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

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## Chapter 11

### Network Design for Footwear and Textile Manufacturing Firms in Eritrea and its Implementation Strategies

This chapter has eight sections. Section 11.1 summarises the critical findings from the previous chapters. Section 11.2 discusses the success factors for the manufacturers' horizontal business network organisation. Similarly section 11.3 examines the critical success factors for the horizontal business sub-network organisation. Section 11.4 explains how vertical business networks among Eritrean manufacturers, footwear and textile buyers in the Netherlands and leather and cotton suppliers in Eritrea could develop. Section 11.5 discusses the potential business network relationship between Eritrean manufactures and Ugandan buyers. Section 11.6 describes the implications of the horizontal and vertical business networks in solving the important export problems identified in Chapters eight and nine. Finally, in section 11.7 we draw the overall conclusion.

#### **11.1 Introduction**

The previous chapter shows that the entry strategy for Eritrean footwear and textile manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Moreover, because of the high uncertainty in the Ugandan export market due to the lack of trust in the marketing chain, lack of reliable market data and inefficient contract enforcing institutions direct entry was found to be feasible market entry strategy. However, the Eritrean footwear and textile manufacturers need to establish horizontal business network organisations in order to accommodate large orders through product standardisation and capacity expansion, improve product quality through learning and mobilise financial and human resources needed to establish a sales outlet in Uganda. In the next three sections we will discuss two types of horizontal business network organisations and three types of vertical business network relationships needed to co-ordinate the entry to export markets. A distinction between a network organisation and a network relationship is made: organisations have their own administration and continuity is a major goal, while relationships are order based and have a relatively flexible status. We distinguish a footwear manufacturers' horizontal business network organisation (Section 11.2, Figure 11.1), a horizontal business sub-network organisation (Section 11.3), and vertical business network relationships between suppliers, manufacturers and buyers in the export market (Section 11.4). To avoid repetition we first discuss the business network structure recommended for the footwear industry and then we accommodate any special requirements for the textile industry in the concluding remarks. There after we continue with the discussion on the organisation of the business relationship between the Eritrean manufacturers and the Ugandan buyers.

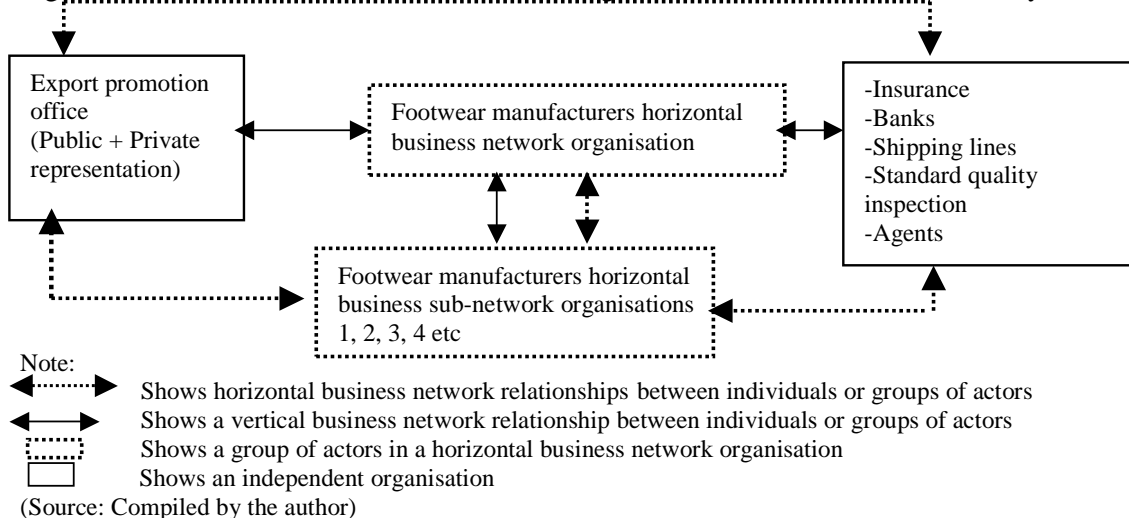
#### **11.2 Horizontal business network organization**

First of all there is a need for a general horizontal business network organisation: an association of all Eritrean footwear manufacturers that provides a platform for manufacturers to discuss common problems among themselves and with other stakeholders. Such an organisation would have three general objectives:

- To represent the industry in consultations with the government and organisations providing services to the footwear sector. This may concern discussions on tax policy, exchange rate policy, foreign trade agreements, availability of support services, co-ordination of common training programmes and initiating projects to improve leather quality.
- To facilitate the formation of horizontal business sub-network organisations, which are important to fulfil buyers' requirements.
- To assist Eritrean footwear manufacturers looking for export markets. Because of the financial and knowledge constraints of individual manufacturers the horizontal business network organisation is expected to facilitate the identification of export markets and the distribution of information to the horizontal business sub-networks (Section 11.3).

The government can be expected to support the establishment of this organisation, as the footwear industry is one of the industrial sectors that have opportunities in the export market. Proper organisation of this sector is a prerequisite for successful entry, the realization of jobs and export revenues. Thus the government, in co-operation with the horizontal business network organisation can create a conducive environment for the manufacturers to obtain low interest credits and export pre-financing from the public owned banks, training employees and improve the level of export service institutions: such as a standards institute and the transportation infrastructure. It can also act as mediator when a conflict arises among the manufacturers in the horizontal business sub-network organisation. However, a major contribution has to be made by the manufacturers. They need to share financial, human, information, and knowledge resources and show active participation in the organisation of the network.

