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Export networking challenges and opportunities for manufacturing firms from developing countries

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PART V
CONCLUSION

Chapter 12

Conclusion and Research Implications

12.1 Introduction

This thesis has addressed the main research question: how footwear and textile manufacturing firms in Eritrea can enter into a horizontal and vertical business network relationship and increase their export capability. In addition this thesis answers the following four research sub-questions: (1) what are the export problems of manufacturing firms from developing countries? (2) how are networks used to alleviate the export problems of manufacturing firms in developing countries? (3) what are the prevailing network structures and requirements in the Netherlands and Ugandan footwear and textile export markets? And finally (4) what are the specific export problems of the footwear and textile-manufacturing firms in Eritrea? Ultimately the horizontal business network organization (among manufacturers in Eritrea) has been designed together with the vertical business network relationships among leather (cotton) suppliers in Eritrea, footwear (textile) manufacturing firms in Eritrea, and footwear (textile) buyers in the Netherlands and Uganda. In this chapter we will answer each of the aforementioned four research sub-questions. Thereafter the theoretical and policy implications of the research results have been drawn.

12.2 Answers to the sub questions and main research problem

12.2.1 What are the export problems of manufacturing firms from developing countries?

To answer this sub-question, 38 articles that concern the export problems of manufacturing firms in developing countries have been discussed (see chapter 2). The results from the literature review showed that although increasing exports from developing countries is widely regarded as an important condition for further development and growth in poor countries, manufacturing firms in developing countries are confronted with many export barriers when they attempt to enter markets in developed countries. The discussion shows that the problems are closely interrelated and that they can be classified into five problem categories: company, product, industry, exports market and macro environment. Company problems in developing countries are associated with designing and implementing the marketing function such as marketing knowledge and information, and financial and human resource barriers. Product problems are related to quality and technical requirements of the targeted export market segment: export product design, style, quality, packaging and labelling requirements and product adaptation or modification. Distinctive foreign consumer preferences, unfamiliar business protocols and practices, the imposition of tariff barriers and regulatory import controls by overseas governments, fierce competition, exchange rate fluctuations and limited hard currency for international trade make the industry, export market and micro economic barriers. Tables 2.1 and 2.2 give a detailed breakdown of the export barriers that are common to manufacturing firms in developing countries. The classification provides a comprehensive understanding of the export problems that affect the marketing strategy of a firm and is useful for the formulation of suitable marketing strategies and national export assistance programmes. Two trends were identified in the reviewed literature:

Shift in research focus. The research focus on export problems in developing countries is shifting from exploratory research, aimed at identifying export problems, to testing the effect of export problems on export initiation, export development and export performance of the firm. In particular the reviewed articles, published during the last two decades, have discussed export problems in relation to one of these issues.

Commonality of exports problems. Almost all export problems identified in developing countries, except 'the country of origin barrier', exist in the developed world especially for small and medium-sized companies. Moreover, although the degree of difficulty and the importance of export problems vary, there is similarity among the major issues. This implies that manufacturing firms in developing countries can learn some interesting lessons from the experience of the developed world in solving their export problems.

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

To answer this sub question, 57 articles discussing measures undertaken by firms and governments in developing countries to encounter the export marketing problems of manufacturing firms have been reviewed (see chapter 3). The literature review showed that networks are used to solve export-marketing problems of manufacturing firms in developing countries. They have been useful to ease export problems concerning product quality, organisational, financial and information problems. In addition networks can also accommodate 'external' export problems related to the export market or the industry by establishing direct contacts among exporters, buyers and input suppliers. The qualitative model developed in this section captures the variables related to the emergence, the development process, and the achievement of networks (figure 3.3). The variables identified in the model for the emergence of the network are the existence of common market problems or opportunities, willingness to act together and income formation of the related companies (see figure 5.1). The literature suggests that network emergence should be demand oriented. The model makes this explicit as it stresses the importance of a market problem or market opportunity. This means that a business network must be based on a thorough analysis of the problems or market opportunities.

The literature also shows that the network development process is highly influenced by two key factors. These are (1) the evolution of the foreign marketing activity and (2) the evolution toward solidarity, cohesion and commitment. The networks success in penetrating foreign markets, access to foreign marketing experience and marketing knowledge and access to support infrastructure facilitate the network development. The key elements for the firm's evolution towards solidarity, cohesion, and commitment are group size; fit of organisation, people, and products; and availability of outside change agent. The more the parties work together, the more the bonds and relationships grow stronger. Moreover, the longer the relationship, the stronger the trust among the actors in the network, and the more benefit of networking. The experiences of UNIDO prove that it is possible to initiate and develop effective network relationships among independent entrepreneurs based on collaboration even if the entrepreneurs had no previous relationships with each other. The literature also implies that since manufacturing firms in developing countries face financial constraints and often lack skilled labor force, outside change agents may fill the resource gap and can play an important role in the network emergence and development process. Three of the five export grouping networks examined in chapter three heavily rely on the role played by the outside change agent. However, the literature review also reveals that no amount of incentives from

outside parties will substitute for a clearly perceived logic of relationships and beneficial outcomes. Mutual interest and active participation of group members are preconditions for group success and are in fact presupposed by the model.

