International Business Research; Vol. 7, No. 5; 2014
ISSN 1913-9004 E-ISSN 1913-9012
Published by Canadian Center of Science and Education

International Business Strategies in Africa: Old Supply Chains and New Competitors "Lessons from the Ethiopian—Italian Leather Trade"

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Received: March 6, 2014 Accepted: March 24, 2014 Online Published: April 24, 2014

doi: 10.5539/ibr.v7n5p112 URL: http://dx.doi.org/10.5539/ibr.v7n5p112

Abstract

Sub-Saharan Africa (SSA) has always been a major source of various raw materials and commodities to the industrialized world. This paper specifically focuses on international business (IB) strategies in supply chains and commodities using the Ethiopian-Italian hides, skins and leather trade as a case study. The aim of this paper is to test to what extent internal public policy changes and competition from companies of newly emerging economies affected the business of long standing partners in the Ethiopian-Italian leather business. For the descriptive analysis, primary and secondary data are used. The primary data is gathered using personal observation and interviews with relevant personnel on both sides of the trade. Whereas, secondary data is collected from different published and unpublished materials including annual reports of relevant institutions. The Author primarily applies two theoretical perspectives: Michael Porter's five competitive forces model and Ronald Coase's transaction cost theory of the firm.

The paper is narrowly focused on leather supply trade, but with implications on all old and rusting, strategic and non-strategic supply chains stretching out of Africa to Europe. The purpose of the paper is to contribute in furthering research agenda on identifying strategies tailored for researchers and executives interested in expanding to Africa.

The conclusion is that, it seems, European leather companies have stuck to the strategies they've traditionally deployed in Africa. And, the old strategies of international business firms seem no more working in the continent. Even though, it is not possible to comprehensively present all the reasons for the competitive loss of European leather companies to newly emerging companies with regard to the African supplies, it could be better explained from the perspectives of complacency trap coupled with failure to develop dynamically tailored strategies, rather than the traditional business competitiveness theories.

Keywords: international strategy, Africa, Europe, Ethiopia, Italy, international business, leather supply chain, raw materials & commodities, globalization

1. Introduction

The issues of reinventing or identifying new internationalization strategies in emerging markets have got a large research attention. Debates whether and on how to develop a different Africa focused international Business (IB) strategy, separate from other emerging markets, however doesn't feature much.

As Sub-Saharan Africa's (SSA) economy is expanding and its international trade is increasing, it is also becoming a seemingly an attractive destination for agricultural and low-end manufacturing in addition to the usual extractive industries. Economic output in Sub-Saharan Africa expanded at nearly twice the global rate in the past decades. With some of the fastest growing economies in the world, African growth is expected to accelerate to over 5 percent in 2013–2015 (World Bank, 2013).

FDI into the continent was also forecasted to reach $150 billion by 2015 from $84 billion in 2010 according to a study by Ernst & Young in May 2011. Despite this, expansion into SSA remains a complex decision to make and execute for business firms. Africa is so diverse in terms of business risk level, hence "one size fits all" strategy cannot work. However, there are similarities in the challenges of doing business in the region which are common institutional and structural challenges that must be comprehensively considered from business perspective.

Using the Ethiopian-Italian hides, skins and leather commodities trade as a case study; the Author analysis the contemporary challenges in this very old commodity chain stretched from Africa to Europe. Leather is one of the world's most widely traded commodities. The trade in leather and leather products worth more than US$ 60 billion per year and is predicted to grow. The African leather sector is also bursting with potential, but there is a wide gap between resources and production (ITC, 2004).

Supply chain management has been defined as "the management of upstream and downstream relationships with suppliers, distributors and customers to achieve greater customer value-added at less total cost" (Richard, 2003). In other words, a supply chain consists of multiple firms, both upstream (i.e., row material originators and suppliers) and downstream (i.e., value added end product processors and distributors), and the ultimate consumer.

Within a given supply chain, thus achieving a "synergy" where all organizations gain competitive advantage and subsequently prosper requires a win-win paradigm with a cooperative framework rather than compartmentalized focuses. However, it can be observed from this article, that for many European leather companies this remains an elusive goal. The hypothesis of the paper is that old supply chain business strategies have to be replaced with new dynamic and Africa tailored strategies in order to be saved from breaking away given the current global business trends. The purpose is to identify possible lesson to develop competitive strategies for management of both soft and hard commodity chains between a developing economy and an advanced economy with long standing trade relationships in order to enhance value for all in the supply chain through dynamic strategies. The paper focuses on leather trade, which is not a strategic commodity. However it can provide an impetus for research on competitiveness on all commodities trade, including strategic raw materials and supply chains.

