Working capital management

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PART V

CONCLUSIONS AND RESEARCH IMPLICATIONS
Chapter 10

Conclusions and Research Implications

10.1 Introduction

In the previous four parts, first, we introduced the research objective and defined our conceptual and empirical research problems. Second, we reviewed the theory from the relevant literature. Third, based on the literature review, we developed our conceptual framework and designed our research methodology. Fourth, based on our research methodology and conceptual framework, we collected empirical data and analysed the cases of two government, five transition and three privatised firms.

This chapter concludes the research by answering the third question: *What are the conclusions and future research implications of the study?* We address here the first sub-question: *What are the conclusions that we can make from the study of working capital management experiences of the government, transition and privatised manufacturing firms in Eritrea?* We present evaluation of our research framework, conclusions and implications of the study. This section (section 10.1) introduces the chapter. Section 10.2 evaluates the research framework by comparing the expectations with the empirical findings. Section 10.3 covers conclusions on the management of internal and external working capital as well as general issues with regard to the Eritrean context. Section 10.4 addresses the second sub-question (3b) stated as: *What are the limitations and future research direction that can be drawn from the study?* It deals with the implications of the empirical findings for the conceptual framework (section 10.4.1), policy implications at the firm and government levels (section 10.4.2) and the limitations and future research directions (section 10.4.3).

10.2 The conceptual framework - expectations and empirical findings

In order to develop a conceptual research framework we depended on relevant literature well established in the western developed world. We believe that the experiences in the developed world can be used as a point of experience for the managers in the developing world so that the firms in the developing world need not re-invent the wheel, they only have to learn from the experiences of the firms and researchers in the developed world. These cuts the time and cost of research, provided that the managers can adapt it to their situations by making some fine twinning and thereby take advantage of the leap-frogging effect. With this effect in mind we developed a conceptual framework after reviewing relevant literature on internal and external working capital management. The conceptual framework helped us to define a broad approach to working capital management, particularly to understand the relationships among the factors of internal and external working capital management, to design the data collection approaches and analyse the case study.

Moreover, an appropriate question to ask at this stage would be, *do the expectations we had in formulating the conceptual framework tally with the empirical findings?* By getting an answer to this empirical sub-question we try to find out whether the
working capital management models found in the literature are of relevance to the financial management in developing countries, such as Eritrea. In order to answer this question, we compare the expectations of our conceptual framework on the internal and external working capital management (Table 5-2) against the corresponding empirical findings on the internal (Table 9-1) and external (Table 9-2) working capital management. We also compare the expectations on the general issues (Table 5-3) with the findings on the Eritrean context (Table 9-3).

10.2.1. Overall working capital management - expectations and findings

The expectation of our conceptual framework with regard to the overall working capital management is that (if there are no constraints) efficient internal working capital management can be applied by management to create value by increasing sales and decreasing costs (Table 5-2). With regard to this issue our empirical findings indicate the following facts.

**Government firms** Practically, the working capital management policy in the government firms is tailored more to decrease costs but not to generate profit or to remain liquid. The general managers of the two government firms believe that the factor that is constraining firm objectives is mainly fixed capital investment. Keih Bahri Food products has also problems with its production capacity and with skilled labour while Barka Canners has constraints of working capital financing. We have observed also that there is problem of managerial empowerment due to the imposition of government regulations, which are implemented under the supervision of the Ministry of Defence. Policy decisions, which can have both short and long-term effect depend on the approval of these higher government authorities. Moreover, the financial managers of the government firms believe that overall working capital management has an important role in value creation. Their responses indicate that working capital management, particularly managing cash, receivables, inventory and purchase of materials is important for the purpose of increasing sales and decreasing operating costs.

**Transition firms** The main objectives of the transition firms include remaining liquid and generating profit. However, objectives are constrained by the transition process and lack of managerial empowerment.

Generally, since the transition firms are supposed to be privatised any time, management is not encouraged to plan over a long-term period and as long as a buyer is not found, the management of their working capital levels and operations will be crippled and they will have no vision of the future. In addition, production capacity, lack of managerial empowerment and the imposition of government regulations are also found to be problems for most of the firms. As a result, we found that the firms lack a clear objective and vision of managing both internal and external working capital levels and operations. On the role of working capital management in the value creation, all managers of the transition firms are of the opinion that overall working capital management has an important role for value creation. It is particularly important for the purpose of increasing sales by managing trade receivables, inventories, sales of finished goods, purchase of materials and trade payables.
**Privatised firms** The management policy of the *privatised* firms is tailored towards increasing sales, decreasing costs and generating profit. In addition to these objectives Eritrea Steel Sheet Factory also aims at remaining liquid.

Specific constraints in achieving firm objectives for Asmara Milk Factory and Asmara Sweater Factory include working capital investment and financing as well as fixed capital investment and financing. Asmara Sweater Factory also has a lack of production capacity, labour availability, product demand and markets. Moreover, a major constraint is also the lack of investment and financing opportunities, management potential, management culture and clarity of objectives. Though the managers of the privatised firms are fully empowered, we observe that they have no clearly defined policy on how to manage their working capital levels and operations. Their working capital management is restricted to the control function, which is evidenced by the strict control mechanisms imposed over the levels of cash, receivables and inventories as well as operations of purchasing and selling. However, the financial managers of the privatised firms believe that working capital management has an important role in value creation, particularly for the purpose of increasing sales by managing cash, trade receivables, inventories, trade payables, sales of finished goods and purchase of materials. They also believe that working capital management can be used to decrease costs by managing purchase of materials, inventories, cash and receivables.

**10.2.2 The internal working capital management - expectations and findings**

**Managing the levels of investment and financing** As we have indicated in chapter 5, (Table 5-2), in our conceptual framework we expected that, in order to enhance value, firms have to invest when there are surpluses and dis-invest when there are shortages. Parallel to this they also have to take care of the carrying costs of surpluses and shortage costs of deficits of working capital levels. Therefore, they have to harmonise policies of cash levels with that of trade receivables and inventory of products so that the balances are optimised. With regard to managing the levels of financing, the expectation of our conceptual framework is that working capital financing policies enhance value if firms take care of financing sources, costs and liquidity positions. Therefore, firms have to harmonise policies of cash levels with that of trade payables and inventory of materials so that the balances are optimised.

**Government firms** Our empirical findings (Table 9-1) reveal that internally the *government* firms do not manage the carrying costs of surpluses and shortage costs of deficits of cash, receivables and inventory levels. They do not try to harmonise policies of cash levels with that of trade receivables and inventory of products. The empirical findings also indicate that working capital investment is partially financed through subsidies and the firms lack careful management of financing sources, costs and liquidity positions. Moreover they do not harmonise policies of cash levels with that of trade payables and inventory of materials.