In all the cases discussed in chapter three-market penetration is mentioned as the main objective of the network organisation. Other related objectives concern improving product quality, achieving product standardisation and improvement of gross margins. The case studies provide ample support for this model and complemented it with some additional variables: trust, learning, personal relationships and backward and forward linkages. Finally after merging the results of chapter two and three we have come up with four business network alternatives. These are joint venture, subcontracting, flexible supply contracts and export grouping networks (horizontal networks).

12.2.3 What are the prevailing network structures and requirements of the Netherlands and Ugandan footwear and textile markets?

Using the research framework developed in chapter five a market study in the Netherlands and Uganda has been conducted. The purpose of the study was to analyse and understand the business network structure and specific buyer requirements.

Findings from the study on the Netherlands footwear and textile market

The findings show that previous business relationships and acquaintance between the buyer and seller is the key factor for success in the footwear and textile business in the Netherlands. Arms length contracting barely exists. Even if it does exist, it only serves as a stepping-stone to future long-term business relationships. Before a real transaction exchange starts, buyer and seller have to go through certain stages. The wholesalers and retailers in the Netherlands study the fashion trend, generate ideas out of it and design the sample. Based on the specifications the manufacturer produces and delivers the sample to the wholesalers and retailers. While the wholesalers exhibit the samples the retailers check if they meet the requirements. At this stage the wholesalers and retailers may ask the manufacturer to modify the samples based on the suggestions given by customers and designers during the exhibition. If the quality of the sample is approved, the wholesalers and retailers may place orders to the manufacturer.

We find that the business relationship development between the footwear and textile buyer and footwear and textile manufacturers is not deterministic. The dyadic business relationship is developed only if both parties consider it profitable or otherwise worthwhile to engage in future exchange. Evidently, there is a strategic element in the development of business relationships. The structure of a business relationship is at every point in time a result of its history. The level of performance in the first order affects the wholesalers and retailers willingness to send additional orders to the manufacturer. This is in line with Blau's (1964) argument, which states that exchange is a process rather than a single event, in which each transaction episode is a result of previous transactions and constitutes the platform for future exchange.

Our findings reveal that the footwear and textile buying organisations in the Netherlands give leverage to their members (smaller retailers) to compete with larger multiple chains. Because of the large volume of the orders they collect from their members they get discount from suppliers. They also facilitate the exchange process by minimising the language and information barriers between suppliers and buyers. Additionally such organizations work to

build trust between buyers and suppliers in the sense that the suppliers know they will get their money from the respective buying organisations. The buying organisations reduce the administrative cost of the shop owners by handling the documentation and payment functions. Yet all the buying organisations, except Intres, do not order directly from manufacturers outside Europe. The manager of Euro Holland mentioned that the main reason they are putting much emphasis on wholesalers, agents and manufacturers located in Europe is because of their limited personnel and financial capacity. Since they cannot afford the cost to send people to foreign markets to negotiate with manufacturers and test the quality of the footwear before it is shipped to the Netherlands. The footwear and textile wholesalers in Europe charge higher price than a manufacturer in Southeast Asia.

We find that most wholesalers in the Netherlands ask the manufacturers in Southeast Asia for exclusivity. Exclusivity is connected with the nature of the market segment the firm is dealing with. The higher-class customers are more interested in uniqueness than price. The main factor that influences the manufacturers decision whether to accept the request for exclusivity is the size of the order placed by the buyer. When the size of the order is large, it can justify the cost of sample development and the manufacturing cost. The interesting point in this whole process is that the footwear and textile wholesalers and retailers interviewed in the Netherlands do not seek own designs and collections from the foreign manufacturer. Many of the wholesalers and retailers offer the designs and expect the manufacturer to deliver a product accordingly. The manufacturer does not have to make specific investments on market research, product design, training and branding costs (see Chapter 10).

Our findings reveal that in all the cases discussed, the footwear and textile wholesalers and retailers in the Netherlands believe that legal proceedings are expensive and often they work to avoid them. However, we have also observed that the availability of effective and efficient contract enforcing institutions could facilitate the trust building process between the buyer and the manufacturer. When disagreements appear in the exchange process the footwear and textile wholesalers and retailers and manufacturers often develop internal mechanisms to solve them. When the footwear shipped to his company does not confirm with previous specifications given to the manufacturer, first the retailer or wholesaler expresses his dissatisfaction. Second he asks for compensation; such as price discounts or extra time to display the products in the buyer's retail outlets to see the reaction of the consumers to the deviations. When the first two alternatives do not work, the wholesaler or retailer returns the goods at the expense of the manufacturer. This means the wholesaler or retailer will never buy again from the manufacturer.

