities in the commercial banks and the costs are high by international standards. Banking transactions are time consuming. The researcher observed long queues in the bank and a customer has to wait at least forty-five minutes to get served.

-*Product quality barriers*

Two export problems that are related to product quality were included in the questionnaire. While 'poor product quality' was rated as very important (4.14), 'high sensitivity of products to fashion' was rated as moderately important problem (3.73). Both problems were rated as a moderately difficult. Leather footwear produced by the footwear manufacturers in Eritrea is of reasonable quality. However, designs are outdated and more oriented towards the classic Italian style. The product quality problem in the footwear manufacturing firms in Eritrea is also due to the poor quality of the leather produced by the Red Sea Tannery. The large textile companies are able to produce export quality T-shirts, however, further improvements in the production technology are necessary to reduce the number of t-shirts not passing the quality standard.

-Product adaptation barriers

Product adaptation barriers are problems related to the firm's flexibility to adjust its products and capacity to the needs of the customer. 'Lack of adequate skill to adapt the product to foreign markets' was rated as moderately important (3.26), while a 'lack of ability to supply the required quantity on a continuous basis' (4.13) was rated as very important. The evidence collected from the newly established export promotion department in the Ministry of Trade and Industry supports this argument:

"A *visiting businessman from Austria came to us in 1997 and proposed to buy footwear uppers. According to the proposal the Austrian businessman would provide all footwear accessories and the Eritrean footwear manufacturers would make uppers in accordance with the design given by the Austrian buyer. The plan was to take uppers from Eritrea and fix the sole in Indonesia and Spain. The size of the order was about 2 million pairs per annum. A committee was established to see how several footwear manufacturers could share the order. Eventually it became clear that the probability of getting standard footwear was very low. As a result the contract was cancelled*."

This factor also scored the highest standard deviation (1.07). The rating concerning this problem is expected to vary between small and medium size footwear and textiles manufacturing firms in Eritrea. While some of the medium size manufacturing firms rated the problem as moderately important, some of the small-manufacturing firms rated the problem as extremely important. However, this difference is not significant if small and medium sized enterprises are compared (see the next Section also). When asked to rate the export problems in terms of difficulty, only the 'lack of ability to supply the required quantity on a continuous basis' (3.97) was identified as a moderately difficult problem.

The above evidence reveals that to accommodate large orders the Eritrean footwear manufacturers have to expand their production capacity through product standardization and sharing of resources.

8.4 External export marketing problems

Questions concerning the external export problems are classified into six groups based on the literature review in chapter two: industry structure barriers, competition, customer barriers, procedural barriers, government (direct) problems and exogenous export (indirect) barriers (see Table 8.7 and Table 8.8).

- *Industry structure barriers*

Two variables were analysed under the heading *industry structure barriers*: 'the lack of adequate quality of raw materials' was rated as a moderately important problem (3.46), and 'too small in size to initiate export operations' was rated as a very important problem (4.02). In this group both variables scored relatively high standard deviations. The difference in perception in the lack of adequate quality of raw materials emanates from the difference in the availability of leather and cotton in the footwear and textiles industries. Good quality cotton is produced in the western lowlands of the country. However, the footwear manufacturers have quality problems with the leather they receive from the only tannery in the country that produces the leather for the footwear industry. To meet the requirements of international markets the leather processing and finishing procedure in the Red Sea Tannery in Eritrea must be improved. The footwear and textile manufacturers surveyed rated both issues as moderately difficult problems.

- *Competition*

Two variables were included in the questionnaire. These are 'strong competition from domestic producers in the potential markets' and 'strong competition from foreign producers in potential markets'. The footwear and textiles manufacturers regarded the first problem variable as not important (2.09) and the second problem variable as moderately important (3.46). Comparable ratings were given to express the difficulty of the problem. We recall that competition to Eritrean footwear and textile manufacturers in the foreign markets prior to 1998 only concerned experiences in the Ethiopian footwear and textile market. The competition to the Eritrean manufacturers came from manufacturers in Ethiopia and other foreign exporters. While the competition from the foreign manufacturers was strong, the competition from Ethiopian manufacturers was very weak. In the course of time the duty free agreement between Ethiopia and Eritrea gave the Eritrean footwear and textiles manufacturers an advantage to compete against imports from countries such as China, Indonesia, Bangladesh, Pakistan and Taiwan. Eritrean exporters were also successful in competing with the Ethiopian textiles and footwear manufacturers. During 1995-1998, the Ethiopian footwear and textiles manufacturers asked the Ethiopian government to tax the Eritrean footwear and textiles exported to Ethiopia.

- *Customer barriers*

Three factors useful to measure the perception of the footwear and textiles manufacturers in Eritrea towards customer barriers in the export market were included in the questionnaire. These are 'poor image of products in foreign markets' (2.71), 'insufficient foreign demand' (2.63), and 'country of origin effect' (2.64). The ratings for the difficulty in solving the problems were similar. We have already noted that many manufacturers do not have a lot of experience with exports to countries other than Ethiopia. However, Eritrea is a new country and the long struggle for independence has created a strong nationalist attitude. This may be the reason why the footwear and textiles manufacturers in Eritrea underestimate the image problems.

- *Procedural barriers*

Five variables related to procedural barriers were included in the questionnaire. The factors and their ratings are: 'lack of knowledge about export procedures and practices' (2.34), 'extensive export documentation requirements' (2.26), 'problems in making arrangements for getting paid' (2.59), 'problems in making shipment arrangement and meeting delivery dates' (4.29), and 'restrictive foreign tariffs, rules and regulations' (3.69). Except for two variables, these issues were rated as not important. In line with this, two variables were perceived as difficult: 'shipment arrangements and meeting delivery dates' (3.93) and 'restrictive foreign tariff rules and regulations' (3.60).

Meeting delivery schedules is one factor that makes a difference between manufacturers. The lack of information about the departure and arrival of ships in Eritrea makes it difficult for manufacturers to sign a contract with buyers and to specify the date, hour, and mode of transportation. The Eritrean shipping and transit agency service (ERSTAS) is a state owned company with limited experience in the shipping business. The shipping service offered by the aforementioned company is highly characterised by delays and cancellations. There are also complaints about export and import clearance in the customs office. Due to shortage of manpower the clearing process by the customs authority is overly time consuming and many of the procedures are not standardised. Recently, the tax office issued a new customs proclamation no.112/2000. The proclamation is meant to replace the old customs laws. The new customs law transfers the responsibility from the customs office to the individual importer or exporter. Under the new customs law, the exporter or importer is required to bring genuine invoices, packing lists or bank permit. If there is a problem in the aforementioned documents the exporter or importer will take the responsibility. When it is implemented, the new customs proclamation is expected to solve the current problems. However, the major problem with this new customs proclamation is that the customs office still has to develop the capacity and means to certify all the invoices, and packing lists.

In the investment code export is free of tax. Raw materials used for exportable products are subject to 3% sales tax, which is refunded if this raw material is used for exportable finished products. However, no one has received input related sales tax refunds after having completed exports, even though many exports to Ethiopia (eg. sweaters) were based entirely on imported inputs. Imported raw materials are charged a 2% customs duty, which further hampers export initiatives.

- *Government policy*

Six variables measured the importance and difficulty of problems rooted in government policies. The variable considered as not important by the footwear and textiles manufacturers in Eritrea was ‘red tape in public institutions’ (1.43). The footwear and textiles manufacturers surveyed regarded red tape in public institution as almost non- existent. This is the result of the strong culture in Eritrean society against corruption. The variable rated as very important was ‘lack of government sponsored export promotion programmes’ (4.17). The three variables that were rated as moderately important were ‘lack of export promotion programmes sponsored by international organisations’ (3.20), ‘protectionist barrier’ (3.63), and finally ‘inadequate diplomatic support’ (3.37). The footwear and textile manufacturers rated the difficulty of the six export variables somewhat lower but in the same order of importance.

In general government policy follows the incentives that result from the free market economy. Although such a policy will sharpen the competitiveness of the domestic manufacturing firms in the long run, we note that the current footwear and textile manufacturing industries in Eritrea are not yet competitive. In the short term there is a need for government support, in order to make the companies competitive in the international arena. The Eritrean government established an export promotion office (EPO) in 1999. However, the organisational set up and its relationship with governmental and private bodies is not well defined. The EPO is under-staffed and it is suffering from lack of funds. The result is that EPO has very weak link with the footwear and textile manufactures and the private sector in general. Moreover, the Chamber of Commerce is still in transition from a public institution to a private institution and offers little help to manufacturers.

- *Exogenous export barriers*

Exogenous export barriers are rooted in the macro economic policy of the country and international trade agreements. Again we observe that the ratings for problems and difficulty correspond. Six variables were included: ‘political instability in foreign markets’ (3.61), ‘lack

Table 8.8 Response frequencies to the difficulty of exporting problems

Export problem factor	Not difficult at all			Extremely difficult				
	1	2	3	4	5	Mean	Std.dev	Std.error
1) **Marketing knowledge barriers**								
Lack of knowledge to locate foreign marketing opportunities	0.01	0.02	0.16	0.71	0.10	3.85‡	0.6528	0.06959
Lack of specific information regarding foreign agents, distributors and prospective buyers	0.00	0.06	0.18	0.65	0.11	3.81‡	0.7038	0.07502
Lack of export marketing research	0.01	0.06	0.19	0.66	0.08	3.73‡	0.7349	0.07834
Language problems in communicating with overseas customers	0.19	0.51	0.21	0.09	0.00	2.19	0.8558	0.09123
Lack of pricing knowledge for foreign markets	0.06	0.10	0.40	0.43	0.01	3.23‡	0.8709	0.09284
2) Human resource barriers								
Lack of personnel trained and qualified in export marketing	0.04	0.02	0.24	0.53	0.17	3.78‡	0.8769	0.09348
Lack of experience in planning and executing export operations	0.03	0.07	0.16	0.46	0.28	3.88‡	1.0107	0.10770
Lack of domestic experts in export consulting	0.05	0.10	0.52	0.30	0.03	**3.17***	0.8335	0.08850
Low management (owner) emphasis on developing export market activities	0.63	0.23	0.06	0.05	0.03	1.61	1.0220	0.10890
Lack of management exposure to other cultures and to different methods of doing business	0.08	0.01	0.06	0.38	0.48	4.15†	1.1335	0.12080
Lack of authority for management to decide on exports	0.67	0.13	0.09	0.09	0.02	1.67	1.1113	0.11850
3) Financial barriers								
Inability of the firm to self finance exports	0.08	0.19	0.18	0.51	0.04	3.22‡	1.0584	0.11280
High cost of capital to finance exports	0.03	0.19	0.23	0.49	0.06	3.34‡	0.9695	0.10330
Strict credit requirements of the bank	0.02	0.19	0.19	0.53	0.07	3.42‡	0.9556	0.10190
Lack of private sector firms providing credit	0.05	0.15	0.26	0.48	0.07	3.37‡	0.9745	0.10390
4) Product quality barriers								
Product quality problems	0.02	0.10	0.30	0.52	0.06	3.48‡	0.8441	0.08998
High sensitivity of products to fashion	0.01	0.08	0.28	0.55	0.08	3.60‡	0.7957	0.08482
5) Product adaptation barriers								
Lack of adequate skill to adapt products for foreign markets	0.02	0.18	0.59	0.19	0.01	**2.98***	0.7191	0.07666
Difficulty in meeting importers product quality standards	0.05	0.17	0.64	0.15	0.00	**2.88***	0.7019	0.07482
Meeting export packaging and labelling requirements	0.08	0.23	0.61	0.07	0.01	2.70	0.7605	0.08107
Lack of ability to supply required quantity on continuous basis	0.02	0.07	0.27	0.18	0.46	3.97‡	1.1036	0.11760
6) Industry structure								
Lack of adequate quality of raw materials	0.09	0.29	0.09	0.26	0.27	3.34‡	1.3804	0.14710
Too small in size to initiate export operations	0.01	0.11	0.16	0.32	0.40	3.97‡	1.0611	0.11310

Continued…

7) Competition								
Strong competition from domestic producers in the foreign market	0.30	0.48	0.16	0.05	0.01	2.01	0.8905	0.09493
Strong competition from other foreign producers in potential markets	0.00	0.05	0.21	0.64	0.10	3.79‡	0.6808	0.07257
8) Customer barriers								
Poor image of products in foreign markets	0.03	0.34	0.48	0.15	0.00	2.73	0.7504	0.79990
Insufficient foreign demand	0.06	0.39	0.46	0.10	0.00	2.60	0.7511	0.08007
Country of origin effect	0.04	0.32	0.57	0.07	0.00	2.65	0.6761	0.07208
9) Procedural barriers								
Lack of knowledge about export procedures and practices	0.08	0.64	0.25	0.02	0.01	2.25	0.6823	0.07273
Extensive export documentation requirements	0.10	0.66	0.22	0.02	0.00	2.15	0.6231	0.06642
Problems in making arrangements for getting paid	0.9	0.46	0.34	0.11	0.00	2.47	0.8162	0.08700
Problems in making shipment arrangement and meeting delivery dates	0.02	0.08	0.12	0.51	0.27	3.93‡	0.9565	0.10200
Restrictive foreign tariffs, rules and regulations	0.06	0.06	0.21	0.57	0.10	3.60‡	0.9534	0.10160
10) Government policy								
Lack of government assistance in overcoming export barriers	0.07	0.13	0.60	0.20	0.00	**2.94***	0.7784	0.08298
Red tape in public institutions	0.77	0.13	0.06	0.04	0.00	1.37	0.7924	0.08447
Lack of export promotion programmes sponsored by the government	0.01	0.15	0.60	0.23	0.01	**3.07***	0.6818	0.07268
Lack of export promotion programmes sponsored by international organisations (e.g. UNIDO)	0.00	0.09	0.59	0.32	0.00	3.22‡	0.6013	0.06410
Protectionist barriers	0.09	0.06	0.24	0.52	0.09	3.46‡	1.0499	0.11190
Inadequate diplomatic support	0.03	0.09	0.30	0.56	0.02	3.44‡	0.8285	0.08320
11) Exogenous export barriers								
Political instability in foreign markets	0.03	0.10	0.27	0.44	0.16	3.57‡	0.9910	0.10560
Lack of private sector firms providing export services	0.01	0.22	0.48	0.26	0.03	**3.09***	0.8114	0.08649
High interest rates	0.06	0.09	0.44	0.41	0.00	3.20‡	0.8327	0.08876
High freight costs to foreign markets	0.03	0.05	0.35	0.50	0.07	3.52‡	0.8301	0.08849
High international communication costs (telephone, fax, travel)	0.06	0.15	0.46	0.33	0.00	**3.06***	0.8414	0.08969
High value of domestic currency	0.14	0.13	0.46	0.26	0.01	**2.88***	0.9876	0.10530

Note: † Denotes very difficult problems, ‡ Denotes moderately difficult problems, * Each export problem mean is tested against the value of 3, which is the mid point of the 5-point scale. The values with mean in bold differ significantly from 3 at the .05 level.

of private sector firms providing export services' (3.22), 'high interest rates' (3.23), 'high freight costs to foreign markets' (3.53), 'high international communication costs' (telephone, fax, travel expense) (3.21) and finally 'high value of domestic currency' (2.98).

Political instability has been a stumbling block affecting the trade relationships between Eritrea and Ethiopia. Congruently, the poor political relations between Sudan and Eritrea hindered the flow of raw materials (cotton and leather) from Sudan to Eritrea. The lack of private sector firms providing an export support service is also another problem for the Eritrean footwear and textiles manufacturing firms. The presence of trained and well-experienced agents has been the requirement of the footwear and textile buyers interviewed in the Netherlands. In the future the standards institution in Eritrea can fill this gap and can be useful in certifying whether the requirements of the buyer are fulfilled. There are two other inspections institutions in Eritrea. These are Star Plc and Gelatly Hankey. While the latter is specifically an agent for Lloyds insurers the former is a correspondent inspection company to multinational quality certification companies such as Societe Generale de Surveillance S.A (SGS), Cotectna Inspection East African limited (COTNS), Control Union and Vigleinzone Adriatica Spa. According to the General Manager of the company, Star Plc does not wish to be a sole agent for one multinational inspection company as the volume of business coming through one company is very limited. Star Plc. offers an incomplete inspection service for goods exported from Eritrea because the company does not have its own laboratory. It is dependent on the laboratory of the Eritrean standard institution, which is also under the process of construction. Because the volume of business for an inspection company in Eritrea is very limited it is not feasible for a private inspection company to establish a laboratory. Thus the government has to take an initiative in establishing such an organisation in the national interest so that other private inspection companies will use the service.

Concluding remarks: The results from the analysis of export problems of footwear and textiles manufacturing firms in Eritrea makes it clear that most of the problems discussed in the literature are also relevant for the Eritrean companies. The findings confirm that the footwear and textiles manufacturing firms lack information to locate foreign market opportunities. Moreover, exporting activities are hampered by a lack of finance, competent staff, and the capacity to accommodate large orders. Government help in terms of collection and distribution of information is perceived as inadequate. It is remarkable that, contrary to what is suggested in the literature, there are no major differences observed between the importance and the difficulty solving the export problems. Only minor differences in the ratings are found and the ranking of the problems follows the same order. Apparently, the perceived importance of the problem coheres strongly with the difficulty in solving it. Overall, the long time dependence of the footwear and textile manufacturers, on the Ethiopian market has contributed to the problems. However, for successful access to new markets a proper institutional environment that enables the companies to study foreign market opportunities and to develop the products demanded has to be created.

8.5 Differences in perception of export problems

As Tables 8.7 and 8.8 have shown, the ratings for the importance and the difficulty of the export problems cohere. Consequently, we focus on the analysis of the difficulties in solving the export problems. A discriminant analysis will be applied to check for differences between the two distinguished categories of manufacturers. The steps in the discriminant analysis are described in chapter five.

- Difference in perception of the difficulty of exports problems between footwear and textile manufacturers

The objective of this sub-section is to determine which of the marketing problems account for most of the differences in the average score between the footwear and textile manufacturers. In this analysis the criterion variable is degree of difficulty attached to the 45 export problems included in the study. The dependent variable consists of two groups.

Table 8.9 Standard discriminant function coefficients (Difficulty: textile-footwear)

Discriminating variables	Coefficients	Averages	
		Footwear	Textiles
Lack of adequate quality raw materials	1.2040	4.34	2.47
Difficulty in meeting importers quality standards	-0.4250	2.83	2.94
Strong competition from domestic producers in the foreign market	-0.3640	1.98	2.04
Problems in making shipment arrangement and meeting delivery dates	-0.3540	3.91	3.95
Wilk's lambda=0.427; chi square=71.51; d.f.= 4; P= <0.05, N = 88,			

*The analysis is based on an overall sample

While the first group comprises 47 textile manufacturers, the second group comprises 41 footwear manufacturers. In this study employing a stepwise discriminant analysis derived the discriminant function. A Wilks' lambda of 0.427 and a chi square value of 71.51 with 4 degrees of freedom had a zero probability of erroneously rejecting the null hypothesis that there are no differences in perceptions. The derived discriminant function had a canonical correlation of 0.87 whose squared value indicates that 76% of the variance in the dependent variable is accounted for by this model. The eigenvalue for the function is 1.343, which indicates a superior function. The results of the jackknife technique in Table 8.10 demonstrate that the proportion of exporting firms in the overall samples correctly classified is 84.1%, which is a sound result.

Table 8.10 Classification results (Difficulty: textile-footwear)

	Predicted group				
	Textiles		Footwear		
	Number	%	Number	%	Actual Total
Textile	36	76.6	11	23.4	47
Footwear	3	7.4	38	92.6	41
Predicted total	39		49		88
Percent of cases correctly classified is 84.1%, Proportional chance criterion $(47/88)^2 + (41/88)^2 = 51\%$ Maximum chance criterion (47/88)=53%					

As the group sizes of textile and footwear exporters were unequal in the total sample, the proportional chance criterion was utilised to test the validity of the discriminant function. The criterion gave a value of 51% while the maximum chance criterion, which indicates the model classification accuracy if all responding firms fall into the larger of the two groups, had a value of 53%. Since the resulting overall classification level of 84.1% is significantly higher than the values yielded by both the proportional and the maximum chance criteria, the derived discriminant function in this study is a valid tool for predicting perception of exporting problems. Only four export problem variables were found to be significantly different between the two manufacturer categories. One problem area is somewhat more difficult to solve for the footwear manufacturers: 'the lack of adequate quality of raw materials'. Three export problems are more difficult to solve for the textile companies: ‘difficulty in meeting importer product quality standards’, ‘strong competition from domestic producers in the foreign market’, and ‘problems in making shipment arrangement and meeting delivery dates’.

In particular the difference between the categories in averages for meeting the quality standards are remarkable. This also contradicts the observed difference with regard to the availability of quality of raw materials for the footwear manufacturers. The higher rating for meeting quality standards by textile manufacturers may be explained by the fact that at present textile manufacturers are less active in searching for new export markets. Many of them had large orders from the army. We conclude that the results of the discriminant analysis support our expectation that the quality of inputs is more difficult to solve for footwear manufacturers.

-Difference in perception of the difficulty of exports problems between medium-sized and small footwear and textiles manufacturers in Eritrea

The objective of this subsection is to determine which of the independent variables account for most of the differences in the average score between the medium-sized and small footwear and textile manufacturers regarding the perception of the difficulty of export problems. In this analysis the criterion variable is the degree of difficulty attached to the 45 export problems. The dependent variable was the group medium-sized and small manufacturers. While the first group comprises 44 medium-sized manufacturers the second group comprises 44 small manufacturers.

Table 8.11 Standard discriminant function coefficients (Difficulty: Medium-small)

Discriminating variables	Coefficients	Average	
		Medium	Small
High cost of capital to finance exports	0.6000	2.80	3.89
Lack of experience in planning and executing export operations	0.3970	3.34	4.45
Lack of personnel trained and qualified in export marketing	0.3750	3.34	4.20
Strong competition from foreign manufactures in the potential market	0.3500	3.55	4.05
Product quality problems	0.3360	3.05	3.89
Wilk’s lambda=0.398; chi square=76.82; d.f.= 5; P= <0.05, N = 88,			
* The analysis is based on an overall sample			

In this analysis a stepwise discriminant analysis selection procedure was employed. A Wilks’ lambda of 0.398 and a chi square value of 76.82 with 5 degrees of freedom had a zero probability of erroneously rejecting the null hypothesis that there are no significant differences in perceptions of the difficulty of the exporting problems between the large and small manufacturers. The derived discriminant function had a canonical correlation of 0.78 whose squared value (0.88) indicates that 88 % of the variance in the dependent variable is accounted for by this model. The eigenvalue for the function is 1.55, which indicates a superior function. Only five export problem variables were found to be more difficult to solve for small footwear and textiles manufacturers: ‘high cost of capital to finance exports’, ‘lack of personnel trained and qualified in export marketing’, ‘lack of experience in planning and executing export operations, ‘strong competition from other foreign manufactures in the potential market and product quality problems’. The differences between the averages are significant. Therefore we conclude that the discriminant analysis provides some support for our previous argument that shortage of finance, trained personnel, and lack of experience in planning and executing export operations may be more difficult to solve for small footwear and textiles manufacturers.

The results of the jackknife technique in Table 8.12 demonstrate that the proportion of manufacturing firms in the overall samples correctly classified is 96.6%. As the group sizes of large and small manufacturers were equal in the total sample, the proportional chance criterion was not used to test the validity of the discriminant function.

Table 8.12 Classification results (Difficulty: Medium-small)

	Predicted group				
	Textile		Footwear		
	Number	%	Number	%	Actual Total
Small	43	97.7	1	2.3	44
Medium	2	4.5	42	95.5	44
Predicted total	45		43		88
Percent of cases correctly classified is 96.6%					

8.6 Attitudes of managers in the footwear and textile-manufacturing firms in Eritrea towards business networks

In the above analysis we noticed that using networks could ease some of the export problems. Networks can be used to solve financial and human resource problems, market information problems, raw material and product quality problems, production capacity problems etc. Accordingly, we asked the managers in the footwear and textile manufacturing firms about their attitude towards business networks with suppliers, fellow manufacturers and buyers. The attitudes of the managers are important to the effectiveness of both horizontal and vertical networks. After all, they are the people who can implement or reject the networking proposal. Ten factors related to personal attitudes of the managers (Bamberger, 1994; Van Gils, 2000[17]) were discussed with the managers for this purpose. The managers rated the importance of each factor on a 5-point Likert scale. Table 8.13, summarises the results.

Table 8.13 Attitudes of manufacturers to wards factors related to business network relationship between firms (n=88)

Item	Mean response	Std. Deviation
Independence in management	**2.9432***	0.7328
Independence in ownership	**3.0568***	0.7169
Creating co-operative agreement	4.2614	0.4419
Increasing market share in domestic market	3.5455	0.5854
Increasing market share in foreign market	3.6818	0.8380
Offering new product to the market	4.1705	0.7147
Increasing product quality	4.5000	0.6251
Detecting new market opportunities	4.1932	0.8145
Offering a good price product relationship	3.7159	0.7420
Adopting new technologies	4.6477	0.6616

*Each factor mean is tested against the value of 3, which is the mid point of the 5-point scale. Those factors with mean value in bold differ significantly from 3 at the .05 level.

Five factors were rated as very important. These are ‘adopting new technologies’ (4.65), ‘increasing product quality’ (4.50), ‘creating co-operative agreement’ (4.26), ‘detecting new market opportunities’ (4.19), and finally ‘offering new products to the market’ (4.17). The

[17] Van Gils (2000) used the factors to identify the drivers for co-operation.

high rating for the first factor may emanate from the need to make investment to replace the obsolete machines in the textiles industry. This can contribute to improving the product quality and getting acceptance in new markets. However, the Eritrean footwear and textiles manufacturing firms have limited financial and human resource capability so that creating a co-operative (network) relationship with fellow manufacturers can serve as a way of resource mobilisation, product standardisation and learning.

The interesting point here is that the factor “creating co-operative agreement with suppliers, manufacturers and buyers” is rated as very important. From this we conclude that the footwear and textile manufacturers in Eritrea have a positive attitude towards business networks. Independence in management and ownership is important but if a network is able to solve major problems by increasing product quality and creating new markets on the basis of co-operative agreement there is room for strong forms of co-operation.

8.7 Conclusion

The objective of this chapter is to identify the important (relevant) and difficult export problems for the footwear and textiles manufacturing firms in Eritrea. The evidence in the above analysis suggests that the footwear and textiles manufacturers in Eritrea attach more importance and difficulty to some export problems than to others. These are; lack of knowledge to locate foreign market opportunities (4.02), lack of specific information regarding foreign agents, distributors and prospective buyers (4.06), lack of marketing research (4.06), lack of personnel trained and qualified in export marketing (4.06), lack of experience in planning and executing export operations (4.22), lack of management exposure to other cultures and to different methods of doing business (4.31), inability of the firm to self finance exports (4.05), product quality problems (4.14), lack of ability to supply required quantity on continuous basis (4.13), too small in size to initiate export operations (4.02), problems in making shipment arrangement and meeting delivery dates (4.29), and lack of export promotion programmes sponsored by the government (4.17). The figures in parenthesis show that all the above export problems are rated as very important. Similarly, all the above export problems except one are rated as moderately difficult. The one rated as very difficult is lack of ability to supply a required quantity on continuous basis.

Other export problems rated as moderately important are lack of pricing knowledge for foreign market (3.40), lack of domestic experts in export consulting (3.25), high cost of capital to finance exports (3.48), strict credit requirements of the bank (3.48), lack of private firms providing credit (3.53), high sensitivity of products to fashion (3.74), lack of adequate quality of raw materials (3.46), strong competition from other foreign producers in potential markets (3.44), and restrictive foreign tariffs rules and regulations (3.69) as well as political instability in foreign markets (3.64), high interest rates (3.21), high freight cost to foreign markets (3.55), and high international communication costs (3.20). All the aforementioned problems are rated as moderately difficult.

The problems mentioned above show that the footwear and textiles manufacturing firms in Eritrea are lacking the factors that are critical to the firms’ success in the international footwear and textile market. A firm, which does not possess knowledge about the potential markets and the agents, distributors and buyers operating in the market, cannot be successful in its foreign market operations. According to the market study reports in chapter six and chapter seven of this thesis the footwear and textiles manufacturers in Eritrea have market opportunities in Europe and the Great Lakes region. Yet the lack of forward, backward and lateral network relationships is an obstacle to exploiting the available opportunities. Large orders from the Austrian businessman were cancelled because of lack of capacity. The cotton growing and leather tanning factories that were integrated by the Italian investors with the textiles and footwear manufacturers respectively are slowly being separated. The cheap raw material supply to the textiles and footwear manufacturing firms is becoming questionable because of separate ownership and lack of a business-like attitude. Moreover, the absence of a close working relationship between the Red Sea Tannery and the footwear manufacturers contributes to the quality problem of the leather supplied to the manufacturers. Most importantly the lack of ties with European and other buyers is the main reason for lack of market and outdated product designs.

Establishing a vertical business network with textile and footwear buyers in the Netherlands and Uganda, with cotton and leather suppliers in Eritrea and finally establishing a horizontal business network among the footwear and textiles manufacturers in Eritrea are preconditions for penetrating the European and Great Lakes footwear and textile export markets. Our findings suggest that the attitudes of the managers of the footwear and textile companies in Eritrea towards the idea of establishing horizontal and vertical business networks are positive. The positive attitude of the footwear and textile manufacturers towards entering into a business network relationship with suppliers, manufacturers and buyers is a precondition to the emergence of the network. Moreover, it reduces the time that may be spent by the network brokers in bringing the manufacturers to the network. It also increases the commitment of the manufacturers towards the network success. This is important mainly because committed network members are ready to spend more time and invest financial and human resources in making the network relationship work. However, it is worthwhile remembering that networks are not the solution to all the export problems regarded as important and difficult by the footwear and textiles manufacturing firms in Eritrea.

