



*Same industry, same host territory, different evolution paths.  
Breaking the FDI trap in the clothing industry:  
A case study from clothing manufacturing enterprises in Albania*

**Jolta Kacani**

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**Same Industry, Same Host Territory, Different Evolution Paths**

**Breaking the FDI Trap in the Clothing Industry: A Case Study  
from Clothing Manufacturing Enterprises in Albania**

PhD Thesis

**Author:** Jolta Kacani

**Advisor:** Lucas Philippe Van Wunnik

**Period:** May, 2017

**Department of Management  
Barcelona School of Industrial Engineering (ETSEIB)  
Universitat Politecnica de Catalunya  
Avinguda Diagonal, 647, 7th floor, 08028 Barcelona, Spain**

## **DEDICATION**

To my mum Violeta and to my father Jorgaq for their unconditional love, endless support, and continuous encouragement.

To my only brother Ardit that always believes in me.

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## THESIS ABSTRACT ENGLISH

This research investigates the qualitative effects of foreign direct investments in the clothing industry in a developing country like Albania. The clothing industry is often regarded as the first step of industrialization and as an employment generator for developing countries. With reference to industrialization induced by foreign direct investment in the clothing industry in a developing country like Albania this research proposes a framework on qualitative effects in order to look into whether clothing manufacturing enterprises have broken the FDI trap. The framework includes: (i) the knowledge transferred in the host territory, and (ii) the evolution in the quality of clothing manufacturing subsidiaries. This research is based on a case study methodology in which four clothing manufacturing enterprises two Italian, one German, and one Greek are analyzed based on the proposed framework. The evolution of foreign clothing manufacturing enterprises in Albania, is examined through a variety of real contrasted data sources and by overcoming limitations of existing research in the field. Based on the results derived from implementing a case study methodology, conclusions are drawn on the qualitative effects of FDI and the industrialization Albania has obtained in the last twenty years from the production activity of the four foreign clothing manufacturing enterprises (subsidiaries). With reference to conclusions, policy recommendations are proposed on enhancing in a host territory a virtuous FDI circle that leads to upgrading at the firm and industry level applicable in developing countries.

## THESIS ABSTRACT SPANISH

Esta investigación investiga los efectos cualitativos de las inversiones extranjeras directas en la industria del vestido en un país en desarrollo como Albania. La industria de la confección se considera a menudo como el primer paso de la industrialización y como generador de empleo para los países en desarrollo. Con referencia a la industrialización inducida por la inversión extranjera directa en la industria del vestido en un país en desarrollo como Albania esta investigación propone un marco sobre los efectos cualitativos con el fin de ver si las empresas de fabricación de ropa han roto la trampa de la IED. El marco incluye: (i) el conocimiento transferido en el territorio de acogida, y (ii) la evolución en la calidad de las filiales de fabricación de prendas de vestir. Esta investigación se basa en una metodología de estudio de casos en la que se analizan cuatro empresas de fabricación de prendas de vestir, dos italianas, una alemana y una griega, sobre la base del marco propuesto. La evolución de las empresas extranjeras de fabricación de prendas de vestir en Albania, se examina a través de una variedad de fuentes de datos reales contrastados y superando las limitaciones de la investigación existente en el campo. Sobre la base de los resultados derivados de la aplicación de una metodología de estudio de caso, se extraen conclusiones sobre los efectos cualitativos y la industrialización que Albania ha obtenido en los últimos veinte años a partir de la actividad de producción de las cuatro empresas de fabricación de prendas de vestir extranjeras. Con referencia a las conclusiones, se proponen recomendaciones de política para mejorar en un territorio anfitrión un círculo de IED virtuoso que conduzca a la mejora a nivel de la empresa y de la industria aplicable en los países en desarrollo.

## LIST OF ACRONYMS

<b>ADA</b>	Austrian Development Agency
<b>AIDA</b>	Albanian Investment and Development Agency
<b>ATC</b>	Agreement on Textile and Clothing
<b>BoA</b>	Bank of Albania
<b>CMT</b>	Cut Make Trim
<b>DCM</b>	Decision of Council of Ministers
<b>ECR</b>	Efficient Consumer Response
<b>EDI</b>	Electronic Data Interchange
<b>EPZ</b>	Export Processing Zone
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GoA</b>	Government of Albania
<b>GOTS</b>	Global Organic Textile Standard
<b>ILO</b>	International Labor Organization
<b>INSTAT</b>	Albanian Institute of Statistics
<b>MFA</b>	Multi Fibre Arrangement
<b>MoF</b>	Ministry of Finance
<b>MNE</b>	Multinational Enterprise
<b>MPS</b>	Modular Production System
<b>NRC</b>	National Registration Center
<b>OBM</b>	Original Brand Manufacturing
<b>OECD</b>	Organization of Economic Co-operation and Development
<b>OEM</b>	Original Equipment Manufacturing
<b>PBS</b>	Progressive Bundle System
<b>POS</b>	Point of Sale
<b>QRS</b>	Quick Response System
<b>R&amp;D</b>	Research and Development
<b>SME</b>	Small and Medium Size Enterprises
<b>UNDP</b>	United Nations Development Program
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UPS</b>	Unit Production System
<b>USAID</b>	US Agency for International Development
<b>WB</b>	World Bank

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## GLOSSARY

<b>Case study</b>	An empirical study that investigates a contemporary phenomenon within its real life context to understand complex social phenomena.
<b>Cluster</b>	Refers to groups of similar and related firms in a defined geographic area that share common markets, technologies, needs for employee skills, and often linked by buyer-seller relationships.
<b>Economic development</b>	Qualitative change and restructuring in a country's economy in connection with technological and social progress reflecting an increase in the economic productivity and average material wellbeing of a country's population. Economic development is closely linked with economic growth in the long run.
<b>Embeddedness</b>	Integration of a subsidiary in the host territory through the linkages and interaction with local suppliers, generated employment, and the level of investments made in the host territory.
<b>Endogenous development</b>	Economic development based on internal determinants rather than on external ones. It highlights that investments in human capital, innovation, and knowledge trigger economic progress while long-term economic growth is sustained by capable institutions, adequate regional development, and appropriate policymaking.
<b>Exogenous development</b>	Development of a country based on imported technology, capital, and human resources. In this approach to development, external agencies/actors participate in the process of development.
<b>External validity</b>	Generalizing the findings of a case study to greater groups than those analyzed in a case study. Generalization is not automatic, as it should be based on theory.
<b>Fast Fashion</b>	Quick replenishment of clothing, which in turn allows the retailer to offer a broad variety of fashion clothes without holding a large inventory.
<b>Focused interview</b>	An interview designed for a short period and follows a set of prepared questions.
<b>Foreign Direct Investment</b>	The net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor, often referred to as the host territory.
<b>Knowledge</b>	It refers to facts, information, and skills acquired through experience or education. Theoretical and practical understanding of the subject. It ranges from abstract ideas such as scientific formulae to eminently practical ones such as traffic circle.
<b>Long term sustainable</b>	The use of economic resources like physical, human capital, growth and technology more productively and efficiently. In particular, it redirects attention away from capital accumulation, plant capacity, and acquisition of equipment to immaterial resources like innovation, human capital, and knowledge.
<b>Industrial upgrading at a subsidiary level</b>	It occurs when the subsidiary gets more embedded within the host economy and realizes progressively more complex activities.
<b>Innovation</b>	Creation and diffusion of new ways of doing things.
<b>Internal validity</b>	Establishing causal relationships among the variables taken into account in a case study research. It includes a great deal of inference derived from relating the variables with each other.
<b>Multinational Enterprise</b>	Companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another.
<b>Open ended interview</b>	A casual interview that does not follow a fixed set of questions.
<b>Reliability</b>	Refers to demonstrating that the steps of a case study such as data collection procedures can be repeated.

<b>Qualitative effects of FDI</b>	Refers to the impact of foreign direct investments on knowledge transfer, creation of a base of local suppliers for intermediary goods, creation of a qualified labor force, and the evolution of the subsidiary.
<b>Quantitative effects of FDI</b>	It refers to the impact of foreign direct investment of the job creation, GDP, physical stock of capital, tax revenues of the host territory, etc.
<b>Subsidiary</b>	An enterprise that is controlled by head office of the multinational enterprise it belongs to.
<b>Technology</b>	It is useful economic knowledge that comes from new consumers' goods, the new methods of production or transportation, the new markets, the new forces of industrial organization that capitalist enterprise creates.
<b>Transfer Pricing</b>	The price that is assumed to have been charged by one part of a company for products and services it provides to another part of the same company, so to calculate each division's profit and loss separately.
<b>Value Chain</b>	The full range of activities that are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers.

# CHAPTER 1

---

## INTRODUCTION

## 1.1. BACKGROUND INFORMATION

Albania is a small country located in the Balkan Peninsula in South East Europe and one of the oldest nations of the region. It is also known as the "Land of Eagles". It has a surface area of 28,748 km<sup>2</sup> and a population of 2,898,293 million inhabitants as of the latest census of National Statistical Institute (INSTAT) in 2011. The Albanian population has a homogenous ethnic composition with the presence of Greek, Romanian, Bulgarian, and Macedonian minority groups (Caro and Wissen, 2007). It shares borders with Montenegro, Kosovo, FYR Macedonia, and Greece. In the literature, Albania is considered as a "gateway" between East and West (De Lucia et.al, 2006). After the 2000's, Albania intensified its efforts towards European Integration, one of the main objectives of the country.

Figure 1.1: Political map of Albania with the capital Tirana and the main regions circled



Source: [www.europe-atlas.com](http://www.europe-atlas.com)

In 2006, Albania signed with the European Commission the Stabilization and Association Agreement. In 2012 the European Commission recommended the EU candidate status, and it is expected that in 2018 negotiations will be opened for EU accession (Civici, 2012). In 2009, Albania gained full membership in the North Atlantic Treaty Organization (NATO), getting ahead of neighboring countries like Serbia, Montenegro, Bosnia Herzegovina, and FYR Macedonia.

After the Second World War, Albania joined the East Communist Block, which was followed by 45 years of dictatorship and an extremely self-secluded policy. During the dictatorship regime, the Albanian economy was ruled by the concept of state ownership in all means of production, including agricultural land and by censoring all forms of private property or entrepreneurial activities. As a result, the country had no local entrepreneurs and very limited knowledge on how to operate in the world economy. The fall of dictatorship in the early 1990's has marked the re-birth of the country together with the creation of a democratic society, establishment of the market economy, and the promotion of an open economy. After 45 years of seclusion and communist regime, Albania inherited an outdated and almost inexistent heavy industry (metallurgy, chemicals, and petroleum) on which considerable investments have been made during the dictatorship. Many coal, chrome, and other mines closed or operated on very limited capacity while the oil and gas industry ceased to function. In addition, small fabrics and big industrial plants including the processing of agriculture crops were not functional anymore (Muco, 1997; Civici, 2012).