Our findings also indicate that the footwear and textile wholesalers and retailers interviewed in the Netherlands use agents located in the country of production to buy footwear from manufacturers in Southeast Asia. The agents are located in the country of import. They connect buyers to manufacturers, monitor order progress, arrange the documentation and shipment and check outgoing consignments. Yet not all wholesalers and buying organizations prefer to use agents. Given Eegim shoe's large volume of import the running cost of the office in Taiwan is lower than the commission Eegim shoe would pay for an agent. Besides, the services that the company gets from its office in Taiwan are considerably better than those of an agent might provide. The fact that Eegim shoe is in the high fashion market, it needs to explain its specifications to its manufacturers in detail. Thus in order to get the manufacturers to understand the changes, it needs to have a close contact with the manufacturer and communicate intensively. For a summary of the requirements of the Netherlands footwear and textile market the reader is referred to Table 6.9 in chapter six.

We find that indeed there is room for a long-term business network relationship between footwear and textile importers (wholesalers and retailers) in the Netherlands and manufacturers in Eritrea. All the wholesalers and retailers and one buying organisation in the Netherlands showed an interest in establishing business relationship with Eritrean manufacturers. Yet, before they enter into any business relationship the wholesalers and retailers in the Netherlands need to know the manufacturers in Eritrea. They want information about the type of footwear and textile the manufacturers produce, their production capacity, type of machinery in use, their financial capacity and above all to test their honesty. The information is useful to build goodwill, contractual and competence trust. Our findings in the Netherlands footwear and textile export markets have shown that the wholesalers and retailers are not interested in concluding subcontracting and joint venture agreements with footwear and textile manufacturing firms in developing countries.

Findings from the Ugandan footwear and textile export markets

Our findings indicate that in contrast to the Netherlands, the business relationships between Ugandan footwear and textile wholesalers and retailers and their foreign suppliers (mainly in Dubai) are characterised as a loose business relationship. It is short term oriented characterised by high uncertainty due to lack of trust, limited market information and unreliable contract enforcing institutions. Wholesalers do not trust their suppliers to send them footwear and textile according to their specifications. Neither does the supplier believe the customers will pay on time. This mistrust results in high transaction cost on both sides. Thus importers have to travel all the way to the import market to select the type of footwear and textile they want to buy and make sure that the supplier packs the right type of footwear and textile for them. On the part of the foreign suppliers they always have to deal with new buyers. This means they have to spend time on negotiating the price. The fact that they do not have customers who buy footwear and textiles recurrently the footwear and textile the suppliers make available for sale is always at scrutiny by new customers at the market. The footwear and textile buyers in Uganda barely share the specific investments on market research and product design the manufacturer has to incur. They travel to the country of manufacture (import) or other third market (Dubai) without clear product specifications. Moreover, the non-recurrent nature of the exchange process hinders the transmission of whatever information available on the side of the wholesalers and retailers to the supplier.

We find that buying organisations in the Ugandan footwear and textile export markets are informally constructed social groups. In the Netherlands membership to the buying organisations depends on the type of product traded and willingness to pay the membership fee. In the Ugandan case membership is earned when a retailer or wholesaler belongs to a certain social group. Compared to the vertical business network relationship between footwear and textile suppliers and footwear and textile importers in Uganda, the horizontal business network between a group of wholesalers and retailers in Uganda is much stronger. Although the lack of trust among the footwear and textile importers and suppliers increases the transaction cost, the horizontal social bond among footwear and textile wholesalers and retailers in the Ugandan market contributes to the minimisation of the transaction cost. All the wholesalers and retailers interviewed in Uganda are willing to deal with Eritrean footwear and textile manufacturers provided that the price and products are acceptable to the Ugandan consumers. However we find that the size of the order placed by each wholesaler or retailer severely restricts the business opportunity, as it is too small to realize economies of scale.

In this study we find that two concepts highly influence the wholesalers and retailers decision on the status of their business relationship with manufacturers: flexibility and security. These concepts are also influenced by other secondary factors as discussed below.

On wholesalers and retailers need for flexibility. The cases discussed in chapters seven and eight show that the buyers (wholesalers and retailers) in Uganda are more flexible than the buyers in the Netherlands. The lack of predetermined product specifications, small size order, lack of trust and the need for large variety of footwear and textiles and absence of switching costs are important factors that shape the high need for flexibility by Ugandan wholesalers and retailers. However, uncontrollable economic and non-economic forces (exchange rate, social unrest, natural calamities) as well as poor performance of the manufacturer are key factors that determine flexibility by the Netherlands wholesalers and retailers. The higher the need for flexibility the weaker the businesses network relationship between the manufacturer and the footwear and textile wholesalers and retailers and vis-à-vis.