This paper comprises six chapters: the first chapter is introduction. The second chapter deals with history of the Ethiopian-Italian leather trade in brief. In the third part, the status-qua of leather supply chain structure between the two countries and how it is challenged is discussed. The fourth part presents data analysis the results from the new situation is discussed. Theoretical review, framework and discussion relevant to the case at hand is discussed in the fifth part. Lessons for Africa focused International business strategy and conclusions of the paper are addressed at last.

This paper may induce further and detailed research on how to dynamically renew other numerous old and disintegrating commodity chains from Africa to Europe. Unlike most publications on value and commodity chains, that the usual development related South-North relationship challenges feature, this research focuses on business to business networking perspective.

2. Background History of Partnership in the Leather Sector

According to the Ethiopian Investment Agency (Ethiopian Investment Guide, 2012), Ethiopia holds first position in Africa and one of the top ten countries in the world that are endowed with abundant livestock resource (50.88 million cattle, 25.98 million sheep and 22 million goats). Thus, its resource base is substantial for attracting investment and for the development of the industry. The modern tanning industry in Ethiopia started in mid of 1920s when Armenian immigrants established the first tanneries. Since then a number of tanning companies have grown to twenty six with more under formation (ELIA, 2012). The hides and skins leather and leather products are one of the top exports of the country. And among the export destinations, Italy remains at the top. Italy imports more than 60% of Ethiopia's semi-finished leather products by average for decades. Despite its potential the Ethiopian leather industry is still very small. Notwithstanding the changes registered in the sector in the last two decades there remain a number of internal and external factors contributing to the Ethiopian leather sector remaining below its potential. On the other hand their traditional business partners, the Italian Tanners' Association is so big. By 2006 it represented 2375 companies, with 5.177 billion Euro turnovers and 3.443 billion Euro export of high quality finished leather (Boltri, 2007). The same document shows that Italy represents about 63% of European and about 16% of global leather industry turnover. Italy is also a global leader in setting the standards of knowledge, technology, as well as a trendsetter in style & fashion of leather goods and articles. Due to all of these and to the quality of raw material used Italian tanneries have always stood out for the quality of their products, Hence, Italian leather industry remains worth bench marking and collaborating with especially for companies in resources endowed developing countries. Ethiopia has a resource advantage in the leather sector, but there are numerous factors impeding development of the sector and its competitiveness. With respect to the internal factors, perhaps the most crucial determinant is the low level technological capability and skills as well as manifested in weak management of production processes and international marketing networks. The technology employed is one major determinant factor of total productivity and competitiveness to an industry or a firm. Most tanneries in Ethiopia were initially established with imported reconditioned equipment and there has been little subsequent investment in modern equipment and technology (UNIDO, 2013).

Ethiopian leather suppliers need skills and technology transfer from the Italians, as well as dependable foreign market networks, while the latter needed the sustainable supply of the commodity they are used for so long. There remains a visible complementarity in this commodity chain structure between the two countries.

3. The Status-Qua of Leather Supply Chain Structure between Ethiopia and Italy

The leather industry in Ethiopia faces a lack of capital inputs (such as machineries, spare parts, and leather-treating chemicals) as well as skilled labor. Other challenges to the competitive status of the leather sector include the inavailability of enough quality raw materials, low level of infrastructure development which affects transaction costs, trade and overall industrialization policy of countries. Competitiveness of a given sector from third world countries also depends on the fairness of the trading regimes that operate at the international level. The main challenge in the status of this specific supply chain is the upstream industries want to get a fair share from the value crated by upgrading through the value chain. However, in general, obviously downstream industries make higher profit margins than the upstream (raw material producing) industries by virtue of being high value adding firms. Downstream industries are industrial firms that process the output of other firms (which are at the higher level of material processing) into a finished or different product. In this case the Italian companies are located downstream.

4. The Leather Manufacturing Process Flow in Consideration

For the purpose of this paper the manufacturing process flow is presented in its simpler form from raw hides to pickled, to wet blue leather and semi-finished and then finished leather. Processing of leather up to crust level may be made by receiving raw material in the form of raw hides and skins, pickled and wet-blue leather. Crust leather is higher added value product, where skin and hides are already tanned and become ready for the finishing stage. It is used as an input by the leather finishing industries.