Since the early 1990's Albania has experienced an important economic transformation, which has significantly reduced poverty and has placed Albania into the ranks of middle-income countries (see table 1.1). In mid 1990's, the government launched a new economic agenda to stabilize the macroeconomic environment and to sustain a major transformation of the economy during which economic resources moved from agriculture to construction and services. The expansion of these sectors was driven by a strong domestic demand for modern apartments and the absence of alternative investments. In the future, as the demand for residential constructions decelerates, it is crucial for the economic performance to shift investments from a risky sector like construction into more promising areas for sustained economic growth such as manufacturing. One of the ways Albania could revitalize the manufacturing industry is by attracting foreign direct investments and benefit from their presence. According to the United Nations report on FDI in Albania (2011), in labor intensive industries such as clothing and footwear the country has attracted a large number



of investments coming mainly from Italy, Greece, and Germany. Moreover, this report states that Albania had a 30% increase in the inflow of FDI mainly in manufacturing including the clothing industry.

Table 1.1: Albanian economy, general overview

Indicator	Value	
Surface	28,748 Km <sup>2</sup>	
Inhabitants in 2011	2,898,293	
GDP in 2013 (Mln/EUR)	9,600	
GDP per capita in 2013 (EUR)	3,313	
Economic growth (average of yearly GDP growth 2009-2013) in (%)	2.48%	
Composition of GDP 2013	in Mln/EUR	in %
Agriculture, forestry, and fishery	1,787	18.61%
Industry	1,168	12.17%
Manufacturing industry	463	4.82%
Construction	939	9.78%
Trade, transport, hotels, and restaurants	1,512	15.75%
Information and communication	190	1.98%
Financial and insurance activities	208	2.17%
Real estate activities	582	6.06%
Scientific, professional, administrative, and supporting activities	395	4.11%
Public administration, education, health, and social activities	1,015	10.57%
Artistic, entertaining, and related activities	176	1.83%
Net tax on products	1,165	12.14%
Unemployment rate (%) in 2015	17.20%	
Inflation rate (%) in 2015	2.84%	
Exports (% of GDP) in 2013	18.20%	
Imports (% of GDP) in 2013	40.10%	
FDI Stock (Mln/EUR)	2007	2012
	1,830	3,262
FDI Stock in the manufacturing (Mln/EUR)	2007	2012
	218	388
Clothing industry (% GDP factor costs) in 2013	1.6%	
Clothing industry (total employment)	39,000	
Public Debt (% of GDP) in 2013	69%	

Source: INSTAT, Bank of Albania, Ministry of Finance

The increase in the inflow of FDI is a top priority of the Albanian government. In July 2013, after close consultations with the World Bank and the European Commission, the government approved the new seven years strategy on Business and Investment in Albania. The Minister of Economy, Trade, and Energy publicly stated that "by successfully implementing this strategy the government aims to attract until 2020 a FDI inflow amounting to 1.2 billion EUR ". In addition, international organizations lead by the World Bank are in favor to support implementation of this strategy. The Chief Economist of the Europe and Central Asia Region of the World Bank <sup>1</sup> stated, "it is the time for Albania to move from a consumption-oriented economy towards a production-oriented economy. Foreign investments can help in a smooth transition".

FDI in the manufacturing industry and particularly those in the clothing industry are the only one with a history in the Albanian territory. Referring to the Economic Bulletin of the Bank of Albania (2006), FDI in the clothing industry are the first to be present in the Albanian economy. FDI in the clothing industry were the first enterprises to start production activity in Albania after the establishment of the market economy in the early 1990's. During the communist regime, Albania had a functional textile-clothing industry that ceased to operate by the end of the 1980's and was partially revitalized only after the first foreign clothing manufacturing enterprises (subsidiaries) started production in Albania. The clothing manufacturing subsidiaries constitute the majority of foreign enterprises present in Albania and are spread throughout the country. Their presence during the last two decades gives the opportunity to study them historically and to draw more in depth conclusions that can be the case if the focus was on FDI that settled in the Albanian economy during the last 5-7 years like those in the oil industry.

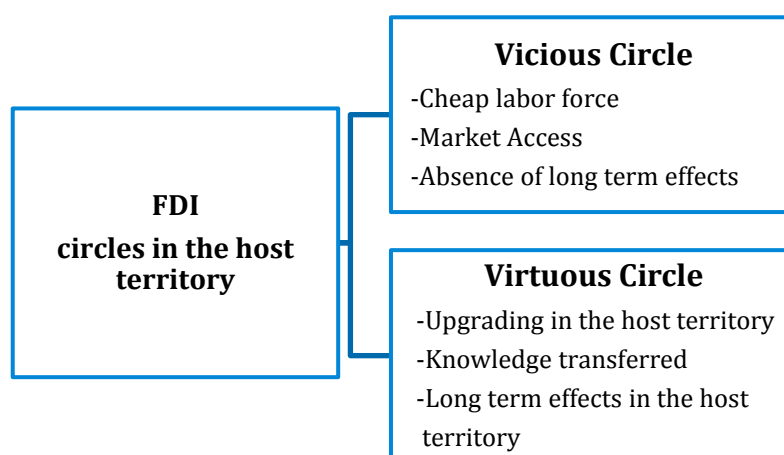
Clothing industry in Albania needs to break the vicious circle of FDI and encourage a virtuous circle (see figure 1.2). A vicious circle occurs when the host territory attracts low quality FDI with principal motivations to benefit from the cheap labor force and access to markets. This circle is very unstable and generates limited knowledge transfer in the host territory. These motivations do not improve location advantages but expose the host territory to a FDI trap in which it is not able to maximize the benefits from the presence of foreign investors. The cheap labor force due to lower wages compared to neighboring countries and the rising costs encountered in Asian countries, are temporary location

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<sup>1</sup> Statement made on the conference "Albania A New Generation" that took place in Albania on August 27,2013.

advantages that appeal to foreign clothing manufacturing to transfer production in Albania. However, in the near future production may be transferred in other host territories like African countries, where the labor force could be cheaper than in Albania, leaving the existing host territory without inheriting any qualitative effects.

Figure 1.2: FDI circles in the host territory



Source: Author representation based on Michalet (2004)

## 1.2. OBJECTIVES OF THE RESEARCH

This research aims at investigating the long-run effects of clothing manufacturing FDI in Albania, their host territory for the last twenty years and at looking into whether the FDI trap has been broken. Long run effects of FDI are qualitative in nature. By focusing on these effects this research tries to identify the benefits of the host territory from the production activity of these enterprises and what they will leave behind if, they decide to move out and transfer production to another host territory.

The clothing industry it is often regarded as an employment generator for developing countries and as the first step of industrialization. With reference to industrialization induced by the clothing industry, this research looks into whether FDI in the clothing industry has generated in the host territory qualitative effects that include: (i) the knowledge transferred in the host territory and (ii) the evolution in the quality of clothing

manufacturing subsidiaries in Albania. A framework is proposed for analyzing the qualitative effects of foreign clothing manufacturing enterprises in Albania. The first pillar of the framework refers to knowledge transferred in the host territory by considering: (i) the group to which the subsidiary belongs, (ii) the stock of knowledge, and (iii) the channels used to convey knowledge. The second pillar of the framework concerns the evolution in the quality of the subsidiary by looking into: (i) upgrading in the sense of complexity of activities, (ii) upgrading in the sense of embeddedness, and (iii) the factors that affect upgrading.

### **1.3. RESEARCH QUESTIONS**

In order to achieve the objectives of this research, the main questions addressed refer to qualitative effects of clothing manufacturing FDI in developing country like Albania, their host territory in the last twenty years. More specifically, the research addresses the following questions:

- Can the clothing industry be the first step to industrialization in a developing country?
- What type of knowledge is transferred in the host territory
- What channels of knowledge transfer are used by clothing manufacturing subsidiaries?
- What level of attachment have clothing manufacturing enterprises developed with the host territory?
- What type and degree of subsidiary upgrading is achieved by clothing manufacturing subsidiaries over time?
- What policy recommendations can be proposed that can ensure further upgrading at an enterprise level and at industry level within the host territory?

### **1.4. METHODOLOGY OF THE RESEARCH**

Case study is the methodology employed to answer the research questions and to tackle its objectives. This methodology offers a number of advantages including direct observation in the unit of analysis during fieldwork, consideration of many qualitative and quantitative

variables, and flexibility and feedback obtained through interaction with stakeholders relevant to the area of interest to the research. Four clothing manufacturing subsidiaries were selected as case studies for this research. Two of them have Italian ownership, one German, and one Greek.

The case study methodology undertaken in the four clothing manufacturing subsidiaries consists in five phases. The first one was preliminary research. This phase consisted in undertaking a comprehensive literature review, identifying the main sources and type of numerical data, and in preparing a questionnaire on the operational activity of the clothing manufacturing subsidiaries under consideration. The second phase consisted in drafting the framework. The third phase consisted in intensive fieldwork in the production facilities of the four case studies and in interviews with the management and assembly employees. Additional fieldwork was realized with the Chamber of Façon in Albania, to identify the total number of clothing manufacturing enterprises operating in Albania and interviews with relevant stakeholders like the Foreign Investor Association, donors, etc. The fourth phase concentrated on analyzing the four cases by comparing them according to the two main pillars of the framework. The fifth phase consisted in drawing conclusions followed by policy recommendations on making more competitive the clothing industry in developing countries, including Albania. Finally, areas of further research are proposed. The case study analysis goes in depth of the clothing industry by getting the whole picture of the operations of production in the clothing industry and by analyzing the evolution of clothing manufacturing subsidiaries in a developing country like Albania despite of the limited data and existing research in this field.

## **1.5. STRUCTURE OF THE THESIS**

The first chapter presents the rationale, the objectives, the research questions, and the structure of the thesis. The second chapter is dedicated to a thorough literature review focused on the qualitative and quantitative effects of FDI in the host territory. This chapter continuous with evolution in the activity of the subsidiary, the mobility potential to another host territory, contrasting views on the impact of FDI in a host territory, and concludes with examples for attracting FDI in various countries. The third chapter presents in detail the methodology of this research including its reasons and limitation, examples of similar methodology in the literature, steps followed in analyzing the four case studies, types of validity, generalization in a case study methodology, and the framework with its two pillars.

The fourth chapter presents the clothing industry. The first part of the chapter is dedicated to the clothing industry in general including the value chain, product categorization, industry upgrading, type of firms, and fast fashion. The second part of the chapter refers to the clothing industry in Albania introducing its main characteristics, challenges, location advantages, and the Façon Package. The fifth chapter provides a detailed description of the four case studies, Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike Sh.p.k. The sixth chapter presents an analysis of the cases by comparing them with reference to the framework. The seventh chapter draws conclusions, provides policy recommendations, and suggests areas for further research.

# CHAPTER 2

---

## INWARD FDI AND ECONOMIC DEVELOPMENT OF THE HOST TERRITORY

## INTRODUCTION

Throughout history, nations have followed different paths to obtain prosperity. Some of the paths followed turned into success stories while others produced undesirable outcomes. Still today, policy makers and economic agents have yet to discover the path that would lead to sustained prosperity. Discovering the right path is the first step while picking up the right combination of instruments to walk along is the other step. The scope of this chapter is to introduce theories of economic development and the effects of FDI on the development of host territories. In this research, reference to FDI is made based on the definition of IMF ([www.imf.org](http://www.imf.org)) as “the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor”.