Chapter 9

Empirical Study of Export Marketing Problems of Manufacturing Firms in Eritrea: Case Studies

9.1 Introduction

Several case studies are conducted in this chapter. The objective is to examine and understand the export problems that are regarded as important by footwear and textiles manufacturers in Eritrea. Moreover, we look for vertical and horizontal business networking opportunities among leather and cotton producers, footwear and textiles manufacturers and footwear and textiles buyers. Six footwear and six textiles manufacturing firms in Eritrea were selected for this purpose. The footwear and textiles manufacturers were asked questions concerning the history of the factory, products produced, the production capacity, their export experience the relationship with suppliers, buyers and other footwear and textiles manufacturers and of course the problems they encounter in their operations.

This chapter has two main sections. The first section analyses the results of the interviews with the managers of the six footwear-manufacturing firms. This section ends with conclusions drawn on the findings of the studies of on the selected footwear manufacturing firms. Similarly, the second section analyses the results of the interviews with the managers of the six textile manufacturing firms and draws conclusion on the findings.

9.2 Footwear manufacturing firms

9.2.1 Case study results

The six footwear manufacturers are the Expo Shoe Factory, the Asmara Footwear Factory, the Negusse Shoe Factory, Dahlack Footwear Factory, Delux Shoe Factory and the Bini Shoe Factory.

Table 9.1 Some characteristics of the six cases

Name of the footwear factory	Set up year	Number of employees	Type of footwear produced	Exported to
Expo Shoe Factory	1992	90	Leather and plastic	Ethiopia, Kenya
Asmara Footwear factory	1998	30	Leather	Yemen, Kenya
Negusse Shoe Factory	1968	50	Leather and plastic	Ethiopia, Kenya
Dahlack Footwear Factory	1964	612	Leather and plastic	Ethiopia, Uganda
Delux Shoe Factory	1963	170	Leather and plastic	Ethiopia, Uganda
Bini Shoe Factory	1949	50	Leather	Holland, Ethiopia, Uganda

Note: The export to Uganda is carried out through Allied Afri Trading House.

Expo Shoe Factory

The Expo Shoe Factory was established in 1992. Its initial capital was 1,296,000[18] Ethiopian birr with a total employment opportunity for 90 employees. The initial production capacity of the factory was 5000 pairs of plastic shoes and 600 pairs of leather shoe per day. Before the

[18] 1 US dollar was equivalent to 6 Ethiopian birr.

owner established this factory, he worked as a sole importer. He was importing and distributing soles to footwear manufacturers in Ethiopia. Later he decided to diversify into footwear production. By importing the footwear parts from Italy and signing an assembling contract with artisans in Addis Ababa he managed to sell footwear to the Ethiopian consumers. Finally, he established the Expo Shoe Factory in Asmara. Although the factory was located in Asmara the target market was Ethiopia. While about 90% of the total footwear manufactured was exported to Ethiopia only 10% was sold in the domestic market. The factory had a sales outlet in Addis Ababa and sales growth was high. In 1997 the gross export sales for the Ethiopian market reached 3.5 million birr. Henceforth, to cope with the rapidly growing Ethiopian footwear market the owner of the factory decided to expand his production capacity. In view of this strategy he imported machinery worth of 5.5 million nakfa[19] and the total capital in the factory has been raised to about 6.5 million nakfa.

Due to the border war it has been impossible for the factory to sell its footwear to Ethiopian customers since in 1998. An effort was made to sell to Kenya. It was not successful as the footwear shipped to Kenya was not appropriate to the Kenyan consumers. The footwear produced in Eritrea is suitable for thin and long feet where as the feet of most Kenyans are flat and short. According to the general manager another reason for the failure was that the factory did not contact wholesalers or agents who were knowledgeable about the Kenyan market. The Eritrean exporter did not study the strong and well-established business network of the Indians who sell footwear in Kenya. When asked if the Expo Shoe Factory can produce the type of footwear demanded by the Kenyan customers, he said, " *Yes, we have to make some changes to our machinery. For instance, the soles have to be adapted to consumers in Kenya. In order to do this we need to get an order that would justify the investment we would have to make."*

In 1997, because of the declining export sales to Ethiopia the factory decided to close the plastic production department and to continue with leather production. *"The chemicals we use to make plastic shoes are imported. Due to the current border war between Ethiopia and Eritrea the bank has stopped offering foreign currency and we have to buy it from the black market at a higher rate. Leather is produced in Eritrea and it accounts for about 40% of the production costs. Consequently, leather footwear production is still profitable."* However, the manager voiced a complaint about the quality of leather produced by the Red Sea Tannery in Eritrea. "*Although there is a problem in our animal husbandry system the tannery did not make an effort to correct it. No investment has been made to modernise the machinery and to improve its finishing capacity. Furthermore, because the factory is publicly owned there is no businesslike attitude on the part of the management. This is due to the monopoly power they have in the market. There is not enough room for discussion concerning the quality of leather and the means improving it."* With regard to the factory's relationship with other footwear producers, he said, "I*n cooperation with eight footwear manufacturers we established a company called HAGL with the objective of solving our marketing problem. However, we still need to find qualified and trustworthy people who can run the company and help us to achieve this objective."*

When asked what the factory would do if a buyer placed an order far greater than the capacity of the factory, he said, " *Currently we are working at 50% of our production capacity. Instead of working with one shift we can expand into three shifts. By working in three shifts we can increase our daily leather footwear production from 600 pairs per day to 1800 pairs per day. The fact that footwear production is labour intensive means we can add employees*

[19] Nakfa is an Eritrean currency unit that was launched in November 1997.

and produce more. If all this effort was not enough to meet the order we would invite other producers to produce the footwear under our supervision." Finally, the manager mentioned that the main strength of the factory is the skilled labour that can be updated easily. According to the manager, if this strength is supported by training and investment in machinery the factory can make footwear suitable for the African and European markets.

Asmara Footwear Factory

The Asmara Footwear Factory was established in April 1998. The factory had an initial capital of 1.1 million nakfa and offered an employment opportunity for 30 employees. An Eritrean investor contributed 600,000 nakfa to the initial capital and an Italian investor financed the rest. The objective of the investors was to take the market share of an Italian footwear company that was exporting footwear from Italy to Ethiopia. The Ethiopian footwear manufacturers were not in a position to make the footwear at home because they had to import the parts from Italy. This was expensive in Ethiopia because of the high import tax on footwear parts. However, in Eritrea the import tax of any raw material used for exports was only 2%. During that time there was a free trade agreement between Ethiopia and Eritrea for products assembled or produced in the domestic market.

About a month after production started the war between Ethiopia and Eritrea erupted. The Italian investor decided to quit the partnership. However, another Italian, who was supposed to supply the parts of the footwear, bought a share in the factory and the Eritrean investor purchased the rest. Currently, the factory is selling footwear to Yemen and the domestic market. When asked how he managed to establish contacts with customers in Yemen, he replied, " *I did not contact them myself. They came to Eritrea and asked for samples from different manufacturers. Finally, they told me that they were interested in my footwear. They placed a trial order and it was sold immediately. Later, we decided to sign a supply contract for two years, after which they opened their own shop in Sana'a.*" The footwear is sold ex-factory and the customer uses airfreight to transport the footwear from Asmara to Sana'a. The payment arrangement is cash against order.

The factory uses leather from the domestic market. " *I personally do not agree with the complaints of some footwear manufacturers concerning the quality of leather produced in the Red Sea Tannery. The leather is not too bad for export. The problem is that the manufacturers have to know what type of leather they would like to have and discuss with the personnel in the tannery. Recently the price of leather on the international market was low and I decided to buy leather from Italy. For this purpose I participated in a trade fair and it was very difficult for me to determine the type of leather that I wanted to buy. I tried to compare the leather I bought in Italy with the leather produced in Eritrea and there was no major difference. So my conclusion is the problem is not only at the tannery. We, the footwear manufacturers, should approach the management of the tannery and tell them what our need is."*

With regard to the relationship with sole suppliers, other footwear producers and buyers he noted that, "*We have a good working relationship with the Red Sea Tannery as well as the supplier in Italy. I am also satisfied with the quality of leather from the tannery and the soles from the Italian supplier. As to my relationship with the buyers in Yemen, it is based on trust and honesty. They update us with market information continuously and we use this information to improve our product quality. Currently the shop in Sana'a is using our brand* *name and this will help to penetrate the Yemeni footwear market.*" Asmara footwear factory is one of the founders of HAGL.

When asked what he would do if a foreign buyer gave him an order to produce footwear beyond his production capacity, he said, " *I do not know how big the order is going to be. However, we can make an arrangement to produce 500 pairs of footwear per day. Furthermore, it is possible to share the order with other footwear manufacturers. The problem in the export business is that every pair of shoes should be the same. Before any capacity sharing arrangement is made, it is important to make sure that the one who is sharing the order has the capacity to make the same kind of footwear.*" The owner also mentioned that the Asmara Footwear Factory is ready to be flexible with regard to the payment arrangement in line with the length of the relationship with the customer and volume of business. Finally, the manager noted that exporting requires a lot of finance. The bank and the government should help the manufacturers to solve the financial problems the footwear manufacturing firms are facing. According to him if there is demand the factory can allocate up to 70% of its production capacity for export.

Negusse Shoe Factory

The Negusse Shoe Factory was established in 1968. Currently it can produce 500 pairs of leather footwear per day in two shifts. When there is an excess order the production capacity can be extended to 750 pairs per day in three shifts. The factory employs 50 people. Explaining the history of the factory the general manager said, " *My father started making footwear when he was ten. He used to work with Italians as a messenger boy. Later he learned how to make footwear and he was hired as a shoemaker. After he saved some money he opened a small-scale, family owned footwear factory which is currently known as the Negusse Shoe Factory.*"

The Negusse Shoe Factory focuses on the middle and higher segment of the men's, women's and children's footwear market. The footwear produced in the factory is known for its superior design. "*Previously we used to subcontract designers who were working in the public footwear factories in Asmara. However, the disadvantage with this method is that there is no exclusiveness. Besides, because the designers have acquired the knowledge through experience there is no flexibility. Thus we decided to subscribe to a footwear design magazine known as Arustoria. Although it is expensive it is the best way to cope with the rapidly changing footwear fashion.*"

Before the border conflict with Ethiopia started 80% of the factory's output was sold in Ethiopia. Fifteen wholesalers distributed the shoes in Ethiopia. In the beginning the wholesalers used to come and purchase the footwear for cash. Later on, they placed orders by fax or telephone and paid as soon as the goods crossed the Ethiopian-Eritrean border. The general manager also reported that many wholesalers asked to buy footwear from the factory after the factory exhibited its footwear in Ethiopia in 1996. Although the Ethiopian market was a big market for the factory's footwear the general manager indicated that it was a disadvantage as well. Because the footwear standard in Ethiopia was very low Negusse's footwear formed part of the high quality segment in the Ethiopian market. According to the general manager the footwear was sold without any problem. In other words there was no competitor in Ethiopia that forced the Negusse Shoe Factory to improve the quality of its footwear. " *When we started to look for alternative markets we found that the quality of our footwear was below our expectations. From this we learned that although a good market may* *exist in one country it is important to diversify to other countries as well. In short we are just opening our eyes."*

Since the crisis with Ethiopia started, the factory has sent samples to Kenya, Uganda, Germany and Norway. When asked what the feedback was, the general manager said, " *Our factory is a member of HAGL. The manager of HAGL studied the Kenyan market and reported to us that there was a market for Eritrean footwear in Kenya. Based on this report we collected different types of footwear from the nine members who established the company and we sent a container full of footwear. Because Christmas is the occasion when many Kenyans buy footwear we planned to make the footwear available during Christmas 1999. Although the container did not reach Kenya in time our footwear and that of the Asmara footwear factory was sold without a problem. The footwear that belongs to other footwear manufacturers had to* wait for *Christmas 2000*."

The factory also sends footwear to Uganda through AATH. Nevertheless, the general manager thinks it is better to exhibit her footwear in the Dubai footwear market than taking it directly to Uganda. According to her the Dubai market offers the opportunity of meeting footwear buyers from all over the world, including Uganda. The samples that were sent to Germany and Norway were also accepted and the buyers in the two countries have 10,000 pairs of footwear each. Nevertheless, the Negusse Shoe Factory did not accept the order for two reasons. First it was beyond the capacity of the factory. Working in three shifts could have solved this problem. However, the second and major problem is that the Red Sea Tannery does not have the capacity to supply the type of leather that would be used to make the footwear. According to the general manager the Red Sea tannery gives a lot of priority to export.

The general manager commented that the leather produced in the tannery is becoming a bottleneck for export. The government has announced that it is going to privatise the Red Sea Tannery. If the only tannery in the country is privatised the problem of a monopoly will arise and could further harm the footwear production in the country. The general manager mentioned that the Negusse Shoe Factory had tried to import leather from Egypt. However, because of the high inflation in Eritrea the cost rocketed and the factory stopped its plan. A similar effort to import leather from Sudan failed because of the political tension between the two countries. Finally, the general manager concluded by saying that if the quality of leather produced in the tannery is improved and the footwear manufacturers work hard to solve their problems, she is confident that there will be demand for the Eritrean footwear. She referred to the failed orders from Germany and Norway as evidence.

Dahlack Footwear Factory

The Dahlack Footwear Factory is the largest footwear manufacturing firm in Eritrea. Raffaelo Bini, an Italian investor, established it in 1964. The factory produces leather shoes, leather sandals, working shoes, military boots, jogging shoes and PVC shoes. The factory's production capacity for leather shoe is 1200 pairs/day of which only 60% is utilised. The installed production capacity for plastic shoes is 15000 pairs per day, of which only 30% is utilised. The factory can produce 3000 pairs of canvas shoes per day. Since its nationalisation, in1974, the factory remained in public hands until February 2001. Currently it is in transition from public to private ownership.

About 80% of the footwear manufactured in the factory was sold in the Ethiopian market. In the period 1964-1974 the factory used to distribute the products to Ethiopian small wholesalers located in different regions of the country. After its nationalisation, it was linked to the Ethiopian Domestic Distribution Corporation, (EDDC). A branch of EDDC, Ethiopian Retail Corporation, used to take all the products of the factory and distribute them all over the country. When asked about the factory's relationship with the Retail Corporation, the general manager said, " *During that time there was no discussion about the quality of the footwear. The main discussion with the Retail Corporation was about the production volume. The factory was simply a production entity, with no connection with the consumers of its products.*"

After liberation in 1991, the factory continued exporting footwear to the Ethiopian market in an indirect way. Five domestic wholesalers used to buy the footwear from the factory and exported it to Ethiopia. Later the factory decided to sell the footwear directly to the Ethiopian buyers. Army boot buyers in Ethiopia were the police and the army. About forty institutions in Ethiopia bought the working boots. In 1995, Dahlack Footwear Factory approached its old customer, the Ethiopian Retail Corporation and started doing business. Under the agreement made the Ethiopian Retail Corporation bought most of the footwear produced in the factory. When asked if he observed any difference in the business relationships with the Ethiopian Retail Corporations before and after independence, the general manager said, "*In our later relationship the Ethiopian Retail Corporation was more careful about the quality of the footwear. Our footwear has a well-established image in the Ethiopian market and this was an advantage to the Ethiopian Retail Corporation in doing business with us."* The Ethiopian Retail Corporation was privatised in 1997 and Dahlack continued to sell footwear directly to the aforementioned institutions in Ethiopia. Even when the Ethiopian government ordered all Ethiopian buyers to open letters of credit (LC) for all imports from Eritrea, this did not form a problem to the Dahlack Footwear Factory. Its customers were ready to adopt the new rule and import from Eritrea. According to the manager the Ethiopian wholesalers were supplied his factory with information about the Ethiopian market and this was useful in its competition with the domestic footwear producers. After the start of the war the factory had to find alternative markets. It exhibited footwear in Kenya and managed to get one buyer. The wholesaler in Kenya came to Eritrea and placed orders. After placing an order three times, the customer stopped. " *A group of Eritrean footwear manufacturers (HAGL) delivered a container full of footwear to the Kenyan market and it was not necessary for our ex customer to come to Eritrea."*

Uganda is one of the major target export markets for the factory's footwear. Currently, Dahlack Footwear Factory sells military boots through AATH. When asked about the factory's business relationship with suppliers and other producers, the general manager said, "*We buy the leather from the Red Sea Tannery. The leather processed in the tannery has quality problems. Thus, we always complain to the management of the tannery and they hardly accept this. I always felt that we the footwear manufacturers, should have discussed the problem and taken some measures to solve it. However, this did not happen because we do not have any organisation that brings us together. Recently, we have established an association of leather and leather products manufacturers and I hope this will help us to discuss such problems*."

During his visit to some of the shops that import and sell footwear accessories in Asmara the researcher observed soles imported from Italy and Egypt. However, at least four footwear manufacturers in Eritrea, including the Dahlack Footwear Factory, produce soles. When asked why the footwear factories do not supply other footwear manufacturers in the domestic market, the general manager said, " *In this respect there are two problems. The first one is that the footwear manufacturers that produced the soles cannot produce all the types of soles required by* *the market. The moulds they use to make soles are expensive. Consequently, importing soles cannot be avoided. The second problem is the business strategy adopted by the sole producers. As the manufacturers do not get enough orders to cover the cost of the fashion sensitive moulds they produce soles only for their factories."*

Finally, the general manager stated that he has been in favour of co-operation especially since the Ethiopian market is closed. He stressed that although it takes time and money to bring footwear manufacturers with different backgrounds together, the footwear manufacturers in Eritrea do not have any other alternative. He concluded his remarks by saying, " *While some manufacturers say it is going to be difficult, I continue to say we can do it."*

Delux Shoe Factory

The Delux Shoe Factory was formed by a merger of Ethiopia Shoe Factory and Asmara All Plastic and Shoe Factory. Ethiopia Shoe Factory was established in 1963 as a share company of 36 Eritrean and three Italian investors. Its capital was 240,000 Ethiopian birr. Asmara All Plastic and Shoe Factory was established in 1971 by the Italian investors Senior Mario Mergeti, Aldina Mergeti and Sam Varisco with a capital of 300,000 Ethiopian birr. Senior Mario Mergeti was also a shareholder in Ethiopia Shoe Factory. In 1973 a shareholders meeting of the Ethiopia Shoe Factory was called and a loss was reported. After the report was issued the shareholders decided to lease the Ethiopia Footwear Factory to Asmara All Plastic and Shoes Factory for 30, 000 birr per year. The new factory was named Delux.

Mario Mergeti, one of the owners of the Delux Shoe Factory, had a tannery in Asmara. He exported semi-finished leather to Italy. However, the tannery did not have the capacity to finish the leather and consequently he imported finished leather from Italy. Using the imported finished leather, he made footwear in Eritrea for export to Italy and Yemen. In 1975 the military government of Ethiopia nationalised the factory. The Ethiopian Domestic Distribution Corporation (EDDC) was responsible for marketing all the plastic and leather footwear produced in the factory. The general manager said, " *During that time the factory did not have to design the footwear produced in the factory. All the designs were sent from Addis Ababa and the factory's responsibility was just to copy it."* After independence the lack of designers was the main problem of the factory. A training programme funded by an NGO from Finland was organised and the factory managed to train two designers. However, one of the designers left because of a disagreement about salary and the factory still has a shortage of designers.

After independence in 1991 the factory resumed exporting to Ethiopia indirectly. It used to invite a group of wholesalers to present their total annual volume of footwear purchases from the factory. The one who proposed to buy the highest volume of footwear used to win the bid and distributed the footwear in Ethiopia. Dahlack Footwear Factory also followed this system, although later it decided to distribute the footwear by itself. The general manager of the Delux Shoe Factory said, " T*he advantage of this system was that we did not have to keep a stock of footwear."* When asked what efforts the factory had made to find an alternative for the Ethiopian market, the general manager said, " *Because the factory is owned by the government, the responsibility of finding alternative markets is assumed by the Ministry of Trade and Industry of Eritrea. The government privatised the factory and now we are in the process of winding up our activities.*"

The Delux Shoe Factory has participated in trade fairs in South Africa, Morocco, and Sudan.

" *We benefited a lot from our participation in the trade fairs. We really came to realise that we have been alienated not only from the rest of the world but also from Africa. For instance we did not know there were associations such as the African Federation for Leather and Allied Industries (AFLAI), and the East and South African Leather Industries Association (ESALIA). Many African countries have been getting technical and financial aid through these associations. After we returned from the trade fairs we called a meeting and established an Eritrean leather and leather products manufacturers association. Now we are participating in meetings of ESALIA through the association.*"

When asked about his factory's relationship with its leather supplier, Red Sea Tannery, he said, " *Because of a lack of an alternative supplier we buy the leather only from the public owned Red Sea Tannery. During meetings of the public owned factories we always complain about the quality problems in the Red Sea Tannery. However, the problems are multi dimensional. The skin and hides the tannery is receiving from the Eritrean cattle has many defects. This is because of the lack of a proper veterinary and animal husbandry system. Besides, the tannery has old technology. To get good quality leather there is a need to improve the animal husbandry system in the country as well as to introduce new tanning technology. Having said this the "Grade A" finished leather is appropriate for export standard footwear*." Because both companies were under public ownership, the Delux Shoe Factory used to get a three-month credit from the Red Sea Tannery.

Finally, the general manager commented that although there is a solid background in making footwear in Eritrea the footwear manufacturers have been alienated from the international market. The footwear technology in Eritrea has to be upgraded and there is a need to train people. The footwear manufacturers have to co-operate and organise themselves. " *Co-operative institutions always face problems. However, in the Eritrean situation we do not have any other alternative.*"

Bini Shoe Factory

The Bini Shoe Factory, formerly known as the Eritrean Shoes Factory, was established in 1949 by an Italian investor called Giussepe Cipolini. Its initial capital was 200,000 birr and it employed 200 workers. It produced men's, ladies and children's leather shoes. In 1950, the factory was renamed the Cipolini Shoe Factory. During this time the factory exported footwear to Arab countries. In 1974 this factory was nationalised with capital of 1,238,924 birr and 270 employees and was then renamed the "Eritrea Shoe Factory."

After its nationalisation the factory showed a rapid increase in capacity. At the end of 1989 its state capital reached Birr 1,486,694 birr and it had 414 permanent employees. Its production reached 1200 pairs of shoes per day. This is because its customer was the Ethiopian Domestic Distribution Corporation (EDDC) and all the footwear made in the factory was distributed in Ethiopia. During this time quantity was more important than quality. Thus the factory's production used to cover about 20% of the total shoe production in Ethiopia. In 1991 the factory came under public ownership and resumed the export to Ethiopia until 1997.

In 1997 the factory was declared available for privatisation. Two Eritrean investors and an Italian bought the factory at a cost of 5.4 million nakfa. The Italian partner has a footwear factory in Italy. Moreover, one of the Eritrean partners worked as a footwear quality control officer for a big footwear company in Germany known as Ricosta. He travelled to Rumania, Hungary and Czech Republic for quality inspections. The plan was to produce export standard shoes for export to Italy. The general manager of the factory who is also one of the owners said, “ *Before we bought this factory we imported some machinery and we started producing footwear in a rented facility in Asmara. When the factory was declared available for privatisation we were very happy. We bought the factory and we started to produce quality shoes for export. Three months after we started production we received an order from a European aid organisation (Euronaid) based in Holland for about 24,000 pairs. After we shipped the last order the border war started and they stopped contacting us. Actually the shipment for the last order was late due to lack of ships coming to the port.”* When asked if the foreign partner, Bini, was useful in locating customers in the foreign market, the manager said, “ *We sent some footwear samples to Italy and we realised that we have a problem with the domestic leather that we use to make the footwear. If we are going to be competitive in the foreign market we must improve the leather.”* Later the researcher understood that Bini was instrumental in getting the order from Euronaid. Currently while the standard production capacity of the factory is 1500 pairs per day it is producing only 400 pairs. The factory has three distributors in the domestic market. These distributors take the footwear from the factory and sell it at a price agreed with the factory.

When asked what role his factory can play in improving the quality of the leather, he said, “*The tannery went for privatisation at least three times but no winner was declared. Our Italian partner brought in another Italian investor who had a lot of experience in leather tanning. The investor came here with his own consultants. He studied the tannery and finally proposed to buy the tannery at the cost of $1 million. In his offer he promised to renovate the tannery. While the negotiation was going on the war started and the Italian investor disappeared. Now the tannery has been sold to an Eritrean investor and we shall wait and see what improvements he is going to make*.” Finally, the general manager commented that the Eritrean hides and skins are of good quality. The problem is lack of skill, old machinery and improper use of chemicals. According to him unless these things are improved the tannery will always remain a bottleneck to footwear export.

9.2.2 Discussions of the interview results

The case studies have shown that footwear manufacturers who entered into a loose business network relationship with buyers, suppliers and foreign partners are doing relatively better. The Asmara Footwear Factory and Bini Shoe Factory are evidence to this argument. Asmara Footwear Factory has entered into a business network relationship with the sole supplier in Italy and a buyer from Yemen. The Italian sole supplier is linked with the Asmara Footwear Factory through financial ties. This created a market opportunity to the sole supplier in Italy and a supply source for the Asmara Footwear Factory. This helped the factory to become the leading men’s footwear manufacturer in the country. Bini was also useful in getting orders from Euronaid. Correspondingly, the Yemeni footwear buyer signed a two-year supply contract and networked himself to the factory by naming his shop after the brand name of Asmara Footwear Factory. The choice made by the Yemeni buyer in regard to naming his shop after the brand name of Asmara footwear factory shows his interest for long-term business relationship.

Due to the lack of a business network relationship Eritrean footwear manufacturers such as Expo, Delux, and Negusse are not doing well. They are completely dependent on the domestic market. The case studies also have also shown that the lack of a business network relationship between the footwear manufacturers and the Red Sea Tannery has contributed to the poor quality of leather supplied by the tannery. All the managers in the five footwear manufacturing firms have mentioned the leather quality problems in the tannery (Table 9.2). However, because of the good communications established between the Asmara Footwear Factory and the Red Sea Tannery, the former managed to get the type of leather it wanted. This is evidence of how an information exchange network between the tannery and the footwear manufacturers could alleviate the leather quality problems in the tannery. There is lack of finance and skilled labour in the tannery and the business network relationship has to fill this gap.

Table 9.2 Summary of the export problems that are rated as very important by the footwear manufacturers

Export problems	Footwear manufacturers included in the case studies					
	Expo	Asmara	Negusse	Dahlack	Delux	Bini
Internal export problems						
Lack of knowledge to locate foreign market opportunities	X	X	X	X	X	
Lack of specific information regarding foreign agents, distributors and prospective buyers	X		X	X	X	
Lack of export marketing research	X	X			X	X
Lack of experience in planning and executing export operations	X		X	X	X	
Lack of management exposure to other cultures and different methods of doing business	X	X	X	X	X	
Lack of personnel trained and qualified in export marketing	X		X	X	X	X
Inability of the firm to self finance exports	X	X			X	
Product quality problems	X	X	X		X	X
Lack of ability to supply required quantity on continuous basis	X	X	X		X	X
External export problems						
Lack of adequate quality of raw materials	X		X	X	X	X
Too small in size to initiate export operations		X			X	
Lack of export promotion programmes sponsored by the government	X	X				
Problems in shipment and meeting delivery dates						X

Note: **X** indicates the relevance of the export problem to each footwear-manufacturing firm. The results in the above table are the combination of the input from the case study and rating in the questionnaire.

The case studies also revealed that the footwear manufacturers have common export problems (Table 9.2). The manager of the Asmara Footwear Factory indicated that the government should offer financial help through low interest credit. The financial problems are more acute because most of the footwear manufacturing firms have been idle for at least the last two years. Moreover, lack of trained labour due to the defence mobilization programme has aggravated the shortage of personnel in the footwear-manufacturing firms. Due to the lack of exposure to the international market and poor market research, the Expo Shoe Factory sent footwear that was not appropriate to the Kenyan market. Although the companies have been operating in the shoe business since 1963 their links with the outside world are very limited and only to the Ethiopian market. Two orders from Europe and Scandinavia placed with the Negusse Shoe Factory were cancelled due to product quality and capacity problems. During the interview the manager of Asmara Footwear Factory mentioned product standardisation as a precondition to expanding production capacity through order sharing. However, only the manager of the Bini Shoe Factory has mentioned the problems in making shipments and meeting delivery dates (Table 9.2).

Three managers have explicitly mentioned co-operation among the footwear-manufacturers in Eritrea as a solution to the aforementioned export problems of the footwear-manufacturing firms. The manager of the Dahlack Footwear Factory, the Deluxe Shoe Factory and the Asmara Footwear Factory have clearly indicated that co-operation among the footwear manufacturers is the only solution left to the footwear manufacturers in Eritrea.