Figure 11.1 Horizontal business network design for the Eritrean footwear industry



We discuss the critical success factors in the development process of the horizontal business network organisation below (Figure 11.1). Three stages are distinguished: network emergence, network development process and network achievement (see Figure 3.3). In Chapters 6, 7, 8, and 9 we concluded that there are common problems and market opportunities beyond the individual reach of the manufacturers. Our case studies in Chapter 8 and Chapter 9 have shown that the Eritrean footwear manufacturers are willing to act

together. In our interviews, one year after collection of data, we found that the willingness of the manufacturers to co-operate is gathering momentum. In this regard the manager of the Bini shoe factory said, “*Although we are better in-terms of organisation we are not self-sufficient. That is why we say co-operation is important even between competitors. For instance two months ago there was a bid for manufacturing military boots. Bini and Dahlack shoe factories were the bidders and Dahlack won the bid. Later on Dahlack asked us to help them, mainly in stitching, and we did. Henceforth a sense of co-operation is emerging between these two factories.*” Moreover, the general manager of the Negusse shoe factory mentioned that the establishment of the horizontal business network organisation and horizontal business sub-networks is important because footwear manufacturers are losing hope, which may lead to the closure of their factories. Therefore we can say with confidence that the conditions for network emergence that we set out in chapter five are met.

#### ***- Evolution toward solidarity, cohesion and commitment***

Our discussion in Chapter two showed that the horizontal business network organisation’s evolution toward solidarity, cohesion and commitment is determined by the availability of an outside change agent; group size and fit of organisations, products and people (Welch and Joynt, 1987). Each of these is relevant to our network design.

*Outside change agents* are individuals or organisations that facilitate the formation of the horizontal business network organisation. The experiences of Chile, Nicaragua, and Jamaica (Ceglie and Dini, 1999) provide interesting examples. Often high transaction costs are associated with the development of these business networks. Given the financial and knowledge constraints in the Eritrean footwear industry and the need for export activities, we expect that outside change agents with some funding capacity can play a catalyst function. In our case the Eritrean government could act as outside change agent and take the initiative in creating the horizontal business network organisation. During our interviews, one year after collection of the data it has been found that all the manufacturers supported the involvement of the government in facilitating the establishment of the horizontal business network organization. In this regard the manager of the Negusse shoe factory said that because export is a national interest the government involvement is important. She went on to say that the government could be instrumental in bringing lower interest rate credits and experts who can help the manufacturers in building their production capacity. However it is important to note that private entrepreneurs are suspicious of government institutions. Therefore it would be wise if the outside change agent could be given some relative autonomy. The outside change agent may be stationed in the export promotion office of the Ministry of Trade and Industry. However we also observed that the export promotion organisation in Eritrea has a very loose linkage with the private sector. Some footwear manufacturers do not even know where the export promotion office is located. Thus, there is a need to strengthen the export promotion activity of the organisation and a need for improved participation of the private sector. For example, the private sector can be represented in the board of directors of the export promotion organisation. Experiences with direct participation of representatives of the private sector in public export promotion offices have shown positive results in several developing countries (Seringhaus, 1991).

*The need for fit among organisations* influences the success of network development. Our case studies reveal that the footwear manufacturing firms in Eritrea, except for a few, are small and medium-sized. Moreover we noticed that the firms have several common problems. Consequently, creating a platform to discuss these issues will help them to exert common

efforts to solve their common problems. Since the overall objective of the horizontal business network organisation is to represent the interests of the manufacturers in general policy matters and accessing market opportunities, the difference in size among manufacturers may not be a major problem (Table 11.1). The larger firms may serve as examples and smaller firms may even sub-contract orders from them. However, with regard to the second and third objectives of the organisation, the services should be tailored to the size of the companies as small firms face other market opportunities and problems than large companies. For instance, generating collateral for bank credit is more difficult for small firms (see Section 8.2.3).

Table 11.1 Recommended areas of activity links, resource ties and actor bonds in the proposed horizontal business network organisation

Network variable	Horizontal business network organisation
Activity links	<ul style="list-style-type: none"> <li>-Representing the interest of the manufacturers at the government level</li> <li>-Initiating projects aiming at joint export marketing of footwear (e.g. in Uganda)</li> <li>-Co-ordinating and promoting common training programmes</li> <li>-Initiating projects to improve leather quality</li> </ul>
Resource ties	<ul style="list-style-type: none"> <li>-Financial contribution</li> <li>-Information and knowledge sharing</li> <li>-Time spent due to participation in management activities</li> </ul>
Actor bonds	<ul style="list-style-type: none"> <li>-Collective culture and social bonds</li> <li>-Previous acquaintance in EFPA</li> <li>-Common problems and market opportunities</li> <li>-Willingness to act together</li> </ul>

Note: EFPA refers to Eritrean Footwear Producers Association.

(Source: Compiled by the author)

The *number* of the footwear manufacturers that form the horizontal business network organisation has some importance for group cohesiveness. Group cohesiveness tends to increase with the time members are able to spend together. However, this is not a major issue in the horizontal business network organisation as only general interests are considered. On the contrary the larger the number of firms joining the network the more powerful the organisation. Moreover, because the number of footwear manufacturers in Eritrea is small (less than 50) this will not be a major problem.