This chapter starts with introducing the OLI paradigm and technology as a determinant for economic development. It continues with the economic impact of FDI in the host territory including quantitative and qualitative effects. Additional areas covered in chapter include the evolution of the subsidiary and the two schools on FDI impact impact on the host territory categorized as the optimists and the pessimists. The chapter concludes with policies to attract and to foster upgrading of inward FDI.

### 2.1. THE OLI PARADIGM

The eclectic paradigm introduced by John Dunning (1988) is a well-known framework of international production. The OLI paradigm helps to understand better the motives to locate and maintain production in the host territory. Reference is made to OECD ([www.oecd.org](http://www.oecd.org)) definition of MNE “usually comprise companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another. The paradigm seeks to identify groups of relevant variables to explain foreign production. The eclectic paradigm sets three conditions that influence the decision of a MNE to realize production in a host territory.



The first condition addresses the question what characteristics firms going abroad possess that other firms do not. This condition relates to competitive advantages successful MNEs own which allow them to compete with other firms and to overcome the costs of operating in host territories. Dunning (2000), refers to these competitive advantages as ownership advantages (O).

The second condition addresses the question where MNEs choose to locate their production. This condition relates to country specific advantages that MNEs find attractive for locating production activities. These are called location advantages (L).

The third condition addresses the question on how MNEs decide to operate in a host territory. MNEs may operate with their own production units or they may subcontract production to other firms. MNEs choose to set up their production units in order to fully utilize competitive advantages and to minimize transaction costs. Dunning names them internationalization advantages (I). This is why the eclectic paradigm is also referred to as the OLI paradigm.

### **2.1.1. Ownership (O) advantages**

Ownership (O) advantages refer to the characteristics (patents, production techniques, entrepreneurial skills, modern technology, access to markets) a firm should possess to expand its activity in new host territories. They are also known as competitive advantages. Ownership specific advantages also include innovative capabilities, capable managers, and advanced technology. These ownership advantages give to firms having them a competitive advantage with respect to their competitors and capabilities to settle the operational activity in other host territories (Dunning, 2000).

### **2.1.2. Location (L) advantages**

Location (L) are advantages that a host territory should possess in order to be able to attract production of MNEs. They can be categorized into physical advantages (strategic geographical position, proximity to markets, natural resources, etc.) and business environment resources (market access, labor costs, qualified and specialized labor, base of competitive and specialized suppliers, special tax incentives, etc.). The paradigm states that it is more profitable for firms to utilize ownership advantages in conjunction with host

territory advantages; otherwise, it would just continue producing in the home territory and export its production to the host territory. Today, location advantages are oriented toward opportunities for MNEs to create in cooperation with local firms assets that will enhance their competitive advantages (Dunning, 2001).

### **2.1.3. Internalization (I) advantages**

Internalization advantages (I) relate to the ability of MNEs to make the best use of its competitive advantages. Dunning (2000) explains that there should be an internalization advantage in that competitive advantages are best exploited internally rather than offered to other firms through some contractual arrangement such as subcontracting or licensing. In this case, MNEs prefer to transfer their competitive advantages across national boundaries within their own organization rather than subcontract them. MNEs can establish an internal market within their administrative organization to avoid high and uncertain transaction cost associated with asymmetric information (the seller has more information than the buyer) and the principal agent problem (a contractor of MNEs behaving on its own interest and not doing what the MNE asks for) (Dunning 2000, 2001).

### **2.1.4. Criticism to the paradigm**

Despite of its advantages and wide citation in the international production literature, researchers criticize the OLI paradigm. Part of this criticism is also present in the papers written by Dunning (2000, 2001) himself. The eclectic paradigm is considered as a process with little guidance on how MNEs may organize their operational activities as to acquire and generate advantages that are more competitive in the future. Also, the paradigm concentrates on profit maximization activities of MNEs overcoming any functions and operations they may perform apart from profit maximization like research and development, social responsibility, etc. (Dunning, 2001).

Moreover, scholars argue that O, L, I advantages rely on numerous variables will little predictive value on day-to-day operations of MNEs. It is very difficult to judge based on the explanatory variables of the paradigm for how long a MNE will continue to operate and produce in a host territory (Narula, 2010).

## 2.2. KNOWLEDGE: A MAIN DETERMINANT OF ECONOMIC DEVELOPMENT

This section introduces views on theories of economic development. In addition, it presents the economic development based on sustainable economic growth and the factors that are key to obtain such growth for developing countries. In this research, the definition of economic development is based on that used by the World Bank<sup>2</sup> as “qualitative change and restructuring in a country’s economy in connection with technological and social progress reflecting an increase in the economic productivity and average material wellbeing of a country’s population. Economic development is closely linked with economic growth”.

Economic development is closely linked to economic growth. However, in order for territories to develop they need to obtain sustainable economic growth. Sustainable growth is achieved when economic resources like stock of physical capital, stock of human capital, stock of natural resources, and knowledge increase and/or are used more efficiently.

According to Hausmann and Rodrik (2003), sustainable growth requires not only use of knowledge but also institutions that are able to achieve such a growth. This perspective is well grounded in the neoclassical model of economic growth, which predicts that poor countries will experience rapid convergence with advanced economies once they have access to state-of-the-art knowledge and their governments respect property rights (Lora, 2011).

Any development process depends to a certain extend on the quality of institutions and good governance. Institutions are the ones that respond to the needs of economic and social actors. Institutional response can either facilitate economic activity or obstruct it (Eisebeth, 2004). Increased competition in international markets demands efficient responses and strategic cooperation of institutions. Many institutions have undertaken effective strategies to respond to the needs of economic, social, and political dynamics (Scott and Storper, 2007).

In the largest and most innovative regions, ties among institutions have become complex while the number of institutions has multiplied. Amin and Thrift (2001) refer to

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<sup>2</sup> Please refer to [www.worldbank.org](http://www.worldbank.org)

this phenomenon as “institutional thickness”. Despite of the presence of institutional thickness, in regions where institutions are flexible economic development is the strongest. Flexible institutions provide room for lowering transaction costs, building trust among economic and social agents, and forming of strategic alliances. Institutions become a factor in the process of capital accumulation and collective learning to the extent to achieve economies of scale and scope (Sachs and Warner, 1995).

Referring to Vasquez-Barquero (2002), local economic development agencies are among the main institutions having a significant role in achieving prosperity in the regions. These are non-profit organizations operating under a private and public capital and having as their key objectives: (i) to create and develop a friendly business environment necessary for enterprises to start up, (ii) to provide support services for social involvement of regions, (iii) to establish strong connections among economic agents, (iv) and to increase productivity and innovation capabilities of local enterprises (Lin and Chang, 2009).

Even though at the core of development are local institutions, the central administration has also an important role in supporting regional development technically and financially. Josh Learner<sup>3</sup> puts it as “virtually every hub of cutting edge entrepreneurial activity in the world today had its origins in proactive government interventions”. International organizations are supporting programs and promoting strategies that can make regions eligible for central government financing. Rodrik (2011) argues that central institutions are stronger and larger in the most developed countries and that regions are more efficient in generating wealth when they are supported by reliable central institutions. Sustainable growth redirects attention away from capital accumulation, plant capacity, and acquisition of equipment to immaterial resources like innovation, human capital, and knowledge (Kurz and Salvadori 2003).

With reference to Rodrik (2013; 2008), the main determinants of sustainable growth are the stock of physical and human capital together with knowledge<sup>4</sup>, and innovations. For William Easterly (2001, p.51), technology is “a blueprint that arranges the workers and machines” while Freeman (1974), argues that technology is ‘a body of knowledge about

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<sup>3</sup> Cited in Rodrik, Dani (2011, p.157), *The Globalization Paradox, Democracy and the Future of the World Economy*, W.W.Norton & Company, New York.

<sup>4</sup> Dicken (2011,p.76), refers to technology by citing Joseph Schumpeter who defines technology as “the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forces of industrial organization that capitalist enterprise creates”

techniques'. Changes in knowledge lead to innovation. According to Dicken (2011, p. 78) "innovation is the creation and diffusion of new ways of doing things". For Easterly (2001), technological change mean "the blueprints get better and better". Changes in technology lead to higher productivity. Technological change is the only way in which output per worker (i.e. productivity) can keep increasing in the long-run. Acquiring knowledge is nowadays a challenge and an objective of many countries.

To continue, the change in productivity depends on how labor merges with other components of production, on how efficiently equipment is used, and on how new knowledge is incorporated into operational activities (Romer, 1990). Economists highlight the role of the state, of the private sector, of institutions, and of markets in fostering innovation and stimulating workers to be more productive (Aghion and Howitt, 2009).

Knowledge is widely recognized as a source of economic development as it stimulates economic growth and increases flexibility in regional structures of production systems. Easterly (2001) argues that technology is of outmost interest to countries as it belongs to the core of economic development.

Introduction and diffusion of new knowledge alters the dynamics of production systems. In the process of collective learning, coded and tacit knowledge are diffused in the region through alliances established in the industrial network in which knowledge is spread. Even though this process is conditional on the characteristics of the region, experience, and history of the regional market economy, knowledge has a vital role in spreading innovation.

Krugman and Obstfeld (1997), advocate that knowledge is becoming along with labor and capital a main factor in production. Acquiring new knowledge is fundamental for economic catch up and sustained growth in regions. Paul Romer (1994, p.12), emphasizes that knowledge "extends from abstract ideas such as scientific formulae to eminently practical ones such as traffic circle or round about".

Moreover, innovation is a collective learning process in which enterprises make investments and location decisions. Internalization of innovation permits enterprises to expand their product range, to create more economically efficient plants, and to strengthen economies of scale. Innovation creates opportunities to undertake strategies for entering

new markets and for enhancing competitiveness by introducing better products (Kruger, 1997).

Many countries have launched various policies to support and fasten diffusion of knowledge, spread innovation, and adapt new technologies through the establishment of innovation centers, scientific parks, and technological institutes. In Brazil, technological centers to support shoe producers to reach and maintain the quality of standards required for export in international markets were established (Fleury, 1995).

In the 1980's government, policies in Japan focused on supporting disadvantaged regions through programs of obtaining technological progress in communication and information industries (Fletcher, 1996). In Malaysia, the initiative to establish industrial parks as instruments to facilitate diffusion of knowledge and innovation was strongly supported. These parks provide financial support to individuals that desired to turn an innovative idea into a business venture, assist enterprises in implementing research projects, and to offer training services for enterprises operating in electronics and information industries (Ritchie, 2004).

### **2.3. ECONOMIC IMPACT OF FDI IN THE HOST TERRITORY**

FDI impact in host territories has captured the attention of scholars, governments, and citizens. It has generated controversial views on how they affect economic development and long-term sustainable growth. In this section, the impact of FDI in host territories is examined. FDI impact is broadly categorized into: (i) quantitative effects and (ii) qualitative effects.

Quantitative effects relate to the impact of FDI on macroeconomic indicators of host territory and they are short-run.