Table 9.3 Rating of footwear manufacturers in Eritrea to alternative business networks (n=6)

Alternative business network solution	Mean
Establishing a horizontal business network relationship among footwear manufactures	4.00
Subcontracting network agreement with foreign footwear buyers	3.33
Establishing vertical business network relationships with Eritrean leather suppliers	3.33
Concluding joint venture agreement with foreign buyers	3.16
Flexible supply contracts with wholesalers and retailers in foreign countries	3.33
Export promotion programme by the Eritrean government	2.33
Working to penetrate foreign markets on individual basis	2.89

(Source: Case study 2000)

We asked the footwear manufacturers to rate seven possible solutions in terms of their importance. The results are shown in table 9.3. The rating shows that establishing horizontal co-operation with fellow footwear manufacturers (4.00) is rated as very important. The other three solutions rated as moderately important are subcontracting network agreements with foreign footwear buyer’s (3.33), establishing a business network relationship with Eritrean leather suppliers (3.33), concluding joint venture agreements with foreign buyers (3.16), and concluding flexible supply contacts with wholesalers and retailers in foreign countries (3.33). Finally, penetrating the international footwear market through individual efforts (2.89), and through export promotion programme initiated by the government (2.33) are rated as less feasible. These trends show that, in the perception of the managers, vertical and horizontal business networks can help to ease their common export problems.

9.2.3 Conclusion

The interview results confirm that the export problems identified in the aforementioned chapter are relevant to the footwear-manufacturing firms in Eritrea. The capacity problem, the problem of designers, the need for financial support, and finally the delay in shipment are some of the examples. The lack of management exposure to other cultures and different methods of doing business, lack of personnel trained and qualified in export marketing and lack of export marketing research are among the problems that are becoming a bottleneck to the internationalisation of the Eritrean footwear industry (see Table 9.1).

The case studies have also shown that the long dependence of the footwear manufacturing firms on the Ethiopian market and the lack of horizontal and vertical business networks have aggravated the difficulty of the export problems. Even the loose vertical business network relationship that existed between the government owned footwear manufacturing firms (Dahlack and Delux) and the Red Sea Tannery prior to privatisation is inspired by the common ownership of the factories. The government has encouraged exchange between public owned firms. The comments given by the managers of Asmara Footwear Factory, Delux Shoe Factory, Dahlack Footwear Factory and the high rating for horizontal networks (see Table 9.2) are evidence of the positive perception of the footwear manufacturing firms in Eritrea towards establishing horizontal and vertical business networks. The interesting point in the comments given by the three managers is not only that they believe networks are the solutions to the export problems of the footwear manufacturing firms in Eritrea but also that they perceive the problems they may face in the future.

9.3 Textile manufacturing firms in Eritrea

9.3.1 Case studies results

The six textiles manufacturing firms selected for the case studies are the Asmara Textile Factory, the Asmara Sweater Factory, Eritrea Textile Factory, Barokco Textile Factory, Erikog, and Ambesa Sweater Factory.

Table 9.4 Some characteristics of the six cases

Name of the factory	Set up Year	Number of employees	Type of textile produced	Exported to
Asmara Textile Factory	1957	1500	T-shirts, fabrics, Blankets, Garments etc	Ethiopia, Uganda, Switzerland
Asmara Sweater Factory	1954	165	Sweaters, Garments	Ethiopia, Italy
Eritrea Textile Factory	1968	500	Fabrics, T-shirts, Garments etc	Ethiopia, Uganda
Barocko Textile Factory	1965	700	Fabrics, Garments	Ethiopia
Erikog Garment Factory	1995	300	Garments	DRC (Congo)
Ambesa Sweater Factory	1970	90	Sweaters	Ethiopia

Note: The export to Uganda is carried out through Allied AfriTrading House.

Asmara Textile Factory

Cotonificio Barattolo & Co. established the Asmara Textile Factory in 1957 with a capital of 110,000 birr. The factory was backward integrated into the Alighider cotton plantation to secure continuous supply of cotton. Currently it employs 1500 persons. The initial objective of the factory was to produce yarn for the internal market. Following expansion, new departments were added to weave cotton fabrics, blanket, and knitted articles. It is the largest producer of fabric and knitwear in the country. The factory has a diverse production structure, which is difficult to manage. This makes it difficult to identify the core business on which to concentrate the scarce resources. Initially the company had a vertically integrated spinning, weaving, and finishing mill. In 1987 more spinning, knitting and garment making machines were added. It also has a cotton ginning plant.

Like any other factory in Eritrea the target markets of the Asmara Textile Factory were both Ethiopia and Eritrea. Currently, the factory exports T-shirts to Switzerland and Uganda. In 1984 an Italian investor and the Asmara Textile Factory signed a contract manufacturing agreement. The agreement specified that the Italian investor would install new machinery that produced T-shirts and the factory would sell the product to the investor for seven consecutive years. In the meantime the investor would recover the cost of the machinery from the sales of the T-shirts. After six years the new government stopped the contract arguing that the factory was being exploited. The finance manager said, “ *When I evaluate the contract production arrangement I can say it was very successful. Because of the investment made on in the knitwear department our production volume rose from 1000 pieces to 10,000 pieces per day. Now due to the lack of proper maintenance and trained personnel, the daily actual production is only 3000 pieces. During the contract period we had seven Italian experts who were assigned to train the employees and guide the production process. Because the contract has been discontinued we are facing a problem of spare parts for the machines that were installed* *by the investor. For instance, last week a packing machine has been broken and we do not know where to get the spare parts. If the arrangement had been continued we would simply call the investor and ask him to send us the spare part. I am sure we could get it within five days*."

After independence the factory has exported T-shirts to Italy, Germany, and Switzerland. When asked about the business relationship of the factory with the three buyers, the general manager said, " A*t the beginning of 1992 we contacted old customers explaining them that we had T-shirts for export. By doing this we managed to get customers from Italy, France and Germany. Our business relationship with the customer in Italy discontinued because we could not reach agreement on the price. Our customer in Italy was not reliable and we did not want to continue with him. Our customer in Switzerland (ICPC) is the one with whom we would like to continue doing business. He is a person with long term vision and we like him very much. Last time our factory sent T-shirts with some defects. After detecting the defective T-shirts our customer in Switzerland asked us to reduce the price but only for the defective T-shirts. We were surprised by his positive attitude. If he were another customer he would send the whole container back. In response to our customer's effort to maintain a good business relationship with us we made a price reduction more than the amount he requested."* To solve packaging problems ICPC sends us cartons from Switzerland.

The Asmara Textile Factory requires its customers to pay cash with order or open irrevocable confirmed letter of credit. *" We run a public owned factory. None of us wants to take responsibility for any loss that might occur due to default on the part of the customers. Although we know that it is going to be a problem to attract more customers we are always forced to stick to the aforementioned payment arrangements." The* Asmara Textile Factory buys cotton from the Alighider cotton plantation. The business relationship between the Alighider farm and the Asmara Textile Factory is broad. Asmara Textile Factory has two ginning machines and the cotton produced in the Alighider farm is sent to the factory for ginning. Ginning is a process of separating the seed from the flesh. Asmara Textile Factory charges Alighider some money plus the seed of the cotton for its ginning service. The seed are useful for making oil. The Asmara Textile Factory gets some money by selling the cottonseed to oil factories in Asmara. After the ginning process is completed the Asmara Textile Factory negotiates prices with Alighider and buys the cotton that it needs.

Two years ago the Alighider cotton plantation installed its own ginning factory worth $40 million at the plantation site. The Ethiopian army destroyed it in May 2000. When asked why the Alighider cotton plantation took such a decision while the Asmara Textile Factory had two idle ginning machines, all the finance, production and commercial managers of Asmara Textile Factory agree on one point. They said, "*It was a mistake because it makes the ginning facilities in Asmara Textile factory idle.*" However, the general manager of the Alighider cotton Plantation Company responded by saying it was important to have the ginning factory in Alighider because there was a plan to export the cotton directly from the plantation. Although Asmara Textile buys cotton from Alighider there is still a pricing problem. According to the general manager of the Asmara Textile Factory the cotton produced in Alighider is of high quality and it is superior to the type of cotton that the Asmara Textile Factory wants to buy. While Alighider wants the Asmara Textile Factory to buy the cotton at the international market price, the later wants to buy it at a lower price.

The current problem of the Asmara Textile Factory is lack of investment to replace the ageing machinery. Because of the government privatisation policy no investment has been made for the last ten years at least. Currently the factory is exporting far less than it could. According to the production manager this is because the machines are not well maintained and the employees who were trained by the Italian contractor left the factory due to a disagreement on salary. Consequently the current export capacity of the factory is only 15% of what is supposed to be exported. According to the general manager the factory's strength is the availability of the raw material in the domestic market and the large, low cost labour force that can be easily upgraded.

During the interview with the Sweater producers in Eritrea, almost all of them complained about the high cost of importing yarn. Using information, when asked if the Asmara Textile Factory could supply yarn to the sweater producers, the production manager said, "D*ifferent types of yarn are used for making sweaters. The type of yarn the sweater producers are using now is called acrylic. It is synthetic and cheaper in price. We cannot make this type of yarn because we do not have the technology and the chemicals. However, for those who want to use cotton yarn we can produce it for them provided some investment in machinery is made. Because we are going to use cotton as the raw material the price will be higher than sweaters made of acrylic."* Price is the decisive factor in the domestic market. Thus it may not be advisable for the sweater factories to use cotton to make sweaters for the domestic market.

Asmara Sweater Factory

Italian nationals established the Asmara Sweater Factory, formerly known as "Industria Maglieria Asmara (IMA)", in 1954 in Asmara. The objective of the factory was to produce standard size sweaters of a model already decided for the domestic and export markets. The initial capital of the factory was 10,000 Ethiopian birr and reached 100,000 birr in 1955 and 1,600,000 birr in 1965. It produced sweaters in all types of yarn for men, women and children. In February 1974 the Ethiopian military rulers nationalised the factory and it was administered under the Ethiopian Textile Corporation. All the sweaters produced in this factory were shipped to the corporation's head office in Addis Ababa and the factory did not have any authority on marketing its sweaters. The factory lost the marketing skill that had been developed by the Italian investor. No investment was made to modernise the machinery and train the employees.

After independence the factory revived its marketing activities. Because of the postcolonial legacy it was easier for the factory to export to Ethiopia than to any other country. The Ethiopian consumer already knew the sweaters and there was no need to invest in additional promotional activities. In view of this the factory opened a shop in Addis Ababa to sell its sweaters. It also assigned an Asmara based company called SACHI to sell its sweaters in Ethiopia on commission basis. The domestic market was supplied in two ways parallel to the Ethiopian export market. The factory has a boutique shop in the centre of Asmara. This shop sells sweaters and other garments produced by the factory and other imported textiles. Customers who visit the shop and cannot find their size can go to the factory and order tailor made sweaters. The main customers of the Asmara Sweater Factory in the domestic market are the Ministry of defence and Police. The factory makes sweaters for the Ministry of Defence and jackets for the Air Force and the Police.

Until 12 May 1998 the factory was under government ownership. However, in line with the governments' privatisation policy, the factory was privatised on13 May 1998, at a cost of $500,000. The current owner of the factory is an Eritrean who has a textile shop in Milan. The new owner imports fabrics and yarns from East and Southeast Asia for sale in Italy and other countries in Western Europe. The objective of the new owner is to create a vertical business network between the sweater factory in Asmara, the shop in Italy and the boutique shop in Asmara. Sweaters produced in Asmara are sold both in the shop in Italy and the shop in Asmara. Some of the textiles from Far East countries for sale in Italy are also sent for sale in the shop in Asmara. During the study period the factory was making sweaters ordered by a buyer from Italy. The buyer sent the yarn from Italy and the factory was making sweaters from it. The factory only charges the buyer for labour and other miscellaneous expenses. When the sweaters are shipped from Eritrea the buyer pays only 2% import tax for the yarn. The capacity of the factory is 1500 sweaters per day. The current problems of the factory are obsolete machinery, lack of trained labour and lack of foreign currency. The machinery was installed 46 years ago and it needs to be upgraded. In view of this the new owner is computerising the old machinery. He has also imported new machinery from Italy. However, due to the defence mobilisation programme the factory lost some of its employees and currently it is operating at half of its production capacity. The factory also has a lack of designers. To solve this problem the owner has employed a freelance designer from Italy. The factory uses imported yarn to make the sweaters. However importing raw materials has become difficult due to the lack of foreign currency.

Before its privatisation the factory used to import yarn from different customers in the Far East. However, after privatisation the firm has one supplier in China named "Artsline". According to the deputy manager Eritrea has advantages with regard to the manufacturing of sweaters. *"The labour cost in Eritrea is low. Coupled with the potential for sales in the domestic market, export is useful to generate foreign currency that could be used to import good quality yarn."* The shop in Italy provides market information to the factory in Asmara. It also buys yarn and sends it to Asmara. Because of the unreliability of sea transport the factory uses airfreight to ship the sweaters to the shop in Italy and the shop distributes the products to customers. Currently, the demand is greater than supply. According to the deputy manager, while the skill of the employees is adequate to make sweaters for the domestic market they need more training to make sweaters that are fit for the European market. So far the factory has trained 15 employees. At present the factory has 165 employees but if it were to work at full capacity it could employ up to 350 workers.

Eritrea Textile Factory

The Eritrea Textile Factory was formed by a merger between 'Industry Tesisconsfision Asmara and Ethio-Textile.' Previously the two factories were established to produce T-shirts. When the two factories merged in 1968 they had a capital of 5, 500,000 birr and employed 1100 people. Consistent with the objective of its parent companies the major product of the Eritrea Textile Factory has been T-shirt.

Like any other private manufacturing firm in Eritrea the Ethiopian military rulers nationalised the factory in 1974 and placed it under the Ethiopian Textile Corporation. According to the general manager of the factory, because of the strong ideological alliance between the then socialist government of Ethiopia and socialist East Germany all the T-shirts produced in the Eritrea Textile Factory were exported to East Germany. The factory's management did not have any say or participation on the export decision process. In 1991, after independence, the factory came under public ownership. In 1993, the factory resumed its export of T-shirts to Ethiopia, which used to absorb 85% of the factory's output. When asked how the export to the Ethiopian market was arranged, the general manager said, "We *sold the T-shirts to wholesalers in Ethiopia*. T*he factory produced T-shirts based on the orders that were placed* *by the Ethiopian wholesalers. In this case there was no need to invest in establishing our own distribution channel to the Ethiopian market."*

Concerning the factory's relationship with other foreign customers the general manager stated: *"In 1995 a dedicated Eritrean who resides in the US came to Eritrea to visit his relatives. During his visit he came across the T-shirts produced by our factory and he thought that they could be sold in the US market. Up on his return to the US he took three T-shirts and exhibited them at a cultural show organised by the Eritrean community in the US. Fortunately, another Eritrean textile trader who was participating in the cultural show became interested in the T-shirts and he contacted us. A few weeks later we signed a supply contract. In the contract our obligation was to produce and send the T-shirts according to his specifications. When the T-shirts reached the US he used to make all the labelling himself and distributed the T-shirts to his customers. We had a telephone conversation every week and he made comments including on the type of yarn we had to use to make the T-shirts. He also sent us the packaging materials from the US."* According to the general manager the importer was a member of a textile-importing consortium in the US known as VIKAS. He also mentioned that the importer ended the contract because of his internal company problems.

Another market was opened in Germany in the year 2000. According to the general manager the factory participated in the Hanover trade fair. Importers who were interested in the factory's T-shirts placed an order. They wanted the Eritrean Textile Factory to finish everything and make the T-shirt ready for the German market. Eritrea Textile Factory did not accept the offer because it did not have a machine to make the packaging material. It was not possible even to purchase the machine because all investments were frozen due to the privatisation policy of the government.

Concerning his company's relationship with the cotton suppliers, the general manager said, " *The problem with the cotton producers is that they demand a higher price. However, due to the lack of foreign currency it is even advantageous for us to accept a higher price set by the domestic cotton growers.*" According to the general manager The Eritrea Textile Factory had co-operated with sister companies such as the Asmara Textile Factory. They were sharing the raw material in case a shortage occurred. However, after the Eritrean textile factory was privatised, the sense of co-operation has been deteriorating. He said, "*Previously it was free even to share designs. Now it is impossible."* This is mainly because the Asmara Textile Factory is still under public ownership and the managers do not have the authority to decide on this matter.

The factory was offered for privatisation in July 2000. Although he did not win the auction the Eritrean citizen in the US who bought T-shirts from the factory also participated in the bid. Currently the new owners are modernising the factory. They are importing new machinery and inviting experts to train the employees. Finally, the general manager commented that because of the financial problems and lack of know how about the international market it would be helpful if the factory were to open itself to a joint venture arrangement with investors who have marketing knowledge and good financial leverage.

Barokco Textile Factory

Italian, British, American and Ethiopian investors established the Barokco Textile Factory, which was formerly known as the Ethiopian Fabrics Share Company. The factory started operations with an initial capital of 50,000 birr and 460 workers. The objective of the factory was to produce quality man-made fibre and pure cotton material for the domestic and foreign market. The term man made fibre includes both regenerated fibres, such as viscose and rayon that are made from wood or cellulose and synthetic fibres such as polypropleyene, polyester, nylon and acrylics. While the raw material used to make the man-made fibre was imported, cotton was supplied from the domestic market. According to the production manager of the factory the owners exported the fibre to the Middle East and Ethiopia. The factory was also engaged in producing fabrics and garments. The factory showed rapid growth in investment and its capital reached 2,250,000 birr in 1966.

The factory was nationalised by the Ethiopian socialist government in 1974 and renamed as Ethiopian Textiles. During this time the factory was limited to producing military clothing. Unlike other factories in Eritrea the factory received direct orders from the Ethiopian military, police and Air Force. Little was sold through EDDC, which assumed legal responsibility to sell the products. Ethiopian Textiles did have a sales outlet neither in the domestic market nor in Addis Ababa. In 1991 the factory came under control of the Eritrean government and was renamed as Mereb Textiles. The Eritrean military, police and Air Force purchased its production. It also sold a small amount of its output to the Ethiopian military. Under the privatisation policy of the Eritrean government an Eritrean lady who used to sew and sell garments in California bought the factory at a cost of 12 million nakfa in 1998.

Before she bought the factory she owned another factory in Eritrea. The new owner used to import fabric for making garments. During that time the domestic fabric was not suitable for making the required garments. The manager said, " *The objective of the new owner is to get good quality fabrics from the knitting section of the factory to make garments. To get good quality fabric we had to change the obsolete machines. We also made an improvement in the spinning section of the factory to get good yarn. Currently the factory has partially modernised spinning, weaving and knitting departments. The total additional investment was about 12 million nakfa."* Another problem to the factory was the fabric width being produced. While the acceptable fabric width standard in the international market is about 1.90-2.60 meters, the width of the fabric produced by the factory was only 90 cm. The general manager said, " T*o correct this problem we imported weaving looms that have the required width and we are planning to export 40% of the fabric produced. We are going to export the fabric in grey because we are not good enough at dying and printing.*" When asked if he has already done any market research for the 40% of the production capacity that his factory is planning to export, he said, " *We changed the machinery because we can not use it any more. We can do the market research after we finish modernising the machinery.*" Currently the sole customer of the factory is the Eritrean military.

The fabric produced by the factory is 35% cotton and 65% polyester. The factory buys cotton from the domestic market. When asked about his business relationship with the cotton suppliers, the manager said, "*After the cotton is ginned in the Asmara Textile Factory we order the amount of cotton that is enough for our current operations. The problem in our relationship with the cotton suppliers is the price. To get a higher price they always threaten us by saying they will export the cotton. There should be some mechanism that brings us into agreement in pricing the cotton so that we buy cotton from them continuously. This way they will have a guaranteed market and we do not have to worry about buying cotton.*" The manager also commented that the separate ownership of the cotton plantation and the textile manufacturing could be a problem in the future. Although the cotton is produced in the domestic market, the cotton producers always take the international cotton price as their reference price. This can erode the competitiveness of the textile manufacturers in the country since cotton accounts for about 50% of the production costs.

When asked if his factory has a plan to supply acrylic yarn to the sweater producers in Eritrea, he said, " *The type of acrylic used by the sweater producers is more technology intensive. If I had money I would buy a factory that makes the acrylic yarn and distribute it in the domestic market. It is possible to import unfinished acrylic yarn and finish it here. However, you need to make some investment in machinery. For those who have money this could be a potential area for investment*." Later it became clear that a British consulting firm (BTTG) has been suggesting the production of yarn in Eritrea.

EriKog

Erikog is a garment factory established in 1995. It was established as a joint venture between the Eritrean government and Korean investors but is now owned by the government. The factory employs 300 people and has a total capital of about $ 8 million. The production capacity of the factory is 1200 suits (top and bottom) per day. Initially the objective of the factory was to make garments for both the domestic and foreign markets. Due to the eruption of the border war between Ethiopia and Eritrea the Ministry of Defence, who is also a 51% shareholder, became the major customer of the factory. The fact that the war was started and one of the owners became a customer forced the Korean partners to sell their shares to the Ministry of Defence. The Koreans considered this as a way out from the war and uncertainty that prevailed in Eritrea.

Currently all the garments made in the factory are for the Army. The general manager said, " D*uring the struggle for liberation the Eritrean army used to wear clothes imported mainly from Italy. The imported clothes were of different colours but they were OK during that time. Now Eritrea is a country and the army has to have a formal uniform. For this reason we now have a huge market in the country. The Ministry of Defence buys fabrics and we make the garments."* The factory charges the Ministries of Defence 35 nakfa per suit for the sewing service. During its establishment the factory had designers from Korea and the Philippines. Currently Eritrean staff are running the factory. The general manager said, "*The payment rate in the factory is flexible. Every employee has a fixed base salary. When there is a large order the employees work on overtime basis. The factory can accommodate orders which are far greater than its capacity.*" The factory is equipped with relatively modern machinery and has good working space.

When asked what the factory would do when the domestic demand is satisfied the general manager replied, "I*nitially the factory was established to make garments for both the domestic and foreign markets. Because of the war between Ethiopia and Eritrea the size of the Eritrean army has been increased rapidly and this created huge demand for the factory. However, if peace prevails the size of the army will decrease and ultimately we will need foreign customers. Before the war started, we received orders worth $ 70,000 from the Democratic Republic of Congo. After we shipped garments worth $ 20,000 the Ethiopian Eritrean border conflict started and we were forced to satisfy the huge demand from the Ministry of defence.*"

When asked if the factory has the capacity to sew garments other than for the military, the general manager said, "*In this factory the important assets are our employees. The employees are in two groups. The first group comprises employees who have been working as tailors for many years. This group has rich experience in tailoring. The second group is employees who are trained in the factory. Before they are trained as tailors we let them see every procedure in the factory. Later we train them how to sew. After a few months they become perfect. So I can say that we have enough skill to accommodate an order other than that of the military. "*

Finally, the general manager observed that the factory's efforts to improve its staff and machinery is not sufficient unless the fabric produced by the textile companies in the country is improved. The factory uses fabrics from the Barokco Textile Factory and has complaints on its quality. He said, " A few *minutes ago I went to the Barokco Textile Factory because they send us a poorly printed fabric. I returned the defected fabric and brought a better one.*" When asked if it would be possible to return the defective fabric if it was another supplier, he said " W*e have worked with the factory for more than four years and we understand each other.*"

Ambesa Sweater Factory

Ambesa Sweater Factory was established in 1970 as a small-scale family business. During the last thirty years it has gone through a lot of changes. Currently it is the second largest private sweater factory in Eritrea. It produces sweaters made of acrylic, "chrnylra" for men, women and children. It has a capacity of 250 sweaters per working shift per day and employs 90 workers.

Explaining the history of the organisation the manager of the factory said, " I*n the 1960's my father used to work in a sweater factory owned by Italian nationals known as 'Industria Maglieria Asmara (IMA).' After he acquired sufficient knowledge he went to Addis Ababa and started making sweaters. However, after a short stay in Addis Ababa he came back to Asmara and opened the Ambesa Sweater Factory.*" The Ambesa Sweater Factory is replacing the old styled machines with modern ones. Recently, the factory imported two new machines, which were the first to be imported in Africa.

Before the border war started the factory's sweaters were directed at the Ethiopian market. " *We were not directly involved in the Ethiopian market. Two Ethiopians and an Eritrean used to buy our sweaters. When they were distributing the sweaters in Ethiopia they used to cut off label. This was done to conceal the source of the sweaters. If the immediate buyers in Ethiopia knew the sweaters were imported from Eritrea they could come and buy them themselves."* He explained the exclusive distribution rights for the three intermediaries as follows: "*The three customers were our big buyers. They knew the Ethiopian market very well and had good reputations. If we had refused to sell them our sweaters they might have established contact with our competitors."* The factory has two sales outlets in the domestic market. The shops also sell Italian shoulder wraps, long sleeved cardigans and pullovers. It also sells sweaters directly from the factory. Because of the good quality sweaters produced by the Ambesa Sweater Factory other sweater producers in Asmara also buy sweaters from the factory for resale at a profit. However, according to the manager the best quality sweaters are always sent to the factory's shops. Although the Ethiopian market is closed the factory is working at full production capacity. This is because the quality of its sweaters is good and it receives orders from several shops in Asmara.

The factory has sent samples to Libya and Uganda with Allied Afri Trading House taking the samples. When asked if the factory had received orders, he said, " *I do not think only showing a sample is enough to get orders. The people in Allied Afri Trading House have to approach the buyers and convince them that they can supply good quality sweaters. Because Allied Afri Trading House takes so many types of products (salt, house furniture, shoes, textiles etc) they cannot spend much time with one buyer. The lack of follow up could be the main reason why we did not get an order.*" The factory also participated in a trade fair in Germany. When asked about the results from the trade fair the manager said, " *The sweaters we make in the Ambesa Sweater Factory are of good quality. However, we have a problem in finishing. The European manufacturers are good with finishing. Thus a buyer in Germany asked us to send him* *unfinished sweaters so that he can finish them himself. However, this was possible only if we had an agent in Europe. Finally, we found out that the agency cost was very high and given our small production capacity we could not generate enough return out of it. In view of this we are now working to increase our production and finishing capacity.*" The manager mentioned that the factory could export light sweaters to Europe.

The factory imports the yarn it uses to make sweaters from Italy. When asked about his relationship with the yarn suppliers in Italy, he said, " *We have a very good relationship. We have been buying yarn from one supplier for about twenty years. The problem is, even though we are big sweater producers in Eritrea, compared to other yarn buyers in Europe and Canada the size of our order is very small. Our suppliers process our order by adding it with other orders from the aforementioned countries. Currently they have sent us an invitation to visit their firm at their expense."* When asked if his factory has any plans to produce the yarn in Eritrea, he said, "*Currently we are using different kinds of yarn. Although we have cotton in Eritrea we can produce only a limited type of yarn out of it. We cannot avoid import since it is difficult to produce all kinds of yarn in one factory."*

Finally, the manager explained that the lack of foreign currency is constraining the factory's operations. The fact that the factory buys the foreign currency on the free market, which is much more expensive than the normal bank rate, is making its sweaters expensive. He also mentioned that the employees working in the factory acquired their knowledge through experience. For that reason they need to be trained to make sweaters, which are competitive in the foreign market and meet the rapidly changing fashion.

9.3.2 Discussions of the interview results

The case studies have shown that signing a long-term supply agreement between the textiles manufacturer in Eritrea and a European textiles buyer could facilitate the entry of Eritrean textiles manufacturers to the international textiles market. In this way the Eritrean textiles manufacturers could benefit from the marketing experience, distribution channel, financial assistance and regular orders of the foreign partner. Whereas the foreign partner would get low cost textiles, reliable production facilities and locally available cotton. This is what happened in the Asmara Textile Factory in 1984. With the cancellation of the contract the production capacity was reduced to 3000 T-shirts per day. This was mainly due to lack of maintenance of the machinery installed by the investor and the trained personnel left the factory because of the low salary paid by the factory.

Foreign partners could also play a major role in distributing textiles in the European market. The distribution and marketing of textiles is the most profitable segment of the textile industry. In Europe the distributor margin amounts to at least 37% of the manufacturers price (see Table 8.3). The profit to the textiles distributor and retailer in Europe is much higher if production is carried out overseas rather than domestically. Because of the lower labour cost of overseas production the textiles are less expensive than the one produced in Europe. Asmara Sweater Factory is a typical example. The factory has networked itself to a Textiles shop in Italy, which is owned by the same person. The shop receives sweaters from the factory in Eritrea and distributes them in Italy. By doing this it retains the profit margin that was taken by the wholesalers and retailers in Italy. Furthermore, the shop in Italy collects orders from customers and sends these to the sweater factory in Asmara. It also purchases yarn from China and sends it to the Asmara Sweater Factory. The shop also sends textiles purchased from countries in the Far East to be sold in the boutique shop in Asmara, which distributes sweaters for the domestic market. The same person owns the boutique shop in Asmara. Regardless of the ownership structure this is evidence for our argument as to how a business network relationship between European buyers and Eritrean textiles manufacturers can help the Eritrean textile manufacturers to penetrate the European textile market.

Table 9.5 Summary of the export problems that are rated as very important by the textile manufacturers

Export problems	Textile manufacturers included in the case studies					
	Asmara textile	Asmara Sweater	Eritrea Textile	Barokco Textile	Erikog Garment	Ambesa Sweater
Internal export problems						
Lack of knowledge to locate foreign market opportunities	X		X		X	X
Lack of specific information regarding foreign agents, distributors and prospective buyers			X		X	X
Lack of export marketing research	X		X	X	X	X
Lack of experience in planning and executing export operations			X	X	X	X
Lack of management exposure to other cultures and different methods of doing business	X		X		X	X
Lack of personnel trained and qualified in export marketing	X	X	X	X	X	X
Inability of the firm to self finance exports	X	X	X	X		X
Product quality problems	X	X	X	X	X	X
Lack of ability to supply required quantity on continuous basis	X	X	X	X	X	X
External export problems						
High cost of cotton	X	X	X	X	X	X
Too small in size to initiate export operations			X	X		X
Lack of export promotion programmes sponsored by the government		X	X	X		X
Problems in meeting delivery dates		X				

Note: **X** indicates the relevance of the export problem to each textile manufacturing firm The results in this table are the combination of the input from the case study and the rating in the questionnaire.