Figure 1. Presents a flow diagram of a tanning-process

Note. Depending on the stage of the progress, especially up to wetblue level major environmental and health hazardous chemicals such a Salt, alkali and sulphide acid, chromium and dye chemicals are used as production progresses.

The Ethiopians export pickle, and wet blue mainly and some crust material (in recent years). The Italian tanners take them from there and continue producing world quality finished and colored leather garments. Then these garments are supplied to the world leather fashion industry. While these imported raw materials play an essential role in the tanning industry in all over Europe, the quality of raw materials is one of the reasons that helped to create the global 'Made in Italy' mark to be well recognized on international markets.

Emphasizing how important are these sources of quality hides, skins and leather are; a report presented to the European Union Parliament on 2 May 2013 stated the following:

"The footwear, clothing, furniture, automotive and leather goods industries are the most important outlets for EU tanners' production The processing of hides and skins also generates other by-products which find outlets in several industry sectors such as pet food production, fine chemicals for photography and cosmetics, and soil conditioning and fertilizers. Leather supplies originate from 128 countries, covering over 90% of industry needs" (Note 1).

On the other hand, because of these long standing business relationships, inputs such as equipment, chemicals, and components by Ethiopian tanners are(uses to be) mainly imported from Italy.

5. The Stagnant Supply Chain Status Quo Challenged

Despite age old leather and leather goods processing tradition and having one of the largest livestock populations in Africa, shortage of capital & inputs, weak marketing networks, lack of know-how and skills hindered the industry from optimum delivery. For decades Ethiopia's tanners export were pickle, wet-blue, crust and semi-finished leather. This commodity chain stretched from one of the best raw material source to the world class producers in the leather sector remained stagnant for decades. However time had come for this status qua to be disturbed due to internal and external factors. As it is a repetitive and decades old relationship, this particular Ethiopian-Italian commodity chain rusted and demanded the much needed renovation. The first reason emanates from the old age African quest to become an added value exporter of its raw materials & commodities and, the second reason is that the opportunity created accompanied by the rise of companies from Asia and other emerging economies influencing the African commodities business.

5.1 Internal Pressure for Change

The urge towards value addition on raw material by source countries instead of exporting low value primary goods was a historical issue. To this effect, government policies and regulations in Ethiopia also started changing. Earlier from 1992 the Ethiopian economy started to open up to foreign investors and mainly in the last decade, since 2005, the tannery sector started attracting foreign investors and showed some progress. The leather sector was singled out for its potential as a priority sector by the Government's industry strategy of 2005 to increase manufacturing exports. The strategy was developed with aim to moving the country's products up the value chain from the "wet blue" stage to "crust" then to finished leather and finally to leather goods and articles. In order to get these results, first, The Government announced it's two phase plan consecutively:

First, from 2008/2009 budget year, raw and semi processed hides and skins, excluding crust and finished leather, started to be subjected to 150% export tax. This measure was also planned to prompting the Ethiopian tanneries to invest in new technology designed to produce higher quality leather (USAID/Ethiopia, 2013).

Further, since December 2011, the government imposed a tax of 150% on crust export with the intention of discouraging the export of semi-processed leather all in all. As a result, the export of finished leather has increased and leather prices for the local industries are on the rise (UNIDO, 2013). Since the government included crust leather in the tax bracket, from then only completely finished leather became available for export market.

Tanners can export finished leather without duties. This means tanners exporting and semi-processed leather will have to find buyers willing to pay the new prices including tax. The assumption was that while export of value added products would be boosted, local footwear, glove and other leather goods and garment producers and exporters will also have better opportunities of sourcing good quality inputs as a result. Technically there is no an export ban, but duties aimed to discourage export of low value semi-finished leather. Because of poor manufacturing practices, the tanning industry has generally been identified as a problematic industrial sector in terms of environmental pollution. Most leather industries in Ethiopia discharge chromium wastes into the environment prior to any proper treatment polluting rivers and soil. Considering its overall externalities (economic cost), there are enough reasons to push the sector move up the value chain to sustainably get more better value from it.

The idea was that the local factories would be forced by this regulation to adjust their technology and processing knowledge to produce value added goods and finished product. However the local firms don't have the deeper pockets neither to engage in a long-term technological change nor to do research and development. Their absorption capacity to latest technical knowledge was also limited as normally it takes deliberate effort and time for technical skills to sink in in to a given sector.