Another factor that has to be considered is the *fit among the products*. Theory suggests that this can create problems if the footwear produced by the firms are close substitutes. This promotes competition instead of co-operation. However, the horizontal businesses network deals with general policy matters, which are less discriminatory among the types of footwear produced by the manufacturers. For instance, improvement in government policies concerning education, transport, and taxation are less discriminatory among similar products produced in the same industry. Instead the aforementioned improvements offer Eritrean footwear manufacturers the opportunity to strengthen their competitiveness. Consequently, the responsibility of the horizontal business network organisation is to give equal access to the manufacturers to its services.

*The need for fit among people*. From a cultural perspective the power of networks is related to shared norms and values among their people. These social norms and values in Eritrea include solving problems through village elders and relatives, low level of corruption, sharing of available resources within a certain family group, traditional schemes for saving money through contributions (E'kub) and finally high respect to these social norms and values. Thus, these social norms and values can serve as conflict resolution mechanisms and strengthen *the fit among people*. These social institutions emerge from the collective culture of the Eritrean society and can restrict the effects of opportunistic behaviour.

Another factor that facilitates acquaintance between the potential members (manufacturers) of the horizontal business network organisation is their previous business relationship. Almost all the manufacturers were members of the Eritrean footwear producers association (see Section 8.2.4). They worked together and know each other very well. Thus, due to the common problems of business opportunity beyond individual reach and previous acquaintance among the footwear manufacturers there is a good background for solidarity and actor bonds. However, it is important not to expect an island of solidarity, as it is the outcome of an internal process that develops through time. As the manager of the Negusse shoe factory put it, the real interest of the manufacturers will be tested during the development process of the aforementioned organisations. This is because, given their financial problem some manufacturers may have the intention of using the network organizations only for a short-term benefit: such as getting credit from the bank or other international institutions. Consequently preparatory lessons about the activities these organisations can (can not) do are imperative for their success. This can help to avoid undue high expectations for these organisations by the manufacturers.

#### ***- Evolution towards foreign market penetration***

As discussed in the previous sections one of the ultimate objectives of the horizontal business network organisation is to facilitate the entry of the Eritrean footwear manufacturers to the international footwear market. Visible market penetration activities can strengthen the willingness of members to co-operate. The case studies of footwear manufacturing firms in Eritrea reveals that the major challenge of the footwear manufacturers is to ensure a dependable export market. Given the financial problems of the footwear manufacturers any delay in finding an alternative to the Ethiopian export market can lead to bankruptcy, which is a threat to the existence of the horizontal business network organisation. Consequently, early results could not only convince the manufacturers that participation in the horizontal business network may be part of the solution for their export problem but also increase their commitment to the network organisation.

#### ***- Network achievement***

The results of the efforts of the horizontal business network organisation will become visible in the long run. Because of this we did not discuss the potential evaluation procedures in our interviews with the manufacturers. However, we can explain some evaluation mechanisms that may be useful in the long run. Thus the footwear manufacturers could evaluate the horizontal business network organisations achievement, amongst other things, by assessing the government policies that have turned out to be favourable to the manufacturers, and the number of firms successful in penetrating the international market. Moreover the achievement of the horizontal business network organisation could be measured by the availability and depth of information supplied to the manufacturers, type and number of contacts established with government and non-government institutions, and feedback from members in the horizontal business network organisation (see Table 11.2). However, for some activities short term evaluation techniques could be applied. For instance if the horizontal business network organisation initiates training programmes for manufacturers the number of people who finish the training can be taken as a measurement for achievement. Moreover, sales growth, number of companies integrated into the international market, difference between costs and contribution to GDP can highlight the achievement of the horizontal business network organisation.

Table 11.2 Parameters recommended for evaluating the achievement of the horizontal business network organisation

Parameters	Horizontal business network organisation
Turnover	-Sales growth in the footwear industry
Marketing	-Number of companies integrated to the international market -Availability of information to the manufacturers
Operational costs	-Calculating the costs incurred and comparing these with the contribution to GDP
Contacts established	-Type and number of contacts established with government and non government institutions
Feed back from partners	-Gathering feedback from the members of the horizontal business network organisation.

(Source: Compiled by the author)

### **Remarks concerning the textile manufacturers**

*The conclusions reached in this section can be replicated to the textile manufacturers' horizontal business network organisation also. Moreover, there is evidence that subcontracting between the large and small Eritrean textiles manufacturers is possible. During our interview the general manger of the Asmara sweater factory said that because of his shop in Italy he had excess orders from his customers out there. However, he has limited production capacity due to lack of skilled employees. Thus he wanted other manufacturers to act as subcontractors. Consequently, he contacted the five sweater manufacturers in Asmara and asked them if they would be interested in subcontracting. Their response was positive. However, later on he understood that if these manufacturers are to act as subcontractors they need to invest in training their staff and modernising their machinery. The asset specific investments make the establishment of a horizontal business network organisation and horizontal business sub-network organisation relevant.*

### **11.3 Horizontal business sub-network organisations**

By horizontal business sub-network organisations we mean smaller groups of Eritrean footwear manufacturers maintaining business relationships that associate them strongly with one another in order to exploit a common market opportunity. The horizontal business sub-network organisations would be responsible for signing contracts with buyers, producing the footwear and shipping. Thus, the objective of the sub-network organisation would be to fulfil buyers requirements through co-operation. In this view the activities performed by the sub-network organisation would concern improving product quality, process and product standardisation, enlarging production capacity through order sharing, and knowledge exchange (see Table 11.3).