The case studies have also shown how social networks can be instrumental in generating business for the textiles manufacturers in Eritrea. According to the case study the Eritrean who resides in the US took samples from the Eritrea Textile Factory and exhibited them at an Eritrean social gathering in the US. This served as an instrument to link the factory to an Eritrean textile buyer residing in the US. Through the contact that was established the Eritrea Textile Factory sold textiles to the US for a couple of years. Given the half million Eritreans residing in foreign countries and the large number of social gatherings taking place every year, the above experience could show an alternative way of introducing the Eritrean textiles to the European market. The aforementioned points indicate how network relationships are useful in generating market opportunities. However the case studies have also shown how lack of network relationships has become an obstacle to the internationalisation of the textile manufacturing firms in Eritrea. Because of the limited production capacity, the Ambesa Sweater Factory was unable to sign an agency agreement in Germany. The agency agreement was a precondition for supply sweaters to a buyer in Germany. If there was a horizontal business network relationship between the sweater manufacturers in Eritrea, the Ambesa Sweater Factory would have contacted another sweater manufacturer to solve the capacity problem and exploit the market opportunity. Another example that strengthens our argument is the lack of a vertical business network relationship between the Alighider cotton plantation and the Textile Manufacturers. When the plantation was established about 50 years ago it was vertically integrated with the Asmara Textile Factory. This helped the Asmara Textile Factory receive low cost cotton. This idea that was introduced 50 years ago now lacks attention from the government. The ownership structure has been changed. For the future this will be a major obstacle to the internationalisation of the textile manufacturing firms. The price dispute between the textiles manufacturers and the Alighider cotton plantation is prime evidence. The case studies have indicated that the export problems rated as very important in the preliminary study are relevant to the cases discussed above (see Table 9.5). However, one manufacturer mentioned lack of shipment arrangement and meeting delivery dates as an export barrier.

In order to understand the reaction of the textile-manufacturing firms included in the case studies with regard to possible solutions to the export problems they are facing the managers were asked to give their opinions. Later, after combining their proposal with solutions adopted by manufacturing firms in developing countries (see chapter 3) we asked the textile manufacturers to rate seven alternative solutions in terms of their importance to each respective company. The results are shown in Table 9.6.

Table 9.6 Rating of textile manufacturers in Eritrea to alternative business networks (n=6)

Alternative business network solution	Mean
Establishing a horizontal business network relationships among textile manufactures in Eritrea	4.00
Subcontracting network agreement with foreign textile buyers	3.50
Establishing vertical business network relationship with Eritrean cotton suppliers	4.00
Concluding joint venture agreement with foreign buyer	4.33
Flexible supply contracts with textile wholesalers and retailers in foreign countries	3.67
Export promotion programme by the Eritrean government	2.83
Working to penetrate foreign markets on individual basis	2.88

(Source: Case study 2000)

The rating shows that establishing horizontal co-operation with fellow textiles manufacturers (4.00), establishing a business network relationship with cotton suppliers (4.00) and concluding a joint venture agreement with a foreign investor (4.33) is rated as very important. The network alternatives rated as moderately important are a subcontracting agreement with foreign textiles buyers (3.50) and establishing flexible supply contracts with textiles wholesalers and retailers in foreign countries (3.67). In our market research in the Netherlands and Uganda we did not find evidence to show that the textiles buyers are interested in subcontracting and joint venture agreements. Finally, penetrating the international textile markets through individual effort (2.88) and through an export promotion programme initiated by the government (2.83) are rated as less feasible. The results in the textiles industry are in agreement with the findings in the footwear industry.

9.3.3 Conclusion

The objective of this chapter is to conduct an in-depth study on the export problems rated as very important (see chapter 8). The interview results in this chapter confirm that the export problems identified in the aforementioned chapter are relevant to the textile manufacturing firms in Eritrea. The cancellation of an agency contract by the Ambesa Sweater Factory due to limited production capacity, the lack of trained labour in the Asmara Sweater Factory and the Asmara Textile Factory, the lack of foreign currency mentioned by all textile manufacturing firms and the poor design of textiles are some evidence of this. The problem of lack of shipment and meeting delivery dates that have been mentioned by the Asmara Sweater Factory and a lack of export promotion programmes sponsored by the government are among the problems mentioned by the textile manufacturing firms included in the case studies. From this we can conclude that most of the export problems mentioned in the preliminary study in chapter eight are common to the textile manufacturing firms in Eritrea.

Unlike capital and technology intensive industries where multinational corporations frequently set up facilities for overseas production, the order based textile buyers are shaping the growth and evolution of the textiles industry in a more indirect way. This is mainly because the buyers of textiles make the specifications and supply to the big retail outlets in Europe. Unless the textiles manufacturers in Eritrea enter into such types of business network relationship with the buyers in Europe there is little probability that they will enter the European market. However, before the textiles manufacturers enter into vertical business network relationship they should first improve their product quality and expand their production capacity through resource mobilisation, information exchange and product standardisation. In other words, the manufacturers have to establish horizontal business networks among themselves, which is instrumental to achieving the aforementioned objectives.

Concluding remarks on mutual goals (*figure 5.1* ***)***

-*Common export market opportunities*

The interview results in chapter six show that all the footwear and textile wholesalers and retailers and one textile buying organisation in the Netherlands are willing to have a direct business network with the footwear and textile manufacturers in Eritrea. The wholesalers and retailers in Uganda are ready to deal with the Eritrean manufactures as long as the price is competitive and the quality of the footwear and textiles is suitable for the Ugandan buyers. However, the footwear and textiles wholesalers and retailers in both countries are not interested in joint ventures and subcontracting agreements.

-*Export marketing problems*

In chapters eight and chapter nine of this thesis we discovered several export problems that are common to the Eritrean footwear and textiles manufactures. These export problems can be solved through horizontal and vertical business networks. However, from our study of the Eritrean footwear and textile manufacturing firms in chapters eight and nine, we concluded that the state of horizontal and vertical business network relationships in the footwear and textiles manufacturing firms in Eritrea is poor.

-*Willingness to act together*

In chapter eight we measured the attitude of the footwear and textile manufacturers towards business networks, which was found to be positive. They are willing to form horizontal business networks. We also observed that because of the limited size of the domestic market, the export of footwear and textiles is really important for the income formation of the footwear and textiles manufacturers in Eritrea. While the Dutch and Ugandan wholesalers and retailers are willing to do business with the Eritrean manufacturers the buying organisations in the Netherlands, except Intres, prefer to buy from wholesalers located in Europe.

Chapter 10

Factors that Determine the Export Governance Structure Choice: Comparative study

10.1 Introduction

This chapter conducts a comparative study of the Netherlands and Ugandan footwear and textile export markets to find out the specific conditions that influence the network design. From our case studies in chapter six and chapter seven we understand that the wholesalers and retailers in the Netherlands and Uganda are not interested in subcontracting and joint venture agreements. Therefore a flexible supply contract is the available alternative for entering the Netherlands and Ugandan footwear and textile export markets. The Eritrean footwear and textiles manufacturers have three alternative flexible supply contract possibilities. These are selling directly to wholesalers and retailers in the export markets from the manufacturing site, assigning agents at the export market (externalisation) and direct entry (internalisation).

Table 10.1 Similarities and differences between the Ugandan and the Netherlands footwear markets

Netherlands	**Uganda**
-*Business relationship is long term and based on trust and mutual benefit*	-*Business relationship is short term and based on personal supervision and lack of trust*
-*Purchasing initiative starts with careful market study and product design.*	-*Purchasing initiative starts with limited market study and without product design.*
-*To start business, information about production capacity, number and type of machines, skill of employees on fashion, and even personality of the manufacturers is critical.*	-*The footwear displayed on the market is the point of negotiation. Ugandan buyers have no interest in the manufacturer or his background.*
-*Characterised by strict procedural requirements*	-*Characterised by personal supervision*
-*Order is placed after demand is guaranteed.*	-*Purchase is made by wholesalers on the assumption that there are buyers in the domestic market*
-*Agents play an important role in facilitating the transaction*	-*Agents have no role in the purchasing process*
- *Suppliers information on the internet at trade fairs and formal education play a role in introducing the buyer to the import market*	-*Relatives play an important role in introducing beginners to the import market*
-*Previous business relationship is critical in starting business*	-*Previous business relationship is secondary in starting business*
-*Personal relationship is instrumental in minimising transaction costs*	-*Personal (family) relationship is instrumental in minimising transaction costs*

(Source: Chapter six and Chapter seven)

In the first case the title of the footwear and textiles passes when the wholesalers and retailers receive them where as in the second case the title passes when the manufacturer’s agent at the export market sells the footwear and textiles to a third party. By direct entry we mean that an Eritrean footwear or textiles manufacturer opens a sales outlet in the Netherlands or Uganda to sell the footwear and textiles. In the following section we examine the importance of the aforementioned alternatives to the Eritrean footwear and textile manufacturers in relation to the opportunities that exist in the two markets.

The similarities and differences between the Ugandan and the Netherlands export markets outlined in Table 10.1 are used as basis for comparing the two markets. Five factors determine the export governance structure choice in the two export markets (Figure 5.1). These are asset specificity, uncertainty, volume and frequency of transaction, organisation capacity and room for resource mobilisation, and linkages.

10.2 Asset specificity

The specific investments required for entering the two export markets depend on which actor assumes the market research costs, product design costs, training (learning) and branding costs.

-*Market research and design*

Our findings in chapter six indicate that the incumbent middlemen in the Netherlands export market conduct the market research. They design the footwear and textiles based on the market data and forward this to the manufacturers mainly in Southeast Asia. For instance the purchasing process at Eegim shoe starts with idea collection. The trend watcher, mostly someone from the styling department, gathers ideas about the fashion trend for the next year. The ideas are collected from trade fairs, retail shops, and directly from consumers. The design department creates a design from the ideas. A group of marketing specialists and some selected members discuss the feasibility of the sketches and makes a selection. The designs are sent to the branch office in Taiwan. The branch office concludes an agreement with the manufacturers in Taiwan and other surrounding countries to produce a sample.

Table 10.2 Importance of distribution functions assumed by middlemen

Netherlands								
Asset specific investments	Footwear wholesalers and retailers				Textile wholesalers and retailers			
	Comforta	Eegim Shoe	Hoogen bosch	Scapino	Susan fashion	Vadotex	Zeeman	Hans Textile
Market research	VI	VI	VI	VI	VI	VI	VI	VI
Product design	VI	VI	VI	LI	VI	VI	LI	VI
Branding	I	I	I	LI	LI	I	LI	I
Training	VI	VI	VI	LI	I	VI	LI	VI
Uganda								
Asset specific Investments	Footwear wholesalers and retailers				Textile wholesalers and retailers			
	Fame Italian	Arafat Agencies	Mike Tusibera	Samuska enterprise	U.G. M.	Muyinza Trading	School Outfitters	NOB Traders
Market research	LI	LI	LI	LI	LI	LI	LI	LI
Product design	NI	NI	NI	NI	NI	NI	NI	NI
Branding	I	NI	I	NI	NI	NI	NI	NI
Training	LI	LI	LI	LI	LI	LI	LI	LI

Note: VI= Very important, I= Important, LI= Less important NI= Not important
(Source: Chapter six and chapter seven)

The response of the purchasing manager of Hans Textile is evidence for the above argument. When asked what his response would be if a manufacturer from Eritrea told him he could supply the right textiles to the European market, he said "…w*e do not expect the Eritrean manufacturer to design a product that can be interesting for us. To avoid this problem we would give the manufacturer in Eritrea our designs and see what he/she can do with it. If he makes a good product out of it, there is a possibility of doing business."* Some buyers in the Netherlands do not make designs when the volume of the order is relatively small and in these cases trading companies in Southeast Asia fill the gap (see Table 10.2). The purchasing manager of Scapino said, "…w*hen we have a smaller order size we go to the export trading company. The export trading company is free to sell a similar type of footwear to wholesalers and retailers operating in markets other than the Netherlands. For that reason it can fulfil the minimum order requirement of the manufacturers."*

The internalisation of the market research and product design by the Netherlands wholesalers and retailers suits the Eritrean footwear and textile manufacturers as it reduces the need for scarce resources to finance transaction specific investments. In contrast to the Netherlands, our market study in chapter seven shows that the purchasing initiative of the middlemen in Uganda starts with a limited market study and without the production of footwear and textiles designs (see Table 10.2). No prior decision is made as to what type of footwear or textiles to buy and from whom. It is only when the design available in the spot market is appealing to the Ugandan wholesalers and retailers that they decide to buy. In this case the Eritrean manufacturers have to conduct a market study and produce a footwear and textile design accordingly. This leads to investment in market research and product design. To safeguard this investment and exploit the market opportunity better, direct entry to the Ugandan market becomes necessary.

-*Training*

Highly specialised and experienced domestic wholesalers, buying organisations, retailers and agents, dominate the Netherlands footwear and textiles markets. They invest in the training of sales people and promotion personnel to satisfy the requirements of their customers. Ultimately, by adapting to the requirements of the target market, they increase competitiveness. The purchasing manager of Scapino said, " *Although they are expensive we always buy footwear from wholesalers located in the Netherlands. The reason is that the wholesalers are nearer to the Netherlands market and have good knowledge of the fashion trend. They invest time and money to get footwear that is fit for the Netherlands market. Thus it helps us to cope with other competitors who buy footwear from the wholesalers*." If the Eritrean manufacturers are to enter the Netherlands market directly they must invest in training their sales personnel suitably for the market. Possibly hiring people could solve this problem, however, the cost is high and there is no guarantee for retaining the personnel for a longer period. Moreover, the Netherlands footwear and textiles export markets are sophisticated and there is less chance of the footwear and textiles manufacturers in Eritrea bypassing the aforementioned knowledgeable intermediaries. Thus selling to the wholesalers and retailers from the manufacturing site is the feasible alternative. The knowledge required in selling footwear and textiles in the Ugandan market is less demanding. The middlemen's purchasing decisions in Uganda are highly influenced by the attractiveness of the price. Lialigo Jamal, a textile trader in Muyinza trading company said "… *I am happy to buy textiles from Eritrea…but I must say that the price is the most important factor of the business component*." Moreover, as the list price is almost twice the selling price, the negotiation skill of the sales person is critical.

Table 10.3 Specific investments required for entering the Netherlands and Ugandan markets

Asset/market specific investments	*Netherlands*	*Uganda*
Market research	*Handled by wholesalers and retailers*	*Often handled by manufacturers/wholesalers*
Product design	*Often handled by wholesales and retailers*	*Often handled by manufacturers*
Training (learning) and branding	*Handled by wholesalers and retailers*	*Often handled by manufacturers*

(Source: Chapter six and Chapter seven)

-Branding

Branding is important for high fashion and classical shoes in the Netherlands Market. These shoes come mainly from European manufactures. They are also made in Southeast Asia under the supervision of the branded footwear wholesalers and retailers in the Netherlands. Retail chains and importers use fantasy labels and brands to distinguish their collections from those of competitors and also to target particular consumer segments. However, brand names are of little importance for slippers and other textile and plastic shoes. For a new, fashionable leather footwear manufacturer to play in the Netherlands export market, he/she has to build brand names, which are appealing to the buyer. Due to strict requirements in manufacturing and exclusive distribution brand names are transactions specific to manufacturers. However the wholesalers have many contacts and can sell the same brand to many retailers in the Netherlands. Consequently the branding cost is not a transaction specific investment to the middlemen. Compared to the Netherlands export market branding is less important in Uganda. Thus there are few branded footwear and textile traders in the market.

In conclusion, we note here that market research, design, training and branding costs are “transaction specific” to manufacturers. However, as the information gathered can be translated into different designs used for many transactions concluded in the home market these costs are not transaction specific to wholesalers. Moreover brand names are often given for several designs, which can be sold to several customers. As foreign manufacturers normally deal with a small number of selective and exclusive wholesalers and retailers, these costs are transaction specific to them. Thus, we conclude that dealing through wholesalers in the Netherlands who assume the market research, design, branding and training costs reduces transaction specific investments and therefore transaction costs. Unlike in the Netherlands, in Uganda there are no wholesalers, retailers and agents who can fill this gap. Thus, direct entry to the Ugandan market is the likely feasible entry strategy. Agents are not active in the Ugandan market due to high uncertainty, which will be discussed in the forthcoming section.

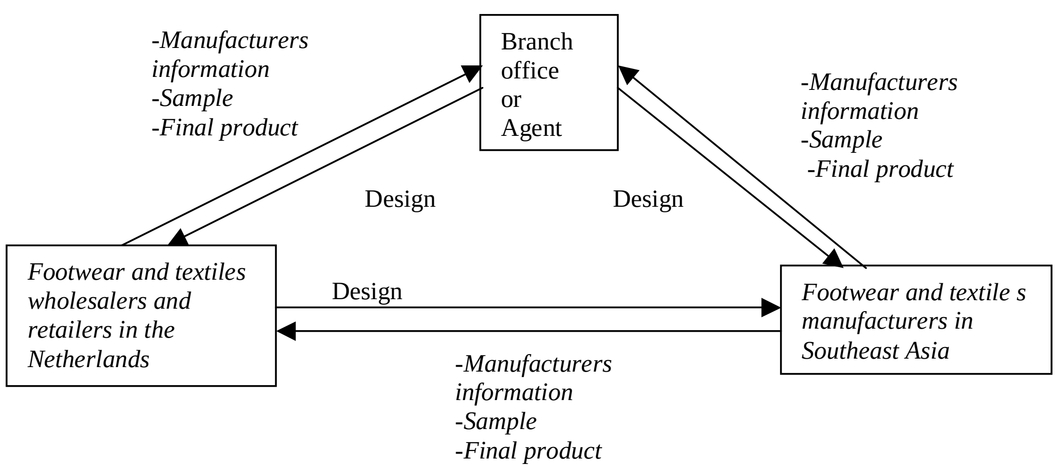
10.3 Uncertainty

The discussion in Chapter five reveals that four factors can decrease or increase the level of uncertainty in the footwear and textiles business. These are availability of information about the level of demand in the export market, level of trust between the transacting parties, availability of uncertainty-decreasing instruments and availability of courts of arbitration and litigation.

-Availability of information

The case studies in chapter six show that the footwear and textiles manufacturers in Southeast Asia depend on wholesalers and retailers in the Netherlands for market information (Table 10.3). The orders placed by the wholesalers and retailers in the Netherlands reflect the requirements of the Netherlands footwear and textiles export market. The orders contain information about the fashion trend and design, price and delivery time (Figure 10.1). The wholesalers, retailers and buying organisations deliver their requirements to the manufacturers in three ways. These are: (1) through an agent located at the manufacturing site (Comforta, Vadotex, Hans Textile etc) (2) through their branch office at the manufacturing site (Eegim shoe) or (3) directly from the wholesalers and retailers to the manufacturers (Intres). Direct delivery of the requirements is made when the wholesalers and retailers travel to the manufacturing site and negotiate with the manufacturers. The information helps the manufacturer to evaluate his production skills, purchase the right raw materials and plan the production and delivery time. However, as the Eritrean footwear and textile manufacturers can get this information from the wholesalers and retailers in the Netherlands while they are at home there is no need for direct entry to acquire this information.

Figure 10.1 Exchange relationships between wholesalers and retailers in the Netherlands and manufacturers in Southeast Asia



At the start of a new business relationship the manufacturer is required to give information about his competence. The information is mainly related to the manufacturer production capacity, the type of products he produces and the readiness in fulfilling promises (contractual trust). For example the general manager of Comforta said, " *… before we start business I would have to know the Eritrean manufacturer well. I have to be convinced that he has the capacity and skill to make the type of footwear I need to sell."* The buyers in the Netherlands want to make sure that the manufacturer is competent enough to fulfil his obligations (competence trust) and will respect the agreement on exclusivity. In addition to the manufacturer's competence, the culture of the people and the business practices in the country where the potential manufacturer is located are also scrutinised. The purchasing manager of Scapino said, *"…it is important for us that we know the country first. Knowledge about the culture of the people, the business practices, the type of footwear manufactured, availability of footwear component producers, and the price level is important. If everything is Ok, I can*

place a trial order." The exchange of information between the transacting parties can facilitate the trust building process and neutralises opportunism and ultimately uncertainty.
In the Ugandan market the buyers travel to the export market without solid knowledge of the footwear and textiles they want to buy. Consequently, the foreign manufacturer gets little or no information about the Ugandan market from the buyers. The unreliability of secondary data in the Ugandan export market and the lack of agents who can fill this gap make the uncertainty in the market high. Manufacturers do not appoint agents in Uganda because of the lack of trust in the exchange process and high monitoring costs. As a result, the direct presence of the manufacturer in the export market is necessary to view the export market from the inside and collect reliable first hand data.

-Level of trust among the transacting parties

The second factor, which influences the level of uncertainty in the exchange process, is the level of trust among the transacting parties (Table 10.4). Often the wholesaler in the Netherlands places an order to the footwear or textiles manufacturer in Southeast Asia after he secures an order from retailers in the Netherlands. In other words the footwear wholesaler in the Netherlands simply transfers the order from the retailers in the Netherlands to manufacturers in Southeast Asia. In this case there are two contracts. These contracts are a supply contract between the retailers and the wholesalers in the Netherlands, and a supply contract between the wholesaler in the Netherlands and the manufacturer in Southeast Asia. When the wholesaler in the Netherlands and/or the footwear manufacturer in Southeast Asia do (es) not fulfil their/his promise both of them face problems. The upshot is that the wholesaler in the Netherlands cannot supply the retailers in the Netherlands who are waiting for the shipment to arrive. The manager of Vadotex said " *A few months ago a manufacturer from Bangladesh told us he would be shipping the textiles after a week. Two months later he told us the same story. This is something that we do not accept. Because not only we are losing the goods but also our programme is being disrupted...".* This means the wholesaler faces the risk of losing the trust and potential business opportunities with the customers (retailers) in the Netherlands. Moreover, if the wholesaler in the Netherlands wants to find another supplier he has to make additional investment. The investment concerns activities to build trust and confidence with the new potential supplier. Time and money must be spent in gathering information about the new supplier and building competence trust. Finally, the news about his failure to supply the retailers in the Netherlands may spread rapidly and this can harm his reputation and future business opportunities with other footwear retailers in the Netherlands.

Table 10.4 Level of uncertainty in the Netherlands and Ugandan export markets

Uncertainties	*The Netherlands*	*Uganda*
Market information	*Handled by wholesalers and retailers*	*Often handled by manufacturers*
Trust	*Important*	*Not really important*
Contract enforcing organisations	*Well organised*	*Weak*

(Source: Chapter six and Chapter seven)

The most important consequence for the manufacturer of failing to fulfil his promise to the wholesaler in the Netherlands is that he is going to lose his long-term buyer. It is not easy for the manufacturer to find another customer and this may drive him out of business. Secondly, he faces the risk of losing the trust of other potential wholesalers and his reputation because information about his failure to fulfil his obligations can spread fast through the network. When both fulfil their promises, both gain from the business relationships. However, both lose when both fail to fulfil their promises. In this case we see a lot of interdependence between the buyer in the Netherlands and the manufacturer in Southeast Asia. For the buyer and manufacturer avoidance of dependence is not a priority, rather they like to build security out of it. In this respect the manager of Vadotex said, "*The important thing in business relationships is trust. If there is no trust between the parties, the written contracts have a lot of loopholes that either party can use to deceive the other. To answer your question directly we lose the money but we will not have any kind of business relationship with the manufacturer afterwards.*" Table 10.4 summarises the likely consequences.

The case studies in chapter seven reveal that the level of trust between the transacting parties in the Ugandan footwear and textiles export markets are in contrast with the findings in the Netherlands. The exchange process in the Ugandan footwear and textiles export market is characterised by lack of trust. A footwear importer in Uganda, Mary Thandle said, "*While we were exporting agricultural products from Uganda to Italy, an Ugandan customer asked us to bring a container full of footwear, which is about seven thousand pairs, for him. We accepted his request and we brought the footwear. However, our Ugandan customer refused to take the footwear and to pay the money. In this case we decided to sell the footwear ourselves. For this purpose we opened this shop and we are still importing and selling footwear from Italy*." This evidence reveals that the lack of trust in the exchange process forced Thandle to integrate the retail function. Moreover, Jjemba, a footwear wholesaler in Arafat Agencies said, " *We Ugandans lack trust. The lack of trust starts in the family. A husband and wife in the Ugandan family prefer to have different bank accounts, which you do not see in other African countries. This is mainly because they do not trust each other. This has an influence on the way we do business. For instance it is not common for a footwear trader in Uganda to give credit to his customers. Most of the customers who take credit do not pay back. Besides people do not want to use formal business practices such as a letter of credit as they want to evade taxes*."

Table 10.5 Consequences to the footwear and textile buyer and manufacturers in case of not fulfilling promises

		Footwear and textile buyer (wholesaler, retailer) fulfils his promise	
		Yes	No
Footwear and textile manufacturer fulfils his promise	Yes	-Both gain from the business relationship	-Manufacturer loses a customer -Long waiting period to get another long term buyer -Buyer loses his reputation
	No	-Buyer loses customers -High switching cost to find an alternative supplier -Manufacturer loses his reputation	-Both lose because they have to invest to establish a new business relationship

(Source: Chapter six and Chapter seven)

The Ugandan footwear and textile market is dominated by spot market price negotiation. Prior information exchange is rare. While in the Netherlands wholesalers and retailers buy footwear and textiles directly from manufacturers, the Ugandan wholesalers and retailers buy the footwear and textiles from wholesalers and retailers in the country of production or in a third country market (such as Dubai). According to Williamson (1985) the small order size of the Ugandan wholesalers and retailers does not justify direct entry. However, there is another way of enlarging the order size. By entering the market directly the manufacturers in Eritrea can even collect orders from the immediate consumers. Thus direct entry is still the plausible transaction governance structure.

-*Availability of contract enforcing institutions*

The third dimension that influences the level of uncertainty in the exchange process is the availability of contract enforcing institutions. Institutions are one of the sources of trust between the transacting parties. Our market study in the Netherlands shows that there are clearly laid down contract enforcing institutions that guide the business relationship between the footwear and textiles importer and the manufacturer. The first contract enforcing institutions in the Netherlands are the buying organisations. They give fourteen days guarantee of payment to the supplier any sales contract concluded between their member and a foreign supplier. Beside this quality inspection institutions, agents, and banks play a significant role in the smooth transfer of the footwear and textiles from the manufacturer to the buyer. The footwear and textile buyers in the Netherlands employ quality inspection institutions to certify the quality of the goods in the manufacturing site before they are shipped to the Netherlands. The certification is often made in reference to the footwear and textile design and other specifications forwarded to the manufacturer before production commences. Furthermore, buyer's agents certify the delivery of the right quantity and quality of footwear and textiles at the port of shipment. Banks control the availability of the documents necessary for the supplier to claim payment and for the buyer to claim the footwear and textiles. Moreover, although the transacting parties prefer to avoid going to court, when a need arises there are carefully laid down courts of litigation and arbitration. All the above-mentioned institutions contribute to the trust building process (neutralising opportunism) that reduces the uncertainty and therefore facilitate transaction between wholesalers and manufacturers.

Contract enforcing institutions in the Ugandan footwear and textile export market do not work well. Buying organisations in Uganda are informal social groups that are guided by personal relationships and family ties. The buyer makes the inspection of the footwear and textiles, receives the goods and conducts payment on the spot. Consequently, inspection institutions, banks, and agents play little role in facilitating the export transaction. The letter of credit barely works in the Ugandan market. Beside this due to the low level of trust exporters does not appoint agents. The legal system is unreliable and exporters always prefer to undertake the distribution function themselves. Indicating the ineffectiveness of the legal system, the manager of Allied Afri Trading house said, " *In Uganda you can get a person arrested not because he failed to honour his contract but because you are able to pay some money. The worst thing is even though you get him arrested by paying about $100, he only needs to pay $25 to the police to get out. The additional $25 is more important to the police than keeping him in prison."*

The Ugandan footwear and textile export market is full of uncertainty. This is mainly due to the weak legal system, corruption, lack of trust in the exchange process and lack of a culture of using uncertainty-reducing instruments (letter of credit, inspection institutions, agents etc.). These factors make it difficult for the footwear and textile manufacturer to appoint an agent in Uganda. In fact from the market study in Chapter seven we learned that appointing an agent is not common in Uganda. Consequently, the direct presence of the Eritrean footwear and textiles manufacturers in the Ugandan export market is critical to minimise the uncertainty that may arise from the opportunist behaviour of the traders and inefficiency of the contract enforcing institutions. In the Netherlands the exchange process is based on trust and long term business relationships. Thus, if the footwear and textiles manufacturers in Eritrea can offer enough information about their production capacity they can build competence trust and a transaction exchange process can be started thereafter. However, because competence trust is ascertained after inspection of the footwear and textiles, the presence of a strong agency organisation in Eritrea that can guarantee the quality of the footwear and textiles to buyers in the Netherlands is indispensable.