Working capital investment levels for both Keih Bahri Food Products and Barka Canneries aim at the transaction purpose and they do not keep levels of working capital for speculative, precautionary or bank compensating balance purposes. This is mainly because they have neither the opportunity nor the authorisation to make working capital investments with a profit motive. On the financing side the government firms cannot
expressly state their working capital financing policies. However, because of the profitable operations (thanks to the subsidised costs and monopolised market, which have resulted at net operating profits and positive net cash flows), the firms have no problem of financing their working capital levels and operations.

**Transition firms** Internally, the *transition* firms do not manage the carrying costs of surpluses and shortage costs of deficits of cash, receivables and inventory levels nor do they try to harmonise policies of cash levels with that of trade receivables and inventory (Table 9-1). On the financing side the management of the *transition* firms is restricted to the control function and the firms do not harmonise policies of cash levels with that of trade payables and inventory of materials. Their main objective is to remain liquid, which is constrained by lack of fixed capital investment, labour and managerial empowerment and the problems of the transition process.

The management of the firms in transition to privatisation gives more emphasis to controlling the physical safety of working capital investments. They have no short or long-term vision on how to maximise the value of their investments. Government policy does not allow the firms to accumulate inventory, or to buy or sell on credit whose cash transaction extends over a log period. In general, the firms are not allowed to design and implement short and long-term investment and financing policies. As one manager put it, “*they have become hostages of the privatisation process*”. As a result, all firms (except Keih Bahri Tannery) are in a serious problem of liquidity. They all (except Keih Bahri Tannery) have negative net cash flows that they finance with a bank overdraft, the annual interest cost of which is a very large proportion of their total costs. Management has no opportunity or motive for investing working capital levels or minimising related carrying costs as well.

**Privatised firms** As it is indicated in (Table 9-1) *privatised* firms do not have strong policy in managing the carrying costs of surpluses and shortage costs of deficits of cash, receivables and inventory levels. The firms do not try to harmonise policies of cash levels with that of trade receivables and inventory. In managing working capital financing, the *privatised* firms do not have policy to harmonise the balances of cash levels with that of trade payables and inventory of materials and their management is restricted to the control of costs and physical safety.

Specifically, the purpose of managing working capital levels is restricted to the routine transaction because after what has been spent to buy the firms from the government during privatisation there is very little left for other purposes. The privatised firms have borrowed heavily from the government banks in order to buy the firms, which has resulted at problems of liquidity. The firms have been bought from the government in the last couple of years and the managers said that the owners have exhausted their financial resources and the firms’ investment capacity has been affected. So they are concentrating on controlling the costs and physical safety of working capital levels of investment and financing.

**Managing the operations of purchasing and selling** We expected that if firms apply efficient purchasing policies (cost minimising while at the same time maximise quality and volume) they can enhance value (Table 5-2). They can implement this by synchronising cash payments with purchases and trade credits so that cash needed is minimised and purchase and trade credits are maximised. In managing the operations
of selling, our conceptual framework assumes that if firms apply efficient sales policies (sales and cash collection terms and standards) they can enhance value creation. Particularly if credit sales and receivables are harmonised with cash collections it is possible to increase sales and optimise the balances of receivables.

**Government firms** The empirical findings with regard to government firms reveal that, government directives dictate their purchase terms and standards and the management is restricted to the control function. So the management does not have full authority to harmonise cash payments with purchases and trade credits. The two government firms have different policies of purchasing materials but both have to comply with the relevant government regulations. Barka Canneries purchase materials from private suppliers on a bid basis to take advantage of quantity discounts and cash discounts, to minimise inventory-holding costs and to meet seasonal customer demands. The Eritrean Grain Board does Keih Bahri Food Products’ purchases. So the firm has very little to do with the purchase policy of its materials.

In managing their sales operation they are required to sell their products mainly to the Ministry of Defence (which supervises them) and Keih Bahri Food Products also sells to authorised private firms. The empirical findings indicated that they have to comply with the relevant government regulations, which dictate their policy on terms and standards of sales and cash collection. So, both firms have very little to do with how to sell their goods.

**Transition firms** Though the transition firms have more relaxed but limited authority to set their own working capital management policies they do not have clear managerial policy on purchase terms and standards. Management does not try to harmonise cash payments with purchases and trade credits and it is more restricted to the control function. Specifically, we found that the firms in transition to privatisation have no clear policy on the purchase of their materials. It is only Keih Bahri Tannery that manages its purchase of materials to take advantage of quantity and cash discounts, while Dahlack Shoe Factory also reported that it has a policy of decreasing inventory holding costs and meeting seasonal production requirements. They all purchase on cash basis from the cheapest source. The reason why they do not buy on credit at least from the local market with all the firms is because suppliers do not provide credit. Lamba Sack Factory, Dahlack Shoe Factory and Keih Bahri Tannery also reported that there is no tradition of buying and selling on credit.

In managing the sales operation, the transition firms also lack clear policy on sales and cash collection terms and standards because they have to comply with the relevant government regulations. So, they do not try to harmonise cash collections with sales and receivables or vice versa. Their sales policy aims at taking care of customer demands and to meet seasonal sales requirements but not to decrease cost of inventory holding or expand market share except for Keih Bahri Tannery. The transition firms (except for Asmara Textile Factory and Lalmba Sack Factory) sell only on cash basis.

**Privatised firms** Privatised firms have comparatively better managerial policy on purchase terms and standards. They also try to harmonize cash payments with purchases and trade credits so that cash needed is minimised and purchase and trade credits are maximised.
Specifically, the managers of Asmara Sweater Factory and Asmara Milk Factory reported that they purchase materials mainly to get cash discounts, while Eritrea Steel Sheets Factory aims at getting quantity discounts and minimising the costs of inventory holding. Asmara Sweater Factory and Asmara Milk Factory purchase both on cash and credit terms while Eritrean Steel Sheet Factories purchase only on cash basis because according to its commercial manager, the firm’s suppliers do not provide credit. Asmara Milk Factory controls its suppliers by agreeing with the suppliers of their suppliers (animal feed producing factories) such that they sell only to those certified by Asmara Milk Factory.