#### **- Evolution toward solidarity, cohesion and commitment**

Taking into account the responsibilities that result from the activities to be undertaken by these sub-networks, the initiative for establishment should be taken by the member manufacturers. Sub-networks are autonomous organisations. Nevertheless, the general horizontal business network organisation and the *outside change agent* may facilitate the formation of sub-network organisations and may provide useful advice and information.

Compared to the *need for fit among organisations* in the general horizontal business networks size is more important in the sub-network. In the footwear industry there are significant

production capacity differences among the manufacturing firms. While a few larger firms may produce 300 pair of shoes per day, the smaller firms have a maximum of 50 pairs per day. The larger firms have easier access to human and financial resources. Moreover, compatible equipment and production technology are important criteria for selecting partners for sub-networks. Order sharing implies that standard qualities can be delivered. The difference in capacity may create a difference of interest, which can trigger conflict in the horizontal business sub-network organisation. As sub-network organisations would be involved in projects concerning quality and capacity sharing more cohesiveness, commitment and solidarity is needed than in the horizontal business network organisation. Table 11.3 shows some of the activities the horizontal business sub-networks could deal with. The three dimensions (activity links, resource ties and actor bonds) are derived from our theoretical discussion in Chapter four. If conflicts are to be avoided, the goal must be to limit the *number* of actors involved. In contrast with the horizontal business network organisation, small sub-network organisations facilitate information exchange and interaction among its partners.

Table 11.3 Recommended areas of activity links, resource ties and actor bonds in the proposed horizontal business sub-network organisation.

Network dimension	Horizontal business sub-network organisation
Activity links	-Improving product quality -Process and product standardisation -Enlarging production capacity through order sharing -Knowledge exchange among manufacturers
Resource ties	-Common financial investment -Common personnel contribution -Information exchange -Sharing of equipment
Actor bonds	-Collective culture and social bonds -Specific common export objectives -Previous acquaintance in EFPA -Investments on common projects

Note: EFPA refers to Eritrean Footwear Producers Association.

(Source: Compiled by the author)

Because the horizontal business sub-network organisation will be established among manufacturers who produce similar products competition may hamper their willingness to co-operate. However, limiting the co-operation to foreign market penetration can alleviate this barrier. Moreover, the fact that individual manufacturers cannot exploit the available export opportunities will drive them to co-operation. In here it is worthwhile mentioning the comment of the manager of the Bini shoe factory. Highlighting the importance of cooperation he said, *“The objective here is to help each other and create a win-win situation. If a manufacturer does not want to co-operate with other manufacturers then it is obvious that he will not show significant progress by going alone. We know this from experience.”* According to him the past experience of the Eritrean manufacturers is evidence for this. Production of substitutes is even a condition for co-operation: *need for fit among products*. Similarity of the products can facilitate the efforts to improve product quality through co-operation. It can give leverage to initiatives to standardise the footwear and their production processes so as to facilitate order sharing.

*A fit among people* is a precondition for commitment of members in the horizontal business sub-network. Committed members invest more financial and human resources, which are needed to enlarge the activities of the network. The required financial contribution should be in line with the expected revenues generated by the network and should be agreed upon by the



partners. The investments are necessary to standardize production processes, sharing of large orders, etc which are imperative to the networks success. Thus the membership of the horizontal business sub-network organisation should be based on personal acquaintance and selection of the manufacturers who are willing to work together. During our interview, one year after the collection of data the general manager of the Asmara footwear factory commented that first of all the horizontal business sub-networks could co-operate in purchasing raw materials. He mentioned that this might pave the way for co-ordinating activities such as product quality improvement and capacity expansion through product standardisation. According to him, by co- operating in purchasing raw materials (soles, eyelets, leather etc) the footwear manufacturers could enjoy economies of scale and maintain their attachment for future common initiatives.

### ***-Evolution towards foreign market penetration***

Sometimes the activities of the horizontal business sub-network and the horizontal business network organisation would overlap. Both organisations would be autonomous but voluntary co-operation is expected: the horizontal business network organisation would help the Eritrean footwear manufacturers to establish sub-networks that respond to the requirements of foreign buyers. If the sub-networks are not successful, the horizontal business network organisation will also most probably fail. However, this does not mean that the horizontal business sub-network organisations cannot initiate market penetration activities independently. HAGLE is a good example of a sub-network that existed even before the horizontal business network has been established. Overall it is safe to conclude that the pace of the market penetration of the horizontal business sub-network organisations should be in line with the evolution of the export market penetration of the horizontal business network organisation.

Table 11.4 Parameters recommended for evaluating the achievement of the horizontal business sub-network organisation

Parameter	Horizontal business sub-network organisation
Turnover	-Sales volume generated by the sub network organisation
Marketing	-Determining the time taken to market a product -Improvement in the sub-network organisation's capacity to plan and execute export marketing operations
Operational costs	-Calculating the operational costs and comparing these with the ex ante expectations.
Contacts established	-Type and number of contacts established with foreign buyers
Feed back from partners	-Gathering feedback from members of the horizontal business sub-network organisation

(Source: Compiled by the author)

### ***-Network achievement***

As the horizontal business sub-networks deal with activities that have specific objectives it is easier to measure their achievement. Among the parameters that can be used to measure its achievement are the time taken to market a product, calculation of the operational costs and comparing these with the ex ante expectations and sales volumes generated. Moreover, getting in contact with other manufacturers, buyers and suppliers bring opportunities for knowledge and experience transfer (see Table 11.4). This may even concern activities that are not related to the domain of the network.

