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## Export networking challenges and opportunities for manufacturing firms from developing countries

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# 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)<sup>14</sup>. 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.

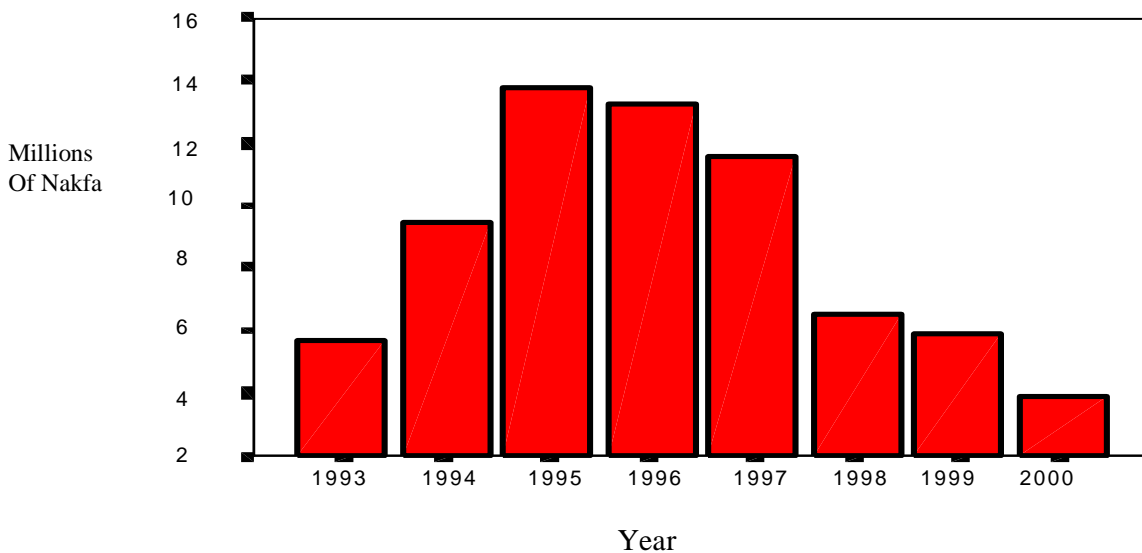
The footwear manufacturing industry in Eritrea consists of medium and small size firms. The first group comprises a few former public footwear manufacturing firms that have been privatised recently and several medium size footwear-manufacturing firms that have been under private ownership. The public 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

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<sup>1</sup> 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**

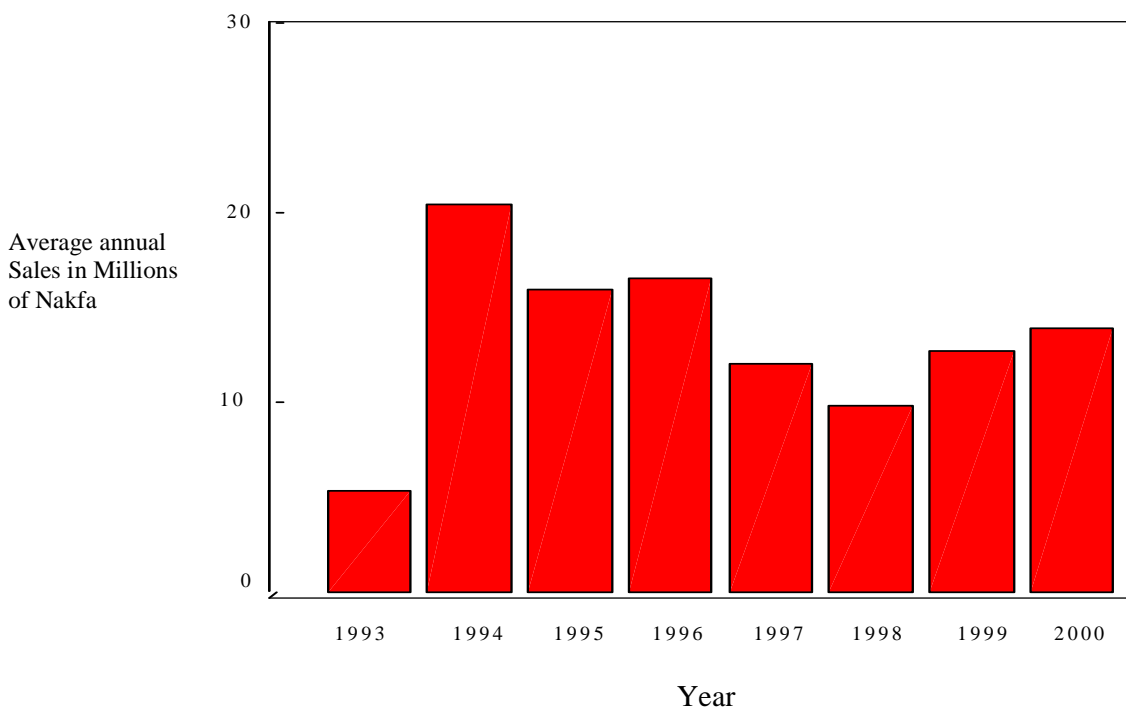
Modern textile manufacturing in Eritrea started in the 1940's with the advent of Italians to Eritrea. Similar to the Eritrean footwear industry the textiles manufacturing industry in Eritrea is divided into two groups in terms of size. These are medium and small size. The first group comprises the public 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  $\leq$  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<sup>15</sup> 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

<sup>15</sup>To calculate the annual standard production capacity, the daily standard production capacity is multiplied by 300 working days.

are export standard casual 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 cooperative 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.<sup>16</sup> 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

<sup>16</sup> 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	Mean	Std. dev.	Std. Error mean
	1	2	3	4	5				
<b>1) Marketing knowledge barriers</b>									
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	
<b>2) Human resource barriers</b>									
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	
<b>3) Financial barriers</b>									
Inability of the firm to self- finance exports	0.07	0.07	0.09	0.29	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	
<b>4) Product quality barriers</b>									
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	
<b>5) Product adaptation barriers</b>									
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	<b>2.98*</b>	0.6864	0.07317	
Meeting export packaging and labelling requirements	0.05	0.20	0.60	0.14	0.01	<b>2.86*</b>	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	
<b>6) Industry structure</b>									
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	



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<sup>3</sup>. 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 understaffed 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					Mean	Std.dev	Std.error			
	1	2	3	4	5	1	2	3	4	5						
<b>1) Marketing knowledge barriers</b>																
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
<b>2) Human resource barriers</b>																
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									<b>3.17*</b>	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
<b>3) Financial barriers</b>																
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
<b>4) Product quality barriers</b>																
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
<b>5) Product adaptation barriers</b>																
Lack of adequate skill to adapt products for foreign markets	0.02	0.18	0.59	0.19	0.01									<b>2.98*</b>	0.7191	0.07666
Difficulty in meeting importers product quality standards	0.05	0.17	0.64	0.15	0.00									<b>2.88*</b>	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
<b>6) Industry structure</b>																
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



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 Vigleinzona 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				Actual Total
	Textiles		Footwear		
	Number	%	Number	%	
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		Actual Total
	Number	%	Number	%	
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<sup>17</sup>) 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 towards factors related to business network relationship between firms (n=88)

Item	Mean response	Std. Deviation
Independence in management	<b>2.9432*</b>	0.7328
Independence in ownership	<b>3.0568*</b>	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

<sup>17</sup> 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.