Comparatively the *privatised* firms also revealed better managerial policy on sales terms and standards. They try to harmonise cash collections with sales and receivables. The privatised firms have different sales policies depending on whether the customer is large or small and a government firm or a private firm. The cash sales refer to smaller private firms while the credit sales refer to larger private and all government firms. With regard to their private credit customers they apply credit standards based on a repeat sale approach while Eritrean Steel Sheet Factory and Asmara Milk Factory also use the five C’s (capital, character, collateral, capacity and conditions) to evaluate credit applicants. In order to collect overdue receivables they all make telephone calls and extend credit periods, but it is only Asmara Sweater Factory, which makes personal visits and none of them employs collection agents or takes legal action. However, the risk of bad debt is very low and none of them makes allowances for it.

10.2.3 External working capital management - expectations and findings

Managing investment and customer linkages

With regard to managing the levels of investment, we expected that with closer firm-customer co-operation sales can be enhanced and the carrying costs of inventories and receivables can be minimised (Table 5-2). To implement this policy firms have to harmonise the policies of cash, receivables and inventories with the policies of customers’ cash, payables and inventories.

*Government firms* The empirical findings in the *government* firms revealed that the main customer and supervising body is the Ministry of Defence. The findings on firm-customer co-operation reveal very close inter-government firm co-operation, as a result of which the firms have managed to increase sales as well as to decrease the cost of transporting the sales and carrying inventories.

Externally, the cost of inventory levels are minimised because they closely co-operate with their suppliers in managing their materials inventory and mostly purchase just in time for production. According to the interview we conducted with the firm’s commercial manager, Keih Bahri Food Products has an agreement with Eritrean Grain Board (another government firm) to get the shipment of the materials as soon as it orders a purchase. Barka Canneries enters into an annual contract with suppliers to get materials periodically as needed. The main customer of both government firms is the Ministry of Defence, which also happens to be their supervising government body. Therefore, the cost of inventory levels are minimised because they closely co-operate
with their customer in managing their finished goods inventory and mostly sell just after production. Keih Bahri Food Products also deals with the private businesses, particularly bakeries and pastries to which it sells on government-subsidised prices. It makes cash sales and supplies on a quota basis because the demand for its products by far exceeds its production capacity. The inter-firm co-operation with these private customers is not as efficient as that with the government firms.

**Transition firms** The *transition* firms’ customer linkages showed that most (except Keih Bahri Tannery) have very weak firm-customer co-operation and there is no harmonisation among their policies of cash, receivables and inventories with the policies of their customers. Their very limited co-operation is on outbound activities, particularly - order processing. Overall, private customers of the transition firms indicated that their co-operation on the primary activities is low except for few technical activities for control purposes.

**Privatised firms** From the *privatised* firms only Asmara Milk Factory has strong customer linkages and revealed some harmonisation among the policies of working capital levels and operations with the policies of customers. The other two have weak or not well defined firm-customer relations. On the issue of firm-customer co-operation, comparatively, Asmara Milk and Asmara Sweater Factories have small but numerous competitors, so both have demonstrated some effort to satisfy the demand of their customers by developing linkages. The managers of both firms believe that they co-operate with their customers on the primary operations particularly, outbound activities and in some areas of production operation like packaging. However, Eritrean Steel Sheet Factory is the only one in the country producing steel sheets. This has enabled it to dominate the market as a result of which it does not bother to create strong firm-customer co-operation.

**Managing financing and supplier linkages**

In managing the levels of financing, we expected that co-operation with trade creditors and banks can expedite the availability of financing sources and minimise the cost of financing as well as the timing and ease of the medium of payment (Table 5-2). With closer firm-supplier co-operation we also expected that firms can increase their volume of purchases and at the same time decrease the transaction costs of ordering and transporting purchases. Firms can apply this by harmonising their credit policies with that of suppliers so that to maximise financing sources and minimise related costs. They have also to harmonise their policies on purchases with supplier’s sales so that both are maximised while at the same time the firm’s balances of cash and inventory of materials and the supplier’s cash and inventory of products are optimised.

**Government firms** The empirical findings on the *government* firms indicated that firm-supplier linkages and co-operation is made on the basis of government regulations. Moreover, there is close inter-government-firms co-operation, which has enhanced purchases and minimised the carrying costs of inventories. However, co-operation with the private sector is weak.

Specifically, the firm-supplier co-operation of the two government firms differs depending on whether they deal with fellow “related” government firms, (case for Keih Bahri Food Products) or private firms (which applies to Barka Canneries). Keih
Bahri Food Products deals with another government firm (Eritrean Grain Board) and they manage their common transaction costs through co-operation on the basis of government regulations and trust. This co-operation according to the commercial manager of Keih Bahri Food Products has minimised the time needed to purchase materials as well as the cost of ordering and transportation of purchasing materials. Barka Canneries deals with private suppliers and it therefore requires them to deposit cash at its bank account enough to pay for one month’s supply of materials as a form of risk sharing.

**Transition firms** Most of the transition firms have weak firm-supplier co-operation and they revealed little co-operation among their policies of cash, payables and inventories and the policies of suppliers’ cash, receivables and inventories.

Three (out of the five) transition firms claimed that they co-operate with their suppliers on primary activities particularly the inbound and two of which also co-operate in production operations. However, none of the transition firms co-operate on marketing and sales. Only Dahlack Shoe Factory and Keih Bahri Tannery reported that they have a policy of firm-supplier co-operation on after sales service particularly parts supply and product adjustment. The fact that they are in transition to privatisation has put their managers into uncertain future managerial position and job security. This has crippling their managerial confidence, as a result they do not pursue clearly stated short or long-term objectives.

**Privatised firms** The privatised firms responded differently to the questions on firm-supplier co-operation. Asmara Milk and Asmara Sweater Factories co-operate with their suppliers on most of the primary activities, particularly on inbound activities and production operations. In addition Asmara Milk Factory also co-operates with its suppliers on marketing and sales activities (except on advertisement), while Asmara Sweater Factory also co-operates on after sales services. The managers of the privatised firms believe that there is weak firm-supplier co-operation because the firms and their suppliers lack specific policy and experience of inter-firm co-operation. We conclude from the findings that it takes time for privatised firms to fully develop the efficiency on inter-firm linkages exemplified by private firms. For example, Asmara Milk Factory is still influenced by its historical legacy as government firm, particularly with regard to its supplier linkages because the government has allowed the firm to continue dominating the supply market since suppliers are indirectly obliged to sell to the firm, else no animal feed. However, we find Asmara Sweater Factory breaking its past experience as a government firm. It has shifted its source of supply from Keih Bahri Tannery (a government firm in transition to privatisation) to Tesfagiorghis Beatay Leather Factory (a private firm) because according to the general manager of Asmara Sweater Factory the private firm has more flexible and efficient production and better customer relations.