5.2 External Factors for Change

As world trade drastically transformed, companies from newly emerging economies became competitors against the established counterparts in Europe across the manufacturing of and export of goods, leather footwear and articles manufacturing business included. This situation has pushed the demand for raw hides, pickled, wet blue, crust and finished leather to increase significantly. At the same time the Ethiopian government aggressively promoted the sector to attract foreign investors who can be engaged in leather processing up to the finished level. Despite the negative business images of Ethiopia, the stake holders in the leather sectors, both nationally and globally, became more aware of the quality and quantity of its resources. For example, according to a study by the Embassy of Japan in Addis Ababa in 2008 "The Ethiopian finished sheep skin is the highest quality for golf gloves in the world and is utilized even for the world-famous golf player, Eldrick Tiger". Now some foreign investors, including companies with tremendous capacity such as Huajian Group Footwear Company from China, started to give attention to Ethiopia (Note 2).

6. Data, Analysis and the Results from the New Situation

The recent trend of having more open investment policies has been particularly evident in the removal or relaxation of regulatory barriers to the entry of FDI. Coupled with this is the 150 % tax increase on semi processed leather from end of 2008 onwards. After this deadline, it can be observed that a number of solely owned firms entered the tannery sector as foreign investors. Most foreign tanners who entered the leather sector in Ethiopia are also subsidiaries of major companies in the global leather value chain (Note 3).

As a result, accompanying the FDI inflow in to the country, raw material processing capacity and competition for raw hides and skins increased significantly. Within two years shortage of raw hide and skins featured. The local market price of sheepskins also skyrocketed by 430 percent from 20 to 106 birr per piece (Margaret, 2012).

As it can be observed from the data, trade directions immediately and significantly diverted, FDI increased, raw material cost increased very steeply or rapidly. Export was more diverted in to new markets such as China, India and Turkey. By 2013 the import level by Italy was still lower than what it used to be in 2007.

6.1 Foreign Direct Investment Increased

Direct investment is the chosen mode of entry by these firms entering the Ethiopian leather sector. This strategy is partly due to the fact that resources commitment and technology risk and entry barriers are not very high. *Afrik News* has reported that "the total investment by China-Africa Overseas Leather Products S. C. and China Africa Development Fund (CAD Fund) in for the leather factory in Ethiopia was 27 million US$ dollar" (Note 4).

Table 1. New foreign investment based on raw leather soaking capacity (pieces of skins and hides *per* day)

Year	Soaking Capacity Change	
2006	0%	163000
2007	2%	167000
2009	9%	177000
2010	28%	208000
2011	31%	213000

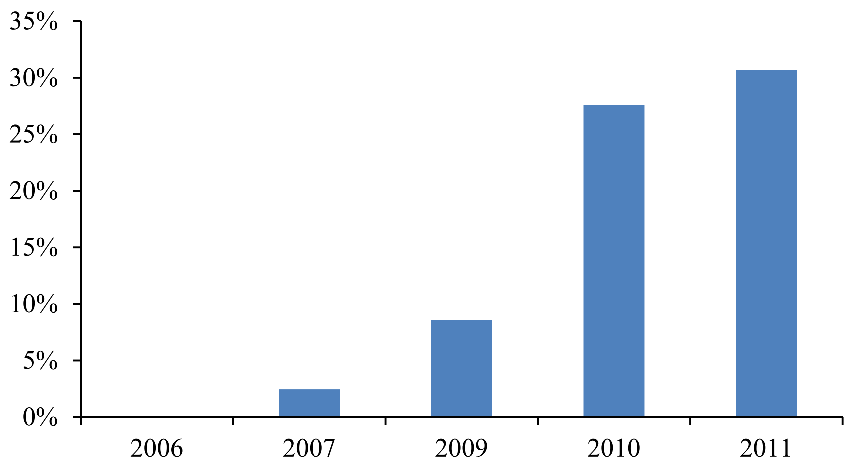

Figure 1. Soaking capacity of new investors from year to year

Table 2. Soaking capacity of new investors by country of origin (pieces of skins and hides per day)

Company Name	Home Country	operation Year	Soaking capacity per Day
		2006	163000
Ariston Holeta Tannery PLC	Italy/Ethiopia(JV)	2007	4000
China-Africa Overseas	China	2009	10000
East Africa Tannery	Italy/Britian	2010	8000
Farida Tannery	India	2010	7000
Friendship Tannery	China	2010	11000
Vasen United Tannery	Turkey	2010	5000
Habesha Tannery	Turkey	2011	5000