**Remarks concerning the textile manufacturers:**

*The fit among products in the textiles industry may need special attention. The textile industry comprises manufacturers of fabrics, T-shirts and sweaters. Consequently a firm that produces T-shirts and fabrics could be a member of a sub-network organisation of textiles manufacturers that produce T-shirts, fabrics or both. Moreover, sweater manufactures will need to have their own sub-network organisation. In this case, it is likely that the product groups will dictate the membership of the textile manufacturers in the sub-network organisation. Moreover, the general manager of Ambesa sweater factory acknowledged the importance of the difference in technology among the sweater manufacturing firms in establishing business sub-networks. According to him while a few sweaters manufacturing firms own relatively modern technology others have lower level technology.*

**11.4 Vertical business network relationships between buyers, manufacturers and suppliers**

Figure 11.2 depicts the horizontal business network organisations, the horizontal business sub-network organisations and seven vertical business network relationships. In this section we focus on the three most important vertical business network relationships.

***-Vertical business network relationship between the horizontal business network organization and buyers (wholesalers and retailers) in the Netherlands***

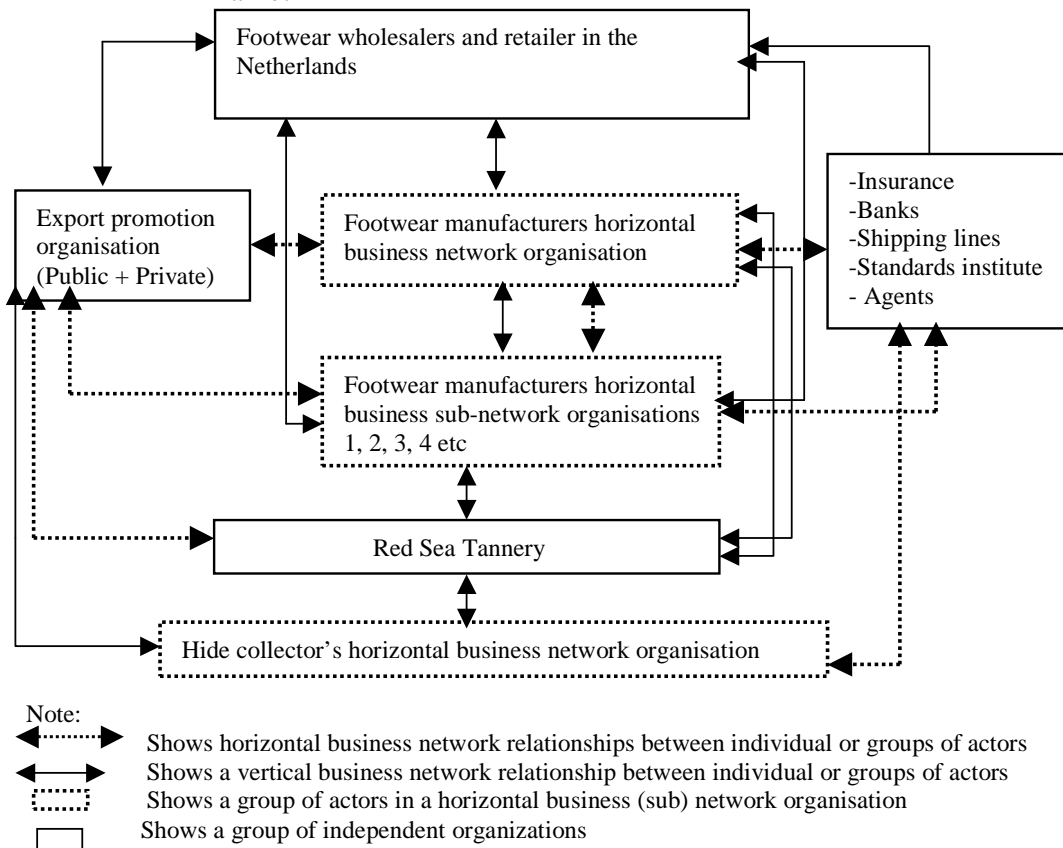
The market study in the Netherlands shows that before any transaction exchange is realised footwear buyers in the Netherlands need information about the footwear manufacturer and the country where he or she is located. This information mainly concerns the manufacturer's production capacity, types of machines used, skills of employees and the financial position of the manufacturer. Moreover, the buyers in the Netherlands would want to make sure that the manufacturers in Eritrea are trustworthy. The horizontal business network organisations can create a secure platform through which this information passes, for instance, organising a trade fair in the domestic market and inviting potential buyers in the Netherlands. However, it is imperative that the manufacturers should be the driving force behind these initiatives.

***-Vertical business network relationship between the horizontal business network organisation and leather suppliers in Eritrea***

The competitiveness of the footwear manufacturers in Eritrea depends increasingly on the competitiveness of the tannery and leather collectors. Moreover, from the case studies in the Netherlands and Uganda we learned that, continuous availability of good quality leather is a condition for successful export market entry. Although there is leather in the country, its quality is inferior due to defects in the animal husbandry system, distribution, and finishing process. This is because no incentives are given to the actors operating in the system. Leather accounts for an insignificant amount of the cattle price (less than 1%) and the butcheries are more interested in the meat than in the hide. Furthermore, the central abattoir in Asmara, which provides slaughtering service for the small butchers, sells the hide to the tannery on mass and the price given to the individual breeders does not discriminate those who brought cattle with good hides from those who did not. From this we can see that there is lack of incentive for the animal breeders, hide collectors, butchers and abattoir sales men to supply good quality leather. The old machinery and lack of trained personnel in the tannery also

contribute to the quality problem. This is further aggravated by the lack of proper communication between the tannery and the footwear manufacturers.