10.2.4 Performance evaluation - expectations and findings

Internally, firms can evaluate the efficiency of their working capital management decisions by comparing the best expected internal performances (forecasts and budgets) with related outcomes using the accounting based performance measurement and evaluation approaches (Table 5-2). Accordingly, operational efficiency can be
evaluated - using activity ratios, levels of investment and financing efficiency - using asset structure and liquidity/leverage ratios and profitability - using gross profit and net profit margins and return on assets. Externally, the firms can compare the best practices of other firms (competitors in the same industry). They can also evaluate customer and supplier satisfaction by examining their commitment, retention rates as well as asking their opinion on quality of goods and the firm’s response to their inquiries and speed in the delivery of goods.

**Government firms** The empirical findings revealed that the government firms evaluate their performance using comparative analysis of past versus present, actual versus expected and inter-industry benchmarks. They also use liquidity and activity measures of accounting as well as customer satisfaction criteria, particularly fast response to inquiries and orders and quick delivery time in their inter-government firm relationships.

Financial statements reveal that the government firms have excessive current assets, particularly cash balance. Investments in current assets make more than 90% of the total investment in assets. Most of the working capital investments in Keih Bahri Food Products is in receivables and cash while that of Barka Canneries is in cash and inventories. Their current and quick ratios show differing liquidity positions. Keih Bahri Food Products liquidity position is only marginal while Barka Canneries is excessive. As reflected by the turnover ratios the activities of both government firms show low asset turnovers and increasing receivables collection periods. When compared with the global norms, all profitability ratios (gross profit, net profit and return on assets), indicate positive results though those of Keih Bahri Food Products are lower.

**Transition firms** The transition firms (except Asmara Textile Factory) evaluate their performance of working capital investment decision by comparing the past with the present and actual with expected results. Except Lalmba Sack Factory (which reported that it uses almost all the accounting and customer satisfaction measures of performance), the other firms reported that they use no accounting and customer satisfaction measures of performance.

Our analysis of the firms’ financial statements showed that investments in current assets compared to the total investment in assets with all the transition firms is very large. It range from 97% in Asmara Textile Factory to 64% in Lalmba Sack Factory with an overall average of 86%. The greatest portion of the working capital investments with all the transition firms is in inventories (an average of 81%), which ranges from 95% for Sembel House Hold Factory to 56% for Keh Bahri Tannery. The lowest working capital investment is on cash levels (an average of 5%), which ranges from 19% for Keh Bahri Tannery to 0% for Asmara Textile Factory. It can easily be observed that the firms’ cash position is very weak. Except for Keh Bahri Tannery, they have deficit cash balance for almost all the years that we have studied. As reflected by the turnover ratios their working capital activities also show low turnovers. Liquidity analysis showed that the firms’ (except Keh Bahri Tannery) liquidity ratios are below the generally accepted global range. Except for Keh Bahri Tannery and Dahrack Shoe Factory, all profitability ratios (gross profit, net profit and return on assets) also indicate very low levels.
Privatised firms  The privatised firms evaluate performance of their working capital decision by comparing past and present as well as actual and expected results (except for Eritrea Steel Sheets Factory). However, none of them uses industry benchmarks to compare their performance with other firms. They take care of their customer satisfaction by applying communication based approaches, particularly by having the policy of fast delivery. In addition to this, Asmara Sweater Factory and Eritrea Steel Sheets Factory also take care of their customers’ interests by charging lower prices and having a policy of fast responses, while Eritrea Steel Sheets Factory and Asmara Milk Factory also try to decrease defect rates.

Our analysis of the privatised firms’ financial statements revealed that investments in current assets are comparatively lower than that of the government and transition firms. It makes 66% for Asmara Sweater Factory, 52% for Asmara Milk Factory, and 85% for Eritrea Steel Sheets Factory. Most of the working capital investments for Asmara Sweater Factory is in inventories (83%), while that of Asmara Milk Factory and Eritrea Steel Sheets Factory is in cash which respectively accounted for 49% and 39%. Liquidity analysis for Asmara Sweater Factory indicates that both current and quick ratios are below the generally accepted global norms and the other two firms are only marginally liquid. The measures of working capital activities in the privatised firms show low turnovers except for the relatively high receivables turnover for Asmara Milk Factory. However, except for Asmara Sweater Factory, which made losses throughout the years, the profitability ratios (gross profit, net profit and return on assets) of the other two firms are positive.

10.2.5 The issues on the Eritrean context - expectations and findings

We also made conceptual expectations with regard to the effect of ownership, government regulations, managerial empowerment and background as well as cultural factors in the management of working capital. A comparison between the expectations and our empirical findings follow.

Ownership: With regard to the effect of ownership, we expected that firms with similar ownership status can have similar objectives and control patterns. We also expected that competition in government and transition firms can be hindered by political interference from the government because the government firms’ main objective can be to enhance political and social objectives while the privatised firms may opt for operational efficiency with a firm’s value creation as the ultimate objective.

The empirical findings revealed that with the government firms there is strong government interference through subsidies and market protection and competition is hindered by interference from the government. In addition to the profit motive the government firms enhance political and social objectives. With transition firms we found that the managers’ uncertain future position, (due to the transition process) crippled managerial confidence and job security. Moreover, the firms have similar objectives and control patterns with the government firms and try to enhance political and profit objectives. The privatised firms revealed strong resistance to new private business environment. However, competition is not hindered by government
interference. Though they opt for operational efficiency with a firm’s value creation as the ultimate objective, they lack efficient financial institutions and capital markets.

**Government regulation** Our conceptual framework expected that government regulations can influence the type of business operations and inter-firm linkages. We also expected that, government can determine the type of competition and set guidelines on how the firms have to be managed.

The empirical findings revealed that managers of the government and transition firms are influenced substantially by the government requirements and interference of higher government bodies. In these firms government regulations influence the type of business operations, inter-firm linkages and competition. The government also sets guidelines on how the firms have to internally be managed. However, with the privatised firms, government regulations have less influence on the type of business operations, on how the firms have to be managed as well as on the type of competition and inter-firm linkages.

**Managerial empowerment and background** Our conceptual framework is based on the expectation that managerial empowerment, practical experience and academic background can determine the selection from alternative management approaches and play a determining role in the development, acquisition and adaptation to proper managerial policies.