On wholesalers and retailer's need for security. The case studies in the Netherlands and Uganda show that the wholesalers and retailers in both markets give due attention to security. However the way they safeguard security differs. In the Netherlands availability of background information about the footwear and textile manufacturer, trust, advance contract with buyers in the domestic market, availability of reliable courts of arbitration and litigation, and manufacturers interest in using uncertainty reducing trade instruments (such as letter of credit and agents) determine the level and need of security to wholesalers and retailers. In Uganda personal supervision of the purchasing process determine the level of security to the wholesalers and retailers.

12.2.4 What are the specific export problems of footwear and textile manufacturing firms in Eritrea?

To answer this sub question a preliminary study and a case study have been conducted. The preliminary study is conducted on 88 footwear and textile-manufacturing firms. A questionnaire and interview have been used to capture the responses of the footwear and textile manufacturers.

Findings from the study on the Eritrean footwear and textile-manufacturing firms

The findings suggest that the footwear and textile manufacturers in Eritrea attach more importance and difficulty to some export problems. The export marketing problems rated as very important by the footwear and textile manufacturing firms in Eritrea are lack of knowledge to locate foreign market opportunities; lack of specific information regarding foreign agents, distributors and prospective buyers; lack of export marketing research; lack of experience in planning and executing export operations; lack of management exposure to other cultures and to different methods of doing business; lack of personnel trained and qualified in export marketing, and inability of the firm to self finance exports. Other export problems rated as very important are product quality problems, lack of ability to supply required quantity on continuous basis, too small in size to initiate export operations, lack of export promotion programs sponsored by the government, and problems in making shipment arrangement and meeting delivery dates (see Chapter 8 and 9).

To investigate the aforementioned export problems further, case studies on twelve footwear and textile-manufacturing firms in Eritrea have been conducted. The results from the case

studies show that the export problems that were identified as very important and very difficult in the preliminary study are inherent to the cases studied in the footwear and textile industries. It also shows that the Eritrean footwear and textile manufacturers are facing marketing knowledge, financial, human resource and production capacity barriers. The footwear manufacturers in particular are facing shortage of good quality leather. Moreover the lack of horizontal and vertical business networks in the two sub-sectors aggravates the aforementioned problems.

The findings from the analysis of export problems of footwear and textile-manufacturing firms in Eritrea make clear that most of the problems discussed in the literature are also relevant for the Eritrean manufacturers. The findings confirm that the footwear and textile-manufacturing firms lack information to locate foreign market opportunities. Moreover, exporting activities are hampered by a lack of finance, competent staff, and capacity to accommodate large orders. Government help in terms of collection and distribution of information is perceived as inadequate. It is remarkable that contrary to what is suggested in the literature, (Moini, 1997), there are no major differences observed between the importance and the difficulty to solve the export problems. Only minor differences in the ratings are made and the ranking of the problems follows the same order. Apparently, the perceived importance of the problem coheres strongly with the difficulty to solve it. Overall, the case study shows that the long time dependence of the footwear and textile manufacturers, on the Ethiopian market, has contributed to the problems.

The responses of the managers in Eritrea show that the footwear and textile manufacturers have a positive attitude towards business networks. Several managers indicated that entering into horizontal and vertical business networks are solutions to the export problems of the footwear-manufacturing firms in Eritrea. They also perceive the problems they may face in the due course of time. The case study has also provided evidence as to how social networks were instrumental in generating business in the US for the Eritrean textile factory in particular.

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

Despite their participation in some trade fairs footwear and textiles manufacturers in Eritrea are unable to get a foothold in the market place. In our findings we have shown that due to the lack of marketing knowledge, skilled human resource, adequate finance and limited production capacity these firms fail to enter these markets. The failure of Expo shoe factory in Kenya and Allied Afri trading house in Uganda are prime evidences to this argument. The case studies show that the Netherlands footwear and textile export market is full of operating networks. The success or failure of the market offering depends on the Eritrean manufacturers understanding of the market requirements and on the effort to fulfil them. The thrust of the above mentioned argument is that the Eritrean footwear and textile-manufacturing firms are exposed to export market opportunities, which they could not fulfil individually due to a lack of organisational capabilities and production capacity. Supporting a network in Eritrea, therefore, should involve not only the search for new market opportunities, but also provide the assistance required to establish a horizontal business network to respond to the quality and capacity requirements of the Netherlands and Ugandan markets.