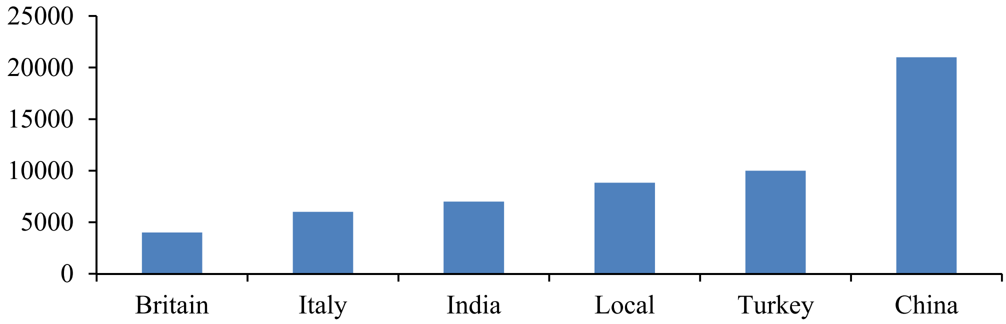

Figure 2. New FDI by leather input capacity (pieces of skins and hides per day)

Sources: Data compiled by the Author from UNIDO, 2012 (List of FDI investment in the leather and leather products industry (2003–2012) and unpublished data from the Ministry of Industry of Ethiopia).

Since the sector lacks skilled manpower and the country's infrastructure is underdeveloped these foreign investments, even though manufacturing FDI, are basically to be considered that they are resource-seeking and not efficiency-seeking.

Again, as 150% export tax was already imposed, since 2008, on all exports of semi-finished leather (up to crust level), these investments are also driven by trade barriers, usually called—"tariff-jumping" FDI.

On the other hand, the local firms, which are by and large small & medium industries, family owned and traditionally managed for decades, did not leap forward towards high value leather processing capacity. The combined situation may force some of these oldest local family owned Tanneries out of business. Also from the macro economic development perspective, as the number of tanneries increased, more leather soaking chrome chemicals poured out in to the environment. Minus all these from the benefits foreign companies brought (modest export growth and employment), it does not look like the sector is put in to a track to contribute positively to sustainable and shared growth of the local economy.

6.2 Export Volume and Direction Affected

Following these changes exports volume and directions was also affected. As can be seen from the data (Table 3) and graph export to Italy is lower than not only compared to export to major investors, for example, China but also lower than the average exports to the world. The Italian Leather processing industries saw a serious challenge to the kind of business process they are used to for a long time and complained but did nothing that could be considered as a shift in business strategy (Note 5). It can be seen from the graph (p. 118) that even though the Italian import recovered, it never reached its pre 2007 stage.

Table 3. Export volume and destination in US dollars (2005–2012)

ITC Data: Raw hides and skins (other than foreskins) and leather								
	2005	2006	2007	2008	2009	2010	2011	2012
Imports by Italy	20539	26152	38808	34312	10475	11701	39438	17324
World Imports	64075	76520	93394	90959	42770	67200	122712	85534
Imports by China	11618	14140	12237	14646	7934	15563	27491	19077

Sources: International Trade Center Trade statistics for international business development.
http://www.trademap.org/countrymap/Bilateral_TS.aspx

Export Growth by Destination

	2008	2009	2010	2011	2012
Export to China	100%	54%	106%	188%	130%
Export to the World	100%	47%	74%	135%	94%
Export to Italy	100%	31%	34%	86%	50%