The empirical findings revealed that with the government and transition firms, control by government regulations impaired managerial power. This lack of management authority has an impact in the selection of alternative management approaches and has played a role in the development, acquisition and adaptation to proper managerial policies. With the privatised firms, management is fully empowered and is free to select from alternative management approaches. However, this managerial freedom has played less visible role in the development, acquisition and adaptation to proper managerial policies due mostly to the lack of investment and financing opportunities as well as availability of skilled labour and markets.

**Cultural factors** we expected that cultural factors also affect a firm’s working capital management because transactions are made between people who contact, contract and control each other’s behaviour on the basis of their cultural practices, believe, and norms. However, we did not find cultural practice, believe or norm with any of the government, transition or privatised firms that hinder internal or external working capital management.

**10.2.6 Concluding remark - expectations and findings**

Though the next section (section 10.3) deals with more specific conclusions of our study, here we will try to summarise the result of the comparison between our expectations and findings. The objective of comparing the expectations and findings of our conceptual framework was to find out whether the working capital management models found in the literature of the developed western world are applied by managers and therefore are relevant to the financial management in developing countries, such as Eritrea. Our findings revealed that the managers in the government, transition and
privatised manufacturing firms in Eritrea used very little of the working capital models found in the literature of the western developed world. The main reason, as we have tried to summarise earlier (section 10.2.5) is mainly because the non-financial factors that influence the managers mostly outweigh the financial factors. As a result of this we propose future conceptual research frameworks to strongly consider the factors indicated in the next section (section 10.3.1 - implications for the conceptual framework).

10.3. Conclusions

Here we start to answer the third research question: “What are the implications of the study”? This section tries to answer the first sub-question: “What can be learned from a comparison of the conceptual background and working capital management experiences of the government, transition and privatised manufacturing firms in Eritrea”? We compare the findings in the conceptual review (section 10.2) and empirical data analysis (section 10.3) and come up with concluding remarks. We separate the conclusions that refer to our conceptual framework in general (section 10.3.1), the internal working capital management (section 10.3.2), external working capital management (section 10.3.3) and the general issues that affect working capital management decisions from the Eritrean context (section 10.3.4).

10.3.1. Implications for the conceptual framework

The conceptual framework reflects both operations management view (the left-hand side) and a financial management view (the right hand side). The operations view focuses over operations management. The financial management side takes the notion of shareholder value and the importance of generating a surplus over the cost of shareholders’ funds. Our empirical findings indicate that the managerial policy in the government, transition and privatised firms in Eritrea focuses on the operations view more than the financial management view. The basis for this conclusion is that the firms have applied stringent control measures over the operations of purchases, sales, cash collections and payments while they have very little managerial policy to maximise the benefits of investment and financing of working capital levels. The main reason for the absence of the financial management option is the lack of appropriate financial and capital markets. However, the poor background of the general managers’ academic and practical experience, the firms’ historical background and interference of government regulations (in the government and transition firms) have played a role.

10.3.2. Internal working capital management

1. The perceived role of working capital management and value creation: A reference to the chapters sections 6.2, 7.2 and 8.2 reveals that all managers believe working capital management practically creates value, because it helps in decreasing costs and increasing sales. Empirically, we found out that, there is an absence of managerial empowerment (in the government and transition firms) and lack of economic opportunity (in the privatised firms) to deal with issues of strategic significance.
Therefore almost the entire managerial time is focused on issues related to working capital levels and operations. Therefore the managers believe that the value created or lost by the firms is mainly attributed to the efficiency of working capital management. We therefore conclude that the internal management of working capital levels of investment and financing as well as operations of purchasing and selling is considered by the managers to have a very relevant role in creating firm value. This becomes more important particularly in situations of developing countries like Eritrea, where there are no capital markets, very limited capital investment and therefore very little opportunity to manage with strategic objectives. Though the managers consider working capital management has a role in value creation, they are constrained to do so. In the government and transition firms the problem is mainly due to managerial empowerment. In the privatised firms we trace this lack of value management due to problems of liquidity, lack of investment opportunities and financing sources.

2. Policy objectives and working capital management: The empirical findings indicate that all firms have only one working capital management objective - to manage levels and operations for transaction purposes. We conclude that the firms that we have studied do not have a clearly set policy objective in managing working capital levels and operations. All firms practically do very little for precaution purposes because they do not have such a purpose. The firms do not bother about precautionary cash needs because either excess cash flow is deposited in the bank and is available any time they need it, or the financing of their cash flow deficits is guaranteed with overdraft from the government banks. No firm plans or controls its inventory levels for precautionary purposes. The firms do neither have any motive of holding any levels of working capital for speculative purposes. The managers responded that they do not have any speculative opportunity in income generating business because there are no financial or capital markets available while the government and transition firms would not have been allowed even if the opportunity was there.

3. Government regulations and working capital management: Our empirical findings reveal that the management of working capital operations differs among government, transition or privatised firms. In government and transition firms the directives from higher government officials dictate their behaviour. Management in these firms implement the regulations and the higher government bodies supervise their implementation. The government firms are therefore obliged to buy and sell as per the government rules and cannot establish and follow their own purchase and sales policies against the rules. The transition firms are given a limited autonomy. They have the option to transact on their own terms to a limited extent, for example they cannot buy or sell on credit for a period longer than three months. Hence, on the basis of our empirical findings, we conclude that generally, the management of working capital operations in the government firms is crippled by the government rules. The management of the transition firms is partially controlled by the government regulations and partially victimised by the transition process because of the uncertainties with respect to future ownership, continuity of current management policy and job security.

4. Control over levels and operations (custody) or management of investment and financing (Value creation): Value management presumes the management of working capital levels to decrease the holding costs of cash, receivables and inventories,
investing any short or long-term surplus cash as long as the firm does not use it. The empirical findings indicate that even though most of the firms’ investments are tied-up in working capital assets, their management is mainly concerned with the safety of the assets and control of operations against theft and misappropriation (the custody aspect). The main reason behind the managers’ concentration on the control aspect is because of the lack of managerial empowerment, liquidity, investment opportunities and financing sources. We therefore conclude that not fulfilling these conditions implies that managers will continue concentrating mainly on the control aspect of working capital levels and operations.

10.3.3. External working capital management

5. Value chain approach and inter-firm co-operation: In an inter-firm transaction relation, there are two factors that both partners are affected by - the costs created as a result of the transaction and the income generated in the transaction. The income earned by one becomes the costs of the other. So, it becomes a zero sum when considering both. However, the costs that both transaction partners may incur in order to get into contact with each other, to design and agree a contract and thereafter to control each other can decrease if firms co-operate.