Qualitative effects are connected to technological and pecuniary external economies resulting in a host territory from the presence of FDI activity. These effects are long-term in nature. Generalizing on the FDI impact on the host territory is not possible as it depends on: (i) the characteristics of FDI and (ii) the characteristics of the host territory.

### 2.3.1. Quantitative effects (short-run) effects

This section presents the quantitative effects of FDI in host territories. Main effects include job creation and contribution to GDP, physical capital stock, and tax revenues of the host government.

#### 2.3.1.1 Job creation

Job creation is one of the main quantitative effects of FDI in host territories. Employment generated through FDI is both direct and indirect. Direct employment is generated as a need for a subsidiary to perform its activities. It depends mainly on the type of the industry and on the scale of operations. Subsidiaries operating in labor intensive industries (textile, shoe making) create a high number of jobs primarily blue collar ones while those operating in capital intensive industries create fewer jobs mostly white collar ones. Indirect employment depends on the linkages a subsidiary establishes with the local economy. Subsidiaries that purchase raw materials, intermediate goods, or services in host territories bring more revenues to local suppliers that in turn have better opportunities to make investments and to increase the production activity. As employment among local suppliers goes up so does consumption. Higher consumption generates more employment in various sectors of the economy, leading to a multiplier effect in a host territory (Diez, 2001; Altenburg and Stamer, 1999).

On the other hand, Colen, Martens, and Swinnen (2008) provide a different perspective on FDI created employment. They argue that the presence of foreign firms increase competition in host countries, which results in crowding out of local firms. In order to make a judgement on the crowding out two effects need to be taken into account. The first effect concerns competition on the market, whether the production of the subsidiary is for the domestic market of the host territory or it is exported. Competitive advantages allow MNEs to obtain lower production costs, to shift domestic demand towards their goods and services, and to attract skilled labor.

The second effect occurs in the labor market as foreign firms attract skilled labor from local firms, leaving them with the less skilled ones. This occurs because local firms cannot pay the same wage as the foreign investor that usually pays higher. The impact on employment will depend on the net effect as they may experience a decrease in demand and are unable to hire skilled labor.

### 2.3.1.2 Contribution to GDP

In addition to employment, FDI activity contributes to the GDP of the host territory. The contribution can be direct and indirect. Direct contribution to GDP is assessed by the production and expenditure approach. The production approach is linked to value added. Value added is total sales less the value of intermediate inputs used in production processes. On the other hand, the expenditure approach refers to the sum of consumption (C), investment (I), government expenditure (G), and the difference between imports and exports (X-M).

FDI can affect GDP components of the expenditure approach positively and negatively. Indirectly, FDI can increase consumption in the host economy through an increase in employment and provision of wages higher than those offered locally can. Consumption in the host territory can also go down as FDI crowds out domestic firms and lowers employment in the host economy. In addition, in this case the net effect will depend on whether production is for the local market or exported and on the employment of skilled labor previously working in local firms in.

To continue, the mode of entry of FDI is a determinant of the level of investment in the host territory. Greenfield FDI accompanied with establishment of new production facilities lifts the level of investment in the host territory. FDI in the form of mergers and acquisition does not affect the level of investment (Dicken, 2011). Moreover, the level of export-import in a host territory is affected by FDI activity. The policy orientation of the MNE on the destination of final products determines the level of exports it generates. The level of exports goes up if final output is designated for foreign markets. A similar scenario happens with imports. When inputs required in production of final goods are not available in the host territory in either quality or quantity the purchase of inputs abroad goes up resulting in an increase in the level of imports. Nevertheless, the effect of the difference between exports and imports on GDP is uncertain as it depends on whether the destination of production of the subsidiary is the domestic or the export market (Lipsey and Sjöholm, 2004).

Furthermore, as in the case of employment FDI indirect contribution to the GDP of the host territory results from backward linkages subsidiaries establish with local suppliers. Strong ties of MNEs with the host economy allow local suppliers to generate more production, employment, and investments. Multiplier effects occur also in the GDP of the host territory.



### **2.3.1.3 Physical capital stock**

Another quantitative FDI effect is the change it causes on the level of capital stock. According to Nehru and Dhareshwar (1993) physical capital stock refers to “goods that are fixed, tangible, durable, and reproducible” that are necessary to realize production. These investments may cause an increase in the stock of physical capital depending on how FDI enters in the host territory. When considering how FDI affects the stock of physical capital a distinction should be made between greenfield investments and mergers and acquisitions. Greenfield investments increase the stock of physical capital as operating facilities are raised from the ground. On the other hand, mergers and acquisitions have a questionable impact on the stock of physical capital. Mergers and acquisitions may reduce the stock of physical capital as they try to achieve economies of scale by removing duplicate departments or closing down inefficient production plants. However, MNEs may undertake additional investments especially in modern technology when they acquire or merge with a firm having a high growth potential, leading to an increase in the stock of physical capital (Blomstrom, Kokko and Zejan, 1992).

### **2.3.1.4 Tax revenues of host governments**

FDI may bring additional revenues to governments in host territories if they are subject to taxation. As host territories attract more FDI, the number of business entities operating in the local market goes up. An increase in business activities, which are subject to taxation, translates into more tax revenues for host governments. Governments can use tax revenues to increase spending on public goods or to finance pending reforms. The net effect will depend on tax revenues from employment created versus unemployment created from the presence of foreign firms and fiscal incentives provided to foreign firms from operating in a host territory. For example, in some African countries tax revenues coming from FDI are a vital source of the government budget. In Botswana, 50% of government revenues in 2007 came from taxation paid by MNEs operating in the mining industry (Colen, Maertens, and Swinnen 2008).

### **2.3.2. Qualitative effects (long-run) effects**

Quantitative effects are short-run effects. In the thesis emphasis is given to long-run effects that bring about structural change, i.e. knowledge transfer, restructuring of the host economy that will lead to economic development. This section focuses on the qualitative

effects of FDI in host territories. These effects fall into technological externalities and pecuniary externalities, channels of knowledge is transferred in the host territory the absorptive capacity, and the presence of a pool of specialized labor and suppliers in the host territory.

### **2.3.2.1 Cluster effects**

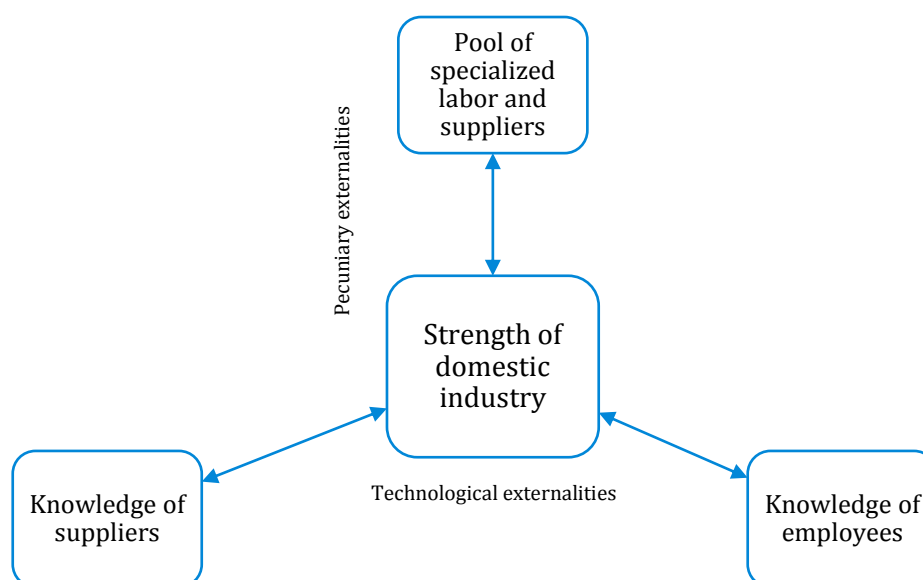
Tibor Scitovsky (1952) differentiates two categories of external economies. He refers to the first category as technological external economies while he calls the second category as pecuniary external economies (see figure 2.1). According to Krugman (1996, p.96), external economies “reinforce the industry strength” in one location. He argues that technological external economies occur when knowledge flows among firms and they learn from each other increasing the competitive advantages of the industry situated in the host territory. Pecuniary external economies depend on the size of the market, a strong domestic industry offers a large market for specialized labor and suppliers, which in turn make the industry even stronger (Krugman, 1991).

Moreover, MNEs create in host territories richness and density of local firms creating a pool of specialized local suppliers. As more MNEs start to operate in host territories, more specialized local suppliers can appear, as there is an increase in the demand for specialized goods and services (Dicken, 2011). Size is also a factor in the creation of specialized suppliers. More specialized suppliers are often present in large industries rather than small ones (Krugman and Obstfeld, 1997). The pool of specialized suppliers is created in two ways. Firstly, as MNEs demand more inputs they open up new markets for the provision of goods and services that suppliers can exploit new opportunities. For example, if a firm grows larger and increases its orders from suppliers, the suppliers may now be able to enjoy lower costs through economies of scale in their production. Secondly, MNEs in host territories “force” existing suppliers to compete with each other. Krugman and Obstfeld (1997) argue that with a pool of specialized suppliers key inputs are less costly and more easily available as there are many firms trying to provide them. As the pool strengthens, suppliers concentrate on what they can do best subcontracting other components of their activities.

In host territories, FDI pecuniary externalities result in the creation of a pool of specialized labor. Depending on the industry, MNEs may create a denser and more diverse labor market. Krugman and Obstfeld (1997) argue that a qualified labor benefits both manufacturers and workers. In large and diverse markets, producers are less likely to

experience labor shortages while workers are less likely to face unemployment as switching firms and acquisition at convenient market prices gets easier.

Figure 2.1: Technological vs. pecuniary externalities



Source: Author representation based on Krugman, Paul A. (1996), *Pop Internationalism* (2<sup>nd</sup> edition)

### 2.3.2.2 Channels of knowledge transfer

Blomstrom and Kokko (1998), Dicken (2011), and Gugler and Brunner (2007), argue that one of the most important reasons countries aim to attract FDI is the anticipation to obtain advanced knowledge. The literature identifies and focuses on three potential channels through which knowledge is transferred from FDI into the host territory.

The first channel of knowledge transfer is through backward linkages. These linkages refer to input purchases of MNEs in host territories. Turok (1993) argues that the “quality” of linkages is important to ensure economic development in the host economy. He states that MNEs can establish in a host territory linkages, which can be developmental or dependent in nature. Developmental linkages encourage collaboration, mutual learning, a high level of interaction, and long-term relations with local suppliers. As MNEs strongly interact with local suppliers, they introduce new knowledge, offer technical assistance that improves the quality of local inputs, and provide expertise to promote local R&D activities. Contrary, dependent linkages develop when the purpose of MNEs to interact with local firms is to cut operational costs. MNEs work with local suppliers under short-term

contracts. MNEs not only exploit local suppliers but also prevent them to obtain any knowledge or to participate in R&D programs (Turok, 1993). Dicken (2011) argues that as linkages become stronger local suppliers find it easier to meet the standards demanded by MNEs and to generate high quality inputs. As more quality inputs become available in host territories, MNEs gradually start to decrease their share of imported goods.