10.4 Volume and frequency of transaction

In Chapter five of this thesis we discussed the fact that the volume and frequency of the orders placed by buyers are among the factors that influence the choice of transaction governance structure in a certain market. Our market study in Chapter six reveals that the footwear and textile wholesalers and retailers in the Netherlands place large orders every six months. These orders are mainly related to the fashion and design trends in a certain season. However from our case analysis in the Eritrean footwear and textile manufacturing industry we learned that in the short run the Eritrean footwear and textile manufacturers can only sell a limited quantity to the Netherlands market. This is mainly because they have to improve their product quality to meet the requirements of the Netherlands buyers. Moreover, most of the footwear and textiles manufacturers in Eritrea are small in size and they produce small quantities. Even the larger ones have limited production capacity for each product line, as they produce different types of footwear and textiles. This makes product standardisation and co-operation in export among the Eritrean manufacturers necessary. Given the above reasons, in the short run direct entry of the Eritrean manufacturers to the Netherlands market is not feasible.

Table 10.6 Volume and frequency of transaction

Volume and frequency of transaction	*The Netherlands*	*Uganda*
Volume of transaction	*Large*	*Small*
Frequency of transaction	*Recurrent*	*Not recurrent*

(Source: Chapter six and Chapter seven)

In contrast to the orders placed by the footwear and textile buyers in the Netherlands, the order from an individual Ugandan footwear and textile buyer is small and trade relationships between buyer and seller are not recurrent (Table 10.6). According to the transaction cost theory this does not justify direct entry. Appointing agents in Uganda could solve this problem. However, this strategy does not work in Uganda due to lack of trust and high agent monitoring costs. Direct presence in the Ugandan export market enables the Eritrean manufacturers to enlarge orders by collecting every small order available in the market.

10.5 Organisation capacity and room for resource mobilisation

The basic indicators of the capacity of the organisation with regard to export are ability to finance exports, production capacity (machinery, raw materials, labour), and marketing knowledge. The production capacity problem has been discussed in the previous section. The other two indicators are discussed here.

Our studies in Chapters eight and nine reveal that the financial, human resource and knowledge capacity of the footwear and textile manufacturers in Eritrea is very limited (see Table 8.5, Table 10.5 and Table 10.7). Table 10.7 in particular shows that only the Bini shoe factory and the Asmara sweater factory have few market knowledge problems. Even in these organisations the market knowledge is concentrated in a single person who is acting as the general manager. The lack of specialised training institutions to prepare trained personnel for the footwear and textiles manufacturing firms aggravates this problem. Moreover the mobilisation of the young employees for national defence during the last four years has harmed the supply of human resources to the manufacturing firms. When asked about his capacity to produce asset specific designs forwarded by the buyers, the manager of the Asmara textiles factory said, "*Currently we produce T-shirts that are generic. Recently, we received an order from Germany with a superior product design. We did not accept the order because we do not have the capacity to do so.*" However, Erikog, which still operates in the local market and is highly supported by the government, thinks it has the human resource capacity to accommodate orders from foreign buyers.

Table 10.7 Organisational capacity of footwear and textile manufacturers in Eritrea

Capacity indicators	Footwear Manufacturers					
	Expo	Asmara	Negusse	Dahlack	Delux	Bini
Financial problems	VI	VI	I	I	VI	I
Human resource problems	VI	I	I	I	I	VI
Marketing knowledge Problems	VI	I	I	I	VI	LI
	Textiles Manufacturers					
Capacity indicators	Asmara Textile	Asmara sweater	Eritrea Textile	Barocko Textile	Erikog Garment	Ambesa Sweater
Financial problems	VI	I	VI	I	LI	I
Human resource problems	VI	VI	VI	I	LI	I
Marketing knowledge problems	I	LI	VI	I	VI	I

Note: VI= Very important, I= Important, LI= Less important, NI= Not important. (Source: Chapter eight and chapter nine)

The lack of capital investment in the manufacturing firms, except for a few, left them with obsolete machinery. Joint venture agreements with foreign investors may solve the financial and human resource problems. However, during the study no joint venture or subcontracting opportunities were found in the Netherlands and Ugandan potential export markets. The wholesalers and retailers only wish to conclude flexible supply contracts. Accordingly, for the Netherlands market the wholesaler, or retailer can handle the marketing activities. The only investment required is to train the manufacturers in Eritrea to produce standardised footwear and textiles. With the help of the designs coming from the buyers and their experiences the Eritrean manufacturers can improve their product quality. However, resource mobilisation is the key to realising entry to the Ugandan footwear and textile export markets as there are no wholesalers and retailers who can take the initiative for market research and product design functions.

Table 10.8 Organisational capacity of footwear and textile manufacturers in Eritrea in relation to export market requirements

Organisational capacity	*The Netherlands*	*Uganda*
Financial resource	*Not enough*	*Adequate*
Production knowledge	*Not enough*	*Adequate*
Marketing knowledge	*Not enough*	*Adequate*

(Source: Chapter six, Chapter seven, Chapter eight and Chapter nine)

In conclusion, because the Eritrean footwear and textiles manufacturers have limited financial and human resources, they cannot afford to raise the high financial and knowledge requirements to open a sales outlet and sell footwear and textiles in the Netherlands market (Table 10.8). Thus selling to wholesalers and retailers based in the Netherlands from the manufacturing site in Eritrea accommodates the financial, human resource and knowledge problems. However outsourcing marketing functions implies dependence. Flexible supply contracts with European distributors would normally concern large orders for the Eritrean manufacturers and this would lead to dependence. Discretional power can be specified in the contract, but knowing that the buyer controls the market research, this increases dependence for the manufacturer. We also observed that business relationships depend on past performance they often start with a small trial order. Reputation, trust and past performance are important assets in the marketing chain. We have already discussed the long lead-time and the interdependencies that result from it. This means that the dependence of manufacturers on the wholesalers involved in flexible supply contracts is high. This can be taken as an argument against these types of contracts as it may lead to opportunistic behaviour. However, wholesalers also depend on a trustworthy network of suppliers, as switching costs are also high for them. This serves as a safeguard for manufacturers and balances the dependency vis-à-vis the wholesalers. This is another factor that explains why flexible supply contracts are the dominant organisational form in co-ordinating exchange between manufacturers in developing countries and wholesalers in the Netherlands.

Due to the lack of trust, absence of wholesalers and retailers who can take the initiative for market research and product design, and the fact that only a few wholesalers and retailers in Uganda are willing to travel to Eritrea (see Chapter seven), direct presence of the Eritrean manufacturers in the Ugandan market is necessary in order to penetrate the market. For this purpose to raise the resources needed to open a sales outlet a horizontal business network among manufactures is needed. This is mainly because an individual manufacturer cannot do this alone.

10.6 Linkages

The strength of the business network relationship among manufacturers and buyers (wholesalers and retailers) in the export market are important factors for their competitiveness. This is mainly because of the importance of a smooth communication channel and trust. The lack of resources excludes the option for manufacturers to enter export markets on individual basis. Thus the manufacturers need to create linkages in order to get access to market knowledge and other resources. Joint ventures and subcontracting arrangements are interesting alternatives for the Eritrean manufacturers but the need for flexibility in the trade relationship implies that the distributors in the Netherlands are not interested in this type of relationships.

In the Ugandan market the business relationship is characterised as arms length. There are no long-term suppliers as well as buyers in the export market. Consequently the business relationship among manufacturers (suppliers), buyers (wholesalers and retailers) and immediate consumers is weak (Table 10.9). This gives the Eritrean manufacturers a chance of having a direct presence in the market for a reasonable investment. Sales from Eritrea to wholesalers and retailers in Uganda are not feasible as the volume of purchase is very small, documents such as the letter of credit are barely used by the Ugandan buyers and, finally, only a few wholesalers and retailers in Uganda are prepared to travel to Eritrea.

The strength of the business relationship between partners in the Netherlands and Uganda can be explained by two important concepts. These are security and flexibility. In Chapter five of this thesis we concluded that the higher the buyer's need for security the stronger the business relationship between the buyer and manufacturer and the more difficult it is for newcomers to enter the market. However, we also observed a willingness among retailers and wholesalers in the Netherlands to deal with new partners. These new business relationships are developed gradually and are based on trust and reputation. This provides opportunities for Eritrean manufacturers. It is recalled that institutions should be effective to strengthen trust building and to protect the interests of the partners involved in a flexible supply contract. Moreover we said that the higher the buyer's need for flexibility the weaker the business relationship between the buyer and the manufacturer and the higher the probability that the new entrant can penetrate the market. This fits the business relationship among the suppliers, wholesalers, retailers and consumers in the Ugandan market.

Table 10.9 Entry barriers in the Netherlands and Ugandan export markets

Entry barriers	*The Netherlands*	*Uganda*
Strength of supplier importer relationship	*Strong*	*Weak*
Strength of importer consumer relationship	*Strong*	*Weak*

(Source: Chapter six and chapter seven)[20]

In conclusion because the business relationships between the wholesalers and retailers in the Netherlands and their customers is strong it will be difficult for the Eritrean manufactures to win Netherlands customers. Consequently, it is better for the Eritrean manufacturers to sell the footwear and textiles to the incumbent wholesalers and retailers. This can help the Eritrean footwear and textiles manufacturers establish a link with the Netherlands market at a lower cost. However, the Ugandan buyers are highly flexible and the business relationship with their suppliers and customers is weak. With a better offer the Eritrean manufacturers can have the opportunity of entering the market directly at a relatively lower cost.

10.7 Conclusion

In the first chapter of this thesis, three businesses network alternatives were presented: subcontracting, joint venture, and flexible supply contracts. The export market study showed that no subcontracting and joint venture business opportunities were found. This is mainly because of two factors: first, there is no need for the importers in the Netherlands to make risky investments in manufacturing facilities. There are manufacturers who are capable of producing a product according to the importer requirements. The key issue is how to find a reliable manufacturer who can accommodate the orders. The wholesalers and retailers limit themselves to the marketing function by conducting market research, designing the product, training sales people and paying for branding costs. Often the technical aspects of production are left to the manufacturers and specialisation is becoming more important in Europe. Most of the importers like to remain as wholesalers or retailers rather than diversifying into production. Finally, the unstable political situation in developing countries makes investment more risky. Consequently, the case studies have shown that at present flexible supply contracting is becoming popular in the footwear and textiles business.

The general thrust of the discussion in this chapter is that the footwear and textile markets in the Netherlands and Uganda are different and require different marketing approaches. In fact our comparison acknowledges this difference and proceeds to identify the factors that differentiate the two export markets. Accordingly, the discussion in this chapter showed that footwear and textiles markets in the Netherlands and Uganda differ in the specific assets needed to enter the two markets, the uncertainties (behavioural plus environmental), and the volume and frequency of transactions placed by the respective buyers (table 10.10). Moreover, the two markets differ in terms of the resources needed by the manufacturers to

[20] Respondents were asked to rate the strength of their business relationship with their customers and suppliers. A comparison was also made between the two markets.

enter the markets and the linkages that prevail. Wholesalers and retailers are the main players active in the Netherlands footwear and textiles export market. Thus it is necessary for the footwear and textiles manufacturers in Eritrea to enter into the Netherlands footwear and textile export market through a vertical business network with wholesalers and retailers rather than bypassing them. The intermediaries in the Netherlands are well placed in the local target market, have considerable local market knowledge and crucial contacts with potential customers. However, to improve their product quality and expand their production capacity the Eritrean manufacturers need to establish a horizontal business network.

Table 10.10 Comparison of the two markets based on the variables that determine the governance structure

Factors that determine the export governance structure choice	*Netherlands*	*Uganda*
Asset specificity		
Market research	*Handled by wholesalers and retailers*	*Often handled by manufacturers/wholesalers*
Product design	*Often handled by wholesalers and retailers*	*Often handled by manufacturers*
Training and branding	*Handled by wholesalers and retailers*	*Often handled by manufacturers*
Uncertainties		
Market information	*Handled by wholesalers and retailers*	*Often handled by manufacturers*
Trust	*Important*	*Not really important*
Contract enforcing organisations	*Well organised*	*Weak*
Volume and frequency of transaction		
Volume of transaction	*Large*	*Small*
Frequency of transaction	*Recurrent*	*Not recurrent*
Capacity of Eritrean manufacturers to fulfil the requirements		
Financial resources	*Insufficient*	*Adequate*
Production knowledge	*Insufficient*	*Adequate*
Marketing knowledge	*Insufficient*	*Adequate*
Linkages		
Strength of supplier importer Relationship	*Strong*	*Weak*
Strength of importer consumer Relationship	*Strong*	*Weak*
Recommended network strategy	*Sales through wholesalers, retailers or agents*	*Direct entry (opening a sales outlet)*

(Source: Tables 10.2…10.9)

The high uncertainty in the Ugandan export market due to the lack of trust in the marketing chain, lack of reliable market data and inefficient contract enforcing institutions precludes the footwear and textile manufacturers from appointing agents in Uganda. Moreover, wholesalers and retailers in Uganda often travel to markets where they can find different varieties of footwear and textiles from which they can choose. They buy a limited volume of footwear and textiles from each design. According to the transaction cost theory this does not justify direct entry. However, direct presence in the Ugandan market can help the Eritrean footwear and textiles manufacturers to enlarge their sales by collecting orders even from the immediate customers. The quality and institutional structure in Eritrea is not yet ready for entering the Ugandan and the Netherlands markets and great deal has to be done. Chapter eleven discusses these factors.

Chapter 11

Network Design for Footwear and Textile Manufacturing Firms in Eritrea and its Implementation Strategies

This chapter has eight sections. Section 11.1 summarises the critical findings from the previous chapters. Section 11.2 discusses the success factors for the manufacturers' horizontal business network organisation. Similarly section 11.3 examines the critical success factors for the horizontal business sub-network organisation. Section 11.4 explains how vertical business networks among Eritrean manufacturers, footwear and textile buyers in the Netherlands and leather and cotton suppliers in Eritrea could develop. Section 11.5 discusses the potential business network relationship between Eritrean manufactures and Ugandan buyers. Section 11.6 describes the implications of the horizontal and vertical business networks in solving the important export problems identified in Chapters eight and nine. Finally, in section 11.7 we draw the overall conclusion.

11.1 Introduction

The previous chapter shows that the entry strategy for Eritrean footwear and textile manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Moreover, because of the high uncertainty in the Ugandan export market due to the lack of trust in the marketing chain, lack of reliable market data and inefficient contract enforcing institutions direct entry was found to be feasible market entry strategy. However, the Eritrean footwear and textile manufacturers need to establish horizontal business network organisations in order to accommodate large orders through product standardisation and capacity expansion, improve product quality through learning and mobilise financial and human resources needed to establish a sales outlet in Uganda. In the next three sections we will discuss two types of horizontal business network organisations and three types of vertical business network relationships needed to co-ordinate the entry to export markets. A distinction between a network organisation and a network relationship is made: organisations have their own administration and continuity is a major goal, while relationships are order based and have a relatively flexible status. We distinguish a footwear manufacturers' horizontal business network organisation (Section 11.2, Figure 11.1), a horizontal business sub-network organisation (Section 11.3), and vertical business network relationships between suppliers, manufacturers and buyers in the export market (Section 11.4). To avoid repetition we first discuss the business network structure recommended for the footwear industry and then we accommodate any special requirements for the textile industry in the concluding remarks. There after we continue with the discussion on the organisation of the business relationship between the Eritrean manufacturers and the Ugandan buyers.

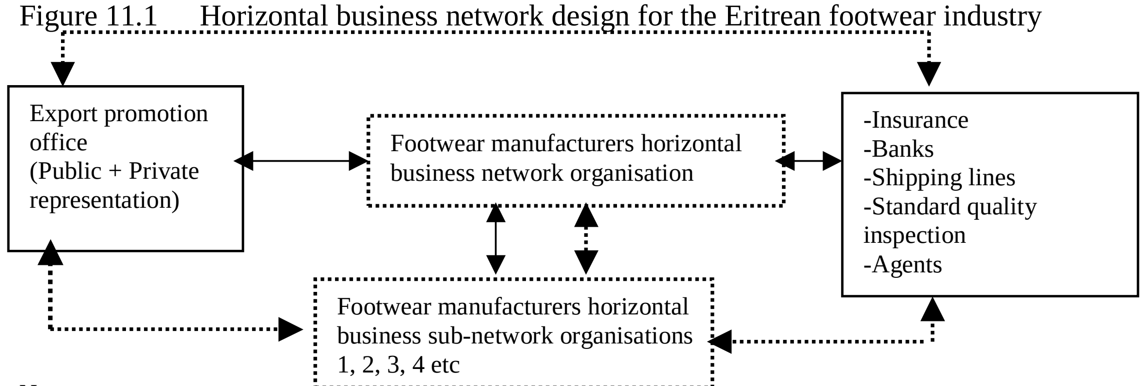
11.2 Horizontal business network organization

First of all there is a need for a general horizontal business network organisation: an association of all Eritrean footwear manufacturers that provides a platform for manufacturers to discuss common problems among themselves and with other stakeholders. Such an organisation would have three general objectives:

- To represent the industry in consultations with the government and organisations providing services to the footwear sector. This may concern discussions on tax policy, exchange rate policy, foreign trade agreements, availability of support services, co-ordination of common training programmes and initiating projects to improve leather quality.
- To facilitate the formation of horizontal business sub-network organisations, which are important to fulfil buyers' requirements.
- To assist Eritrean footwear manufacturers looking for export markets. Because of the financial and knowledge constraints of individual manufacturers the horizontal business network organisation is expected to facilitate the identification of export markets and the distribution of information to the horizontal business sub-networks (Section 11.3).

The government can be expected to support the establishment of this organisation, as the footwear industry is one of the industrial sectors that have opportunities in the export market. Proper organisation of this sector is a prerequisite for successful entry, the realization of jobs and export revenues. Thus the government, in co-operation with the horizontal business network organisation can create a conducive environment for the manufacturers to obtain low interest credits and export pre-financing from the public owned banks, training employees and improve the level of export service institutions: such as a standards institute and the transportation infrastructure. It can also act as mediator when a conflict arises among the manufacturers in the horizontal business sub-network organisation. However, a major contribution has to be made by the manufacturers. They need to share financial, human, information, and knowledge resources and show active participation in the organisation of the network.

Figure 11.1 Horizontal business network design for the Eritrean footwear industry



Note:
Shows horizontal business network relationships between individuals or groups of actors
Shows a vertical business network relationship between individuals or groups of actors
Shows a group of actors in a horizontal business network organisation
Shows an independent organisation
(Source: Compiled by the author)

We discuss the critical success factors in the development process of the horizontal business network organisation below (Figure 11.1). Three stages are distinguished: network emergence, network development process and network achievement (see Figure 3.3). In Chapters 6, 7, 8, and 9 we concluded that there are common problems and market opportunities beyond the individual reach of the manufacturers. Our case studies in Chapter 8 and Chapter 9 have shown that the Eritrean footwear manufacturers are willing to act together. In our interviews, one year after collection of data, we found that the willingness of the manufacturers to co-operate is gathering momentum. In this regard the manager of the Bini shoe factory said, "A*lthough we are better in-terms of organisation we are not self-sufficient. That is why we say co-operation is important even between competitors. For instance two months ago there was a bid for manufacturing military boots. Bini and Dahlack shoe factories were the bidders and Dahlack won the bid. Later on Dahlack asked us to help them, mainly in stitching, and we did. Henceforth a sense of co-operation is emerging between these two factories*." Moreover, the general manager of the Negusse shoe factory mentioned that the establishment of the horizontal business network organisation and horizontal business sub-networks is important because footwear manufacturers are losing hope, which may lead to the closure of their factories. Therefore we can say with confidence that the conditions for network emergence that we set out in chapter five are met.

- Evolution toward solidarity, cohesion and commitment

Our discussion in Chapter two showed that the horizontal business network organisation's evolution toward solidarity, cohesion and commitment is determined by the availability of an outside change agent; group size and fit of organisations, products and people (Welch and Joynt, 1987). Each of these is relevant to our network design.

Outside change agents are individuals or organisations that facilitate the formation of the horizontal business network organisation. The experiences of Chile, Nicaragua, and Jamaica (Ceglie and Dini, 1999) provide interesting examples. Often high transaction costs are associated with the development of these business networks. Given the financial and knowledge constraints in the Eritrean footwear industry and the need for export activities, we expect that outside change agents with some funding capacity can play a catalyst function. In our case the Eritrean government could act as outside change agent and take the initiative in creating the horizontal business network organisation. During our interviews, one year after collection of the data it has been found that all the manufacturers supported the involvement of the government in facilitating the establishment of the horizontal business network organization. In this regard the manager of the Negusse shoe factory said that because export is a national interest the government involvement is important. She went on to say that the government could be instrumental in bringing lower interest rate credits and experts who can help the manufacturers in building their production capacity. However it is important to note that private entrepreneurs are suspicious of government institutions. Therefore it would be wise if the outside change agent could be given some relative autonomy. The outside change agent may be stationed in the export promotion office of the Ministry of Trade and Industry. However we also observed that the export promotion organisation in Eritrea has a very loose linkage with the private sector. Some footwear manufacturers do not even know where the export promotion office is located. Thus, there is a need to strengthen the export promotion activity of the organisation and a need for improved participation of the private sector. For example, the private sector can be represented in the board of directors of the export promotion organisation. Experiences with direct participation of representatives of the private sector in public export promotion offices have shown positive results in several developing countries (Seringhaus, 1991).

The need for fit among organisations influences the success of network development. Our case studies reveal that the footwear manufacturing firms in Eritrea, except for a few, are small and medium-sized. Moreover we noticed that the firms have several common problems. Consequently, creating a platform to discuss these issues will help them to exert common efforts to solve their common problems. Since the overall objective of the horizontal business network organisation is to represent the interests of the manufacturers in general policy matters and accessing market opportunities, the difference in size among manufacturers may not be a major problem (Table 11.1). The larger firms may serve as examples and smaller firms may even sub-contract orders from them. However, with regard to the second and third objectives of the organisation, the services should be tailored to the size of the companies as small firms face other market opportunities and problems than large companies. For instance, generating collateral for bank credit is more difficult for small firms (see Section 8.2.3).

Table 11.1 Recommended areas of activity links, resource ties and actor bonds in the proposed horizontal business network organisation

Network variable	Horizontal business network organisation
Activity links	-Representing the interest of the manufacturers at the government level -Initiating projects aiming at joint export marketing of footwear (e.g. in Uganda) -Co-ordinating and promoting common training programmes -Initiating projects to improve leather quality
Resource ties	-Financial contribution -Information and knowledge sharing -Time spent due to participation in management activities
Actor bonds	-Collective culture and social bonds -Previous acquaintance in EFPA -Common problems and market opportunities -Willingness to act together

Note: EFPA refers to Eritrean Footwear Producers Association.
(Source: Compiled by the author)

The *number* of the footwear manufacturers that form the horizontal business network organisation has some importance for group cohesiveness. Group cohesiveness tends to increase with the time members are able to spend together. However, this is not a major issue in the horizontal business network organisation as only general interests are considered. On the contrary the larger the number of firms joining the network the more powerful the organisation. Moreover, because the number of footwear manufacturers in Eritrea is small (less than 50) this will not be a major problem.

Another factor that has to be considered is the *fit among the products*. Theory suggests that this can create problems if the footwear produced by the firms are close substitutes. This promotes competition instead of co-operation. However, the horizontal businesses network deals with general policy matters, which are less discriminatory among the types of footwear produced by the manufacturers. For instance, improvement in government policies concerning education, transport, and taxation are less discriminatory among similar products produced in the same industry. Instead the aforementioned improvements offer Eritrean footwear manufacturers the opportunity to strengthen their competitiveness. Consequently, the responsibility of the horizontal business network organisation is to give equal access to the manufacturers to its services.

The need for fit among people. From a cultural perspective the power of networks is related to shared norms and values among their people. These social norms and values in Eritrea include solving problems through village elders and relatives, low level of corruption, sharing of available resources within a certain family group, traditional schemes for saving money through contributions (E'kub) and finally high respect to these social norms and values. Thus, these social norms and values can serve as conflict resolution mechanisms and strengthen *the fit among people*. These social institutions emerge from the collective culture of the Eritrean society and can restrict the effects of opportunistic behaviour.

Another factor that facilitates acquaintance between the potential members (manufacturers) of the horizontal business network organisation is their previous business relationship. Almost all the manufacturers were members of the Eritrean footwear producers association (see Section 8.2.4). They worked together and know each other very well. Thus, due to the common problems of business opportunity beyond individual reach and previous acquaintance among the footwear manufacturers there is a good background for solidarity and actor bonds. However, it is important not to expect an island of solidarity, as it is the outcome of an internal process that develops through time. As the manager of the Negusse shoe factory put it, the real interest of the manufacturers will be tested during the development process of the aforementioned organisations. This is because, given their financial problem some manufacturers may have the intention of using the network organizations only for a short-term benefit: such as getting credit from the bank or other international institutions. Consequently preparatory lessons about the activities these organisations can (can not) do are imperative for their success. This can help to avoid undue high expectations for these organisations by the manufacturers.

- Evolution towards foreign market penetration

As discussed in the previous sections one of the ultimate objectives of the horizontal business network organisation is to facilitate the entry of the Eritrean footwear manufacturers to the international footwear market. Visible market penetration activities can strengthen the willingness of members to co-operate. The case studies of footwear manufacturing firms in Eritrea reveals that the major challenge of the footwear manufacturers is to ensure a dependable export market. Given the financial problems of the footwear manufacturers any delay in finding an alternative to the Ethiopian export market can lead to bankruptcy, which is a threat to the existence of the horizontal business network organisation. Consequently, early results could not only convince the manufacturers that participation in the horizontal business network may be part of the solution for their export problem but also increase their commitment to the network organisation.

- Network achievement

The results of the efforts of the horizontal business network organisation will become visible in the long run. Because of this we did not discuss the potential evaluation procedures in our interviews with the manufacturers. However, we can explain some evaluation mechanisms that may be useful in the long run. Thus the footwear manufacturers could evaluate the horizontal business network organisations achievement, amongst other things, by assessing the government policies that have turned out to be favourable to the manufacturers, and the number of firms successful in penetrating the international market. Moreover the achievement of the horizontal business network organisation could be measured by the availability and depth of information supplied to the manufacturers, type and number of contacts established with government and non-government institutions, and feedback from members in the horizontal business network organisation (see Table 11.2). However, for some activities short term evaluation techniques could be applied. For instance if the horizontal business network organisation initiates training programmes for manufacturers the number of people who finish the training can be taken as a measurement for achievement. Moreover, sales growth, number of companies integrated into the international market, difference between costs and contribution to GDP can highlight the achievement of the horizontal business network organisation.

Table 11.2 Parameters recommended for evaluating the achievement of the horizontal business network organisation

Parameters	Horizontal business network organisation
Turnover	-Sales growth in the footwear industry
Marketing	-Number of companies integrated to the international market -Availability of information to the manufacturers
Operational costs	-Calculating the costs incurred and comparing these with the contribution to GDP
Contacts established	-Type and number of contacts established with government and non government institutions
Feed back from partners	-Gathering feedback from the members of the horizontal business network organisation.

(Source: Compiled by the author)

Remarks concerning the textile manufacturers

The conclusions reached in this section can be replicated to the textile manufacturers' horizontal business network organisation also. Moreover, there is evidence that subcontracting between the large and small Eritrean textiles manufacturers is possible. During our interview the general manger of the Asmara sweater factory said that because of his shop in Italy he had excess orders from his customers out there. However, he has limited production capacity due to lack of skilled employees. Thus he wanted other manufacturers to act as subcontractors. Consequently, he contacted the five sweater manufacturers in Asmara and asked them if they would be interested in subcontracting. Their response was positive. However, later on he understood that if these manufacturers are to act as subcontractors they need to invest in training their staff and modernising their machinery. The asset specific investments make the establishment of a horizontal business network organisation and horizontal business sub-network organisation relevant.

11.3 Horizontal business sub-network organisations

By horizontal business sub-network organisations we mean smaller groups of Eritrean footwear manufacturers maintaining business relationships that associate them strongly with one another in order to exploit a common market opportunity. The horizontal business sub-network organisations would be responsible for signing contracts with buyers, producing the footwear and shipping. Thus, the objective of the sub-network organisation would be to fulfil buyers requirements through co-operation. In this view the activities performed by the sub-network organisation would concern improving product quality, process and product standardisation, enlarging production capacity through order sharing, and knowledge exchange (see Table 11.3).

- Evolution toward solidarity, cohesion and commitment

Taking into account the responsibilities that result from the activities to be undertaken by these sub-networks, the initiative for establishment should be taken by the member manufacturers. Sub-networks are autonomous organisations. Nevertheless, the general horizontal business network organisation and the *outside change agent* may facilitate the formation of sub-network organisations and may provide useful advice and information.

Compared to the *need for fit among organisations* in the general horizontal business networks size is more important in the sub-network. In the footwear industry there are significant production capacity differences among the manufacturing firms. While a few larger firms may produce 300 pair of shoes per day, the smaller firms have a maximum of 50 pairs per day. The larger firms have easier access to human and financial resources. Moreover, compatible equipment and production technology are important criteria for selecting partners for sub-networks. Order sharing implies that standard qualities can be delivered. The difference in capacity may create a difference of interest, which can trigger conflict in the horizontal business sub-network organisation. As sub-network organisations would be involved in projects concerning quality and capacity sharing more cohesiveness, commitment and solidarity is needed than in the horizontal business network organisation. Table 11.3 shows some of the activities the horizontal business sub-networks could deal with. The three dimensions (activity links, resource ties and actor bonds) are derived from our theoretical discussion in Chapter four. If conflicts are to be avoided, the goal must be to limit the *number* of actors involved. In contrast with the horizontal business network organisation, small sub-network organisations facilitate information exchange and interaction among its partners.

Table 11.3 Recommended areas of activity links, resource ties and actor bonds in the proposed horizontal business sub-network organisation.