Our empirical evidence shows that government firms closely co-operate with each other on their primary activities because government regulations oblige them to work together. For instance the supplier of Keih Bahri Food Products is Eritrean Grain Board, which is another government firm. Keih Bahri Food Products cannot buy from other sources. Though Barka Canneries has a more relaxed regulatory provision on its purchases, the Ministry of Defence is the primary customer and the supervising government body for the purchases and sales of both government firms. When it comes to inter-firm transactions with non-government firms, as a rule, every time a government firm is getting into a new agreement to buy materials, it repeats the same purchase procedures (writing for bids, comparing bidders, selecting bidders, and processing the purchase). This decreases trust and increases the costs of an inter-firm transaction. The transition firms revealed the weakest inter-firm linkages. They have autonomy to manage their business affairs to a certain extent. It did not work. As result of which four out of the five firms have invested heavily in working capital levels. The increase in working capital levels is mainly financed with bank overdraft whose interest and bank service charge on the average amounted to a very large proportion of the transition firms’ total expenses. From the three privatised firms, Asmara Milk Factory has established close inter-firm linkages with its suppliers and customers. Eritrea Steel Sheets Factory has close inter-firm co-operation only with its customers with no local supplier, while Asmara Sweater Factory has close supplier linkages with no major customer linkage in the local market. The first two were profitable while Asmara Sweater Factory has experienced losses.

Overall, the firms in Eritrea (with the exception of inter-government firms) have loose inter-firm linkages with their suppliers and customers. We have selected the suppliers and customers on the basis of their general managers’ choice. Therefore, we expected the suppliers and customers to give some positive response in favour of the firms. However, we found out that almost all the suppliers and customers (except for the inter-government firms) were not satisfied with the co-operation that they get from
their partners. We therefore conclude that with the exception of the inter-government firms, the other firms are not using a value chain approach to manage inter-firm transaction costs of working capital operations and levels.

6. Interdependence and inter-firm co-operation: Every firm does require a certain amount of certainty of supply of its materials and of demand for its products and interdependence enhances certainty. Our empirical evidence shows that the government and transition firms have developed close inter-firm co-operation, interdependence and therefore certainty of supply of materials and demand for their products. But this is not the case for the privatised firms. The findings show that the privatised firms have not approached such a situation of interdependence and co-operation. There is very little mutual interdependence existing between the privatised firms and their suppliers and buyers. We believe that this is a legacy of the mode of ownership in the firms’ history. The privatised firms were government owned and there is no exemplary culture of private firm management that the privatised firms can learn from. The firms’ transactions were conducted mainly with fellow government firms, and they are having problems to adapt to the new environment of risk management and of trusting the private sector (and vice versa). We therefore conclude that the privatised firms are being slow in developing new linkages because it takes time and until then the mutual interdependence, which may be used to decrease transaction costs of working capital operations and levels, will remain loose at the best or non-existent at the worst.

7. Customer specification and inter-firm co-operation: Job order production enhances inter-firm co-operation and value chain linkages more than custom production or production for the market. If the customer determines the product specification in terms of quantity, quality and costs, the supplying firm has a higher likelihood to use the value chain management. The relationship between Keih Bahri Tannery and its customer Dahlak Shoe Factory is evidence for this conceptual background. The firm has close linkages with its customers because as its commercial manager says, “It produces according to the order of its customers”. This helps Keih Bahri Tannery to use value chain management and to decrease the holding costs of its working capital levels and the transaction costs of inter-firm relations. Hence the more product specifications are determined by the customer, the more likely that firms will use the value chain management approach.

8. Experience and inter-firm co-operation: The longer the experience between the firm and others linked to it - both backward and forward, the more likely the use of a value chain management to minimise transaction costs of working capital operations. A firm’s historical experience of interacting with others results in a learning experience, which has a lasting effect on the firm’s behaviour because trust develops over time, as does mutual understanding. The government and transition firms have a very long experience of inter-firm co-operation with each other. Almost all the firms were nationalised in the seventies and the central command economy influenced them to work together as planned. The government firms still have no problem to cooperate because they are applying the same managerial practice. However, the privatised and transition firms (as much as their autonomy permits) are expected to interact with a new environment – the private business world, with which they have no experience of co-operation. Therefore, we conclude that this lack of experience of co-operation in the privatised sector has hindered the transition and privatised firms
from having close inter-firm relationships and has prevented them from using a value chain approach.

10.3.4. General issues in the Eritrean context

9. Firm ownership and value creation: Our conceptual background suggests market competition enhances performance in the form of operational efficiency while government ownership is more efficient in achieving the objective of equitable allocation of government resources. When there is competition, prices will tend towards marginal costs and resources will be allocated to their highest value. The possibility that government and transition firms can retain their ownership status and at the same time be competitive may be hindered by political interference from the government.

Our empirical evidence indicates that - as a result of their ownership - the government firms have a dominant position on both the supplier and customer linkages. This according to both private suppliers and customers has decreased the possibility of fair competition to develop. The lack of competition, government subsidies and a protected government market enabled the government firms to earn profit more that the privatised firms. However, when the government support is lifted (as with transition firms), government firms are not better than the privatised firms. Government gave the transition firms a limited autonomy to manage their affairs and it withdrew its government market security. This exposed the transition firms to a competition with privatised and private firms though still a in limited market. The transition firms could not adapt to the new private managerial environment and their value deteriorated as it is observed in their financial statements. Moreover, the managers of the privatised firms believe that they are under imminent risk of competition from local and imported goods. In order to protect themselves from the intense competition they planned to diversify their products and enter into new markets. One year after our data collection, we have learned that for example Asmara Milk Factory has added Yoghurt and Eritrea Steel Sheets Factory has added Roof Tiles to their production lines. However, both government and transition firms are not showing any improvement as far as management potential, capacity building (fixed assets investment) and product diversification is concerned. We therefore conclude that ownership status has an effect on competition and therefore value creation and so long as government firms enjoy subsidy and priority in the government market, their profits give a misleading picture of comparative value creation.

10. Government regulations and development of value chains: Government policy has always a bearing on every aspect of a firm’s activity. Government can determine the type of firms that could get into any form of agreement, including creating (or not creating) linkages and competition. It can introduce interventions to facilitate inter-firm co-operation and networking or it can abstain itself from involving in these types of interventions.