Figure 11.2 Horizontal and vertical business network relationships for the Netherlands market



(Source: Compiled by the author)

A vertical business network relationship between the footwear manufacturers, tanneries and the hide collectors may solve this problem. The hide collectors need training in order to improve the quality of the hide delivered to the tannery. To solve this problem it may be worthwhile to organise the hide collectors and to create a communication platform with the tannery. Moreover, in co-operation with the horizontal business network organization the leather suppliers could accomplish several activities: initiatives joint leather quality improvement project, create common external liaison, negotiate with the Ministry of Agriculture to improve the animal husbandry system in the country and make common effort to educate farmers on hide collection and handling (see Table 11.5). In co-operation with the Ministry of Agriculture the horizontal business network organisation could create an incentive structure for the farmers to take care of the hide, for instance, charging a higher annual cattle vaccination fee to those animal breeders or farmers who use fire brand their cattle.

***- Vertical business network relationship between the horizontal business sub-network organisation and buyers in the Netherlands.***

The horizontal business sub-network organisation searching for export orders has three options for supplying information to wholesalers and retailers in the Netherlands (table 11.6).

Firstly, participation in trade fairs can open an initial communication channel between the sub-network and potential buyers. However, immediate orders should not be expected, as the Eritrean footwear needs to be adapted to the market in the Netherlands. Moreover, before the conclusion of a contract, information has to be exchanged about the functioning of the sub-network and the companies involved. The second alternative is to send samples and visit major footwear buyers in the Netherlands. In our study, we found that footwear buyers in the Netherlands are ready to accept samples and receive Eritrean visitors. Four outcomes are possible:

- Acceptance of the footwear: a trial order can be placed.
- Acceptance of the footwear, but modifications is to be made.
- Rejection of the footwear but the buyer may ask to produce a sample of another footwear design.
- Rejection without further contact

The first three outcomes are useful as they can help the footwear manufacturers in Eritrea to understand the specific needs of the buyers and produce the footwear accordingly. It is unlikely that a trial order will be placed after a first contact. Most probably the result will be the third outcome. At least it will provide them with a business contact that may be the start of the import process as described in Chapter six. Acquiring export orders is difficult but not impossible. A major issue is convincing potential buyers by showing the samples and by preparing a solid sub-network organization that can handle a group contract. However, because competence trust is ascertained after inspection of the footwear, the presence of a strong agency organisation in Eritrea that can represent the footwear buyers in the Netherlands and certify the quality of the footwear is a precondition (see Figure 11.2).

Table 11.5 Recommended business network relationships between footwear manufacturers and leather suppliers

Network dimension	With horizontal business network organisation	With horizontal business sub-network organisation
Activity links	-Initiating joint leather quality improvement project -Creating common external liaison -Negotiating with the Ministry of Agriculture to improve animal husbandry system in the country -Common effort to educate farmers on hide collection and handling	-Leather supply information exchange -Developing joint quality standards -Discussion on how to match buyer requirements and leather produced by the tannery
Resource ties	-Investment by the horizontal business network organisation in the tannery	-Bilateral credit extension -Sharing of information and knowledge
Actor bonds	-Collective culture and social bonds -Lack of alternative source of leather	-Interdependence -Common market opportunities

(Source: Compiled by the author)

The response of the manager of the Dahlack shoe factory supports our argument. When asked about the need for an inspection organisation in Eritrea, he recalled an incident that happened to the factory in Kenya. He said, “ *After a container of footwear arrived in Mombassa we were asked to present an SGS certificate. We did not know what to do because SGS has no presence in Eritrea. Consequently, we approached STAR PLC in Eritrea and they gave us a certificate. Even that certificate had a problem in Kenya but at least it helped us to solve the problem.*” He stressed that the presence of such organisation is important if export is to flourish in Eritrea.

Table 11.6 Recommended business network relationships between footwear manufacturers and buyers in the Netherlands

Network dimension	With horizontal business network organisation	With horizontal business sub-network organisation
Activity links	-Information exchange about potential manufacturers that can accommodate orders. -Organizing training programmes for manufacturers -Setting conflict resolution mechanisms	-Exchange of information on product design, fashion trend, and general market requirements. -Identifying sources of appropriate footwear components (eyelets, moulds, soles etc).
Resource ties	-Skilled personnel	-Advance credit -Product design
Actor bonds	-Interdependence -Common market opportunities	-Interdependence -Common market opportunities

(Source: Compiled by the author)

### **Remarks concerning the textile manufacturers:**

*In contrast to leather, a good quality of cotton is produced in the country. However, the price of cotton is becoming the bone of contention between the textiles manufacturers and the cotton producers. This price contention is mainly because the Alighider cotton plantation is the dominant cotton producer in the country and other small producers are at its mercy. Alighider fixes the price and the others are only price takers. Currently, the cotton producers have an informal organisation mainly concerned with the price of cotton. To challenge Alighider and create a power balance, there is a need to strengthen the small cotton producers by allocating more land for cotton plantation. Thereafter, establishing a cotton growers association will be important to streamline the voice of small cotton growers purchase supplies together and participate in price negotiation with the textile manufacturers. Finally, in our interview with the sweater manufacturers we found evidence that the manufacturers want to launch a yarn production facility in Eritrea. In this regard the manager of the Ambesa sweater factory expressed his interest in producing yarn in Eritrea. According to him although such a project would cost a lot of money it would be done through co-operation with other sweater manufacturers, the government and international institutions such as UNIDO. He even suggested that issuing shares could do this.*