The second channel of knowledge transfer is through training of employees. In training programs, employees acquire new knowledge and improve their level of skills. Training programs involves all levels of employees starting from assembly workers to technical professionals and high-level management. The amount and type of training depends on: (i) the industry, (ii) MNE's mode of entry<sup>5</sup>, (iii) size and time horizon of the investment, (iv) local conditions, and (v) responsibilities of the subsidiary (Saggi, 2002). The main purpose of training programs is to transmit knowledge to employees. Employees learn how to produce goods using different methods, how to work in teams, and how to monitor specific operations in the value chain. Employees are exposed to two types of knowledge. The first one is codified knowledge, expressed in manuals, guidelines, blueprints, software, or hardware. Codified knowledge is transmitted relatively easily across nations. This type of knowledge has enabled multinationals to perform and oversee activities located in different continents (Dicken, 2011).

The second type of knowledge is personalized knowledge possessed by individuals that is virtually impossible to communicate to others through formal mechanisms. It requires direct experience and interaction. Informal exchange of information in social gatherings and group discussions facilitates the transmission of tacit knowledge. Training programs composed of study visits, workshops, and roundtables enable employees to keep up with the latest trends of the sector/industry in which they operate (Easterly, 2001). Another categorization of knowledge transferred in the host territory is between technical and managerial knowledge. Technical knowledge refers to the knowledge gained from local employees that is applied in production and operations of the subsidiary (Driffield and Taylor, 2011). Managerial knowledge refers mostly to the ability of developing ideas, implementing strategies, interacting with dependent employees in order to succeed in the operations of an enterprise. It covers all aspects of the management of an enterprise ranging from strategic planning and decision making to human, financial as well as operations and

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<sup>5</sup> Mode of entry refers to whether the FDI is in the form of greenfield or brownfield investment

marketing management (Konigova, Urbancova, and Fejfar, 2012). A pre-condition for transferring managerial knowledge to the host territory is the appointment of local employees in managerial positions of subsidiaries (Fu, 2008).

The third channel of knowledge transfer is through demonstration effects. Demonstration effects rely on the argument that local firms including among others suppliers of MNEs imitate/copy technologies introduced by MNEs. Cooperation with MNEs exposes local firms to superior technology appealing them to update production methods (Saggi, 2002). Local firms try to improve production of goods, to use automated machines, to record financial transactions, to access foreign markets, and to generate new business ideas. Demonstration effects occur also with spin-off when local employees previously working for the MNEs decide to start local firms based on the knowledge gained while working in MNEs. A well-known example of demonstration effects is the garment industry in Bangladesh. Working with clothing manufacturers in South Korea the local Bangladeshi firms imitated their production methods and ways of running a garment enterprise transforming the garment industry into a billion dollars industry (Easterly, 2001). In the thesis, the analysis will center on the knowledge transfer in the host territory.

### **2.3.2.3 Absorptive capacity of the host territory**

Young, Hood and Peters (1994) emphasize that a crucial factor for host territories to benefit the most from technology transfer of MNEs is their absorptive capacity. Referring to Dicken (2001), the degree of host country absorptive capacity is a key factor in the process of knowledge transfer from MNEs to local firms. He argues that knowledge transfer is a complex process that is not automatic, as it requires a significant level of absorptive capacity of local firms. In the process of knowledge transfer, the host country's absorptive capacity is a key factor in specifying the level of technicality and complexity of MNE's training programs for their employees.

According to the Organization for Economic Cooperation and Development (OECD) knowledge gap is a main determinant of the host territory absorptive capacity. It refers to the differences in the level and degree of knowledge among different host territories. OECD (2002) indicates that the knowledge gap should not be very wide as local suppliers may not have the capabilities to absorb or copy new technologies transferred by MNEs. In addition, Lesnik and Morrisey (2004) and Moran, Graham and Blostrom (2005), argue that the process of knowledge transfer has a positive impact only if the host territory possesses a

human capital capable of absorbing and using new knowledge and methods. They highlight that the impact of FDI is directly linked to the skills of the labor force. If labor skills are inadequate, host territories cannot assimilate and replicate the knowledge conveyed by MNEs. Blomstrom and Kokko (1998) and Gugler and Brunner (2007) argue that the level of absorptive capacity determines also the amount and the complexity of knowledge transferred by MNEs. A host territory with a high absorptive capacity attracts more knowledge, which can be relevant to several economic sectors and not only to industries in which MNEs belong.

## **2.4. EVOLUTION OF THE SUBSIDIARY IN THE HOST TERRITORY**

This section refers to the evolution of a subsidiary in the host territory it is located. By looking into the dynamics of a subsidiary during the “production life” in the host territory, a judgement can be made on the quality of the subsidiary which may go up or down. Upgrading of the subsidiary is an evolution toward a higher quality while downgrading of the subsidiary refers to a reduction in quality. From the host country perspective, the quality of the subsidiary has two components: (i) complexity of activities realized by the subsidiary in the host territory and (ii) embeddedness within the local economy.

### **2.4.1. Quality of the subsidiary**

The quality of the subsidiary in the work is regarded as an emitter of knowledge. With the quality of the subsidiary in this work refers as an emitter of knowledge. This depends on the complexity of activities realized and the embeddedness of the subsidiary with the host territory.

#### **2.4.1.1 Complexity of activities realized by the subsidiary in the host territory**

Complexity of activities of the subsidiary in the host territory refers to the responsibilities at different levels including the manufacturing process, products, and functions realized within the subsidiary in the host territory (Birkinshaw and Hood 1995).

In their paper Enright and Subramanian (2007), argue that the complexity of the activities of a subsidiary is determined by the role given from the head office of the MNE. They identify four main subsidiary roles. The first role is that of capability creation. Subsidiaries with such a role undertake extensive research and development activities, set clear strategic objectives, and define the functions and duties of the management. These subsidiaries are regarded as “strategy makers” as their output is used as input in other units of the MNE. The second role is that of capability utilization. Subsidiaries with such a role engage in limited research and development programs. These subsidiaries are called “strategy takers” as their outcome is generated based on inputs derived primarily from other units of MNEs. The third role refers to geographic scope. Subsidiaries take on decision-making activities on a national and regional level. The fourth role refers to product-scope. Under this role, the responsibilities and functions of subsidiaries vary considerably. Some subsidiaries are responsible for a number of products while others only for a single product. The role of the subsidiary in the host territory is assigned based on the characteristics of the group to which the subsidiary belongs, the industry in which it operates, and the economic development of the host territory in case it is not an enclave.

#### **2.4.1.2 Embeddedness- of the subsidiary within the host territory**

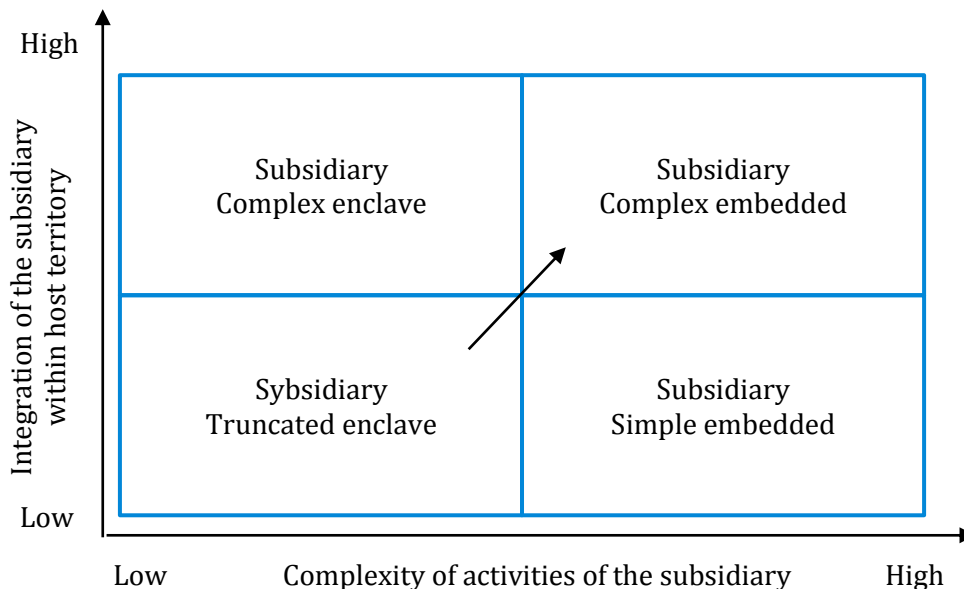
In the literature, embeddedness is regarded as the integration and attachment of the subsidiary in the host territory through linkages, interaction with local suppliers, created employment, and the level of investments made in the host territory. Phelps (1998, p.122), defines embeddedness as “commitment of local capital and public resources in the service of the competitive goals of the incoming company, and therefore reduces the burden on the incoming firm of the costs of establishing an infrastructure of suppliers and distributors, and training and staff retention”. Local suppliers include both domestic suppliers and foreign suppliers that have installed a production unit in the host territory to serve their customers. These linkages create networks of economic interdependence that facilitate the flow of information and knowledge between the subsidiary and suppliers. In addition, Blomstrom and Kokko (1998) concluded that a gradual development of backward linkages occurs when (i) more stages are added overtime in the production of goods, (ii) more suppliers enter into a particular industry, and (iii) MNEs prioritize the strategy to attract and create more linkages with local suppliers. A subsidiary is better integrated in the host territory if it creates sustainable employment in the local economy and makes investments that are long term in nature (Caves, 1996).

Referring to Phelps (1998, 1999), the capacity of institutions in the host territory is of vital importance for subsidiary embeddedness in the local economy. He argues that well-constructed institutions are crucial in designing and implementing effective policies that can maximize the impact of FDI in the host territory. Such institutions can balance the use of financial resources and support services between foreign investors and local firms and can continue to keep the focus also on the existing pool of investors without switching it entirely towards new or potential investors.

### 2.4.2. Upgrading of the subsidiary

With the passing of time, the operational activity of a subsidiary can change: it can upgrade or downgrade (see figure 2.2). Upgrading occurs when the subsidiary is more embedded within the host economy and/or realizes progressively more complex activities. On the other hand, downgrading occurs when a subsidiary little by little performs fewer and less complex activities and/or weakens the linkages with the host territory (Enright and Subramanian, 2007; Birkinshaw and Hood, 1998).

Figure 2.2: Subsidiary upgrading



Source: Author representation



### 2.4.2.1 Upgrading in the sense of complexity of activities

Gereffi (1999) introduced three kinds of upgrading in the clothing industry: (i) process, (ii) product, and (iii) functional. Reference is made to the clothing industry as it relates to the objective of the research. He applied it to three levels: firm, industry, and territory. We will apply upgrading to the subsidiary (enterprise/firm). According to Kaplinsky and Morris (2005) and Humphrey and Schmitz (2002), upgrading is achieved by: (i) improving the efficiency of production processes (process upgrading), (ii) adding new product lines that bring improvements in design or technical specifications (product upgrading), and (iii) taking on new functions that demand advanced skills and extensive knowledge (functional upgrading).