Empirically, we found that the regulations applying to the firms differ whether they are government, transition or privatised. There are regulations that affect government and transition firms, restricting them how to buy and sell as well as with whom to make linkages. For instance government firms have strong inter-firm linkages with each other.
because government regulations encourage this type of co-operation. On the other hand, they have very weak inter-firm co-operation with the private firms. However, since there is no government regulation applying to privatised firms restricting them on how to establish inter-firm linkages, some privatised firms are observed to shift from one partner to another depending on their preferences. An example of this is Asmara Sweater Factory shifting from Keih Bahri Tannery to another supplier - Beatay Leather Factory. We conclude that, the more regulations and laws prohibiting the development of value chains, the less likely it will be that the firm will use alternative (which could be better) value chain linkages to manage transaction costs of working capital levels and operations.

11. Managerial empowerment and value creation: The performance of firms depends on management potential, degree of managerial empowerment and clarity of objectives. The evidence on management potential and existence of clear policies and objectives shows that the objectives are mostly vague in the privatised firms, and contradictory with their lack of managerial empowerment in the government and transition firms. Many of the general managers had little educational background and practical experience in the area of managing business firms at an executive position until they were assigned to the job of managing the firms. With regard to performance evaluation, our study has indicated that some financial managers compute accounting related performance measurements but they reported that they rarely use them for managerial decision making. The basis for evaluating the operational efficiency in government and transition firms is not related to value creation but to whether they have applied the government rules properly. Almost all managers reported that they do not apply customer satisfaction or quality based performance evaluation criteria. Most of the firms do not evaluate their internal managerial decisions nor do they evaluate their external linkages. We therefore, conclude that in all the firms, management potential is weak, that there are no clear management objectives and that the management culture does not give proper emphasis to value creation. Moreover, while the managers of the privatised firms are fully empowered, the managers of the government and transition firms lack proper managerial authority and power to efficiently manage both internal and external of working capital levels and operations.

12. Cultural factors and inter-firm co-operation: Culture can be an important driving force behind the inter-firm communication and co-operation. Transactions are made between parties, who contact, contract and control each other’s behaviour, not only on the basis of business agreements but also on their cultural practices, beliefs, and norms. With the government and transition firms, mainly it is the government regulations and the trust that each will adhere to the regulations that influence the inter-firm transactional relations. However, with the privatised firms, the main influence in business dealing is the trust that they give to and receive from their suppliers and customers. Our empirical findings show that these privatised firms rarely make any written agreement with local suppliers and customers on the purchases and sales of materials and products. Culturally, one general manager said that: “We Ethiopians rely on trust and do not emphasise on legal contracts and we have never encountered mistrust or mischief from any supplier or customer”. As far as we know from our empirical evidences, the firms have never had any history of bad debt and never have gone to the court to enforce collection of debts from local customers. We therefore conclude that the
We conclude our study by answering the last research question (3b), which states: “What are the conceptual and policy implications as well as limitations and future research direction that can be drawn from the study”? We have studied the conceptual aspects of managing the internal and external working capital levels and operations. We have also described and explained working capital management practices in the government, transition and privatised manufacturing firms in Eritrea. We therefore conclude from our study that there are theoretical implications for our conceptual framework (section 10.4.1) and policy implications (section 10.4.2) of practical importance for the managers and the government. We also discuss limitations of the study (section 10.4.3), which give us directions for further research.

10.4. The implications of the empirical findings for the conceptual framework

The conceptual framework was designed on the basis of literature developed for situations in the western world where we strongly assumed that the managers in Eritrea could use the internal and external working capital management as exemplary management approaches. Practically, they used very little of it because many factors differ between the background under which the management approaches and therefore the conceptual framework are developed and the practical background that the managers in Eritrea find themselves. Hence because of the factors that prevail on the ground, the Eritrean context influenced our empirical findings more than we expected when we design the conceptual framework in chapter 5. These factors include, weak managerial background, lack of financial institutions and markets as well as the firms’ historical background and strict legal requirements. Managerial background – very few managers are academically and practically acquainted with the managerial approaches of value creation and the modern management practice in the context of developed world is still at its rudimentary stage in Eritrea. Lack of financial institution and markets – There are no financial institutions and markets that could facilitate the value creation by managing working capital levels and operations. Legal and historical background – The management in government and transition firms is highly influenced by government regulations and less attention is given to working capital management for value creation. Moreover, the privatised firms are strongly influenced by their historical background as government firms and still lack the experience in managing private businesses.

Because of these reasons working capital management is not strongly underpinned by the idea of value creation expected under conditions of developed western world. The general theoretical implication of our empirical findings for the conceptual model is therefore that the design of new conceptual framework for a case study in developing countries should strongly consider the legal, historical, institutional and managerial background in the countries under study. We believe a research framework can be designed such that it focuses on these background contexts.
(a) Managerial empowerment – It is possible that further research is made with an objective of studying the impact of managerial empowerment on the success of firms to generate profit. This impact can be assessed in view of the operations management (the left-hand side of our model) and financial management (the right hand side of our model). Similarly, this conceptual model can be extended to study the effect of managers’ academic and practical experience on the success of the firms in generating profit.

(b) Legal context – future research framework could also focus on the effect of subjecting managers to externally supervised regulations on both the effect of control measures on the managers and in achieving the objectives of the control measures. The effect of control measures on the managers may aim at whether the managers try to follow or evade the rules and the ensuing effect on the firms’ success. The effect on the achievement of the objectives of the control measures may concentrate on whether control over the management helps to attain the stated objectives of the government firms. This particularly may focus at the objectives such as minimising costs of the products, minimise the costs of mischief, misappropriation or the decrease income lost as a result of conflicting interests of the managers and the stated objectives of the firms, increasing production volume. The hypothesis at this stage is that it may help much.

(c) Historical context – It is possible to focus future research framed to assess the extent of resistance of privatised firms to their new private business environment. It could focus on comparing the managerial policies followed by the firms’ pre and post privatisation period and study the impact on the firm’s profitability (value creation).

(d) Institutional context – The existence of efficient financial institutions like banks, insurance, share markets is of paramount importance to firms to have access to alternative opportunities to invest surplus working capital assets and financing by disinvesting assets or borrowing from the financial institutions. Our findings show that the firms in Eritrea are handicapped due to the absence of these opportunities. However, detailed studies in a developing country and possible comparative study with other developing countries could be made. The study could be framed with particular emphasis on the specific problems faced and methods used (or they can use) to alleviate the problems without waiting for the efficient (developed countries style) financial institutions to emerge.

10.4.2. Policy implications

This section contains the translation of our empirical results into practical implications for decision-makers. It offers policy implications for both managers of the firms at the micro level and the government at the macro level. The study results show that our theoretical model can be used to study the intra and inter-firm management of working capital levels and operations, which can be used to design internal and external policies.