According to the conditions set in our research framework, networks emerge when there is a common problem or market opportunity, when companies prefer to respond jointly and when

the product marketed by the network organisation is important for the income formation of the related parties (figure 5.1). We have also pinpointed at two factors useful for the process of network development: evolution toward solidarity, cohesion and commitment, and evolution of foreign market penetration activity. In our study of the Netherlands and Ugandan footwear and textile export markets we have concluded that there is a common export market opportunity for the footwear and textiles manufacturers in Eritrea. Similarly, in chapters eight and nine of this thesis we have found out that there are several export problems that are common to the footwear and textile manufactures in Eritrea which can be solved through horizontal and vertical business network. In the same chapter we have measured the attitude of the footwear and textile manufacturers towards business networks and it was found positive. Finally, we have observed that because of the limited domestic market size, export of footwear and textiles are really important for the income formation of the footwear and textile manufacturers in Eritrea. Thus, we conclude that the footwear and textile-manufacturing firms in Eritrea fulfil the conditions set for the emergence of the horizontal and vertical business networks. We recommend the following steps to establish the horizontal business network among Eritrean footwear and textile manufacturers.

1. To defend their interests against the Eritrean policy makers, the footwear and textile manufacturers have to establish a general horizontal business network organization. Since the Eritrean footwear and textile manufacturers do not have the capacity to find export markets on individual basis the horizontal businesses network organization should also play a role in this process.
2. To satisfy the requirements set by the Netherlands and Ugandan buyers, the Eritrean footwear and textile manufacturers have to enter into horizontal business sub-network relationship. The horizontal business sub-network organisation enables the manufacturers to improve the product quality and expand capacity through product standardisation, resource mobilisation and information exchange.
3. The establishment of the horizontal business sub-network organization among manufacturers has to take into account the importance of the fit among organisations, products and people (see chapter 11).
4. The government should take the initiative to facilitate the formation of the horizontal business network organization by establishing a body responsible for such purpose. The current export promotion office can serve for this purpose but there is a need to strengthen and consolidate it with adequate budget, skilled human resource, communication facilities, and establishing better linkage with the SMEs and other export support offering organisations. The organisation has to secure the participation of the manufacturers and the export support service offering institutions in its decisions concerning export.

The proposed horizontal business network organisation (see chapter 11) is primarily a structure that facilitates the actions of its members. It represents the manufacturers in consultations with the government to discuss policies concerning education, transport, taxes, credit, infrastructure etc. The organization is also expected to identify market opportunities for the footwear and textile manufacturers. The Eritrean government may play an important role in the development process of the horizontal business network. However, network success also depends on other criteria: market penetration, cohesiveness, solidarity and commitment of the manufacturers involved. We recall that the objectives of the horizontal network organization coincide with the objectives of horizontal sub-network organizations:

entry of exports markets. However, this does not mean that these organizations belong to the same hierarchy. Both organizations have their own responsibilities and autonomy. The fit among organisations, products and people is more important in the horizontal business sub-network as large investments in resources are required for product improvement, capacity expansion and order sharing. Co-operation in these sub-networks is much more critical and requires more fine-tuning. For more explanation of the network design the reader is referred to chapter 11. It deals with the design of the vertical and horizontal business network relationships and its implementation strategies.

The next step is to establish a vertical business network relationship with the Netherlands and Ugandan buyers. The following points can be useful to establish a vertical business network relationship between the Eritrean manufacturers and the footwear (textile) buyers in the Netherlands (see Table 12.1).

1. The horizontal business network organisation can organise a trade fair in Eritrea and invite potential footwear and textile buyers from the Netherlands (Europe). This can open the first communication channel with potential buyers. However, immediate transaction exchange should not be expected as the Eritrean footwear and textiles need to be adapted to the European market (see table 8.7, and chapter 11).
2. Sending samples and visiting major footwear and textile buyers in Europe. In our study, we found out that footwear and textile buyers in the Netherlands are ready to accept samples and receive Eritrean visitors. CBI can play a role in connecting the manufacturers in Eritrea with wholesalers and retailers in the Netherlands. There are four expected outcomes out of the samples sent and the visits made to the Netherlands footwear and textile buyers (Table 12.1).
 - Acceptance of the footwear or textile: a trial order can be placed.
 - Acceptance of the footwear or textile, but modifications are to be made.
 - Rejection of the footwear or textile but the buyer may ask to produce a sample of another footwear or textile design.
 - Rejection without further contact

Table 12.1 Summary of recommended activities to penetrate the Netherlands market and expected outcomes

Netherlands	
Recommended Activities	Expected outcome
Organize a trade fair in Eritrea and invite buyers in the Netherlands (Europe)	-Can open a communication channel with buyers. -Setting immediate follow up procedures is imperative. -No immediate outcome is expected as the trust building process takes some time.
Send samples and visit major footwear and textile buyers in Europe (CBI can play a role in here).	- Acceptance of the footwear or textile: a trial order can be placed. -Acceptances of the footwear or textile, but modifications are to be made. -Rejection of the footwear or textile but the buyer may ask to produce a sample of another footwear or textile design. -Rejection without further contact.

In the previous chapter we have concluded that the first three outcomes are useful as they can help the footwear or textile manufacturers in Eritrea to understand the specific needs of the buyers and produce the footwear and textile accordingly. It is unlikely for a trial order to be placed after a first contact. Most probably the third outcome will result. At least it will provide them a business contact that may be the start of the import process. Acquiring export

orders is difficult but not impossible. A major issue is to convince potential buyers by showing the samples and by preparing a solid sub-network organization that can handle a group-contract.