- Process upgrading is obtained by applying new knowledge or by rearranging existing systems used in manufacturing of cloths. Innovation in clothing manufacturing has occurred mostly in the pre-assembly stages such as pattern making and fabric cutting. Sewing operations remain labor-intensive as substitutability between labor and capital in the clothing industry is limited. According to Goto, Natsuda and Thoburn (2011), in host territories process upgrading of subsidiaries is facilitated from transfers of advanced knowledge obtained from linkages with international buyers in production and distribution networks of the clothing industry.
- Product upgrading involves a shift into higher sophisticated clothing manufacturing lines that are normally more difficult to produce because of tight technical specifications and expensive input materials used to generate finished goods. For instance, a supplier may experience product upgrading by shifting from manufacturing of casual woven shirts to expensive suits (Bair and Gereffi, 2001).
- Functional upgrading refers to shifting towards more knowledge and skill-intensive functions like product design, material sourcing, branding, and marketing (Goto and Endo, 2004). Functional upgrading at the enterprise level depends heavily on the capacity of clothing manufacturers to handle increasingly complex functions and on the willingness of the head office to delegate such functions to its manufacturing subsidiaries (Nordas, 2004).

### **2.4.2.2 Upgrading in the sense of embeddedness**

Embeddedness (integration within the host territory) of a subsidiary results from linkages with local suppliers and the level of employment of local people in the management of the subsidiary. Caves (1996), argues that embeddedness results from forward and backward linkages. Local suppliers include both domestic suppliers and foreign suppliers that have installed a production unit in the host territory to serve their customers. These linkages when developmental in nature create networks of economic interdependence that facilitate the flow of information and knowledge between the subsidiary and suppliers. The higher the share of inputs obtained from local suppliers the stronger linkages with the host territory. In addition, referring to Sargent and Matthews (2004) creation of sustainable employment of local workers in management functions of the subsidiary and the generation of long-term investments lead to a higher integration of the subsidiary in the host territory.

### **2.4.3. Determinants of subsidiary upgrading**

In one of the papers, Birkinshaw and Hood (1998) mention three main factors that determine upgrading of a subsidiary. These factors are:

- The first upgrading factor is head office assignment, which relates to decisions made by head office on the allocation of functions and competences of the subsidiary. Head office assignment may drive the evolution of the subsidiary in the beginning of its activity and when the level of resources and capabilities are not too advanced.
- The second upgrading factor is subsidiary choice that refers to the decisions made by managers on the activities carried out by the subsidiary they supervise. This factor highlights that the subsidiary is part of a network and not just a subordinate to the head office. A subsidiary can move from a position of subordination to one of equality or even leadership. It reflects the fact that many subsidiaries have specialized capabilities on which the rest of the MNE depends. In addition, this factor recognizes that strategic behavior occurs below the management level sometimes in ways that are not actively encouraged by top management. This autonomous behavior indicates a process of internal growth that is only loosely controlled by the management in the head office. The autonomous behavior appears to be a powerful drive for subsidiary upgrading.

- The third upgrading factor concerns local environment and the influence it has on the headoffice and/or subsidiary managers regarding competencies of the subsidiary. The argument is that each subsidiary operates under a unique set of conditions to which it has to adapt in order to become effective. Subsidiary upgrading is driven by dynamics occurring in the local business environment as well as by the subsidiary's ability to obtain resources from the MNE. The particular geographical setting and history are responsible for defining a development path that is unique to that subsidiary, which in turn results in a profile of subsidiary capabilities.

## **2.5. TWO SCHOOLS ON THE IMPACT OF FDI IN THE HOST TERRITORY**

Through the presence of FDI, host territories can benefit from capital and technology transfer or can turn into an enclave economy. Thus, it has a dual nature. This section presents the two viewpoints on FDI impact in the host economy: (i) the optimists, in favor of the presence of FDI and (ii) the pessimist, not in favor of the presence of FDI in host territories.

### **2.5.1. Optimists - positive impact of inward FDI**

The literature in favor of the positive impact of FDI in inducing economic development in host territories highlights the multiple benefits from the presence of FDI. For example, Keller (2004) states that FDI in host territories brings to the local economy new production techniques and new products that cause a higher level of productivity and profitability. In addition, FDI can supply in the host economy better inputs that may increase the performance of local firms and raise customer confidence in locally manufactured products (Johansson and Loof, 2005).

For Radelet (1999), the presence of FDI stimulates the local economy through exposure to international firms using leading-edge technologies, encouraging economic specialization, promoting high rates of investment into profitable economic activities, and providing foreign exchange to finance imports of capital goods, which cannot be produced locally. Use of more advanced knowledge improves the quality of locally manufactured

goods and promotes local exports. For the optimists, one of the most important benefits a host territory can obtain by the presence of FDI is knowledge. For them knowledge is an important link between FDI and economic growth (Johnson, 2006). In the “good” equilibrium, the economy specializes in the production of complex final goods, a large variety of specialized inputs is produced, and wages are high.

Moreover, in many countries fiscal incentives favor MNEs with a high percentage of domestic inputs, presumably, because they generate more backward linkages. This in turn would facilitate creation of a pool of specialized suppliers and a more qualified labor force. According to Rodriguez-Clare (1996) and Blomstrom and Kokko (1998) a host territory exposed to FDI for a long time is characterized by increased linkages as the skill level of local entrepreneurs grows including spinoffs, new suppliers emerge and the local content production goes up their efficiency by copying the operations of the foreign firms to raise their efficiency to survive. Moreover, the host territory can benefit from automatic upgrading of the subsidiary when it increases the complexity of activities undertaken in the host territory accompanied with more investments.

### **2.5.2. Pessimists- negative impact of inward FDI**

However, there is the other view, that not in favor that support the idea that FDI does not lead to economic development in the host territory. Lall and Narula (2004) suggest that development of the host territory is hindered as foreign firms fail to upgrade. Higher wages in the host territory can be generated through employment of the most qualified workers that would impose a high wage on foreign and local firms (Lipsey, 2002). Another negative impact may arise as foreign enterprises are able to take over in the form of mergers and acquisitions more efficient local firms leaving less productive ones to be owned locally or can acquire a higher share in the local market as locally owned firms stop operating.

Kaplinsky (1998), suggests that foreign firms in the host territory focused on export promotion generate employment mostly of cheap labor creating this way an enclave economy. As such, they do not transfer much knowledge in the host territory and fail to upgrade as undertake only basic functions and processes in the host territory. In such territory, levels of national income may depreciate due to global competitive issues, as local firms are unable to upgrade and experience downgrading because they fail to keep up with knowledge employed by foreign firms.

Another negative impact of FDI in the host territory results from the anticompetitive effects inherently from the unequal bargaining power between foreign firms and the government of developing countries. Foreign firms are large, modern, and have a better grasp of the world economy than the government of developing countries that are typically administratively weak and have little information on the functioning of the world economy. Under these circumstances, foreign firms may temporarily exploit location advantages in the host territory without transferring much knowledge in the host territory while having only a low degree of integration due to the weak linkages with local firms and suppliers (Lipsev and Stoholm, 2004).

FDI may also prevent creation of a pool of specialized labor in host countries. They offer high benefits and better career opportunities attracting the most qualified workers. Through contractual agreements, FDI may impede the mobility of skilled and trained workers to local firms and institutions and limit the occurrence of demonstration effects in the host territory. Therefore, local firms are left to operate with the less qualified labor force limiting their potential for upgrading.

However, in the literature there is the view that the presence of FDI in host territories may adversely affect the creation of specialized suppliers. In host territories, FDI tend to be partially financed by host financial markets leading to higher cost of credit. Local suppliers with smaller structures than those of MNEs and with limited bargaining power find it difficult to sustain high borrowing costs. They keep postponing necessary investments for further expansion, which at some point in time may cause them to disappear from the market (Colen, Maertens, and Swinnen 2008).

## **2.6. POLICIES TO ATTRACT AND TO FOSTER UPGRADING OF FDI**

This section presents the main policies followed in several developing countries to attract and upgrade FDI so that host territories can try to maximize the impact from their presence. It also brings examples from various developing countries on policies to attract and upgrade FDI.

## **2.6.1. Policies to attract FDI**

If developing countries aim to acquire the benefits of the FDI, first they need to attract them. Policies required to attract FDI rely on: (i) creating a stable business environment, (ii) government incentives, and (iii) advertising the location advantages of the host territory.

### **2.6.1.1 Stable environment of doing business**

A host territory becomes appealing to foreign firms if it has a stable environment of doing business. Macroeconomic stability with moderate inflation rates, clear custom procedures for import and export of goods, streamlined construction permits, inavailability of uninterrupted power supply, and a stable local currency are indicators of a stable business environment (Bellak, Liebrecht, and Liebensteiner, 2010). Another feature is the quality of institutions operating under a well-defined legislative framework that reduces the burden of business operations by having clear set procedures (registration, licensing, custom, tax declarations, and getting permits) to be followed by foreign firms. Foreign firms like policies that ensure political stability as they serve as a good indicator that will lower the risk of investment (Jensen, 2003).

### **2.6.1.2 Incentives**

Fiscal incentives include reduction in corporate income tax aiming at encouraging investment in the host territory. Foreign firms are attracted to locations where the fiscal regime imposes minimal costs on cross-border transfer of funds, goods, services, and employees like reduced rates of withholding tax on remittances to their home territory. Additional fiscal incentives include lower personal income tax or social security reductions for foreign executives and employees (Bellak, Liebrecht, and Steiner, 2010).

### **2.6.1.3 Promotion of location advantages of host territories**

Promotion of location advantages available in host territories has turned into a key policy for attracting foreign firms. In the fast moving world economy, foreign investors may not be aware of all advantages and opportunities in host territories if they are not much advertised (Sachs and Warner, 1995). Numerous marketing strategies such as advertising in the media, targeting of potential foreign investors, and holding promotional events can bring more FDI in a host territory. In addition, promotion is also required when state owned

enterprises enter into a privatization program, as it will attract more potential foreign investors interested in acquiring the state owned enterprises (Jensen, 2003).

The second type of incentive offered to foreign investors is in the form of cost sharing between the government and foreign firms. This type of incentives are in the form of grant or soft loans, sell of land and building to foreign investors at prices below market values, or temporary wage subsidies for employment of local workers (OECD, 2012).

#### **2.6.1.4 Infrastructure**

Availability of a good infrastructure is a key requirement for the presence of FDI in host territories. Investments in roads, ports, airports facilitates the operational activity of foreign enterprises in the host territory. In addition, it facilitates access to neighbouring countries and reduces the delivery time of production destined for exports.

### **2.6.2. Policies to foster upgrading of FDI**

This section presents various policies that governments in host territories can follow to foster upgrading of inward FDI. The first one is industrial policy and the second is building the skills of the labor force.