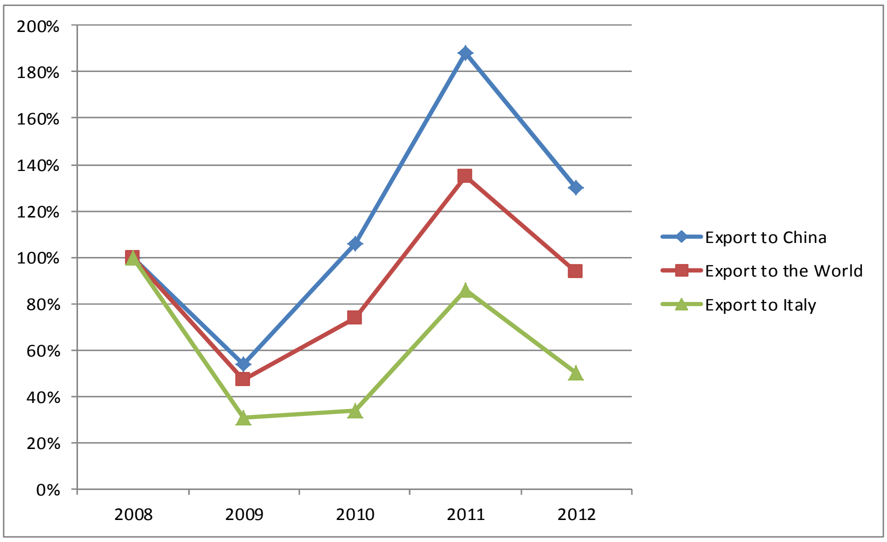

Figure 3. Export growth by destination

These internal policy changes and external economic trends affected not only longstanding foreign buyers but also the local industry. On locals too, small– and medium–size local tanneries were the most affected by the policies: about 45 percent local tanneries stopped exporting or greatly reduced their export due to the new policy (Margaret, 2012).

Exports by the local companies also did not show export growth. This was attributed partly by (Maddy, 2012) to the fact that many businesses also still see exports as being for the benefit of the state rather than their own profit margins. Government policy and effort to attract FDI in to the sector might have enhanced government revenue generation and same change in national export capacity, but in this case had a clear negative impact on business performance of not only foreign buyers but old aged local enterprises who would have been champions of real domestic development.

After the +150% increases in duties and taxes on semi-finished products of leather industry from Ethiopia to discourage export of unfinished products, there was a significant decline of imports by Italian companies (about a total of -32%) in 2007/2008. The Italian tanning Union (UNIC) had expressed its displeasure and withdrew its participation from the Annual Leather Fair of Addis Ababa (ICE: 2010). Even if they want to buy the new product, what is finished leather for the Ethiopian processors may not be the same for Italian industries? The tannery firms association in Italy expressed their complaints to both governments and the Europe Union. From the above information one can deduce that the European firms try to use non-business strategy to counter the new wave of competitions and business challenges.

7. Theoretical Review, Framework and Discussion

There are possibly a number of theoretical frameworks relevant to the hypothesis of this paper drawn, among others, from competitive strategy, organizational theory and supply chain management lessons. Two of them are selected and employed here:

The transaction cost approach to the theory of the firm of Nobel laureate Ronald Coase, known as "the Coase theory" and Michael porter's "five forces of competitive strategy model".

7.1 Considering the Transaction Cost Approach to the Theory of the Firm

Transaction costs refer to all cost associated in transacting a business through the market. According to Singh (2008), while there is no standard definition of the term 'transaction costs', they can be broadly interpreted to include costs associated with market exchange. The transaction cost approach to the theory of the firm was created by Ronald Coase. Thayer Watkins (2013) of San José State University explains Coase's theory based on the latter's article "The Problem of Social Cost" as follows; In order to carry out a market transaction it is necessary to:

1) Discover who it is that one wishes to deal with (Search and information costs);
2) To conduct negotiations leading up to a bargain(Bargaining and decision costs);
3) To draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed (Policing and enforcement costs).

In Sub-Saharan Africa (SSA), given lack of information and low quality of statistical data, finding the right business partners along the value chain is not always easy. By average the process of searching and screening potential business partners, negotiating and developing trust is time consuming and costly. And after successful agreement, follow-through and enforcement of the exchange agreement or seeking damages in case the contract is violated is another problematic area. Most tanneries in Italy are mostly known to be comprised of small to medium-size family run companies. This makes it difficult for the managers, who have multitude of responsibilities to travel search and negotiate with new suppliers abroad. Internationalization is difficult usually for family owned SMEs stemming from size and family ownership (Fernández, Zulima, & Nieto, 2005).

Based on this strategy there will be additional costs of searching for new suppliers and organizing additional transactions for both the upstream and downstream companies ,whcih is otherwise known as "switching costs". In case an existing supply chain breaks. Hence, there is an economic motivation for both Ethiopian and Italian companies to maintaining an existing supply chain. Ethiopia is also a land locked country where port fees, distance from the sea and poor infrastructure increases transportation costs. There is a significant challenge of communication, especially international communication, due to law level low level development of information and communication technology sector (Lishan, 2010).

