



## Temporary resource availability and quality constraints in the global leather value chain – The impact of the festival of sacrifice on the leather industry in Bangladesh



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Although Bangladesh's livestock population provides a significant resource of raw material for value addition, the export performance of the leather processing sector is poor. Internally sourced raw hides and skins (RHS) dominate the procurement structure, but are subject to cultural-religious traditions. This study seeks to investigate the extent that the three-day Festival of Sacrifice (Eid-ul-Azha), on which every year Muslims sacrifice millions of animals to Allah and which accounts for more than 40% of the annual RHS production constrains the industry's competitiveness.

Based on the global value chain approach, our findings are drawn from qualitative data. We show that Eid-ul-Azha leads to a temporary oversupply of RHS, which results in serious challenges in the organization of the value chain. Our results point to the special role of systemic trust ensured by religious requirements for sacrificial animals and thus RHS, which enables middlemen to enter the supply chain temporarily. Despite their flexible and voluminous small-scale collection, temporary middlemen lack experience and competences to adequately assess quality and price, thus affecting the competitiveness of downstream actors, in particular the tanneries.

Our findings complement the concept of global value chains by stressing the impact of culture-specific constraints, temporarily available resources and trust in relations to middlemen on the competitiveness of the export-oriented leather industry.

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### Introduction

Bangladesh's economy has experienced striking economic growth in recent years. While the garment industry in 2011 contributed 83% of total export revenues and has increased its world market share to 5.28%, the leather sector has been stagnant at around 2% and 0.40% respectively (ITC, 2013). The exports of (semi-finished) crust and finished leather have lost ground against the dynamic higher value added leather goods and footwear sub-sectors (Figure A.1). This is particularly noteworthy because, in contrast to the garment industry, the country's livestock<sup>3</sup>

population (Figure A.2) provides a significant resource of raw material for additional value creation.

Being a renewable resource, raw hides and skins (RHS) can generally provide a competitive advantage and an opportunity to move up the value chain (Gereffi, 1999; Hassler, 2004). However, efficiency in inbound logistics is required. This raises the question of how heavily structural problems in the supply and processing of RHS weigh on the growth and competitiveness of the leather sector.

In Bangladesh, internally sourced RHS still dominate the procurement structure, but are subject to cultural-religious traditions. Every year, during Eid-ul-Azha,<sup>4</sup> the second most important Muslim festival, millions of bovine and ovine animals are sacrificed. According to estimates (interview Bangladesh Finished Leather, Leather Goods and Footwear Exporters' Association – BFLLEA, Bangladesh Hide and Skin Merchants' Association – BHSMA), the three-day Festival of Sacrifice alone accounts for more than 40% of the annual RHS production in Bangladesh, thus overstressing the capacity of permanent traders and leather processors plus

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<sup>3</sup> Pigs are omitted in Figure A.2 for there is no statistically relevant slaughtering activity in Bangladesh. Though the goat population is larger than the cattle population, the latter's larger hides yield higher export earnings.

<sup>4</sup> Also known as Qurbani.

challenging the capabilities of large numbers of temporary hides traders<sup>5</sup> that are only involved during Eid-ul-Azha. Conversely, the religious requirements for sacrificial animals provide trust among business partners and ensure high quality of RHS.

Aside from Eid-ul-Azha's economic importance (Imamul Huq, 1998) and its negative environmental impact (Jahid Hasan & Islam Chowdhury, 2005), little attention has been paid to the natural resource base of the leather industry and the economic implications of its irregular festival-driven supply in a Muslim country. This paper aims to discuss the impact of Eid-ul-Azha on the organization, governance and logistics of the RHS supply in Bangladesh in an ethnically (98% Bengali, other 2%) and religiously (Muslim 89.5%; Hindu 9.6%) homogeneous society (CIA, 2013). We explore how the governance and coordination of the leather value chain is being modified as the supply of raw material significantly exceeds the capacity to process it.

Following the global value chain approach (GVC; e.g. Gereffi, Humphrey, & Sturgeon, 2005) the analysis focuses on the inter-firm relationships at the nodes of the chain which are affected by Eid-ul-Azha.