Network dimension	Horizontal business sub-network organisation
Activity links	-Improving product quality -Process and product standardisation -Enlarging production capacity through order sharing -Knowledge exchange among manufacturers
Resource ties	-Common financial investment -Common personnel contribution -Information exchange -Sharing of equipment
Actor bonds	-Collective culture and social bonds -Specific common export objectives -Previous acquaintance in EFPA -Investments on common projects

Note: EFPA refers to Eritrean Footwear Producers Association.
(Source: Compiled by the author)

Because the horizontal business sub-network organisation will be established among manufacturers who produce similar products competition may hamper their willingness to co-operate. However, limiting the co-operation to foreign market penetration can alleviate this barrier. Moreover, the fact that individual manufacturers cannot exploit the available export opportunities will drive them to co-operation. In here it is worthwhile mentioning the comment of the manager of the Bini shoe factory. Highlighting the importance of cooperation he said, "*The objective here is to help each other and create a win-win situation. If a manufacturer does not want to co-operate with other manufacturers then it is obvious that he will not show significant progress by going alone*. *We know this from experience*." According to him the past experience of the Eritrean manufacturers is evidence for this. Production of substitutes is even a condition for co-operation: *need for fit among products*. Similarity of the products can facilitate the efforts to improve product quality through co-operation. It can give leverage to initiatives to standardise the footwear and their production processes so as to facilitate order sharing.

A fit among people is a precondition for commitment of members in the horizontal business sub-network. Committed members invest more financial and human resources, which are needed to enlarge the activities of the network. The required financial contribution should be in line with the expected revenues generated by the network and should be agreed upon by the partners. The investments are necessary to standardize production processes, sharing of large orders, etc which are imperative to the networks success. Thus the membership of the horizontal business sub-network organisation should be based on personal acquaintance and selection of the manufacturers who are willing to work together. During our interview, one year after the collection of data the general manager of the Asmara footwear factory commented that first of all the horizontal business sub-networks could co-operate in purchasing raw materials. He mentioned that this might pave the way for co-ordinating activities such as product quality improvement and capacity expansion through product standardisation. According to him, by co- operating in purchasing raw materials (soles, eyelets, leather etc) the footwear manufacturers could enjoy economies of scale and maintain their attachment for future common initiatives.

-Evolution towards foreign market penetration

Sometimes the activities of the horizontal business sub-network and the horizontal business network organisation would overlap. Both organisations would be autonomous but voluntary co-operation is expected: the horizontal business network organisation would help the Eritrean footwear manufacturers to establish sub-networks that respond to the requirements of foreign buyers. If the sub-networks are not successful, the horizontal business network organisation will also most probably fail. However, this does not mean that the horizontal business sub-network organisations cannot initiate market penetration activities independently. HAGLE is a good example of a sub-network that existed even before the horizontal business network has been established. Overall it is safe to conclude that the pace of the market penetration of the horizontal business sub-network organisations should be in line with the evolution of the export market penetration of the horizontal business network organisation.

Table 11.4 Parameters recommended for evaluating the achievement of the horizontal business sub-network organisation

Parameter	Horizontal business sub-network organisation
Turnover	-Sales volume generated by the sub network organisation
Marketing	-Determining the time taken to market a product -Improvement in the sub-network organisation's capacity to plan and execute export marketing operations
Operational costs	-Calculating the operational costs and comparing these with the ex ante expectations.
Contacts established	-Type and number of contacts established with foreign buyers
Feed back from partners	-Gathering feedback from members of the horizontal business sub-network organisation

(Source: Complied by the author)

-Network achievement

As the horizontal business sub-networks deal with activities that have specific objectives it is easier to measure their achievement. Among the parameters that can be used to measure its achievement are the time taken to market a product, calculation of the operational costs and comparing these with the ex ante expectations and sales volumes generated. Moreover, getting in contact with other manufacturers, buyers and suppliers bring opportunities for knowledge and experience transfer (see Table 11.4). This may even concern activities that are not related to the domain of the network.

Remarks concerning the textile manufacturers:

The fit among products in the textiles industry may need special attention. The textile industry comprises manufacturers of fabrics, T-shirts and sweaters. Consequently a firm that produces T-shirts and fabrics could be a member of a sub-network organisation of textiles manufacturers that produce T-shirts, fabrics or both. Moreover, sweater manufactures will need to have their own sub-network organisation. In this case, it is likely that the product groups will dictate the membership of the textile manufacturers in the sub-network organisation. Moreover, the general manager of Ambesa sweater factory acknowledged the importance of the difference in technology among the sweater manufacturing firms in establishing business sub-networks. According to him while a few sweaters manufacturing firms own relatively modern technology others have lower level technology.

11.4 Vertical business network relationships between buyers, manufacturers and suppliers

Figure 11.2 depicts the horizontal business network organisations, the horizontal business sub-network organisations and seven vertical business network relationships. In this section we focus on the three most important vertical business network relationships.

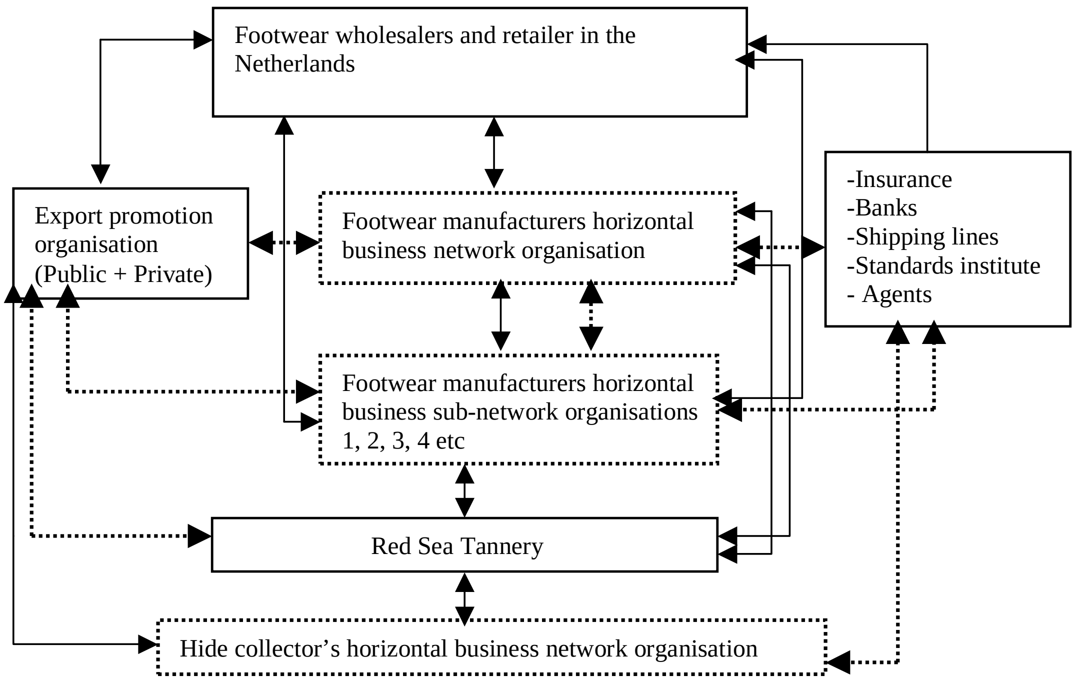
-Vertical business network relationship between the horizontal business network organization and buyers (wholesalers and retailers) in the Netherlands

The market study in the Netherlands shows that before any transaction exchange is realised footwear buyers in the Netherlands need information about the footwear manufacturer and the country where he or she is located. This information mainly concerns the manufacturer’s production capacity, types of machines used, skills of employees and the financial position of the manufacturer. Moreover, the buyers in the Netherlands would want to make sure that the manufacturers in Eritrea are trustworthy. The horizontal business network organisations can create a secure platform through which this information passes, for instance, organising a trade fair in the domestic market and inviting potential buyers in the Netherlands. However, it is imperative that the manufacturers should be the driving force behind these initiatives.

-Vertical business network relationship between the horizontal business network organisation and leather suppliers in Eritrea

The competitiveness of the footwear manufacturers in Eritrea depends increasingly on the competitiveness of the tannery and leather collectors. Moreover, from the case studies in the Netherlands and Uganda we learned that, continuous availability of good quality leather is a condition for successful export market entry. Although there is leather in the country, its quality is inferior due to defects in the animal husbandry system, distribution, and finishing process. This is because no incentives are given to the actors operating in the system. Leather accounts for an insignificant amount of the cattle price (less than 1%) and the butcheries are more interested in the meat than in the hide. Furthermore, the central abattoir in Asmara, which provides slaughtering service for the small butchers, sells the hide to the tannery on mass and the price given to the individual breeders does not discriminate those who brought cattle with good hides from those who did not. From this we can see that there is lack of incentive for the animal breeders, hide collectors, butchers and abattoir sales men to supply good quality leather. The old machinery and lack of trained personnel in the tannery also contribute to the quality problem. This is further aggravated by the lack of proper communication between the tannery and the footwear manufacturers.

Figure 11.2 Horizontal and vertical business network relationships for the Netherlands market



Note:
Shows horizontal business network relationships between individual or groups of actors
Shows a vertical business network relationship between individual or groups of actors
Shows a group of actors in a horizontal business (sub) network organisation
Shows a group of independent organizations

(Source: Compiled by the author)

A vertical business network relationship between the footwear manufacturers, tanneries and the hide collectors may solve this problem. The hide collectors need training in order to improve the quality of the hide delivered to the tannery. To solve this problem it may be worthwhile to organise the hide collectors and to create a communication platform with the tannery. Moreover, in co-operation with the horizontal business network organization the leather suppliers could accomplish several activities: initiatives joint leather quality improvement project, create common external liaison, negotiate with the Ministry of Agriculture to improve the animal husbandry system in the country and make common effort to educate farmers on hide collection and handling (see Table 11.5). In co-operation with the Ministry of Agriculture the horizontal business network organisation could create an incentive structure for the farmers to take care of the hide, for instance, charging a higher annual cattle vaccination fee to those animal breeders or farmers who use fire brand their cattle.

- Vertical business network relationship between the horizontal business sub-network organisation and buyers in the Netherlands.

The horizontal business sub-network organisation searching for export orders has three options for supplying information to wholesalers and retailers in the Netherlands (table 11.6).

Firstly, participation in trade fairs can open an initial communication channel between the sub-network and potential buyers. However, immediate orders should not be expected, as the Eritrean footwear needs to be adapted to the market in the Netherlands. Moreover, before the conclusion of a contract, information has to be exchanged about the functioning of the sub-network and the companies involved. The second alternative is to send samples and visit major footwear buyers in the Netherlands. In our study, we found that footwear buyers in the Netherlands are ready to accept samples and receive Eritrean visitors. Four outcomes are possible:

- Acceptance of the footwear: a trial order can be placed.
- Acceptance of the footwear, but modifications is to be made.
- Rejection of the footwear but the buyer may ask to produce a sample of another footwear design.
- Rejection without further contact

The first three outcomes are useful as they can help the footwear manufacturers in Eritrea to understand the specific needs of the buyers and produce the footwear accordingly. It is unlikely that a trial order will be placed after a first contact. Most probably the result will be the third outcome. At least it will provide them with a business contact that may be the start of the import process as described in Chapter six. Acquiring export orders is difficult but not impossible. A major issue is convincing potential buyers by showing the samples and by preparing a solid sub-network organization that can handle a group contract. However, because competence trust is ascertained after inspection of the footwear, the presence of a strong agency organisation in Eritrea that can represent the footwear buyers in the Netherlands and certify the quality of the footwear is a precondition (see Figure 11.2).

Table 11.5 Recommended business network relationships between footwear manufacturers and leather suppliers

Network dimension	With horizontal business network organisation	With horizontal business sub-network organisation
Activity links	-Initiating joint leather quality improvement project -Creating common external liaison -Negotiating with the Ministry of Agriculture to improve animal husbandry system in the country -Common effort to educate farmers on hide collection and handling	-Leather supply information exchange -Developing joint quality standards -Discussion on how to match buyer requirements and leather produced by the tannery
Resource ties	-Investment by the horizontal business network organisation in the tannery	-Bilateral credit extension -Sharing of information and knowledge
Actor bonds	-Collective culture and social bonds -Lack of alternative source of leather	-Interdependence -Common market opportunities

(Source: Compiled by the author)

The response of the manager of the Dahlack shoe factory supports our argument. When asked about the need for an inspection organisation in Eritrea, he recalled an incident that happened to the factory in Kenya. He said, “ *After a container of footwear arrived in Mombassa we were asked to present an SGS certificate. We did not know what to do because SGS has no presence in Eritrea. Consequently, we approached STAR PLC in Eritrea and they gave us a certificate. Even that certificate had a problem in Kenya but at least it helped us to solve the problem*.” He stressed that the presence of such organisation is important if export is to flourish in Eritrea.

Table 11.6 Recommended business network relationships between footwear manufacturers and buyers in the Netherlands

Network dimension	With horizontal business network organisation	With horizontal business sub-network organisation
Activity links	-Information exchange about potential manufacturers that can accommodate orders. -Organizing training programmes for manufacturers -Setting conflict resolution mechanisms	-Exchange of information on product design, fashion trend, and general market requirements. -Identifying sources of appropriate footwear components (eyelets, moulds, soles etc).
Resource ties	-Skilled personnel	-Advance credit -Product design
Actor bonds	-Interdependence -Common market opportunities	-Interdependence -Common market opportunities

(Source: Compiled by the author)

Remarks concerning the textile manufacturers:

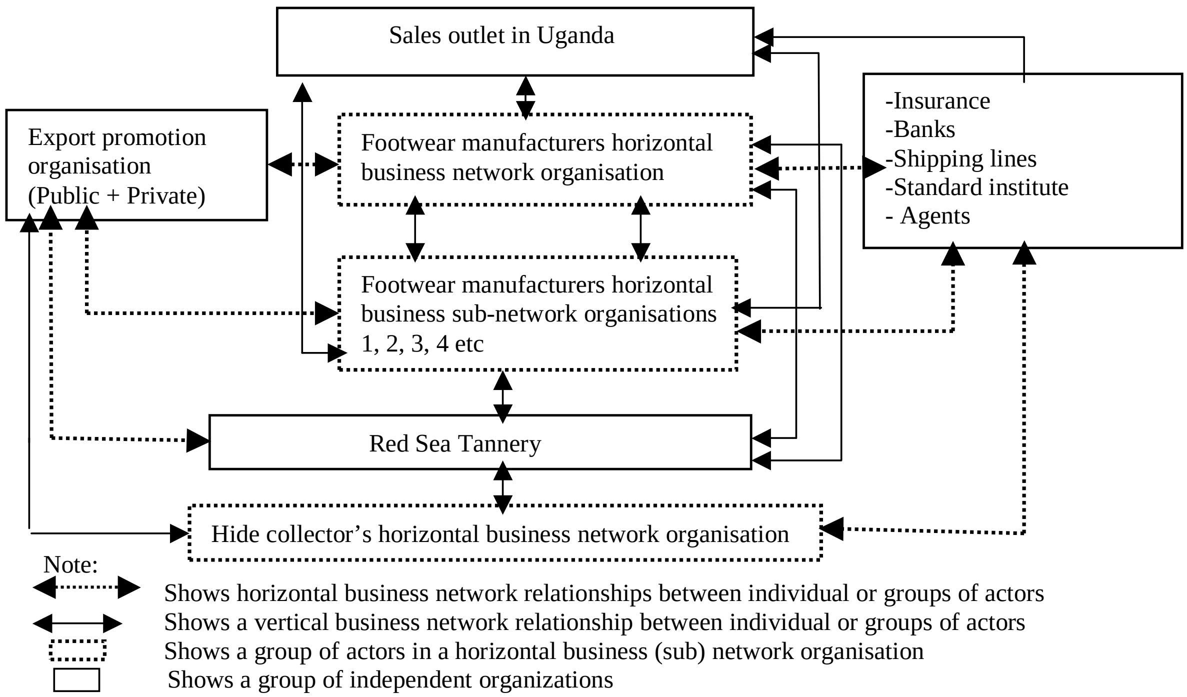
In contrast to leather, a good quality of cotton is produced in the country. However, the price of cotton is becoming the bone of contention between the textiles manufacturers and the cotton producers. This price contention is mainly because the Alighider cotton plantation is the dominant cotton producer in the country and other small producers are at its mercy. Alighider fixes the price and the others are only price takers. Currently, the cotton producers have an informal organisation mainly concerned with the price of cotton. To challenge Alighider and create a power balance, there is a need to strengthen the small cotton producers by allocating more land for cotton plantation. Thereafter, establishing a cotton growers association will be important to streamline the voice of small cotton growers purchase supplies together and participate in price negotiation with the textile manufacturers. Finally, in our interview with the sweater manufacturers we found evidence that the manufacturers want to launch a yarn production facility in Eritrea. In this regard the manager of the Ambesa sweater factory expressed his interest in producing yarn in Eritrea. According to him although such a project would cost a lot of money it would be done through co-operation with other sweater manufacturers, the government and international institutions such as UNIDO. He even suggested that issuing shares could do this.

11.5 Business relationship with Ugandan buyers

In the case of Uganda direct presence in the footwear export market is required to minimise problems that may arise from lack of trust in the marketing chain, unavailability of reliable agents, inefficiency of the contract enforcing institutions and the need to enlarge order size. Possibly the vertical business relationship with the Ugandan footwear buyers could be established through opening a sales outlet in Kampala. The horizontal business network organisation and the government could facilitate the establishment of the sales outlet in Kampala. The sales outlet could be responsible for establishing the linkages with the Ugandan footwear wholesalers, retailers and consumers and increase sales. Later this linkage could be extended to the neighbouring countries such as Rwanda, the Democratic Republic of Congo and Burundi. The sales outlet in Kampala would be active in offering market information to the network organisation back home to be distributed to the individual footwear manufacturers.

The sales outlet in Kampala should start on a small scale and grow gradually. This is because during the early stage of the export operation the volume of footwear that would be exported to Uganda is limited in volume. The sub-network organisations could use the services of the sales outlet in Kampala on a commission basis. Thus the work of the horizontal business sub-network organisations would be to supply footwear that is appropriate to the Ugandan export market (see Figure 11.3). Unlike the Netherlands export market the Eritrean manufactures have to design the footwear that they are going to sell in Uganda. Consequently they should be keen on establishing an information exchange platform with the sales outlet in Kampala.

Figure 11.3 Horizontal and vertical business network relationships for the Ugandan market



Remarks concerning the textile manufacturers:

The opening of the sales outlet in Kampala could be done in co-operation with the textiles manufacturers horizontal business network organisation. This is because the manufacturers in the two industries could share the installation costs and use the service of the sales outlet on a commission basis. As selling footwear and textiles in the same sales outlet is common in Uganda such efforts could enhance the co-operation among the footwear and textile manufacturers. During our interview, one year after the collection of the data, the Dahlack shoe factory showed special interest on the recommended market entry strategy to Uganda. The general manager unveiled his plans to open a small sales outlet in Uganda.

11.6 Implication of the Horizontal and Vertical business relationships on solving the export problems

Table 11.7 shows that by using the horizontal business network organisation, horizontal business sub-network organisation and vertical business networks relationships, the footwear manufacturers in Eritrea could solve the export problems indicated in chapter eight and nine as important. While the first column shows the export problems, the next three columns show the dimensions on the suggested business networks. The (x) marks under the last three columns indicate the possible source of the solutions in the horizontal business network organisation, horizontal business sub-network organisation and vertical business network relationships. For convenience we group the export problems into lack of information and knowledge about foreign market opportunities, lack of trained human resources, inadequate finance, product quality problems, capacity problems and policy and infrastructure problems.

Lack of information and knowledge about foreign market opportunities. The manufacturers could get foreign market information in four ways. These are from the orders placed by buyers in the foreign market, from the horizontal business network organisation, from agents in the foreign market and from the sales outlet in Uganda.

Lack of trained human resources. The manufacturers could solve the lack of trained human resources in co-operation with the horizontal business network organization, the government and fellow manufacturers in the horizontal business sub-network organization. The government, in co-operation with the horizontal business network organisation could establish a training institute for leather and textile technology. The government and the horizontal business network organisation could invite experts to offer short-term training to manufacturers. Moreover the manufacturers in the same horizontal business sub-network organisation would share the available skilled employees

Inadequate finance. The manufacturer needs to have adequate finance to buy all the necessary inputs. Mobilising resources from the manufacturers in the horizontal business sub-network organisation could tackle the financial problems. Moreover establishing a horizontal business relationship with the financial institutions such as the bank or by receiving credit extension from the suppliers and buyers could ease the financial problems. For instance, advance payment by a buyer could help the Eritrean manufacturers to buy raw materials and pay salary to their employees (See the case of Comforta in Chapter 6).

Product quality problems. A footwear manufacturer in Eritrea could solve his product quality problem in three ways. These are by sharing knowledge with his fellow footwear manufacturers in the horizontal business (sub) network organisations, by working with the supplier to improve the quality of leather and by using up to date information and designs from the buyer and agents. In fact one can argue that each of the aforementioned three options are interrelated and are critical for solving the product quality problem.

Capacity problems. By sharing large orders among the manufactures in the horizontal business sub-network organization the manufacturers could solve their production capacity problems.

Policy and infrastructure problems. The main task of the horizontal business network organisation would be to defend the interests of the footwear and textile manufacturers against the policy makers. As a result the horizontal business organisation could negotiate with the government for a better export policy and infrastructure, transportation, tax and assistance.

To produce good quality footwear a manufacturer needs to have market information, adequate production knowledge and capacity, good quality leather, access to finance, favourable government policy and infrastructure. Thus, there is clear interdependence among the dimensions in the horizontal business network organisation, horizontal business sub-network organisation and vertical business network relationships. Thus what we see in here is not only the importance of the interaction among the manufacturers in the horizontal business network organisation and horizontal business sub-network organisation but also the criticality of the close co-ordination with the vertical business networks for solving a particular export problem. Based on this argument we can conclude that the interface between the horizontal business network organisation, horizontal business sub-network organisations and vertical business network relationships is essential for solving a specific export problem.

Table 11.7 Horizontal and vertical business networks as a tool for solving the export problems of the footwear-manufacturing firms in Eritrea

Export problems	Areas where solutions can be found to the export problems			
	Horizontal network organisation	Horizontal sub-network organisation	Vertical business network relationships	
			Manufacturer-supplier	Manufacturer-wholesaler
Lack of information and knowledge about foreign market opportunities	x			x
Lack of trained personnel and management exposure to different cultures	x	x		
Lack of finances and access to credit	x	x	x	x
Product quality problems		x	x	x
Production capacity problems		x		
Government policy and infrastructure problems	x			

Note: **X** shows the type of organisation or relationship that can offer a solution to the export problem

11.7 Conclusion

Theory shows that market opportunities may be realized through co-operation. This chapter makes it clear that extensive co-operation between footwear manufacturers and a distributor in the Netherlands is a condition for successful market entry. Market entry is difficult, as competition is intense, but not impossible as specialized distributors are searching for new business relationships. The entry strategy for Eritrean manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Because of the high uncertainty in the Ugandan footwear and textile export market, due to lack of trust in the marketing chain, lack of reliable contract enforcing institutions and agents direct entry is found to be a feasible market entry strategy. However, the Eritrean footwear manufacturers need to establish business networks in order to improve the organisation of the industry. At least two horizontal business network organisations and three vertical business network relationships are needed to improve the competitiveness of Eritrean manufacturers in the export market. These organisations and relationships are needed to create a governance structure that facilitates exchange relationships between manufacturers and distributors. The network design that is proposed will not be organized overnight. It will take time to convince all the partners to invest the required resources. Global competition imposes its standards, meaning that the production systems and governance structures operating in Southeast Asia have to be beaten. This is not an easy task, but the chapter shows that the international market provides opportunities for competitive footwear manufacturers.

The proposed horizontal business network organisation is primarily a structure that facilitates the actions of its members. It would represent the manufacturers in consultations with the government discussing policies concerning education, transport, taxes, credit, infrastructure etc. The organisation would also be expected to identify market opportunities for the footwear manufacturers and facilitate the opening of the sales outlet in Uganda. The Eritrean government might play an important role in the development process of the horizontal business network. In a network organisation it is the ongoing relationship with a set of actors that represents the greatest business asset. Thus network success depends also on other criteria: market penetration, cohesiveness, solidarity and commitment of the manufacturers involved. We recall that the objectives of the horizontal (sub) networks coincide: entry of exports markets. However, this does not mean that these organisations belong to the same hierarchy. Both organisations have their own responsibilities and autonomy. The fit among organisations, products and people is more important in the horizontal business sub-network as large investments in resources are concerned with product improvement, capacity expansion and order sharing. Co-operation in these sub-networks is much more critical and requires more fine-tuning.

PART V

CONCLUSION

Chapter 12

Conclusion and Research Implications

12.1 Introduction

This thesis has addressed the main research question: how footwear and textile manufacturing firms in Eritrea can enter into a horizontal and vertical business network relationship and increase their export capability. In addition this thesis answers the following four research sub-questions: (1) what are the export problems of manufacturing firms from developing countries? (2) how are networks used to alleviate the export problems of manufacturing firms in developing countries? (3) what are the prevailing network structures and requirements in the Netherlands and Ugandan footwear and textile export markets? And finally (4) what are the specific export problems of the footwear and textile-manufacturing firms in Eritrea? Ultimately the horizontal business network organization (among manufacturers in Eritrea) has been designed together with the vertical business network relationships among leather (cotton) suppliers in Eritrea, footwear (textile) manufacturing firms in Eritrea, and footwear (textile) buyers in the Netherlands and Uganda. In this chapter we will answer each of the aforementioned four research sub-questions. Thereafter the theoretical and policy implications of the research results have been drawn.

12.2 Answers to the sub questions and main research problem

12.2.1 What are the export problems of manufacturing firms from developing countries?

To answer this sub-question, 38 articles that concern the export problems of manufacturing firms in developing countries have been discussed (see chapter 2). The results from the literature review showed that although increasing exports from developing countries is widely regarded as an important condition for further development and growth in poor countries, manufacturing firms in developing countries are confronted with many export barriers when they attempt to enter markets in developed countries. The discussion shows that the problems are closely interrelated and that they can be classified into five problem categories: company, product, industry, exports market and macro environment. Company problems in developing countries are associated with designing and implementing the marketing function such as marketing knowledge and information, and financial and human resource barriers. Product problems are related to quality and technical requirements of the targeted export market segment: export product design, style, quality, packaging and labelling requirements and product adaptation or modification. Distinctive foreign consumer preferences, unfamiliar business protocols and practices, the imposition of tariff barriers and regulatory import controls by overseas governments, fierce competition, exchange rate fluctuations and limited hard currency for international trade make the industry, export market and micro economic barriers. Tables 2.1 and 2.2 give a detailed breakdown of the export barriers that are common to manufacturing firms in developing countries. The classification provides a comprehensive understanding of the export problems that affect the marketing strategy of a firm and is useful for the formulation of suitable marketing strategies and national export assistance programmes. Two trends were identified in the reviewed literature:

Shift in research focus. The research focus on export problems in developing countries is shifting from exploratory research, aimed at identifying export problems, to testing the effect of export problems on export initiation, export development and export performance of the firm. In particular the reviewed articles, published during the last two decades, have discussed export problems in relation to one of these issues.

Commonality of exports problems. Almost all export problems identified in developing countries, except 'the country of origin barrier', exist in the developed world especially for small and medium-sized companies. Moreover, although the degree of difficulty and the importance of export problems vary, there is similarity among the major issues. This implies that manufacturing firms in developing countries can learn some interesting lessons from the experience of the developed world in solving their export problems.

12.2.2 How are networks used to alleviate the export problems of manufacturing firms in developing countries?

To answer this sub question, 57 articles discussing measures undertaken by firms and governments in developing countries to encounter the export marketing problems of manufacturing firms have been reviewed (see chapter 3). The literature review showed that networks are used to solve export-marketing problems of manufacturing firms in developing countries. They have been useful to ease export problems concerning product quality, organisational, financial and information problems. In addition networks can also accommodate 'external' export problems related to the export market or the industry by establishing direct contacts among exporters, buyers and input suppliers. The qualitative model developed in this section captures the variables related to the emergence, the development process, and the achievement of networks (figure 3.3). The variables identified in the model for the emergence of the network are the existence of common market problems or opportunities, willingness to act together and income formation of the related companies (see figure 5.1). The literature suggests that network emergence should be demand oriented. The model makes this explicit as it stresses the importance of a market problem or market opportunity. This means that a business network must be based on a thorough analysis of the problems or market opportunities.

The literature also shows that the network development process is highly influenced by two key factors. These are (1) the evolution of the foreign marketing activity and (2) the evolution toward solidarity, cohesion and commitment. The networks success in penetrating foreign markets, access to foreign marketing experience and marketing knowledge and access to support infrastructure facilitate the network development. The key elements for the firm's evolution towards solidarity, cohesion, and commitment are group size; fit of organisation, people, and products; and availability of outside change agent. The more the parties work together, the more the bonds and relationships grow stronger. Moreover, the longer the relationship, the stronger the trust among the actors in the network, and the more benefit of networking. The experiences of UNIDO prove that it is possible to initiate and develop effective network relationships among independent entrepreneurs based on collaboration even if the entrepreneurs had no previous relationships with each other. The literature also implies that since manufacturing firms in developing countries face financial constraints and often lack skilled labor force, outside change agents may fill the resource gap and can play an important role in the network emergence and development process. Three of the five export grouping networks examined in chapter three heavily rely on the role played by the outside change agent. However, the literature review also reveals that no amount of incentives from outside parties will substitute for a clearly perceived logic of relationships and beneficial outcomes. Mutual interest and active participation of group members are preconditions for group success and are in fact presupposed by the model.