7.2 Considering the Theory of Competitive Analysis

For companies to sustain long-term profitability they must respond strategically to new trends of competition in the industry. Among Porter's Five Competitive forces, the most relevant to the case being discussed here are the two of them; threat of entry and challenge from suppliers side in a commodity chain. Failure of the participating firms to do competitive analysis makes them incapable of observing the changes in the macro and micro environment and, hence, their capability and strategy to react to a new situation whenever there are new challenges in to the field would be limited.

7.2.1 Threats from New Entrants

A simple competitive (especially entry/exist and supplier side pressure) analysis shows how entry barriers in to the sector in Ethiopia are low. First establishing a tannery, unless accompanied by environmental and technological standards as a precondition, does not normally require huge financial investment. Labor and environmental laws are not prohibitive in Ethiopia even though such industries employ polluting and hazardous chemicals (Note 6). Another point that is considered as a barrier to entry is finance. Finance for Asian firms investing in Africa also comes comparatively easier due to the internationalization strategy of their overall economies (Workneh, 2012). On the other side, like most Sub-Saharan economies, market imperfections are high that there is the existence of economic profit that would attract more firms in to the field until it is saturated. Overall, since there are no political, legal, environmental and regulatory impediments to entry as well as since the financial barrier is low, it is very clear that the sector is set for tense competition.

7.2.2 Bargaining Power of Suppliers (Which is a Threat from the Suppliers Side)

In commodity chains in general, it is not unusual that companies located at the origin of the resources demand better profit share. Africa, being a major source of raw materials, it has been pushing also for ways of value addition and fair terms of trade for its resources. Considering the very high total cost inncurred (not only accounting but also economic and environmental cost) at the origin to process hides and skins, it is understandable why Ethiopia was very keen to change the statuesque.

After the sector was highly promoted to attract foreign investors and a heavy tax policy on semi-processed leather accompanied by growing demand for African raw materials, companies from newly emerging economies entered the market in a constant stream, with good capacity and easily putting up the required investment. Due to these factors the supply chain was affected at the source. In this case the game-changing event was mainly brought by government policy and international business (IB) trends, not by the supplier companies themselves. However, as far as the buyers are concerned it has the same impact like any suppler side threat. What is different in this situation is, it is not the direct suppliers of hides, skins and semi processed leather who try to bargain for a better profit share in the supply chain but government in the way of taxes on one side and new competitors from emerging economies. However, for the business firms, scanning the competitive environment would also mean looking at every stakeholder beyond direct competitors, suppliers and customers.

8. Lessons for Africa Focused International Business Strategy

Despite Africa's abundant resources and its century old interaction with Europe on one hand, and European experience and knowledge and technology applicable for the value addition on Africa's commodities, the equilibrium that has kept African as primary commodities supplier to the world market is not yet improved as such.

All commodities are not equally important. Some are strategic than others, however this study can be taken as a case on how old supply chains from Africa to west are being affected by host government policies as well as new and smartly aggressive companies from emerging economies.

According to The Confederation of National Associations of Tanners and Dressers of The European Community (COTANCE) "in recent times approximately half of the raw hides available at global level have been removed from the free European market through the application of duties and other non-tariff barriers." And this association calls the situation a result of "protectionist policies with regard to the raw material, put in place by extra-EU competitors such as China, Ethiopia, Nigeria, Pakistan and India". It further warned that "This situation is leading to the collapse of the Italian tanning" (Note 7).

In their meeting in on October 11 in Bologna, Italy, the Council of COTANCE, including representatives from Italy, Spain, France, United Kingdom, Germany, Portugal, Sweden and Romania discussed the challenges of current market situation and particularly raw material prices that are remaining at historic high levels and squeeze. European tanners progressively aired their concern to EU authorities about raw materials at the continuing high prices of raw materials and the lack of inaction they see from the European Union in protecting European raw materials.

According to the same report: "However, the Italian sector today finds itself in extreme difficulty (because of) growing protectionism, which is blocking access to 50% of the raw material to it; and the fact that 47% of the total raw material is acquired by competitors, particularly the Chinese. The lack of fresh supplies of raw material is forcing Italian tanneries to turn down orders from various brands and multinationals".

Among the relevant business strategy theories employed in this paper, none seems to justify the action/in action in developing new strategies to renovating the old rusting supplies chain and why collaboration in this chain failed to materialize. The premise that companies with international business experience are capable of adopting strategies to change-manage global business trends is not found to be true in this case study. There can also be a fair conclusion that trust in IB may not be directly correlated with the length of time partners have been working together.