We relate the GVC-framework with reflections on seasonal resource availability, middlemen and systemic trust in culture-specific practices. The objective of this paper is to:

1. Provide an overview of the general actors and commodity flows in the supply chain and their main characteristics.
2. Show that Eid-ul-Azha leads to a temporary oversupply of RHS, which results in serious challenges in organizing the value chain.
3. Stress the point that even though the extremely large number of temporary middlemen generally allows for a flexible and voluminous supply, their lack of experience and professional training creates further challenges that have to be coped with.
4. Demonstrate the special role of systemic trust middlemen can rely on during Eid-ul-Azha. This trust rests upon religious requirements and limits dysfunctions in the supply chain.

We end the paper with potential policy recommendations.

## Conceptual considerations

### *Global value chains*

Global division of labor has shaped modern value chains by increasing spatial distances and complexity. Governance strategies varying from loose market relations to integrated systems coordinate and control these supply chains. Particularly, businesses in developing countries are given more opportunities to enter international markets (e.g. for agricultural commodities). Yet, complex standards and requirements to participate in international markets demand such high financial, technical and knowledge capabilities that smaller producers in developing countries have problems meeting those (Dannenberg & Nduru, 2012).

Recent studies sought to conceptualize new forms of global supply chains and their organizational structures (e.g. Gereffi et al., 2005; Henderson, Dicken, Hess, Coe, & Wai-Chung Yeung, 2002; Kulke, 2007). Gereffi et al. (2005) identified different governance types in international value chains, each depending on the complexity of transactions in the chain (degree of product and process specifications), the ability to codify transactions (e.g. through standards), and the capabilities (e.g. knowledge, experiences, financial, technological and management capabilities) of the involved suppliers. While the

GVC typology has been criticized as highly idealized (Nadvi, 2008), the determinants complexity, codification and capabilities have proved a useful tool to analyze value chains with regard to complex logistic challenges handled by low skilled agents (Dannenberg & Nduru, 2012).

Temporary festival-driven constraints in raw material supply and a resulting crucial role for temporary intermediaries in the chain allows us for linking the conceptual framework of value chains with considerations on temporary availability of resources, middlemen and systemic trust.

### *Seasonal resource availability*

Seasonal supply can be regarded as the temporary availability of a certain product or commodity, due to e.g. a certain agricultural vegetation period. According to Chen (2001), seasonally limited supply of resources can lead to complex logistic challenges, resulting in insufficiencies in the following production steps and/or increasing costs. Consequently, information-based coordination of raw material supply becomes essential. The seasonality of production has been widely reduced, as production techniques have advanced (Barrientos, Kritzinger, Opondo, & Smith, 2005). Other industries such as cut flower accommodate for festivals like Valentine's Day or Christmas with an increase in temporary workers and in the use of pesticides to keep up with quality and quantity (Hughes, 2001). As for Bangladesh's leather industry, we expect the extremely short seasonality of available sacrificial animals and perishable RHS to lead to fundamental organizational and logistical challenges (e.g. in slaughtering) for embedded traders and leather processors. Here, problems can occur if key functions of trade and logistics are not performed by professional middlemen.

### *The role of middlemen*

In developing countries, semi-professional middlemen often link informal or semi-professional small-scale businesses (e.g. family farmers) and professional and commercial buyers; for instance by means of transportation or personal relations to larger buyers. Given their flexibility, middlemen reach even smaller producers which are not profitable enough for professional large scale traders. In doing so, middlemen enable producers to cater to interregional and international markets which could hardly be accessed otherwise (Dannenberg, 2012).

However, middlemen are frequently subject to criticism (Oguoma, Nkwocha, & Ibeawuchi, 2010; Reeves, 2002). Oguoma argues that in agricultural value chains often "the real profit goes to the middlemen who buy up the farm products at almost give-away prices and sell at outrageous prices" (2010, p. 77). Such dynamics usually depend on information asymmetries (e.g. concerning consumer market prices), asymmetries in power relations (e.g. a local buying monopoly) and/or a gate keeper situation of the middlemen (e.g. availability of transport logistics). Despite high margins, middlemen have difficulties guaranteeing effective and consistent supply for buyers, affecting a professional and competitive marketing of a given product (Reeves, 2002). Reeves (2002) stresses the implication of seasonally available resources for an effective supply, forcing middlemen to perform their job only semi-professionally. Thus, a professional and experienced system of middlemen is difficult to establish. As for Bangladesh's leather industry, seasonal middlemen involved in the collection and supply of RHS during Eid-ul-Azha lack logistical capacities, skills and experience to effectively develop the industry.

### *Systemic trust*

Middlemen often rely on personal trust-based relationships that – being forged in constant interaction with their business partners

<sup>5</sup> Also known as seasonal business men.

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