In all the cases discussed in chapter three-market penetration is mentioned as the main objective of the network organisation. Other related objectives concern improving product quality, achieving product standardisation and improvement of gross margins. The case studies provide ample support for this model and complemented it with some additional variables: trust, learning, personal relationships and backward and forward linkages. Finally after merging the results of chapter two and three we have come up with four business network alternatives. These are joint venture, subcontracting, flexible supply contracts and export grouping networks (horizontal networks).

12.2.3 What are the prevailing network structures and requirements of the Netherlands and Ugandan footwear and textile markets?

Using the research framework developed in chapter five a market study in the Netherlands and Uganda has been conducted. The purpose of the study was to analyse and understand the business network structure and specific buyer requirements.

Findings from the study on the Netherlands footwear and textile market

The findings show that previous business relationships and acquaintance between the buyer and seller is the key factor for success in the footwear and textile business in the Netherlands. Arms length contracting barely exists. Even if it does exist, it only serves as a stepping-stone to future long-term business relationships. Before a real transaction exchange starts, buyer and seller have to go through certain stages. The wholesalers and retailers in the Netherlands study the fashion trend, generate ideas out of it and design the sample. Based on the specifications the manufacturer produces and delivers the sample to the wholesalers and retailers. While the wholesalers exhibit the samples the retailers check if they meet the requirements. At this stage the wholesalers and retailers may ask the manufacturer to modify the samples based on the suggestions given by customers and designers during the exhibition. If the quality of the sample is approved, the wholesalers and retailers may place orders to the manufacturer.

We find that the business relationship development between the footwear and textile buyer and footwear and textile manufacturers is not deterministic. The dyadic business relationship is developed only if both parties consider it profitable or otherwise worthwhile to engage in future exchange. Evidently, there is a strategic element in the development of business relationships. The structure of a business relationship is at every point in time a result of its history. The level of performance in the first order affects the wholesalers and retailers willingness to send additional orders to the manufacturer. This is in line with Blau’s (1964) argument, which states that exchange is a process rather than a single event, in which each transaction episode is a result of previous transactions and constitutes the platform for future exchange.

Our findings reveal that the footwear and textile buying organisations in the Netherlands give leverage to their members (smaller retailers) to compete with larger multiple chains. Because of the large volume of the orders they collect from their members they get discount from suppliers. They also facilitate the exchange process by minimising the language and information barriers between suppliers and buyers. Additionally such organizations work to build trust between buyers and suppliers in the sense that the suppliers know they will get their money from the respective buying organisations. The buying organisations reduce the administrative cost of the shop owners by handling the documentation and payment functions. Yet all the buying organisations, except Intres, do not order directly from manufacturers outside Europe. The manager of Euro Holland mentioned that the main reason they are putting much emphasis on wholesalers, agents and manufacturers located in Europe is because of their limited personnel and financial capacity. Since they cannot afford the cost to send people to foreign markets to negotiate with manufacturers and test the quality of the footwear before it is shipped to the Netherlands. The footwear and textile wholesalers in Europe charge higher price than a manufacturer in Southeast Asia.

We find that most wholesalers in the Netherlands ask the manufacturers in Southeast Asia for exclusivity. Exclusivity is connected with the nature of the market segment the firm is dealing with. The higher-class customers are more interested in uniqueness than price. The main factor that influences the manufacturers decision whether to accept the request for exclusivity is the size of the order placed by the buyer. When the size of the order is large, it can justify the cost of sample development and the manufacturing cost. The interesting point in this whole process is that the footwear and textile wholesalers and retailers interviewed in the Netherlands do not seek own designs and collections from the foreign manufacturer. Many of the wholesalers and retailers offer the designs and expect the manufacturer to deliver a product accordingly. The manufacturer does not have to make specific investments on market research, product design, training and branding costs (see Chapter 10).

Our findings reveal that in all the cases discussed, the footwear and textile wholesalers and retailers in the Netherlands believe that legal proceedings are expensive and often they work to avoid them. However, we have also observed that the availability of effective and efficient contract enforcing institutions could facilitate the trust building process between the buyer and the manufacturer. When disagreements appear in the exchange process the footwear and textile wholesalers and retailers and manufacturers often develop internal mechanisms to solve them. When the footwear shipped to his company does not confirm with previous specifications given to the manufacturer, first the retailer or wholesaler expresses his dissatisfaction. Second he asks for compensation; such as price discounts or extra time to display the products in the buyer’s retail outlets to see the reaction of the consumers to the deviations. When the first two alternatives do not work, the wholesaler or retailer returns the goods at the expense of the manufacturer. This means the wholesaler or retailer will never buy again from the manufacturer.

Our findings also indicate that the footwear and textile wholesalers and retailers interviewed in the Netherlands use agents located in the country of production to buy footwear from manufacturers in Southeast Asia. The agents are located in the country of import. They connect buyers to manufacturers, monitor order progress, arrange the documentation and shipment and check outgoing consignments. Yet not all wholesalers and buying organizations prefer to use agents. Given Eegim shoe’s large volume of import the running cost of the office in Taiwan is lower than the commission Eegim shoe would pay for an agent. Besides, the services that the company gets from its office in Taiwan are considerably better than those of an agent might provide. The fact that Eegim shoe is in the high fashion market, it needs to explain its specifications to its manufacturers in detail. Thus in order to get the manufacturers to understand the changes, it needs to have a close contact with the manufacturer and communicate intensively. For a summary of the requirements of the Netherlands footwear and textile market the reader is referred to Table 6.9 in chapter six.

We find that indeed there is room for a long-term business network relationship between footwear and textile importers (wholesalers and retailers) in the Netherlands and manufacturers in Eritrea. All the wholesalers and retailers and one buying organisation in the Netherlands showed an interest in establishing business relationship with Eritrean manufacturers. Yet, before they enter into any business relationship the wholesalers and retailers in the Netherlands need to know the manufacturers in Eritrea. They want information about the type of footwear and textile the manufacturers produce, their production capacity, type of machinery in use, their financial capacity and above all to test their honesty. The information is useful to build goodwill, contractual and competence trust. Our findings in the Netherlands footwear and textile export markets have shown that the wholesalers and retailers are not interested in concluding subcontracting and joint venture agreements with footwear and textile manufacturing firms in developing countries.

Findings from the Ugandan footwear and textile export markets

Our findings indicate that in contrast to the Netherlands, the business relationships between Ugandan footwear and textile wholesalers and retailers and their foreign suppliers (mainly in Dubai) are characterised as a loose business relationship. It is short term oriented characterised by high uncertainty due to lack of trust, limited market information and unreliable contract enforcing institutions. Wholesalers do not trust their suppliers to send them footwear and textile according to their specifications. Neither does the supplier believe the customers will pay on time. This mistrust results in high transaction cost on both sides. Thus importers have to travel all the way to the import market to select the type of footwear and textile they want to buy and make sure that the supplier packs the right type of footwear and textile for them. On the part of the foreign suppliers they always have to deal with new buyers. This means they have to spend time on negotiating the price. The fact that they do not have customers who buy footwear and textiles recurrently the footwear and textile the suppliers make available for sale is always at scrutiny by new customers at the market. The footwear and textile buyers in Uganda barely share the specific investments on market research and product design the manufacturer has to incur. They travel to the country of manufacture (import) or other third market (Dubai) without clear product specifications. Moreover, the non-recurrent nature of the exchange process hinders the transmission of whatever information available on the side of the wholesalers and retailers to the supplier.

We find that buying organisations in the Ugandan footwear and textile export markets are informally constructed social groups. In the Netherlands membership to the buying organisations depends on the type of product traded and willingness to pay the membership fee. In the Ugandan case membership is earned when a retailer or wholesaler belongs to a certain social group. Compared to the vertical business network relationship between footwear and textile suppliers and footwear and textile importers in Uganda, the horizontal business network between a group of wholesalers and retailers in Uganda is much stronger. Although the lack of trust among the footwear and textile importers and suppliers increases the transaction cost, the horizontal social bond among footwear and textile wholesalers and retailers in the Ugandan market contributes to the minimisation of the transaction cost. All the wholesalers and retailers interviewed in Uganda are willing to deal with Eritrean footwear and textile manufacturers provided that the price and products are acceptable to the Ugandan consumers. However we find that the size of the order placed by each wholesaler or retailer severely restricts the business opportunity, as it is too small to realize economies of scale.

In this study we find that two concepts highly influence the wholesalers and retailers decision on the status of their business relationship with manufacturers: flexibility and security. These concepts are also influenced by other secondary factors as discussed below.

*On wholesalers and retailers need for flexibility***.** The cases discussed in chapters seven and eight show that the buyers (wholesalers and retailers) in Uganda are more flexible than the buyers in the Netherlands. The lack of predetermined product specifications, small size order, lack of trust and the need for large variety of footwear and textiles and absence of switching costs are important factors that shape the high need for flexibility by Ugandan wholesalers and retailers. However, uncontrollable economic and non-economic forces (exchange rate, social unrest, natural calamities) as well as poor performance of the manufacturer are key factors that determine flexibility by the Netherlands wholesalers and retailers. The higher the need for flexibility the weaker the businesses network relationship between the manufacturer and the footwear and textile wholesalers and retailers and vis-à-vis.

On wholesalers and retailer's need for security. The case studies in the Netherlands and Uganda show that the wholesalers and retailers in both markets give due attention to security. However the way they safeguard security differs. In the Netherlands availability of background information about the footwear and textile manufacturer, trust, advance contract with buyers in the domestic market, availability of reliable courts of arbitration and litigation, and manufacturers interest in using uncertainty reducing trade instruments (such as letter of credit and agents) determine the level and need of security to wholesalers and retailers. In Uganda personal supervision of the purchasing process determine the level of security to the wholesalers and retailers.

12.2.4 What are the specific export problems of footwear and textile manufacturing firms in Eritrea?

To answer this sub question a preliminary study and a case study have been conducted. The preliminary study is conducted on 88 footwear and textile-manufacturing firms. A questionnaire and interview have been used to capture the responses of the footwear and textile manufacturers.

Findings from the study on the Eritrean footwear and textile-manufacturing firms

The findings suggest that the footwear and textile manufacturers in Eritrea attach more importance and difficulty to some export problems. The export marketing problems rated as very important by the footwear and textile manufacturing firms in Eritrea are lack of knowledge to locate foreign market opportunities; lack of specific information regarding foreign agents, distributors and prospective buyers; lack of export marketing research; lack of experience in planning and executing export operations; lack of management exposure to other cultures and to different methods of doing business; lack of personnel trained and qualified in export marketing, and inability of the firm to self finance exports. Other export problems rated as very important are product quality problems, lack of ability to supply required quantity on continuous basis, too small in size to initiate export operations, lack of export promotion programs sponsored by the government, and problems in making shipment arrangement and meeting delivery dates (see Chapter 8 and 9).

To investigate the aforementioned export problems further, case studies on twelve footwear and textile-manufacturing firms in Eritrea have been conducted. The results from the case studies show that the export problems that were identified as very important and very difficult in the preliminary study are inherent to the cases studied in the footwear and textile industries. It also shows that the Eritrean footwear and textile manufacturers are facing marketing knowledge, financial, human resource and production capacity barriers. The footwear manufacturers in particular are facing shortage of good quality leather. Moreover the lack of horizontal and vertical business networks in the two sub-sectors aggravates the aforementioned problems.

The findings from the analysis of export problems of footwear and textile-manufacturing firms in Eritrea make clear that most of the problems discussed in the literature are also relevant for the Eritrean manufacturers. The findings confirm that the footwear and textile-manufacturing firms lack information to locate foreign market opportunities. Moreover, exporting activities are hampered by a lack of finance, competent staff, and capacity to accommodate large orders. Government help in terms of collection and distribution of information is perceived as inadequate. It is remarkable that contrary to what is suggested in the literature, (Moini, 1997), there are no major differences observed between the importance and the difficulty to solve the export problems**.** Only minor differences in the ratings are made and the ranking of the problems follows the same order. Apparently, the perceived importance of the problem coheres strongly with the difficulty to solve it. Overall, the case study shows that the long time dependence of the footwear and textile manufacturers, on the Ethiopian market, has contributed to the problems.

The responses of the managers in Eritrea show that the footwear and textile manufacturers have a positive attitude towards business networks. Several managers indicated that entering into horizontal and vertical business networks are solutions to the export problems of the footwear-manufacturing firms in Eritrea. They also perceive the problems they may face in the due course of time. The case study has also provided evidence as to how social networks were instrumental in generating business in the US for the Eritrean textile factory in particular.

12.2.5 How can footwear and textile-manufacturing firms in Eritrea enter into a horizontal and vertical business network relationships and increase their export capability?

Despite their participation in some trade fairs footwear and textiles manufacturers in Eritrea are unable to get a foothold in the market place. In our findings we have shown that due to the lack of marketing knowledge, skilled human resource, adequate finance and limited production capacity these firms fail to enter these markets. The failure of Expo shoe factory in Kenya and Allied Afri trading house in Uganda are prime evidences to this argument. The case studies show that the Netherlands footwear and textile export market is full of operating networks. The success or failure of the market offering depends on the Eritrean manufacturers understanding of the market requirements and on the effort to fulfil them. The thrust of the above mentioned argument is that the Eritrean footwear and textile-manufacturing firms are exposed to export market opportunities, which they could not fulfil individually due to a lack of organisational capabilities and production capacity. Supporting a network in Eritrea, therefore, should involve not only the search for new market opportunities, but also provide the assistance required to establish a horizontal business network to respond to the quality and capacity requirements of the Netherlands and Ugandan markets.

According to the conditions set in our research framework, networks emerge when there is a common problem or market opportunity, when companies prefer to respond jointly and when the product marketed by the network organisation is important for the income formation of the related parties (figure 5.1). We have also pinpointed at two factors useful for the process of network development: evolution toward solidarity, cohesion and commitment, and evolution of foreign market penetration activity. In our study of the Netherlands and Ugandan footwear and textile export markets we have concluded that there is a common export market opportunity for the footwear and textiles manufacturers in Eritrea. Similarly, in chapters eight and nine of this thesis we have found out that there are several export problems that are common to the footwear and textile manufactures in Eritrea which can be solved through horizontal and vertical business network. In the same chapter we have measured the attitude of the footwear and textile manufacturers towards business networks and it was found positive. Finally, we have observed that because of the limited domestic market size, export of footwear and textiles are really important for the income formation of the footwear and textile manufacturers in Eritrea. Thus, we conclude that the footwear and textile-manufacturing firms in Eritrea fulfil the conditions set for the emergence of the horizontal and vertical business networks. We recommend the following steps to establish the horizontal business network among Eritrean footwear and textile manufacturers.

1.To defend their interests against the Eritrean policy makers, the footwear and textile manufacturers have to establish a general horizontal business network organization. Since the Eritrean footwear and textile manufacturers do not have the capacity to find export markets on individual basis the horizontal businesses network organization should also play a role in this process.

2. To satisfy the requirements set by the Netherlands and Ugandan buyers, the Eritrean footwear and textile manufacturers have to enter into horizontal business sub-network relationship. The horizontal business sub-network organisation enables the manufacturers to improve the product quality and expand capacity through product standardisation, resource mobilisation and information exchange.

3. The establishment of the horizontal business sub-network organization among manufacturers has to take into account the importance of the fit among organisations, products and people (see chapter 11).

4. The government should take the initiative to facilitate the formation of the horizontal business network organization by establishing a body responsible for such purpose. The current export promotion office can serve for this purpose but there is a need to strengthen and consolidate it with adequate budget, skilled human resource, communication facilities, and establishing better linkage with the SMEs and other export support offering organisations. The organisation has to secure the participation of the manufacturers and the export support service offering institutions in its decisions concerning export.

The proposed horizontal business network organisation (see chapter 11) is primarily a structure that facilitates the actions of its members. It represents the manufacturers in consultations with the government to discuss policies concerning education, transport, taxes, credit, infrastructure etc. The organization is also expected to identify market opportunities for the footwear and textile manufacturers. The Eritrean government may play an important role in the development process of the horizontal business network. However, network success also depends on other criteria: market penetration, cohesiveness, solidarity and commitment of the manufacturers involved. We recall that the objectives of the horizontal network organization coincide with the objectives of horizontal sub-network organizations:

entry of exports markets. However, this does not mean that these organizations belong to the same hierarchy. Both organizations have their own responsibilities and autonomy. The fit among organisations, products and people is more important in the horizontal business sub-network as large investments in resources are required for product improvement, capacity expansion and order sharing. Co-operation in these sub-networks is much more critical and requires more fine-tuning. For more explanation of the network design the reader is referred to chapter 11. It deals with the design of the vertical and horizontal business network relationships and its implementation strategies.

The next step is to establish a vertical business network relationship with the Netherlands and Ugandan buyers. The following points can be useful to establish a vertical business network relationship between the Eritrean manufacturers and the footwear (textile) buyers in the Netherlands (see Table 12.1).

1. The horizontal business network organisation can organise a trade fair in Eritrea and invite potential footwear and textile buyers from the Netherlands (Europe). This can open the first communication channel with potential buyers. However, immediate transaction exchange should not be expected as the Eritrean footwear and textiles need to be adapted to the European market (see table 8.7, and chapter 11).

2. Sending samples and visiting major footwear and textile buyers in Europe. In our study, we found out that footwear and textile buyers in the Netherlands are ready to accept samples and receive Eritrean visitors. CBI can play a role in connecting the manufacturers in Eritrea with wholesalers and retailers in the Netherlands. There are four expected outcomes out of the samples sent and the visits made to the Netherlands footwear and textile buyers (Table 12.1).

- Acceptance of the footwear or textile: a trial order can be placed.
- Acceptance of the footwear or textile, but modifications are to be made.
- Rejection of the footwear or textile but the buyer may ask to produce a sample of another footwear or textile design.
- Rejection without further contact

Table 12.1 Summary of recommended activities to penetrate the Netherlands market and expected outcomes

Netherlands	
Recommended Activities	Expected outcome
Organize a trade fair in Eritrea and invite buyers in the Netherlands (Europe)	-Can open a communication channel with buyers. -Setting immediate follow up procedures is imperative. -No immediate outcome is expected as the trust building process takes some time.
Send samples and visit major footwear and textile buyers in Europe (CBI can play a role in here).	- Acceptance of the footwear or textile: a trial order can be placed. -Acceptances of the footwear or textile, but modifications are to be made. -Rejection of the footwear or textile but the buyer may ask to produce a sample of another footwear or textile design. -Rejection without further contact.

In the previous chapter we have concluded that the first three outcomes are useful as they can help the footwear or textile manufacturers in Eritrea to understand the specific needs of the buyers and produce the footwear and textile accordingly. It is unlikely for a trial order to be placed after a first contact. Most probably the third outcome will result. At least it will provide them a business contact that may be the start of the import process. Acquiring export orders is difficult but not impossible. A major issue is to convince potential buyers by showing the samples and by preparing a solid sub-network organization that can handle a group-contract.

The Netherlands and Ugandan export markets are different and require different marketing approaches. Consequently the vertical business network relationship with Ugandan buyers can be established in two ways (table 12.2). These are:

1. The first alternative for the footwear and textile manufacturer in Eritrea to connect themselves to the Ugandan footwear and textile manufacturers is to integrate their footwear and textile to broad footwear and textile markets such as Dubai where many Ugandan footwear and textile wholesalers and retailers visit. The advantage of this alternative is that the footwear and textile manufacturers in Eritrea can connect to potential customers other than Ugandans. Dubai is a centre for footwear and textiles made in Asia, Middle East and North Africa.

Table 12.2 Summary of recommended activities to penetrate the Ugandan market and expected outcomes

Uganda	
Recommended Activities	Expected outcome
Send samples to a third market (e.g. Dubai)	-Exposure to many buyers who come from several countries. -Acceptance of the footwear or textile: a trial order can be placed. -Rejection without further contact. -Possible high transaction costs (transportation and accommodation costs).
Open a distribution outlet in Kampala	-Manufacturers become much nearer to customers in Uganda. -Availability of first hand market information to the manufacturer. -Better sales volume due to orders even from immediate consumers in Uganda -Relatively higher running cost.

2. Second, the Eritrean footwear and textile manufacturers can mobilise their resources and open a distribution outlet in Kampala. This strategy can be fruitful as establishing business network relationship with the Ugandan wholesalers and retailers can take time because of mainly the lack of trust in the marketing channel. The direct presence in the Ugandan export market can facilitate communication and trust building between the footwear and textile manufacturers in Eritrea and the Ugandan buyers. It can also help the Eritrean manufacturers to collect orders even from the immediate footwear and textile consumers, which is imperative for economies of scale. Consequently the researcher recommends this alternative as the most feasible one. However, it requires higher investment.

Theory shows that market opportunities may be realized through co-operation. This thesis has made clear that extensive co-operation between footwear/textile manufacturers and a distributor in the Netherlands is a condition for successful market entry. Market entry is difficult as competition is intense, but not impossible as specialized distributors are searching for new business relationships. The entry strategy for Eritrean manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Moreover the lack of trust in the marketing channel, the lack of reliable contract enforcing institutions and the non-programmability of agent’s tasks forces the footwear and textile manufacturers to have a direct presence in the Ugandan footwear and textile market. The network design that has been proposed will not be organized overnight. It will take time to convince all the partners to invest the required resources. Global competition imposes its standards, meaning that the production systems and governance structures operating in Southeast Asia have to be beaten. This is not an easy task, but this thesis shows that the international market provides opportunities for competitive footwear/textile manufacturers.

12.3 Theoretical implications

The theoretical implications of the findings of the study are classified into four groups. These are implications to the network theory, implications to the marketing channel theory, and implications on the sequence in implementing the horizontal and vertical business networks. Finally the implications to the conceptual framework will be discussed.

On the network theory. The network research has been limited to analysing and understanding existing networks structures (Burt, 1980; Hakansson, 1989; Kallinikos, 1998). In this view two analytical approaches have been developed: relational analysis and positional perspective. Relational analysis is one of specifying and depicting pathways of interactions (Jensen, 1994). Similarly the research approach of the positional perspective is to discern regularities in the prevailing interaction. The use of these approaches has produced a number of descriptive studies that have been conducted concerning network organisations in different sectors. A growing body of concepts has accompanied such empirical studies and theories developed to describe and explain the nature, origins and outcomes of networks of inter firm relations. However, compared to other forms of research and analysis the development of normative theories of these networks has been relatively neglected. The upshot of this argument is that a lack of norms to predict successful network structures and especially the question of how to construct inter-organisational networks is left unanswered.

This thesis provides an analytical framework on how to structure and utilise inter-organisational networks. In this view we have come up with three stages useful to determine the network evolution. The three stages have been tasted in chapter three and are found useful to structure and analyse the network evolution. By doing this we have contributed to the research endeavour concerning the predictability of the networks structures. Furthermore in chapter eleven of this thesis we have envisaged the applicability of the framework by drawing the details how horizontal and vertical business networks can be established among the Eritrean footwear (textile) manufacturing firms, leather (cotton) suppliers and footwear (textile) buyers in the Netherlands and Uganda. This adds one step to the applicability of the aforementioned three stages.

On the Marketing channel theory. The second theoretical contribution of the study concerns the theory of export marketing channel design. The traditional marketing channel theory (Telser, 1960, El-Ansary and Stern, 1972; Rosenberg and Stern 1971) viewed retailers as lacking in market power. The manufacturer habitually controls the selection and operation of individual firms in his channel: push strategy. A particularly strong form of this argument has been adopted by the Chicago approach to vertical relations (Posner, 1976 and Bork, 1978), which views retailing as perfectly competitive. As retailer power has been increasing, this approach changed and the interaction between the middlemen and a manufacturer has been recognized as an important factor in the business relationship (Weitz and Jap, 1995; Bello and Lohita, 1995; Gadde and Hakansson, 1992). However, contrary to the interaction approach large retail chains now have substantial market shares and can dictate trading relationships with manufacturers and the manufacturers can reach the customers only through wholesalers and retailers: pull strategy. The thrust of the argument is that the balance of power has not been maintained. Currently, many researchers are witnessing the wholesalers and retailers power on manufacturers (Fein and Jap, 1999: Dobson and Waterson, Konrad and Matutes, 1999). However, our findings indicate that the level of control that the middlemen exercise in the marketing channel is still understated. By a firm's control we mean " its actual impact on the associated firms behaviour and decision making".

This study shows that in the footwear and textile business the middlemen control the marketing channel. A network of wholesalers and retailers dominates the Netherlands market. They conduct the market research, make the designs, set the delivery time and search for a manufacturer that fulfils the requirements. They even take the samples prepared by manufactures to exhibitions in Europe. In this situation the small footwear and textile manufacturers in Southeast Asia have little saying on the design of the marketing channel and are limited to production. In fact, our study in the Netherlands footwear and textile export markets shows that the manufacturer is idle unless the wholesalers and retailers forward the designs. Thus the findings indicate that the marketing channel design that was the responsibility of the manufacturer in the traditional marketing theory is now in the hand of the wholesaler and retailers.

On the sequence of implementing horizontal and vertical business networks. There is debate as to whether firms should establish first horizontal business networks and then vertical business networks or horizontal and vertical network side by side (Welch and Joynt, 1987). Both ways have advantages and disadvantages. When firms first establish horizontal business networks and then vertical business networks they get enough time to settle operational issues before concrete activities in the export market can be undertaken: structure, composition, mode and timing of operation, and all issues representing potential sources of conflict. This helps the network organisation to remain strong enough to face internal and external problems and ensure that all members have the potential to gain from the targets chosen. However, the disadvantage of this alternative is that sorting operational issues may take time and firms may become frustrated and leave the horizontal business network organization. Establishing horizontal and vertical business networks side by side can solve the aforementioned problem. However, when the network structure, composition, mode and timing of operation, and all issues representing potential sources of conflict are not properly solved early market penetration may not lead to a sound result. Our study shows that the Eritrean footwear and textile-manufacturing firms are in a dire need of an alternative market. Because of the closure of the Ethiopian market they are facing financial pressure and the manufacturers may want to see fast results out of the horizontal business network organization. Thus, the second strategy is appropriate for the manufacturers in Eritrea: establishing horizontal and vertical business networks side by side. From this we learn that in deciding between the two strategies due analysis of the situation of the potential network partners is important. For instance in the Eritrean case if the horizontal business network organization takes time mainly to solve internal problems some of the firms may be bankrupt and the benefit the horizontal and vertical business networks can offer to the manufacturers can be too late. Consequently, the shorter the timeframe it takes to implement the horizontal and vertical business networks the stronger the commitment of the Eritrean footwear and textile manufacturers to the horizontal business network organisation.

On the conceptual framework. This study shows how large network phenomena could be understood through a cross fertilisation of transaction cost theory, resource dependence theory and strategic management theory. In general firms develop and participate in networks for transaction cost motives, resource dependence and strategic considerations. The evaluation of the three factors (asset specificity, uncertainty and frequency) may indicate that integrating the activity is the best choice. However, the firm's capacity may not allow it to make such investments. Williamson (1991) assumes that the market can offer these resources. In developing countries most firms have limited resources and the financial markets are often deficient. In this case in addition to the aforementioned three factors it is important to see the firms investment capacity in relation to financial, human resource and production capacity. Moreover in our case studies the linkages between the suppliers, wholesalers and retailers and their customers are found to be important in the choice of the efficient transaction governance structure. The strength of the business network relationship among manufacturers, buyers (wholesalers and retailers) in the export market are important ingredients of their competitiveness in the export market. From a strategic perspective it is not wise to enter the market directly as important asset specific investments have to be made. Moreover, the lack of resources simply excludes this option. However, linkages can be one way to fill the resource gap. Beside this the linkages can serve as an entry barrier to other manufacturers and it is important to develop mechanisms aiming at penetrating them.

From the discussion above we can conclude that choosing an efficient transaction governance structure through the use of the network theory, can be supplemented by transaction cost theory, resource dependence theory and strategic management theory. Consequently, asset specificity, uncertainty, frequency, organisational capacity and opportunities for resource mobilization and linkages can be useful in choosing the efficient transaction governance structure for firms in developing countries in particular.

12.4 Policy implications

The policy implications of the findings of the study focus on three issues, namely government and private sector co-operation and the need for firms to have inter-firm cooperation policy, access to finance and the need for specialised training institutions.

On government and private sector co-operation. The official Eritrean government policy is based on the incentives that result from the free market economy (Government of Eritrea, 1998). Although such a policy sharpens the competitiveness of the domestic manufacturing firms, in the long run, we note that the current footwear and textile-manufacturing firms in Eritrea are not yet competitive. Almost all footwear and textile-manufacturing firms in Eritrea are small or medium-sized. For that reason it will be difficult for the individual companies to find solutions to their export-barriers and embark export operations. In the short run there is a need for government support, in order to make the companies competitive in the international arena. The government defines the credit policy of the Commercial Bank of Eritrea and the availability of foreign currency. Part of the problems concerning the lack of qualified personnel may be solved through professional training programs supported by the government. The government is also partially responsible for the problems related to transport and the quality of raw materials, as the companies responsible for these products/services have been part of the public sector.

Successful public sector export support requires an overall policy commitment to the strategy of export promotion. One key aspect of policy formulation is the institutional framework for managing an export led strategy within various levels of government institutions to manage the many different issues discussed before. The policy formulation and institutional setting for managing export strategy will require a continuing and institutionalised dialogue between the government and the small and medium size-manufacturing firms. One possible solution to formalise the dialogue between the government and the private sector is to establish institutionalised linkages. This can be achieved by strengthening the export promotion office, which can serve as the centre for co-ordinating the export promotion efforts. Moreover, despite the positive interest in cooperation none of the manufacturing firms have a policy that facilitates cooperation. Thus, drafting firm level cooperation policy can facilitate the implementation of the horizontal business (sub) network organization and vertical business network relationships.