The Netherlands and Ugandan export markets are different and require different marketing approaches. Consequently the vertical business network relationship with Ugandan buyers can be established in two ways (table 12.2). These are:

1. The first alternative for the footwear and textile manufacturer in Eritrea to connect themselves to the Ugandan footwear and textile manufacturers is to integrate their footwear and textile to broad footwear and textile markets such as Dubai where many Ugandan footwear and textile wholesalers and retailers visit. The advantage of this alternative is that the footwear and textile manufacturers in Eritrea can connect to potential customers other than Ugandans. Dubai is a centre for footwear and textiles made in Asia, Middle East and North Africa.

Table 12.2 Summary of recommended activities to penetrate the Ugandan market and expected outcomes

Uganda	
Recommended Activities	Expected outcome
Send samples to a third market (e.g. Dubai)	-Exposure to many buyers who come from several countries. -Acceptance of the footwear or textile: a trial order can be placed. -Rejection without further contact. -Possible high transaction costs (transportation and accommodation costs).
Open a distribution outlet in Kampala	-Manufacturers become much nearer to customers in Uganda. -Availability of first hand market information to the manufacturer. -Better sales volume due to orders even from immediate consumers in Uganda -Relatively higher running cost.

2. Second, the Eritrean footwear and textile manufacturers can mobilise their resources and open a distribution outlet in Kampala. This strategy can be fruitful as establishing business network relationship with the Ugandan wholesalers and retailers can take time because of mainly the lack of trust in the marketing channel. The direct presence in the Ugandan export market can facilitate communication and trust building between the footwear and textile manufacturers in Eritrea and the Ugandan buyers. It can also help the Eritrean manufacturers to collect orders even from the immediate footwear and textile consumers, which is imperative for economies of scale. Consequently the researcher recommends this alternative as the most feasible one. However, it requires higher investment.

Theory shows that market opportunities may be realized through co-operation. This thesis has made clear that extensive co-operation between footwear/textile manufacturers and a distributor in the Netherlands is a condition for successful market entry. Market entry is difficult as competition is intense, but not impossible as specialized distributors are searching for new business relationships. The entry strategy for Eritrean manufacturers should be based on vertical business network relationships and in particular on flexible supply contracts with retailers and wholesalers in the Netherlands. Moreover the lack of trust in the marketing channel, the lack of reliable contract enforcing institutions and the non-programmability of agent's tasks forces the footwear and textile manufacturers to have a direct presence in the Ugandan footwear and textile market. The network design that has been proposed will not be organized overnight. It will take time to convince all the partners to invest the required resources. Global competition imposes its standards, meaning that the production systems and governance structures operating in Southeast Asia have to be beaten. This is not an easy task,

but this thesis shows that the international market provides opportunities for competitive footwear/textile manufacturers.

12.3 Theoretical implications

The theoretical implications of the findings of the study are classified into four groups. These are implications to the network theory, implications to the marketing channel theory, and implications on the sequence in implementing the horizontal and vertical business networks. Finally the implications to the conceptual framework will be discussed.

On the network theory. The network research has been limited to analysing and understanding existing networks structures (Burt, 1980; Hakansson, 1989; Kallinikos, 1998). In this view two analytical approaches have been developed: relational analysis and positional perspective. Relational analysis is one of specifying and depicting pathways of interactions (Jensen, 1994). Similarly the research approach of the positional perspective is to discern regularities in the prevailing interaction. The use of these approaches has produced a number of descriptive studies that have been conducted concerning network organisations in different sectors. A growing body of concepts has accompanied such empirical studies and theories developed to describe and explain the nature, origins and outcomes of networks of inter firm relations. However, compared to other forms of research and analysis the development of normative theories of these networks has been relatively neglected. The upshot of this argument is that a lack of norms to predict successful network structures and especially the question of how to construct inter-organisational networks is left unanswered.

This thesis provides an analytical framework on how to structure and utilise inter-organisational networks. In this view we have come up with three stages useful to determine the network evolution. The three stages have been tasted in chapter three and are found useful to structure and analyse the network evolution. By doing this we have contributed to the research endeavour concerning the predictability of the networks structures. Furthermore in chapter eleven of this thesis we have envisaged the applicability of the framework by drawing the details how horizontal and vertical business networks can be established among the Eritrean footwear (textile) manufacturing firms, leather (cotton) suppliers and footwear (textile) buyers in the Netherlands and Uganda. This adds one step to the applicability of the aforementioned three stages.