Managerial implications at the firm level In the light of our conceptual background and practical findings, the following points can be recommended at the firm level.
First, since (in the absence of economic opportunity to deal with issues of strategic importance) the managers believe the value created or lost by the firms is mainly attributed to the efficiency of working capital management, they have to try to be as efficient as possible at it. So they have to establish new policies and improve existing policies and practices of their internal management of working capital levels and operations. They should not only concentrate on the custody but also on the value creation aspect of working capital management. Therefore, they have to identify policies that can minimise the overall long-term cost of purchasing and selling activities and at the same time minimise the carrying costs of the levels of cash, inventories and receivables.

Specifically, the firms have to establish clear and practically operational policy for the management of working capital levels of investment and financing as well as operations of purchasing and sales. On working capital levels of investment, they have to decrease the excessive investment in working capital assets in favour of long-term investments, which have an impact on production capacity and long-term profitability. They have to continuously evaluate the holding costs of working capital levels and take corrective action to decrease the costs by expediting the turnovers of inventory, receivables and cash. On working capital levels of financing, they have to evaluate the costs of bank overdrafts to finance working capital investments. They have to establish credit agreements with suppliers and use trade credit as an alternative source of working capital financing. On the issue of working capital operations of purchasing, they have to try to convince suppliers to co-operate in providing credit with mutually beneficial terms. They should also establish appropriate policies of contacting, contracting and controlling suppliers with an objective of creating sustainable firm-supplier relationships and decreasing related costs. On the management of working capital operations of selling, they have to enhance sales using appropriate credit standards and establish policies of customer contacts, contracts and controls measures that minimise the costs of inter-firm transactional relation. The firms have to establish mechanisms to evaluate the performance of their working capital decisions. Particularly, they have to continuously follow-up their financial performance both internally using budgets and accounting ratios and externally by comparing inter-firm benchmarks on financial performance as well as using measures of supplier and customer satisfaction.

The second study implication for managers is to identify and then to initiate new inter-firm relationships and strengthen existing ones. There is a need for inter-firm co-operation in managing both levels of investment and financing as well as operations of purchasing and selling. Firms could try to have co-operation with commitment based on negotiation, co-ordination and mutual adjustment instead of - as the firms in Eritrea are doing - by power and by enforcing government rules and contracts. Inter-firm co-operation can better be governed by relationship development than by strict and formal mechanisms of control. Thus firms may have to rely more on social interaction and developing relationships and on maximising common performance rather than to emphasise in increasing only their individual performance. A good relationship can enhance inter-dependence and increase value of co-operation because it decreases opportunistic behaviour and inter-firm transaction costs.

Some approaches may be recommended here. First, develop intentional trust by means of habituation via frequent inter-firm contacts. This may increase mutual
dependence, customer commitment and supplier confidence. Second, create bondage in a relationship using common investments, which increases dependence of both supplier and customer to each other. Third, develop symmetric (in terms of power, information and decision-making) inter-firm co-operation since it has a positive impact in motivating co-operation and teamwork because the perception of negative opportunism may be low. Otherwise trust cannot be build and inter-firm relationships will be subject to negative reciprocal behaviour. The transaction partners may take actions with only short-term objectives. Fourth, inter-firm transaction exchanges need not be of equal value in the short-term because in a mutual co-operation inter-firm transaction exchanges can be balanced out in the long-term.

**Implications at the government level** In view of the increasing importance of inter-firm co-operation, government can play a significant role in creating and improving institutions that reduce transaction costs (North 1990). In the light of this, the following points can be implied at the government level.

First, the main reason that the government and transition firms give for not having proper policies and practices of internal working capital management is due to the restrictive government regulations. Government can remove its regulations on the government firms and enable their managers to do business with full authority and responsibility, else privatise the firms. Second, with regard to the external working capital management, government can be instrumental in stimulating inter-firm contacts and facilitate opportunities for inter-firm co-operation and networks. Government institutions like the University of Asmara, The Chamber of Commerce and other support organisations can play a more active role in enhancing information flows and in building alignments among the business firms as well as between the private and the public sectors. Third, the government can remove the protection it renders to the government firms so long as they are competing with the private business sector. Fourth, government can create a conducive environment for competition through appropriate investment policies, liberalising the market and establishing efficient financial institutions. Sixth, in co-operation with countries in the region, it can also adopt a policy of finding ways to enhance investment opportunities and financing sources through common financial system and regional stock market similar to the BRVM in West Africa.

### 10.4.3. Limitations of the study and future research directions

Though this study addresses the internal and external management of working capital and identifies value creation as revealed by performance measurements, its findings should be evaluated in light of the following limitations.

*First*, we have used a case study with a small sample of firms. This shortens the time needed to collect data and minimises the cost of the study but assumes that the selected firms are representative of the government, transition and privatised manufacturing firms. Future case research can be preceded with a survey in order to get a more complete picture of the Eritrean situation.

*Second*, we selected the central firms’ local supplier and customer linkages based on the frequency of the inter-firm transactional interaction as per the opinion of the general managers of the firms. A more complete picture could be drawn if the firms’
record on inter-firm transaction could be used to identify (and may be more representative) transaction partners and research could be conducted to find the opinion of partners both inside and outside the country.

Third, in our study of inter-firm co-operation, we have taken the opinion of only one supplier and one customer for each central firm. For a thorough study of inter-firm co-operation the responses of more suppliers and customers will have to be researched.

Fourth, we have studied the cases of government, transition and privatised manufacturing firms. However, we believe that it is possible to extend the case to, (a) the service (or non-manufacturing) sector, (b) the purely private firms and (c) the experience of the privatised firms post privatisation development, that is, if the privatised firms have adapted to the private business management culture.

Fifth, our case research is limited to the Eritrean situation. Because of this limitation it is not possible to extend our findings and conclusions to situations in other developing countries. Similar research could be made in other countries in order to have the possibility of comparison.

Sixth, in the transition and privatised firms, the speed and method of privatisation may also affect their internal and external working capital management. Hence it may be given attention for further research.

Seventh, in view of our empirical findings on the success of the government firms in creating closer inter-government firm co-operation, there are two basic considerations for further research. (a) It may not be true that government firms are less desirable for operational efficiency compared to private firms. (b) Whether restructuring of government firms and market liberalisation or outright privatisation is the best answer in all situations for competitive efficiency and profitability may not be taken for granted. This can therefore be studied in both developed and developing countries.