#### **2.6.2.1 Industrial Policy**

Widely advocated by Rodrik (2008), industrial policy aims to achieve economic development by stimulating economic activities that result in structural change, which increases productivity in local firms. The main objective of industrial policy is to develop a framework for drafting policies based on the cooperation between the government and firms operating in the local economy (Hausmann and Rodrik 2006). In this relationship, the role of government goes beyond that of macroeconomic stability, policy implementation, and bureaucratic routine contributing to economic growth by undertaking policies drafted based on the dialogue with the private sector including local and foreign enterprises. This way the government can ensure a sustainable development of the private sector in the local economy through manufacturing of goods with more advanced technologies and shifting of resources from old-fashioned economic activities into new economic areas (Iyigun and Rodrik 2004).

Recently, industrial policy is oriented towards building up systems, creating networks, developing institutions and aligning strategic priorities of local firms with those of foreign enterprises operating in the host territory (Warwick, 2013). This strategic orientation that aims at the know-how progress of the local economy asks for simultaneous improvements in education, financial and legal institutions, and infrastructure (Lin and Chang, 2009).

The new industrial policy is designed with a view of fostering structural transformation patterns by encouraging developmental linkages between local and foreign enterprises creating the potential to accelerate more productive and better jobs. Productive jobs lead to higher levels of income, reduced poverty, improved standards of living, and stronger domestic demand giving rise to provision of decent wages, better working conditions, training and social protection (Robinson, 2009). Better jobs, in the sense of having greater developmental impact include those that provide workers with better opportunities to acquire new knowledge and technical competence resulting in enhancing the complexity and diversity of the knowledge base of the labor force, as an essential ingredient for accelerating industrial progress (Crisuolo, Martin, Overman, and Van Reenen, 2012).

#### **2.6.2.2 Capacity building of agents in the host territory**

One of the most common policies to build the skills of the labor force is by strengthening the absorptive capacity of local firms in a host territory so that foreign firms can increase linkages with local suppliers allowing them to benefit mostly from knowledge transfer. Improving the absorptive capacity of the host territory is subsidizing local firms to improve their capabilities so they can upgrade their skills and promote cooperation with research and development institutions. Programs spread in the host territory for identification and certification of suppliers are conducted in a transparent manner based on the selection criteria specified by firms who will sign a contract with the suppliers that qualify. Another policy applied mostly in small developing countries is to attract small and medium size foreign firms so to gradually assess the capacity of local firms to deal with larger international firms. Additional policies include public private partnerships that encourage training within enterprises, share of training costs, and research development (OECD, 2001). Finally, public support is in the form of creating industrial parks, reliable infrastructure, and vocational training with curricula designed to encourage cooperation between local and foreign firms operating in the local economy (Moran, 2015).



### **2.6.2.3 Capacity building of local suppliers**

Quality and diversity of local suppliers available in a host territory induces foreign enterprises to produce goods that are more complex and undertake more advanced functions. In order to meet the requirements of foreign enterprises, local suppliers can be trained through various programs undertaken by government institutions and can be financially supported from various incentives (Aghion and Howitt, 2009)

### **2.6.3. Examples of FDI attraction in various developing countries**

Several countries have tried to open up cautiously and to attract FDI. Among them are China, Mauritius, Philippines, and Malaysia. Today, East Asian countries that dominate international trade are recognized as the Asian miracle, and are nicknamed as the “Asian Tigers”. However, this was not the case some decades ago. These countries undertook a number of structural reforms and strategies to become what they are today. Stiglitz and Uy (1996), argue that East Asian countries were able to make a tremendously force like globalization to work for them rather than against them.

Moreover, openness of the economy was not a traditional one, China opened up very gradually. No membership in the World Trade Organization facilitated government intervention. State monopolies of trade were slowly abolished while complex and highly restrictive set of tariffs and licenses to restrict imports were imposed. Chinese government was determined to push economic growth and engaged in export-oriented investments without harming domestic enterprises. Special Economic Zones (SEZ) offering better infrastructure and duty free on imports were able to generate more exports and attract more foreign investments. These investments had a key role in the evolution of manufacturing industries that came to dominate exports. Knowledge was transferred in the country through joint ventures with domestic firms. The government asked foreign firms to have a high content of local components and contents. In addition, foreign enterprise had to work closely with local suppliers in order to ensure among others that technology used in production activities would be similar. Foreign investors that wanted to have a large share in the local market, were not allowed to operate in the country. Domestic producers benefited from weak enforcement of intellectual protection rights permitting imitation of foreign know-how with little fear of persecution. Moreover, in order to ensure regional development, cities and provinces in China had the freedom to create economic clusters.

The government also intervened in the currency market keeping short-term capital flows out while preventing appreciation of the national currency. Finally, China resisted international disciplines and submitted to them only after the economy had a strong industrial base (Yao, 1999).

Even though not geographically located in the East Asia, Mauritius is considered a “miracle” on its own. In creating a strong industrial base, the government founded the Industrial Development Board (IOB) in charge of establishing a policy dialogue with the private sector while promoting new investment opportunities, offering tax holidays to enterprises with the highest prospects of growth, and increasing local employment. The government initiated programs supporting nascent industries. The government stimulated enterprises operating in nascent industries until they were able to compete on their own. Diversification was oriented toward industries meeting domestic needs and those oriented towards exports. Support to export oriented enterprises operating in export processing zones was also included in growth policies. Economic growth in export processing zones was fueled by the presence of foreign investments, exposure to advanced knowledge, domestic investments in capital, and improved entrepreneurship abilities (Belussi and Sammarra, 2010; Stiglitz, 1996).

In the Philippines, the government improved the efficiency of the industrial network by strengthening the cooperative base for shoe production. Among the services offered by the cooperative base are the: (i) the possibility to take out loans at favorable interest rates, (ii) the opportunity to purchase raw materials at discount price, and (iii) the provision of distribution and marketing services to its members (Gerson, 1998). In addition, in Penang, Malaysia, the government supported the creation of industrial clusters in electronics and related industries in order to promote socio-economic development and to attract export oriented FDI. These clusters supported creation of networks between local and foreign enterprises facilitating this way the flow of knowledge and organization of staff trainings. Government initiated programs aiming at enhancing industrial capabilities while developing a strong base of exports. In doing so, the government strongly committed to the removal of obstacles preventing private investments like excessive taxation, red tape, bureaucratic corruption, inadequate infrastructure and high inflation. It offered generous subsidies for enterprises to increase investments in modern manufacturing and financial support through loans in the banking sector and tax incentives. In the newly created enterprises, export became a priority since the beginning of their operations (Rasiah, 1994).

# CHAPTER 3

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## METHODOLOGY

## INTRODUCTION

The methodology of this research is based on case studies. Case study research is one of the methods used by social science researchers (Thomas, 2010). Initially, case studies were developed from systematic fieldwork and investigations of contemporary phenomena through observations of the researcher and key information obtained from people involved and affected by the phenomena of interest (Platt 1992; Van Maanen 1988). The approach of case study methodology combining fieldwork and numerical information in the areas of interest was promoted by researchers of the University of Chicago that practised field study work on the contemporary society in the surroundings of universities (Merriam, 2009). The objective of this chapter is: (i) to introduce the characteristics of case study methodology, (ii) to consider its advantages and limitations, (iii) to mention applications of case study methodology in the literature, and (iv) to present the steps followed in analyzing four case studies (foreign clothing manufacturing enterprises in Albania) relevant to this research.

### 3.1. CASE STUDY METHODOLOGY

In case study methodology the researcher gets to know his area of interest by understanding relevant processes, operations, and the events for which information was obtained from a wide range of sources including direct observation and face to face interviews.

#### 3.1.1. Characteristics of case study methodology

The literature has identified the following main characteristics of case study methodology (Denzin and Lincoln 2000; Thomas, 2010):

- It is based on an evolving design.
- The design of case study research cannot be fully specified in advance of the fieldwork. The design develops and evolves from the analysis generated from the information and data obtained during fieldwork.
- It is descriptive.

- A key part of case study research is describing and understanding the dynamics of the phenomenon. Description includes a detailed account of the context, the activities, the participants, and the processes of the phenomena under investigation.
- It is mainly concerned with understanding the dynamics.
- Case study is primarily concerned with understanding and describing dynamic and complex processes characterizing the area of interest.
- It involves fieldwork.
- Fieldwork implies that the researcher has direct and personal contact with people involved in a phenomenon in the natural setting of the phenomenon.
- The researcher is the primary instrument for data collection and analysis.
- The researcher collects the data through questionnaires, surveys, interviews, direct observation and other data collection instruments.
- It has an inductive approach.
- Qualitative research is based on an inductive logic. As such, it aims to draw conclusions through a bottom-up analysis of specific observations units representing the phenomena under investigation. On the other hand, deductive logic is a top-down going from the general to specific observation to draw specific conclusions (Pirsig, 1989).

### **3.1.2. Definition of case study**

In the literature, there are various definitions of a case study methodology depending on the scientific discipline. However, in this chapter a more general version of case study is considered. For Yin (2003, p. 13), a case study is “an empirical study that investigates a contemporary phenomenon within its real life context”. He states that the “distinctive need” for case study research “arises out of the desire to understand complex social phenomena” (p. 14). For Stake (1995, p. 244), a case study is useful when “the opportunity to learn is of primary importance. He also regards case study “as an intensive study of a single unit for the purpose of understanding a larger class of similar units. A unit refers to a spatially bounded phenomenon-e.g., a nation-state, revolution, political party, election, or person-observed at a single point in time or over some delimited period of time”. To summarize,

both Yin (2003) and Stake (1995), consider case study methodology as a mode of inquiry for an in depth examination of an area of interest and phenomena that are part of it.

### **3.1.3. Reasons for case study methodology**

Yin (2003) advocates that case study methodology is appropriate when the researcher examines a phenomenon that occurs in present time. This is a peculiarity of case study methodology as data collection methods like interviews and direct observation are inappropriate to study events that occurred in the past. He continues by arguing that case study methodology facilitates exploration of a phenomenon by using a variety of data sources. This ensures that the issue is not explored through one dimension, but rather through multiple dimensions that allow the researcher to obtain different perspectives of the phenomenon that is examined. According to Yin (2003), a case study methodology should be considered when: (i) the focus of the study is to answer “how” and “why” questions and (ii) the behavior of those involved in the study cannot be altered.

In addition, Flyvbjerg (2006) suggests that case study has a level of flexibility (no limitations in the variables included, number of people that can be interviewed, questions to be asked, etc.) which is not offered by other research methods. It also involves careful and in-depth consideration of the case, historical background, physical setting, and other institutional and political contextual factors. Rodrik (2008) argues that a good case study research relies on a well-constructed validity. Internal validity refers to establishing casual relationships on a given set of conditions. A researcher investigator has to infer that a particular event resulted from some earlier occurrence. He suggests that in case study research casual relationships are well established due to the researcher’s direct exposure to the events of interest. The main advantages of case study methodology are (i) to see is to understand better, (ii) to take into account many variables, and (iii) to get feedback during the investigation resulting from flexibility in case study.