On the Marketing channel theory. The second theoretical contribution of the study concerns the theory of export marketing channel design. The traditional marketing channel theory (Telser, 1960, El-Ansary and Stern, 1972; Rosenberg and Stern 1971) viewed retailers as lacking in market power. The manufacturer habitually controls the selection and operation of individual firms in his channel: push strategy. A particularly strong form of this argument has been adopted by the Chicago approach to vertical relations (Posner, 1976 and Bork, 1978), which views retailing as perfectly competitive. As retailer power has been increasing, this approach changed and the interaction between the middlemen and a manufacturer has been recognized as an important factor in the business relationship (Weitz and Jap, 1995; Bello and Lohita, 1995; Gadde and Hakansson, 1992). However, contrary to the interaction approach large retail chains now have substantial market shares and can dictate trading relationships with manufacturers and the manufacturers can reach the customers only through wholesalers and retailers: pull strategy. The thrust of the argument is that the balance of power has not been maintained. Currently, many researchers are witnessing the wholesalers and retailers power on manufacturers (Fein and Jap, 1999; Dobson and Waterson, Konrad and Matutes,

1999). However, our findings indicate that the level of control that the middlemen exercise in the marketing channel is still understated. By a firm's control we mean "its actual impact on the associated firms behaviour and decision making".

This study shows that in the footwear and textile business the middlemen control the marketing channel. A network of wholesalers and retailers dominates the Netherlands market. They conduct the market research, make the designs, set the delivery time and search for a manufacturer that fulfils the requirements. They even take the samples prepared by manufactures to exhibitions in Europe. In this situation the small footwear and textile manufacturers in Southeast Asia have little saying on the design of the marketing channel and are limited to production. In fact, our study in the Netherlands footwear and textile export markets shows that the manufacturer is idle unless the wholesalers and retailers forward the designs. Thus the findings indicate that the marketing channel design that was the responsibility of the manufacturer in the traditional marketing theory is now in the hand of the wholesaler and retailers.

On the sequence of implementing horizontal and vertical business networks. There is debate as to whether firms should establish first horizontal business networks and then vertical business networks or horizontal and vertical network side by side (Welch and Joynt, 1987). Both ways have advantages and disadvantages. When firms first establish horizontal business networks and then vertical business networks they get enough time to settle operational issues before concrete activities in the export market can be undertaken: structure, composition, mode and timing of operation, and all issues representing potential sources of conflict. This helps the network organisation to remain strong enough to face internal and external problems and ensure that all members have the potential to gain from the targets chosen. However, the disadvantage of this alternative is that sorting operational issues may take time and firms may become frustrated and leave the horizontal business network organization. Establishing horizontal and vertical business networks side by side can solve the aforementioned problem. However, when the network structure, composition, mode and timing of operation, and all issues representing potential sources of conflict are not properly solved early market penetration may not lead to a sound result. Our study shows that the Eritrean footwear and textile-manufacturing firms are in a dire need of an alternative market. Because of the closure of the Ethiopian market they are facing financial pressure and the manufacturers may want to see fast results out of the horizontal business network organization. Thus, the second strategy is appropriate for the manufacturers in Eritrea: establishing horizontal and vertical business networks side by side. From this we learn that in deciding between the two strategies due analysis of the situation of the potential network partners is important. For instance in the Eritrean case if the horizontal business network organization takes time mainly to solve internal problems some of the firms may be bankrupt and the benefit the horizontal and vertical business networks can offer to the manufacturers can be too late. Consequently, the shorter the timeframe it takes to implement the horizontal and vertical business networks the stronger the commitment of the Eritrean footwear and textile manufacturers to the horizontal business network organisation.

On the conceptual framework. This study shows how large network phenomena could be understood through a cross fertilisation of transaction cost theory, resource dependence theory and strategic management theory. In general firms develop and participate in networks for transaction cost motives, resource dependence and strategic considerations. The evaluation of the three factors (asset specificity, uncertainty and frequency) may indicate that integrating the activity is the best choice. However, the firm's capacity may not allow it to make such

investments. Williamson (1991) assumes that the market can offer these resources. In developing countries most firms have limited resources and the financial markets are often deficient. In this case in addition to the aforementioned three factors it is important to see the firms investment capacity in relation to financial, human resource and production capacity. Moreover in our case studies the linkages between the suppliers, wholesalers and retailers and their customers are found to be important in the choice of the efficient transaction governance structure. The strength of the business network relationship among manufacturers, buyers (wholesalers and retailers) in the export market are important ingredients of their competitiveness in the export market. From a strategic perspective it is not wise to enter the market directly as important asset specific investments have to be made. Moreover, the lack of resources simply excludes this option. However, linkages can be one way to fill the resource gap. Beside this the linkages can serve as an entry barrier to other manufacturers and it is important to develop mechanisms aiming at penetrating them.

From the discussion above we can conclude that choosing an efficient transaction governance structure through the use of the network theory, can be supplemented by transaction cost theory, resource dependence theory and strategic management theory. Consequently, asset specificity, uncertainty, frequency, organisational capacity and opportunities for resource mobilization and linkages can be useful in choosing the efficient transaction governance structure for firms in developing countries in particular.

