Export networking challenges and opportunities for manufacturing firms from developing countries

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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

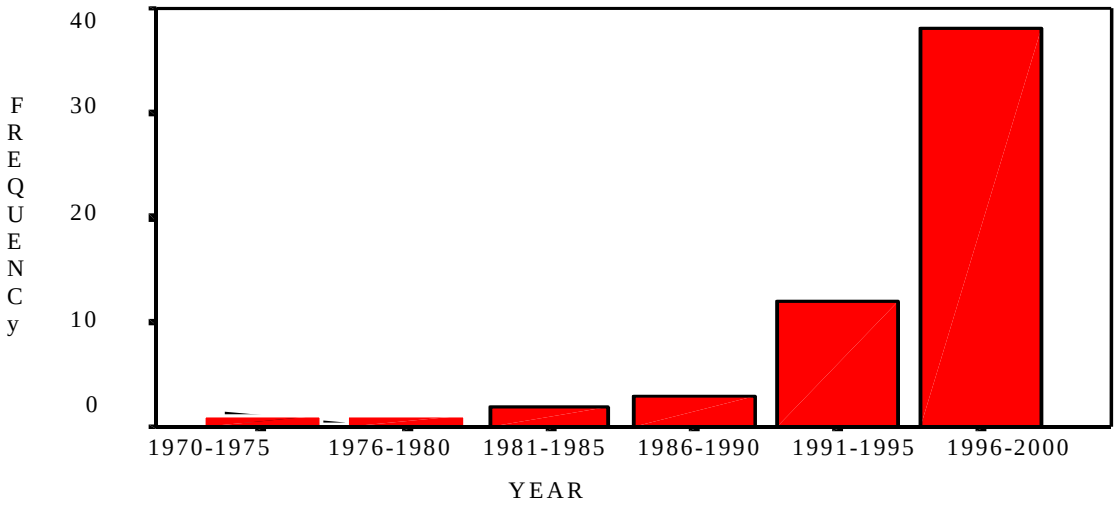
The method applied to collect and classify the articles in this Section was similar to the one used in chapter two. The key words used to search the articles were: export promotion, export marketing, export management, export marketing channel, networks, subcontracting and co-marketing alliances. Compared 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

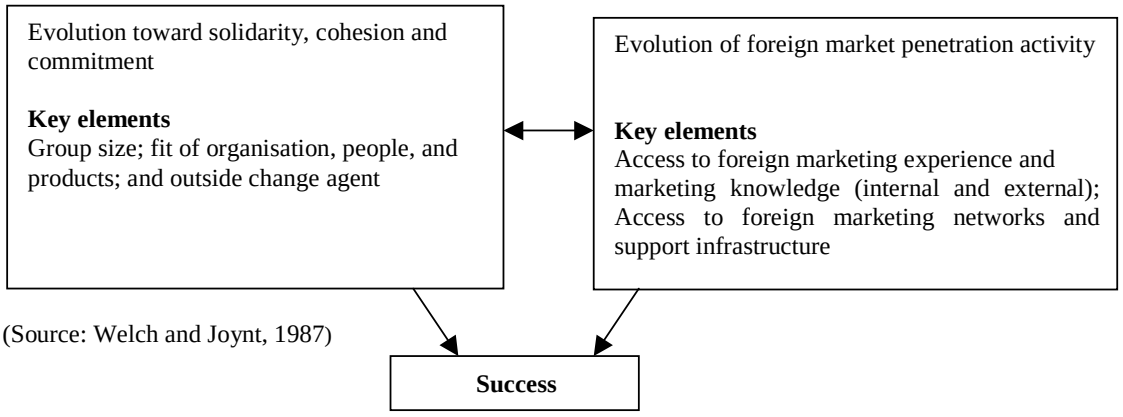
Firms in developing countries have taken different measures to alleviate the 'internal' and/or 'external' export problems. Networks have been often used for this purpose. The extent to which marketing systems are characterised by vertical long term relationships or networks of firms clearly expresses 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)

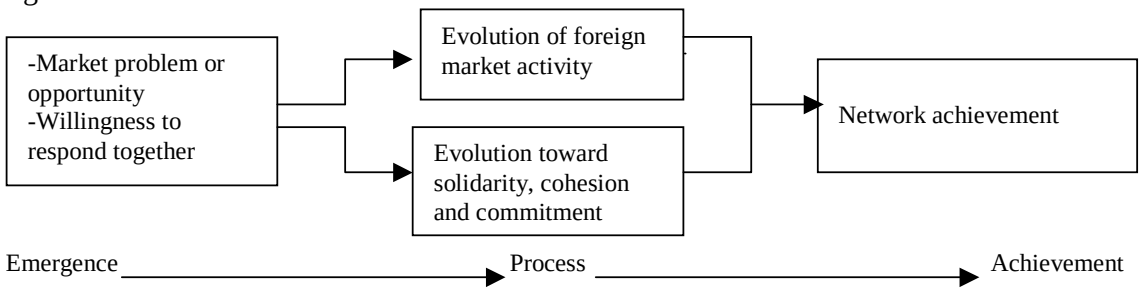
The first determinant concerns the group's evolution towards solidarity, cohesion and commitment. The success of the group depends on how the group process develops and builds toward cohesion. Group cohesiveness is defined as "the degree to which members are attracted to one another and share the group's 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.

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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.