In the mean time it is important to keep in mind the problem of too great dependence on government incentives to promote export interest and market information. The most important problems: market information, quality and quantity requirement, are not the responsibilities of the government. Neither pure market nor pure hierarchy exchange governance approaches is appropriate to solve the information, design and quantity requirements that the Eritrean footwear and textile-manufacturing firms are facing. The literature in chapter three shows that such problems are often solved through horizontal business networks (among the manufacturers) and vertical business networks (between manufacturers, suppliers and buyers). In this respect the main task for the Eritrean policy makers is to facilitate the networking process and to create an institutional setting that favours market induced network formation. Consequently, the Eritrean government can play the role of a change agent (network facilitators) in the networking process. However, for such assistance to be effective it has to be based on the needs of the manufacturers.

The thrust of our arguments is that sound networking strategies (firms) and policies (governments) should take all the issues into account. For example, an active networking programme in Eritrea is useless if other government policies are unfavourable or if major industry or product barriers are neglected. Co-operation between government bodies and firms in the network can facilitate access to financial and information resources and to other networks. To understand these export problems and undertake effective export assistance, a close business network relationship between the government, its promotional institutions, the business community, and the private sector at large is important. Thereafter broad campaigns are needed to introduce the concept to the business community. Moreover a minimum commitment of 3-4 years is required for any business-networking programme since the required changing of behaviour patterns will not occur overnight.

On manufacturers access to finance. Our discussion in chapters eight and nine has shown that although proclamations No 93/1997 and 94/1997 lay the regulatory basis for the establishment of additional financial institutions within the country, at present all commercial transactions are carried out through the government owned Commercial Bank of Eritrea. The lack of competition in the banking service is stifling export support services offered to the Eritrean exporters. The bank requirements to get credit are very tight. Compared to other banks in neighbouring countries the cost of services charged by the Commercial Bank of Eritrea is expensive. On top of that, the services are characterised by delays and inefficiencies. Overall, the current export financing system in the country and the financial sector in general are too rudimentary to meet exporters financing needs. Consequently, there is a dire need to implement the aforementioned two proclamations and make the financial system more open for competition.

On the need for specialised training programmes. The preliminary and case studies show that the lack of trained personnel is an obstacle to the footwear and textile-manufacturing firms in designing and implementing export operations. Furthermore, the dependence of the footwear and textile-manufacturing firms on on-the-job-training as a source for trained labour is offering only short-term solutions to the shortage of blue-collar employees. Given the long-term export potential of the footwear and textile-manufacturing firms there is a need to introduce a co-ordinated training programme in leather and textile technology. Since the government has already started establishing technical schools mainly for wood and metal works, this could be simply an extension of the policy to leather and textiles. However, courses relevant for implementing export-marketing operations can be offered in co-operation with Asmara University. Asmara University can be one of the important institutions that should be linked to the manufacturers horizontal business network organisation. The link between the horizontal business network organization of Eritrean footwear and textile manufacturers and the Eritrean government is presupposed in our network design in chapter eleven.

PART VI

APPENDICES

Appendix 1. General Characteristics of firms included in the study

Item	Footwear	Textile	Total
1.Sex			
Male	37	40	77
Female	4	7	11
2. Job status			
General managers	36	37	73
Marketing Mangers	3	5	8
Production Managers	2	5	7
3.Age			
<20	1	2	3
20-35	8	4	12
36-60	16	10	26
51-65	12	28	40
>65	4	3	7
4.Educational background			
Elementary	20	21	41
High School	14	16	30
College degree	5	9	14
Graduate degree	2	1	3
5. Number of years worked in the organization in the same job			
1-5	7	7	14
6-10	4	11	15
11-20	10	10	0
>20	20	19	39
6. Reasons to join the footwear/textile business			
Ancestors had this business	5	5	10
I acquired the knowledge on my own	13	10	23
I used to work in a similar business concern	19	25	44
Friends encouraged me to start the business	1	-	1
By selection and appointment	3	7	10
7. Firms experience in the current footwear/textile business			
<5	3	1	4
5-10	5	4	9
11-24	12	13	25
25-39	19	28	47
>39	2	1	3
8.Distribution of firms in terms of number of employees			
1-10	26	20	46
11-20	5	18	23
21-30	2	2	4
31-40	2	2	4
41-50	2	-	2
>50	4	5	9
9. Distribution of firms in terms of experience in exporting (years)			
None	9	5	14
<5	8	7	15
5-10	14	11	25
11-24	7	21	28
25-39	3	3	6
>39	-	-	-
10. Distribution of firms in terms of participation in trade fairs			
Participated	12	7	19
Not participated	29	40	69
11. Distribution of firms in terms of access to credit			
Received credit	13	16	29

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Not received credit	28	31	59
12. Distribution of firms in terms of access to training			
Participated in training	9	9	18
Not participated in training	32	38	70
13. Distribution firms in terms of access to communication facilities			
Telephone	37	45	82
Fax	11	9	20
E-mail	-	-	-
14. Distribution firms in terms access to government help			
Received	9	6	15
Not Received	32	41	73
15.Distribution of firms in terms of sales strategy adopted			
Through an agent	1	3	4
Through distributor	1	1	2
Have a sales outlet	34	29	63
Direct sales from a factory	5	10	15
Order based	5	9	14

(Source: Survey 2001)

Appendix 2. EU common external import tariffs for footwear by product group as a % of CIF without duties and VAT.

CN Code	General Tariff %	GSP %	Remarks
64.01	18.2	12.7	Does not apply to china and south Korea
64.02	20	12.7	As above
64.03	8	5.6	Does not apply to Brazil, China and South Korea
With the exception of:			
64.03.59.11	6.2	4.3	As above
64.03.91.98	6.2	4.3	As above
64.03.99.38	6.2	43	As above
64.03.99.98	7.4	5.1	As above
64.04	18.2	12.7	Does not apply to China and South Korea
64.05	4.4	3	Does not apply to Korea
With exception of:			
64.05 90.10	18.2	12.7	Does not apply to China

(Source: CBI 1998)

Appendix 3. EU Harmonised coding system for footwear

HS code	Product group
64.01	**Water proof footwear**
64.02	Footwear with outer soles and uppers of rubber or artificial plastic material
64.03	Footwear with leather uppers
64.04	Footwear with textile uppers, soles of rubber and plastic
64.05	Footwear with synthetic leather uppers, slippers and other indoor shoes with textile and other uppers
64.06	Parts of footwear

(Source: CBI 1998)

Appendix 4 Wholesaler and retailer margins as a percentage of consumer prices

	Low	Medium	High
Consume price	100	100	100
(VAT (17.5% of net selling price)	15	15	15
Net selling prices	85	85	85
Retailers margin	24	28	33
	61	57	52
Wholesalers margin	8	9	10
	53	46	42
Charges	3	3	2
CIF prices	50	43	40

(Source: CBI, 1998)

Appendix 5 Share of leather, cotton and labour in the production cost of footwear and textiles

Footwear industry (Model M/036/95 casual leather footwear)			Textile industry (100% cotton polo shirt)		
Component	% of total production cost	Domestic price	Component	% of total production cost	Domestic price
Materials: Leather Others:	40* 33	Euro 1/square inch -	Cotton Others	50 5	Euro1.48 /kilo -
Labour	11	Euro 45 per month	Labour	16	Euro 40 per month
Over heard cost	16	-	Overhead cost	29	-

Note: Others in the footwear industry refer to soles, eyelets, thread and glue. * In military boots the leather content covers 50% of the total cost. Others in the textile industry refer to chemicals used for dying and printing the polo shirt. Overhead cost: in both the footwear and textile industry refer to the cost of electricity, water, fuel, depreciation etc.

(Source, Survey data 2001)

PART VII

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Summary

Summary

Introduction

Several theories explain the engagement of nations in international trade; the most frequently cited being the theory of comparative advantage. However, this theory, although important for economic policy purpose, does not explain why some individual firms are successful in exporting while others fail. In the last decades, however, many scholars have adopted a company perspective of international trade by attempting to investigate the forces inhibiting the firms to initiate, develop or sustain export operations. The focus of these studies is not on macroeconomic policy but on barriers, real and perceived, by the individual companies. Such findings constitute a source of valuable information for public policy makers in their attempt to design and implement optimal national export policies. Micro level studies are important for developing countries in particular because most of the policies in these countries do not stem from the firm level export problems.

Eritrea developed a good export capacity in the first half of the twenty-century, during the Italian colonisation. According to the records of the Ministry of Trade and Industry, Eritrea was exporting manufactured products such as textiles, footwear, as well as fish to the Middle East, Europe and Africa. Adequate communication facilities such as railway, air and road transport were available. Italian investors were the main players in the export business. With the coming of the Ethiopian administration in the 1980’s and 1990’s and particularly under the socialist government of Ethiopia, a new export approach prevailed. All exports were channelled and marketed by the parastatal, Ethiopia Import Export Corporation, (ETIMEX). Manufacturing firms limited their activities only to production. Furthermore, in fear of the expropriation policy of the socialist government directed at those firms that generate foreign currency, mainly through export, privately owned manufacturing firms were forced to focus on the domestic market. The centralised system of export policy and thirty years of war for independence alienated the footwear and textile-manufacturing firms in Eritrea from the international market and weakened the marketing knowledge and financial capacity of the entrepreneurs.

Although most of the export problems of the footwear and textile-manufacturing firms in Eritrea are similar to that of other developing countries, some of them are unique to Eritrea. Before the border war between Ethiopia and Eritrea erupted in 1998, the footwear and textile-manufacturing firms were selling about 70 percent of their produce to Ethiopia. Because of the war this market opportunity has been lost and the firms have to find another alternative market. Despite the fact that many of the footwear and textile-manufacturing firms in Eritrea have a long business experience only a few are successful in accessing new export markets.

Export transactions are often coordinated through three governance structures. These are Market, Network and Hierarchy (Thorelli, 1986; Thomson et al, 1991). In the international footwear and textile market to conduct a sound transaction, buyer and seller have to pass through certain stages. These are identifying the fashion trend, producing a sample design, making the sample and finally exhibiting the sample to see how customers react to it. It is only after this long process that a market demand is identified and the buyer put the order to the manufacturer. Each order is different and the footwear and textile produced is not standardised. This makes continuous flow of information between manufacturers and buyers critical. To expedite this process history of past business relationships and trust are essential. When these factors are absent information exchange precedes real business transaction. Consequently, pure market and pure hierarchy transactions hardly exist in the footwear and textile import and export business. However, it is worthwhile to note that networks also have some characteristics of markets and hierarchies. While maintaining the benefits of hierarchy and market governance structures, networks also fail because of similar transaction hazards that lead to the failure of market and hierarchies (Park, 1996).

The upshot of the above argument is that the Eritrean manufacturers need buyers that are committed to work with them to produce a product suitable to the target export market and provide a reliable channel of distribution. Particularly the footwear and textile manufacturers in Eritrea need market information related to product quality, design, price and potential buyers. These factors are important to the manufacturers to evaluate their product standards and take the necessary corrective action to achieve the desired level.

Research questions

This thesis answers the main research question: *How can the footwear and textile-manufacturing firms in Eritrea enter into a vertical and horizontal business network relationships and increase their export capability?*

The argument behind the above central research question is the international footwear and textile market is full of network relationships. If the footwear and textile-manufacturing firms in Eritrea are going to participate in the international footwear and textile market they have to be part of it. The main research question has been divided into five research sub-questions.

- What are the export problems of manufacturing firms in developing countries?
- How are networks used to alleviate the export problems of manufacturing firms in developing countries?
- What are the specific export problems of the footwear and textile-manufacturing firms in Eritrea?
- What are the prevailing network structures and requirements of the Netherlands' and Ugandan footwear and textile export markets?
- How can the footwear and textile-manufacturing firms in Eritrea enter into a vertical and horizontal business network relationships and increase their export capability?

Literature review

In this thesis we reviewed the current state of conceptual knowledge on export marketing barriers. We compiled and synthesised the empirical results contained in the relevant studies of manufacturing firms in developing countries. We also reviewed the current state of the practical knowledge on measures undertaken by firms and governments in developing countries to encounter the export marketing problems. When there are transaction costs a simple market mechanism is not appropriate to facilitate exchange. This makes a different transaction co-ordination mechanism necessary. The literature review showed that vertical and horizontal business network relationships could open new market opportunities for the footwear and textile manufacturers in Eritrea and improve value to the customer through reduced transaction costs and improved product quality. These are also the factors that influence the development of export capability and market representation of manufacturing firms in developing countries. Our literature review led us to the conclusion that four networking strategies are available for the footwear and textile manufacturers in Eritrea through which they can enter into the international footwear and textile market and improve their export capability. These are: flexible supply contracting, subcontracting, joint venture and export grouping networks (horizontal business networks).

To conceptualise the variables identified in the empirical literature we reviewed the literature on inter-organizational co-operation. We have reviewed the various themes and ideas developed within these perspectives. Accordingly, we understood that five concepts determine the choice of transaction governance form. These are *asset specificity, uncertainty, organisation capacity and room for resource mobilisation, volume and frequency of transaction, and Linkages.* Based on the literature review we developed a framework that depicts variables that are imperative to the emergence, development and achievement of the business network.

Research methodology and framework for analysis

In this thesis, the case study approach has been used to gather in-depth data about the footwear and textile-manufacturing firms in Eritrea and potential buyers in the Netherlands and Uganda. Also surveys have been used to collect background information about the footwear and textile-manufacturing firms. The data collected by the survey method has been useful in two ways. First, it helps the researcher to understand and describe the footwear and textile industry in Eritrea, and second, it offers general background information useful to select the right organisations for the case study.

The data analysis process in this thesis has gone through three major stages. In the first stage, we have described and analysed the Netherlands and Ugandan footwear and textile export markets. The personal interview has been tape recorded and transcripted as soon as the interview session is finished. We have analysed each response and established a chain of evidence to build our arguments. We build our conclusion by matching the evidence patterns in the different cases. The second stage of the data analysis is mainly based on the results of the survey. Forty-five export problems were presented to the managers and they were asked to indicate the importance. Similarly, respondents were asked to value the degree of difficulty to solve these export problems.

In stage three, we have drawn a cross case conclusion on the Market opportunities in the Netherlands and Ugandan footwear and textile markets (Figure 5.2). This analysis acknowledges the differences between the two markets. In view of this we have analysed five variables identified in our framework (Figure 5.1).

Conclusion

The studies in Netherlands and Ugandan footwear and textile export market have shown that no subcontracting and joint venture business opportunities were found. This is mainly because of three main factors. Firstly, there is no need for the importers in the Netherlands and Uganda to make risky investment on setting manufacturing facilities. There are manufacturers who are capable of producing a product according to the importer requirements. Then the point is how to get the reliable manufacturer who can accommodate the orders. Most of the importers prefer to remain as wholesalers or retailers rather than diversifying to production. Secondly, the unstable political situations in developing countries make investment more risky. Finally, the wholesalers and retailers need to be flexible. Consequently, the case studies have shown that at present flexible supply contracting is becoming popular in the footwear and textile business.

The findings show that only agents wholesalers and retailers are active in the Netherlands footwear and textile export market. The intermediaries in the Netherlands are well placed in the local target market, have considerable local market knowledge and crucial contacts with potential customers. Thus it is easier for the footwear and textile manufacturers in Eritrea to enter into the Netherlands footwear and textile export market through a vertical business network with wholesalers and retailers than bypassing them. However, to improve their product quality and expand their production capacity the Eritrean manufacturers need to establish a horizontal business network.

The high uncertainty in the Ugandan export market due to the lack of trust in the marketing channel, and inefficient contract enforcing institutions precludes the footwear and textile manufacturers in Eritrea from appointing agents in Uganda. Moreover, wholesalers and retailers in Uganda often travel to markets where they can find different varieties of footwear and textiles from which they can choose. They buy limited volume of footwear and textiles from each design. As a result direct presence in the Ugandan market can help the Eritrean footwear and textile manufacturers to enlarge their sales by collecting orders even from the immediate customers. However, to enter to the Ugandan footwear and textile export markets through the aforementioned strategy, the footwear and textile manufacturers in Eritrea need to establish horizontal business networks relationships among themselves. The horizontal business network relationships among the manufacturers will help them to mobilise the financial and human resources needed to establish a sales outlet in Uganda.

This thesis concludes establishing horizontal business network with fellow manufacturers and vertical business network with cotton and leather suppliers, and footwear and textile buyers in the Netherlands and Uganda are preconditions for the Eritrean manufacturers to penetrate to the international market. Moreover horizontal business sub-networks are necessary to improving product quality, expanding production capacity, and mobilizing resources. In view of this conclusion two types of horizontal business network organisations and three types of vertical business network relationships have been recommended to co-ordinate the entry to export markets. A distinction between a network organisation and a network relationship has been made. Organisations have their own administration and continuity is a major goal, while relationships are order based and have a relatively flexible status.

Samenvatting

Verschillende theorieën verklaren het internationale handelsverkeer; de meest geciteerde is de theorie van de comparative voordelen. Hoewel deze theorie van belang is voor economisch politieke doelen, kan hiermee niet verklaard worden waarom sommige bedrijven in een sector succesvol zijn in de export, terwijl het anderen in dezelfde sector niet lukt. Gedurende de laatste decennia zijn vele studies verricht bij ondernemingen naar de factoren die het exporteren belemmeren. Deze studies zijn niet in eerste instantie gericht op macro-economisch beleid, maar op barrières waargenomen bij de verschillende bedrijven. De bevindingen vormen een bron van waardevolle informatie voor beleidsmakers, die exportbeleid ontwikkelen. Studies op micro niveau zijn belangrijk voor ontwikkelingslanden, omdat het beleid in veel van deze landen te weinig rekening houdt met de exportproblemen die op bedrijfsniveau spelen.

In de eerste helft van de twintigste eeuw, gedurende de Italiaanse kolonisatie, exporteerde Eritrea verschillende producten. Volgens de gegevens van het Ministerie van Handel en Industrie, exporteerde Eritrea textiel, schoeisel en vis naar het Midden-Oosten, Europa en Afrika. Adequate vervoersmogelijkheden, zoals transport via spoor, lucht en weg, waren aanwezig. Italiaanse investeerders waren de belangrijkste spelers in de export business. Met de komst van de Ethiopische regering in de 80-er en 90-er jaren en speciaal onder het socialistische bestuur, werd een nieuw export beleid ingevoerd. Alle taken met betrekking tot de export werden beheerd door de overheid; Ethiopia Import Export Corporation (ETIMEX). Het management in de fabrieken beperkte hun activiteiten tot de productie. Deze bedrijven waren bevreesd voor de onteigeningspolitiek van de socialistische overheid, en in het bijzonder die bedrijven die buitenlandse valuta konden genereren. Als gevolg van deze beperkingen hebben veel producenten zich gericht op de binnenlandse markt. Het gecentraliseerde systeem van export politiek en dertig jaar onafhankelijkheidsoorlog, belemmerden de ontwikkeling van de exporten in de schoenen en textielindustrie. De kennis van marketing en financiering van export transacties is in snel tempo verouderd.

Hoewel de meeste export problemen van de schoenen en textielindustrie in Eritrea dezelfde zijn als die van andere ontwikkelingslanden, zijn sommige problemen uniek voor Eritrea. Voordat de grensoorlog tussen Ethiopië en Eritrea in 1998 losbarstte, verkocht deze industrie ongeveer 70 procent van de productie in Ethiopië. Door de oorlog is deze markt verdwenen en zijn de bedrijven gedwongen een alternatief te zoeken om hun producten af te zetten. Ondanks het feit dat de meeste producenten in Eritrea veel handelservaring hebben, krijgen maar weinig bedrijven toegang tot de nieuwe export markten.

Export transacties worden vaak gecoördineerd volgens drie bestuurlijke structuren, te weten: “Market”, “Network”en “Hierarchy” (Thorelli, 1986; Thomson et al., 1991). Transacties op de internationale schoenen en textielmarkt zijn complex en worden in etappes gerealiseerd. In een eerste fase ontdekt men modetrends, maakt men een ontwerp en enkele showmodellen en onderzoekt men hoe het publiek hierop reageert. Alleen na dit lange proces wordt de marktvraag duidelijk en worden de orders geplaatst bij de fabrikant. Elke order is verschillend en er is geen standaard in de productie van schoenen en textiel. Daardoor is een continue stroom van informatie-uitwisseling tussen producenten en afnemers belangrijk. Vertrouwen

tussen bedrijven en ervaringen in het verleden zijn essentiële elementen in dit proces. Als deze factoren afwezig zijn dan zal eerst, voordat de transactie tot stand komt, informatie tussen de bedrijven worden uitgewisseld. Zuivere “Market” en “Hierarchy” structuren bestaan nauwelijks in de import- en exporthandel van schoenen en textiel. Echter, de netwerken kennen wel degelijk enkele eigenschappen van “Market” en “Hierarchy” structuren. Hoewel de voordelen van beide structuren in netwerken kunnen blijven bestaan is het ook mogelijk dat netwerken falen (Park, 1996).

Producenten in Eritrea hebben partners nodig die geïnteresseerd zijn in het ontwikkelen van een geschikt product voor de doelgroep en een betrouwbaar distributiekanaal in de exportmarkt. De schoenen en textielproducenten in Eritrea hebben in het bijzonder behoefte aan marktinformatie betreffende de kwaliteit, het ontwerp, de prijs en de potentiële kopers. Deze informatie is nodig om de productiestandaard aan te passen en de noodzakelijke verbeteringen uit te voeren, zodat de beoogde kwaliteit wordt gerealiseerd.

Onderzoeksvragen

Dit proefschrift geeft antwoord op de volgende onderzoeksvraag:

Hoe kunnen de schoenen en textielbedrijven in Eritrea verticale en horizontale bedrijfsnetwerken ontwikkelen en hun exportvermogen verbeteren?

De internationale schoenen en textielmarkt wordt gekenmerkt door vele netwerkrelaties. Als de producenten in Eritrea toe willen treden tot deze markt dan zullen ze deel moeten gaan uitmaken van deze netwerken. De onderzoeksvraag is verdeeld in vijf subvragen.

- Wat zijn de export problemen van industriële bedrijven in ontwikkelingslanden?

- Hoe worden netwerken gebruikt om de export problemen van deze bedrijven in ontwikkelingslanden te verlichten?

- Wat zijn de specifieke export problemen van de schoenen en textielindustrie in Eritrea?

- Welke netwerkstructuren bestaan er op de Nederlandse en Oegandese exportmarkten en welke eisen stellen deze markten aan de schoenen en textielindustrie?

- Hoe kunnen de schoenen en textielproducenten in Eritrea deel gaan uitmaken van verticale en horizontale bedrijfsnetwerken en hun exportvermogen verbeteren?

Literatuur onderzoek

In dit proefschrift is een studie gemaakt van de conceptuele kennis die op dit moment beschikbaar is over de problemen die zich voordoen bij export marketing. We hebben de relevante studies op dit gebied over producenten in ontwikkelingslanden samengevat en een analyse gemaakt van het beleid dat bedrijven en overheden hebben gevoerd om de problemen het hoofd te bieden. Als er transactiekosten zijn dan is een simpele markttransactie niet geschikt om de uitwisseling te coördineren. Het literatuuronderzoek laat zien dat verticale en horizontale bedrijfsnetwerken nieuwe mogelijkheden in de markt creëren voor de schoenen en textielproducenten in Eritrea en dat deze netwerken de waarde voor de consument verbeteren door gereduceerde transactiekosten en verbeterde kwaliteit van het product. Bovendien maken deze netwerken het mogelijk de kennis over de exportmarkt bij de productiebedrijven in ontwikkelingslanden te verbeteren en hun representatie in de exportmarkten te versterken. Het literatuuronderzoek leidde tot de conclusie dat er vier netwerkstrategieën zijn om tot de internationale markt toe te treden: “flexible supply contracting”, “subcontracting”, “joint venture” en “export grouping networks”.

De literatuur over samenwerking tussen bedrijven is bestudeerd om de resultaten van de literatuurstudie (empirie) te kunnen structureren. We hebben de verschillende hoofdthema’s in kaart gebracht en dit leidde tot de conclusie dat er vijf concepten bestaan die de vorm van de transactie kunnen bepalen: *“asset specificity”, “uncertainty”, “organisation capacity and room for resource mobilisation”, “volume and frequency of transaction”, and “linkages”*. Gebaseerd op literatuuronderzoek is ook een raamwerk ontwikkeld dat de determinanten van het ontstaan van succesvolle netwerken in kaart brengt.

Onderzoeksmethodologie en raamwerk voor analyse

In dit proefschrift zijn case studies gebruikt om gedetailleerde gegevens te verzamelen over de schoenen en textielindustrie in Eritrea en potentiële klanten in Nederland en Oeganda. Daarnaast zijn enquêtes gehouden om een inventarisatie te maken van deze industrieën. Deze resultaten zijn gebruikt om de bedrijven voor de case studie te selecteren.

De analyse van de gegevens kan in drie fasen worden onderscheiden. In de eerste fase hebben we de Nederlandse en Oegandese bedrijven geanalyseerd. De interviews zijn op cassetterecorder opgenomen en opgeschreven direct na het interview. We hebben alle respons geanalyseerd en een logica in de antwoorden ontdekt, waarop we onze conclusies hebben gebaseerd. De volgende fase in de analyse betreft de enquête. Middels een enquête zijn 45 exportproblemen aan de managers voorgelegd, en is hen gevraagd het belang aan te geven. Ook is de respondenten gevraagd hoe moeilijk het is deze exportproblemen op te lossen. In fase drie hebben we het materiaal van de case studies geanalyseerd en hieruit een conclusie getrokken over de mogelijkheden op de Nederlandse en Oegandese markt (figuur 5.2). Deze analyse identificeert de verschillen tussen de twee markten. Vijf variabelen, aangegeven in ons raamwerk, zijn hierbij geanalyseerd (figuur 5.1).

Conclusies

Het onderzoek heeft aangetoond, dat er geen mogelijkheden zijn voor “subcontracting” en “joint ventures”. Drie redenen worden hiervoor gegeven. Ten eerste is er geen behoefte bij de importeurs in Nederland en Oeganda om riskante investeringen te doen ter financiering van de productie. Er zijn voldoende producenten beschikbaar die capabel zijn om de productie te organiseren en te financieren. Het probleem voor de importeurs is nu betrouwbare producenten te selecteren voor het uitvoeren van hun orders. De meeste importeurs geven er de voorkeur aan, om groothandelaar of detaillist te blijven, en geen directe verantwoordelijkheid te nemen voor de productie. Ten tweede, de instabiele politieke situatie in veel ontwikkelingslanden brengt grote risico's met zich mee voor buitenlandse investeerders. Ten derde hechten de groothandelaren en detaillisten een groot belang aan flexibiliteit. De case studies hebben aangetoond, dat flexibele leveringscontracten de voorkeur genieten in de schoenen en textiel industrie.

De resultaten laten zien dat alleen commissionairs, groothandelaren en detaillisten actief zijn in de Nederlandse schoenen en textiel markt. De tussenpersonen in Nederland zijn goed vertegenwoordigd in de plaatselijke afzetgebieden, hebben goede kennis van de locale markt en belangrijke contacten met potentiële klanten. Door met hen een verticaal bedrijfsnetwerk te vormen is het ook gemakkelijker voor de producenten in Eritrea om op de Nederlandse markt binnen te komen. Echter, de Eritrese producenten zullen ook horizontale bedrijfsnetwerken moeten ontwikkelen teneinde de kwaliteit van hun productie te verbeteren en gevraagde hoeveelheden te kunnen leveren.

Door de hoge onzekerheid in de Oegandese exportmarkt, veroorzaakt door het gebrek aan vertrouwen in het marketingkanaal en het gebrek aan toezichthouders in de markt, is het voor de producenten in Eritrea onmogelijk om commissionairs in Oeganda te vinden. Groothandelaren en detaillisten in Oeganda reizen vaak zelf naar gebieden waar ze verschillende soorten schoeisel en textiel kunnen vinden. Echter, zij kopen en verkopen veelal beperkte hoeveelheden schoeisel en textiel per design. Daarom kan de directe aanwezigheid in de Oegandese markt van de Eritrese producenten helpen bij het verwerven van orders. Echter, om op deze wijze succesvol te kunnen zijn in de Oegandese markt is het nodig dat de producenten in Eritrea horizontale bedrijfsnetwerken ontwikkelen. De horizontale bedrijfsnetwerken maken het mogelijk de financiële en persoonlijke middelen te mobiliseren, die nodig zijn om het afzetgebied in Oeganda te penetreren.

Dit proefschrift concludeert dat het opzetten van een horizontaal bedrijfsnetwerk van producenten en een verticaal bedrijfsnetwerk met katoen- en leerleveranciers, en afnemers in Nederland en Oeganda eerste vereisten zijn voor de Eritrese producenten om in de internationale markt succesvol te kunnen penetreren. Bovendien zijn horizontale bedrijfs-subnetwerken nodig om de kwaliteit van hun product te verbeteren en de productiecapaciteit te vergroten. Als gevolg van deze conclusie worden twee typen horizontale en drie typen verticale bedrijfsnetwerken aanbevolen, om de toetreding in de exportmarkten te coördineren. Er is een onderscheid gemaakt tussen een netwerk organisatie en een netwerk relatie. Organisaties kennen een eigen bestuur en continuïteit is een hoofddoel, terwijl relaties zijn gebaseerd op orders en een relatief flexibele status hebben.