12.4 Policy implications

The policy implications of the findings of the study focus on three issues, namely government and private sector co-operation and the need for firms to have inter-firm cooperation policy, access to finance and the need for specialised training institutions.

On government and private sector co-operation. The official Eritrean government policy is based on the incentives that result from the free market economy (Government of Eritrea, 1998). Although such a policy sharpens the competitiveness of the domestic manufacturing firms, in the long run, we note that the current footwear and textile-manufacturing firms in Eritrea are not yet competitive. Almost all footwear and textile-manufacturing firms in Eritrea are small or medium-sized. For that reason it will be difficult for the individual companies to find solutions to their export-barriers and embark export operations. In the short run there is a need for government support, in order to make the companies competitive in the international arena. The government defines the credit policy of the Commercial Bank of Eritrea and the availability of foreign currency. Part of the problems concerning the lack of qualified personnel may be solved through professional training programs supported by the government. The government is also partially responsible for the problems related to transport and the quality of raw materials, as the companies responsible for these products/services have been part of the public sector.

Successful public sector export support requires an overall policy commitment to the strategy of export promotion. One key aspect of policy formulation is the institutional framework for managing an export led strategy within various levels of government institutions to manage the many different issues discussed before. The policy formulation and institutional setting for managing export strategy will require a continuing and institutionalised dialogue between the government and the small and medium size-manufacturing firms. One possible solution to formalise the dialogue between the government and the private sector is to establish institutionalised linkages. This can be achieved by strengthening the export promotion office,

which can serve as the centre for co-ordinating the export promotion efforts. Moreover, despite the positive interest in cooperation none of the manufacturing firms have a policy that facilitates cooperation. Thus, drafting firm level cooperation policy can facilitate the implementation of the horizontal business (sub) network organization and vertical business network relationships.

In the mean time it is important to keep in mind the problem of too great dependence on government incentives to promote export interest and market information. The most important problems: market information, quality and quantity requirement, are not the responsibilities of the government. Neither pure market nor pure hierarchy exchange governance approaches is appropriate to solve the information, design and quantity requirements that the Eritrean footwear and textile-manufacturing firms are facing. The literature in chapter three shows that such problems are often solved through horizontal business networks (among the manufacturers) and vertical business networks (between manufacturers, suppliers and buyers). In this respect the main task for the Eritrean policy makers is to facilitate the networking process and to create an institutional setting that favours market induced network formation. Consequently, the Eritrean government can play the role of a change agent (network facilitators) in the networking process. However, for such assistance to be effective it has to be based on the needs of the manufacturers.

The thrust of our arguments is that sound networking strategies (firms) and policies (governments) should take all the issues into account. For example, an active networking programme in Eritrea is useless if other government policies are unfavourable or if major industry or product barriers are neglected. Co-operation between government bodies and firms in the network can facilitate access to financial and information resources and to other networks. To understand these export problems and undertake effective export assistance, a close business network relationship between the government, its promotional institutions, the business community, and the private sector at large is important. Thereafter broad campaigns are needed to introduce the concept to the business community. Moreover a minimum commitment of 3-4 years is required for any business-networking programme since the required changing of behaviour patterns will not occur overnight.

On manufacturers access to finance. Our discussion in chapters eight and nine has shown that although proclamations No 93/1997 and 94/1997 lay the regulatory basis for the establishment of additional financial institutions within the country, at present all commercial transactions are carried out through the government owned Commercial Bank of Eritrea. The lack of competition in the banking service is stifling export support services offered to the Eritrean exporters. The bank requirements to get credit are very tight. Compared to other banks in neighbouring countries the cost of services charged by the Commercial Bank of Eritrea is expensive. On top of that, the services are characterised by delays and inefficiencies. Overall, the current export financing system in the country and the financial sector in general are too rudimentary to meet exporters financing needs. Consequently, there is a dire need to implement the aforementioned two proclamations and make the financial system more open for competition.

On the need for specialised training programmes. The preliminary and case studies show that the lack of trained personnel is an obstacle to the footwear and textile-manufacturing firms in designing and implementing export operations. Furthermore, the dependence of the footwear and textile-manufacturing firms on on-the-job-training as a source for trained labour is offering only short-term solutions to the shortage of blue-collar employees. Given the long-

term export potential of the footwear and textile-manufacturing firms there is a need to introduce a co-ordinated training programme in leather and textile technology. Since the government has already started establishing technical schools mainly for wood and metal works, this could be simply an extension of the policy to leather and textiles. However, courses relevant for implementing export-marketing operations can be offered in co-operation with Asmara University. Asmara University can be one of the important institutions that should be linked to the manufacturers horizontal business network organisation. The link between the horizontal business network organization of Eritrean footwear and textile manufacturers and the Eritrean government is presupposed in our network design in chapter eleven.