Given the situation the traditional downstream companies had three strategy choices:

1) Direct investment in the resources area;

2) Joint venturing with existing traditional African companies that they knew for decades;

3) Knowledge transfer to their African business partners to help them cope with the new internal and external business dynamics.

In all three choices the strategy is maintaining a dynamically sustainable supply of the commoditities and raw materials in a win-win arrangement. The strategic concept is, rather than only concerned about their compartments, supply chain collaboration amongst independent firms through collaborating effectively could enhance their competitive advantage for both sides. Once such supply chains are broken dawn, it would be difficult to resurrect them again. Such supply chain wide collaboration often provides larger benefits of stronger competitive advantages for all in the chain by reducing so called transactional costs, improving quality and increasing trust and transparency.

However this does not mean that trust may come easy as the local firms are mostly suspicious of proposals for joint venture and collaboration arrangements from foreign companies (Note 8). Satisfactory formula for both sides on how to share costs and benefits in the proposed collaboration arrangements are not also that easy to find... As this case study justifies, for example, the Italian firms could have simply expanded their business boundary, based on knowledge (capability) based boundary expansion methodology. Over all the failure of the participating firms to do competitive analysis made them incapable of observing possibilities of new entrants and other external threats.

9. Conclusion

Economic globalization is resulting in many ways that old ways of doing business are challenged as organizations and governments are experiencing economic and other pressures that are forcing them to rethink of the way business is conducted.

The changes observed in this paper occurred due to government policy (internal) accompanied by the rise of demand for raw materials in Africa by newly emerging economies. In addition to the usual inefficiencies and supply-side challenges, the centuries old commodity chains stretching out of Africa to the west are being diverted due to increasing global demand, increasingly scarcity and lack of action by the companies at lower end of the old supply chains.

From this paper it can be observed that despite ample information about an eminent threat from new competition and supply side challenges due to policy changes and international business trends, European and Ethiopian companies which have been transacting business for more than half a century couldn’t develop new strategies. Time also did not build trust among those participants in both sides of the supply chain. The presented data and qualitative analysis is an indication that the old and stagnant supply chain started to breakup.

The European companies appeal for the intervention of the European Union authorities cannot be considered as a strategy from a business competitiveness theory point of view. Their in-action and action (which is rather late and inadequate) couldn’t be explained by both the transaction cost approach theory of the firm or by five forces strategy theory.

The old strategies of international business firms are no more working in Africa, and hence, calls for new research and new IB strategies. The issues raised here are timely and relevant to the problems, challenges and trends of the present time international business interactions with emerging economies, and might have broad applicability to a number of supply chains and commodities.

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Notes

Note 1. http://www.europarl.europa.eu, Question for written answer to the Commission 2 May 2013 E-004918-13

Note 2. Elissa Jobson. Elissa Jobson: "Chinese investment creates a new global hub in Ethiopia. Read the original article on The africareport.com at http://www.theafricareport.com

Note 3. Blue Nile tannery is a subsidiary of Gaafar enterprise GA and it has been operational since 1992. The Chennai (India)-based Farida Group has established a tannery in Ethiopia to cater to export market and, if needed, for imports into India. The group is among the largest exporters of footwear and makes leather footwear for leading international brands. The Group has multiple leather footwear production units and tanneries in Tamil Nadu. The China-Africa Overseas Leather Products SC is also a subsidiary of the Mingliang leather tannery, in central China's Henan province.

Note 4. Ethiopia gets a US $27m Chinese leather factory: http://www.afrik-news.com/article18486.html

Note 5. This Author had a serious of discussions with Mr. Luca Boltri, International Relations Manager at Gruppo UNIC-LINEAPELLE. In in 2007/2008 in Bologna, Italy. According to him the Italian Tanners Association didn't consider advising members to consider moving part of their production processes to Raw material source countries despite growing the supply side challenges

Note 6. According to Gemini News Service of The journalism school at Carleton University news of 25th, March 2013"Ethiopia struggles to clean up tanneries", It not mandatory so far for tanneries in the country to introduce chemical waste treatment system.

Note 7. The report can be found at http://www.internationalleathermaker.com/news/printpage.php/aid/200/COTANCE_issues_a_warning_to_EU_authorities_about_raw_materials.htmlphoto

Note 8. The Author had the opportunity to discuss the issue with a number of managers of tanneries from Ethiopia and some experienced independent consultants in the leather sector based in Addis Ababa.