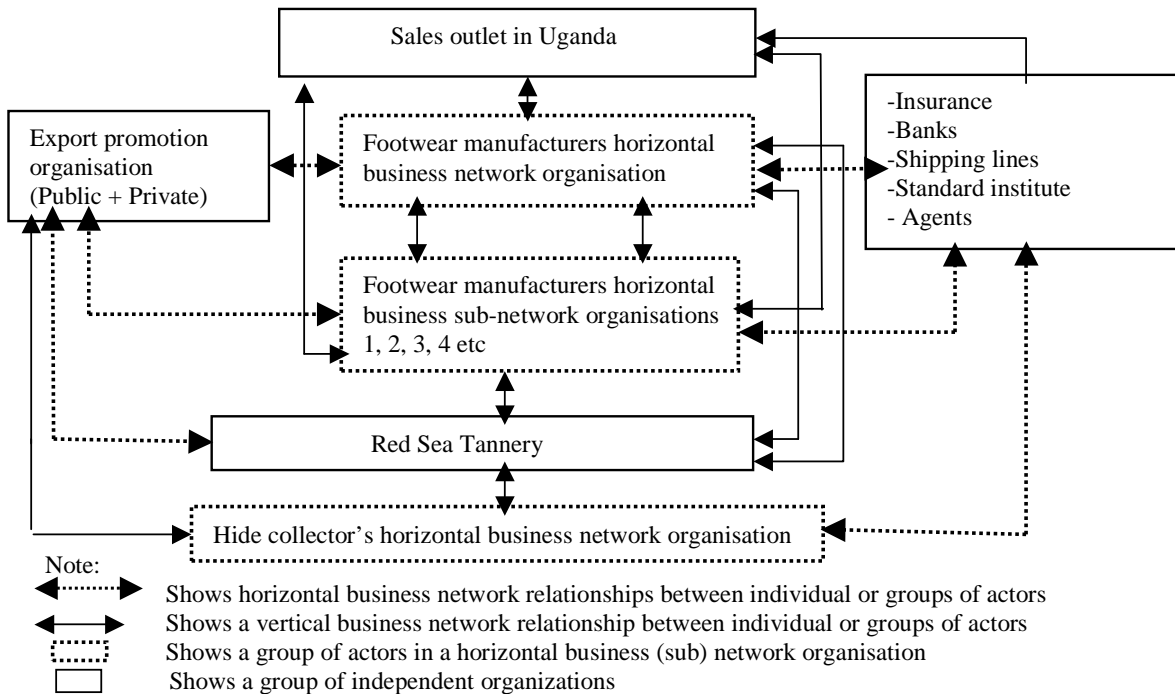
### **11.5 Business relationship with Ugandan buyers**

In the case of Uganda direct presence in the footwear export market is required to minimise problems that may arise from lack of trust in the marketing chain, unavailability of reliable agents, inefficiency of the contract enforcing institutions and the need to enlarge order size. Possibly the vertical business relationship with the Ugandan footwear buyers could be established through opening a sales outlet in Kampala. The horizontal business network organisation and the government could facilitate the establishment of the sales outlet in Kampala. The sales outlet could be responsible for establishing the linkages with the Ugandan footwear wholesalers, retailers and consumers and increase sales. Later this linkage could be extended to the neighbouring countries such as Rwanda, the Democratic Republic of Congo and Burundi. The sales outlet in Kampala would be active in offering market information to the network organisation back home to be distributed to the individual footwear manufacturers.

The sales outlet in Kampala should start on a small scale and grow gradually. This is because during the early stage of the export operation the volume of footwear that would be exported

to Uganda is limited in volume. The sub-network organisations could use the services of the sales outlet in Kampala on a commission basis. Thus the work of the horizontal business sub-network organisations would be to supply footwear that is appropriate to the Ugandan export market (see Figure 11.3). Unlike the Netherlands export market the Eritrean manufactures have to design the footwear that they are going to sell in Uganda. Consequently they should be keen on establishing an information exchange platform with the sales outlet in Kampala.

Figure 11.3 Horizontal and vertical business network relationships for the Ugandan market



**Remarks concerning the textile manufacturers:**

*The opening of the sales outlet in Kampala could be done in co-operation with the textiles manufacturers horizontal business network organisation. This is because the manufacturers in the two industries could share the installation costs and use the service of the sales outlet on a commission basis. As selling footwear and textiles in the same sales outlet is common in Uganda such efforts could enhance the co-operation among the footwear and textile manufacturers. During our interview, one year after the collection of the data, the Dahlack shoe factory showed special interest on the recommended market entry strategy to Uganda. The general manager unveiled his plans to open a small sales outlet in Uganda.*

**11.6 Implication of the Horizontal and Vertical business relationships on solving the export problems**

Table 11.7 shows that by using the horizontal business network organisation, horizontal business sub-network organisation and vertical business networks relationships, the footwear manufacturers in Eritrea could solve the export problems indicated in chapter eight and nine as important. While the first column shows the export problems, the next three columns show the dimensions on the suggested business networks. The (x) marks under the last three columns indicate the possible source of the solutions in the horizontal business network organisation, horizontal business sub-network organisation and vertical business network

relationships. For convenience we group the export problems into lack of information and knowledge about foreign market opportunities, lack of trained human resources, inadequate finance, product quality problems, capacity problems and policy and infrastructure problems.

*Lack of information and knowledge about foreign market opportunities.* The manufacturers could get foreign market information in four ways. These are from the orders placed by buyers in the foreign market, from the horizontal business network organisation, from agents in the foreign market and from the sales outlet in Uganda.

*Lack of trained human resources.* The manufacturers could solve the lack of trained human resources in co-operation with the horizontal business network organization, the government and fellow manufacturers in the horizontal business sub-network organization. The government, in co-operation with the horizontal business network organisation could establish a training institute for leather and textile technology. The government and the horizontal business network organisation could invite experts to offer short-term training to manufacturers. Moreover the manufacturers in the same horizontal business sub-network organisation would share the available skilled employees

*Inadequate finance.* The manufacturer needs to have adequate finance to buy all the necessary inputs. Mobilising resources from the manufacturers in the horizontal business sub-network organisation could tackle the financial problems. Moreover establishing a horizontal business relationship with the financial institutions such as the bank or by receiving credit extension from the suppliers and buyers could ease the financial problems. For instance, advance payment by a buyer could help the Eritrean manufacturers to buy raw materials and pay salary to their employees (See the case of Comforta in Chapter 6).

*Product quality problems.* A footwear manufacturer in Eritrea could solve his product quality problem in three ways. These are by sharing knowledge with his fellow footwear manufacturers in the horizontal business (sub) network organisations, by working with the supplier to improve the quality of leather and by using up to date information and designs from the buyer and agents. In fact one can argue that each of the aforementioned three options are interrelated and are critical for solving the product quality problem.

*Capacity problems.* By sharing large orders among the manufactures in the horizontal business sub-network organization the manufacturers could solve their production capacity problems.

*Policy and infrastructure problems.* The main task of the horizontal business network organisation would be to defend the interests of the footwear and textile manufacturers against the policy makers. As a result the horizontal business organisation could negotiate with the government for a better export policy and infrastructure, transportation, tax and assistance.

To produce good quality footwear a manufacturer needs to have market information, adequate production knowledge and capacity, good quality leather, access to finance, favourable government policy and infrastructure. Thus, there is clear interdependence among the dimensions in the horizontal business network organisation, horizontal business sub-network organisation and vertical business network relationships. Thus what we see in here is not only the importance of the interaction among the manufacturers in the horizontal business network organisation and horizontal business sub-network organisation but also the criticality of the close co-ordination with the vertical business networks for solving a particular export

problem. Based on this argument we can conclude that the interface between the horizontal business network organisation, horizontal business sub-network organisations and vertical business network relationships is essential for solving a specific export problem.

Table 11.7 Horizontal and vertical business networks as a tool for solving the export problems of the footwear-manufacturing firms in Eritrea

Export problems	Areas where solutions can be found to the export problems			
	Horizontal network organisation	Horizontal sub-network organisation	Vertical business network relationships	
			Manufacturer-supplier	Manufacturer-wholesaler
Lack of information and knowledge about foreign market opportunities	x			x
Lack of trained personnel and management exposure to different cultures	x	x		
Lack of finances and access to credit	x	x	x	x
Product quality problems		x	x	x
Production capacity problems		x		
Government policy and infrastructure problems	x			

Note: X shows the type of organisation or relationship that can offer a solution to the export problem

## 11.7 Conclusion

Theory shows that market opportunities may be realized through co-operation. This chapter makes it clear that extensive co-operation between footwear manufacturers and a distributor in the Netherlands is a condition for successful market entry. Market entry is difficult, as competition is intense, but not impossible as specialized distributors are searching for new business relationships. The entry strategy for Eritrean manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Because of the high uncertainty in the Ugandan footwear and textile export market, due to lack of trust in the marketing chain, lack of reliable contract enforcing institutions and agents direct entry is found to be a feasible market entry strategy. However, the Eritrean footwear manufacturers need to establish business networks in order to improve the organisation of the industry. At least two horizontal business network organisations and three vertical business network relationships are needed to improve the competitiveness of Eritrean manufacturers in the export market. These organisations and relationships are needed to create a governance structure that facilitates exchange relationships between manufacturers and distributors. The network design that is proposed will not be organized overnight. It will take time to convince all the partners to invest the required resources. Global competition imposes its standards, meaning that the production systems and governance structures operating in Southeast Asia have to be beaten. This is not an easy task, but the chapter shows that the international market provides opportunities for competitive footwear manufacturers.

The proposed horizontal business network organisation is primarily a structure that facilitates the actions of its members. It would represent the manufacturers in consultations with the government discussing policies concerning education, transport, taxes, credit, infrastructure etc. The organisation would also be expected to identify market opportunities for the footwear manufacturers and facilitate the opening of the sales outlet in Uganda. The Eritrean government might play an important role in the development process of the horizontal



business network. In a network organisation it is the ongoing relationship with a set of actors that represents the greatest business asset. Thus network success depends also on other criteria: market penetration, cohesiveness, solidarity and commitment of the manufacturers involved. We recall that the objectives of the horizontal (sub) networks coincide: entry of exports markets. However, this does not mean that these organisations belong to the same hierarchy. Both organisations have their own responsibilities and autonomy. The fit among organisations, products and people is more important in the horizontal business sub-network as large investments in resources are concerned with product improvement, capacity expansion and order sharing. Co-operation in these sub-networks is much more critical and requires more fine-tuning.