#### **3.1.3.1 Direct observation**

In a case study, the researcher engages in direct observation. Susan Helper (2000, p. 228) states, “you can observe a lot just by watching”. Direct observation helps the researcher to take a variety of roles while participating in the phenomena under investigation. This helps the researcher to perceive the reality from the viewpoint of

someone inside rather than external to the phenomena. If the researcher is offered the opportunity, he can participate in meetings and discussions with various stakeholders. The reliability of observational evidence increases with multiple observations of phenomena. That is why the research observes the phenomena several times. In the same line, Yin (2003) and Helper (2000) argue that in case study active observation requires a lot of concentration and a high level of objectivity for the researcher to maintain the sequence of events, to obtain the complete picture, and to prevent him from drawing conclusions based on its own beliefs. Direct observation, maximizes the ability of the researcher to understand the perceptions of the subjects involved, to understand the phenomenon in its natural environment, and to build knowledge from his own observations and from the subjects involved. In addition, there are various forms of participant observation. The researcher may be a full participant in the events being examined, purely an observer, or being somewhere in between. The participant understands the events as an insider can bring a particular kind of interpretation to the data obtained from documentary evidence (Creswell, 2003).

### **3.1.3.2 Consideration of many variables**

Data collection in empirical and statistical research methods is based primarily on numerical observations obtained from institutions in charge for publishing time series and cross section data. Differently, in a case study methodology the researcher can collect data and information from a variety of sources including documents, archival records, and interviews (Denzin and Lincoln, 2000). Various sources of data and information help the investigator to consider alternative hypothesis and outcomes not identified before the data collection process. Each data source has particular advantages and disadvantages, and by using a combination of sources and techniques, scarcities of one source are supplemented by the advantages of another source. Moreover, Rodrik (2008) argues that in case study the researcher has the opportunity to correctly establish casual relationships among the variables under investigation (internal validity). This methodology helps the researcher to concentrate on the most important issues of the research and to propose appropriate policy recommendations.

To continue, in a case study research consideration of many variables results also from combining qualitative with quantitative evidence that benefits the researcher (Stake, 2005). Quantitative evidence obtained through various sources can indicate relationships among the variables of interest that have not been previously identified by the researcher

(Merriam, 2009). Quantitative evidence in case study keeps the researcher from being carried away by impressions and casual relationships obtained from analyzing qualitative data (Stake, 2005). Qualitative data is useful to the researcher for understanding the rationale or the theory underlying the relationships revealed from a quantitative analysis or may suggest new theoretical implications that can be strengthened by quantitative support (Eisenhardt, 1989).

### **3.1.3.3 Flexibility and feedback**

Flexibility in case study methodology, offers the researcher the opportunity to discover facts on its own, to confirm or deny them during direct observation and interviews, and to introduce new propositions that the researcher did not think about. A good way to obtain feedback in a case study research is to conduct face-to-face interviews. Interviews are an essential source of information as a number of prepared and on the spot questions can be addressed. A researcher can conduct two types of interviews (Yin, 2003). The first one is an open-ended interview. It is very casual and does not comply with a fixed set of questions. In an open-ended interview, a researcher can combine specific and general questions to ensure that important issues are discussed or to allow space for the respondent to suggest topics. During an open-ended interview, the respondents can provide new insights on the matter or recommend new sources of evidence. A drawback of an open-ended interview is that it can be time consuming and may not generate the type of data that is needed for case study analysis. The second type is a focused interview that is designed for a short period and is likely to follow a set of prepared questions. For effective interviews, good preparation prior to the interview will most likely make it more interesting to the respondent and is perhaps the key to productive interviews (Oppenheim, 1992). In an interview, it is often useful to push the respondent to justify a particular interpretation with further arguments and details. This helps to ensure the accuracy of the information acquired. In addition, active and serious participation in an interview means to build problems for respondent in the interview so that people interviewed can see themselves as problem solvers. This is a trick to get a more active participation from people interviewed (Schoenberger, 1991).

### **3.1.3.4 Limitations of case study methodology**

According to Rodrik (2008), case study methodology is mainly questioned on generalization for a broader population (external validity). Another threat to case study



methodology is the influence of researcher's previous experience on the area of interest. The researcher needs to start a case study without any personal bias in finding out on the phenomenon under investigation. Pre-existing assumptions and experience can impede the researcher from observing important and hidden details in the phenomenon. Such biases on the researcher damage the credibility of the data collection process and the overall trustworthiness of the case study research. Lincoln and Guba (1985, p. 300), suggest that the researcher should strive for a stance of "neutrality" that can lead to data that is reliable, factual, and credibility. In a case study methodology, the researcher will be affected by what is being studied. The repetitive nature of data collection, analysis, and synthesis implies that the researcher is continually learning and understanding more about the phenomenon. Consequently, as the primary instrument for data collection and analysis, the researcher needs to change over the course of the research to reflect the on-going findings and not to stick to previous experience or assumptions (Gerring, 2004).

### 3.1.4. Steps in case study methodology

In a case study methodology, the sample can be categorized as (i) purposeful, (ii) criterion based, and (iii) theory based sampling. Purposeful sampling aims at selecting cases rich in information from which the researcher can learn a great deal on the issues and events of key importance to the research objective (Patton, 1990). The logic behind the criterion sampling is to select cases that meet a predetermined set of criteria to help the researcher in answering his questions. Finally, theory based cases assure the researcher to base its conclusions on relevant theory. After categorizing the sample, the steps followed in case study research, according to Baxter and Jack, 2008 (see figure 3.1) are:

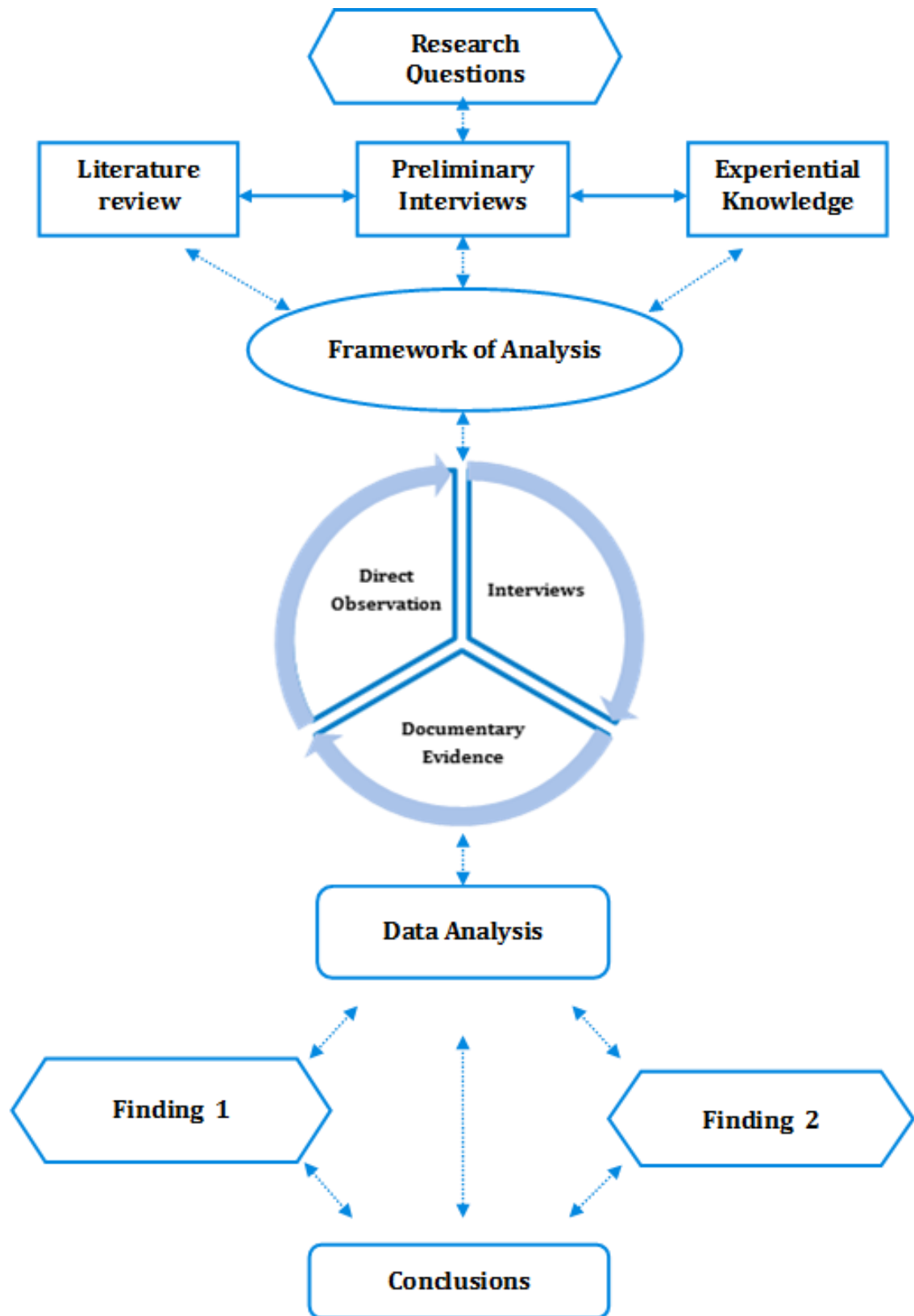
- **Preliminary research**

The main activities performed by the researcher consists in: reviewing the literature, conducting initial interviews with experts in the field, and identifying the professional experience relevant to research objectives. Preliminary research not only widens the knowledge of the researcher but also brings to his attention contradicting views.

- **The framework**

Based on the information obtained in the first step, the researcher prepares the framework in which he shapes the phenomenon of interest together with corresponding research questions in line with the overall objective of the research.

Figure 3.1: Steps in case study methodology



Source: Author presentation based on Baxter and Jack (2008)

- **Fieldwork**

After finalizing the first two steps of case study methodology, the researcher starts fieldwork during which information and data is collected by using multiple techniques including direct observations, interviews, and documentary evidence.

- **Data analysis and conclusions**

After finalizing the fieldwork, the researcher systematically reviews the information and the data collected by using various data analyzing techniques. From the analysis, the researcher confirms or rejects previously identified research questions during the preparation of the framework. As a final step, the researcher draws overall conclusions on the area of interest and prepares policy recommendation.

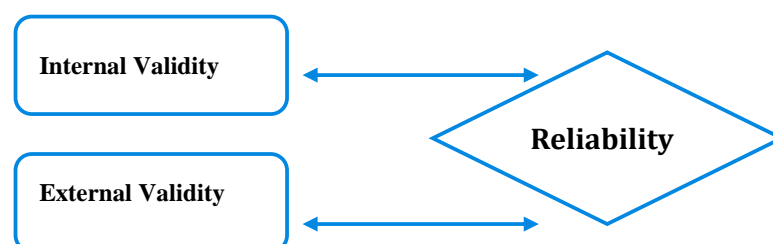
### 3.1.5. Ensuring quality in case study research

A central concern in case study methodology is to integrate different techniques to assure the quality and to generate trust in the findings of the research. Quality in case study research has three components that include trustworthiness, validity, and reliability. Referring to Denzin and Lincoln (2000), as a foundation to obtain credibility researchers need to: (i) clearly define research objectives, (ii) carefully formulate purposeful sampling strategies, (iii) systematically collect and analyze data and information, (iv) correctly analyze the data and the information obtained during fieldwork.

#### 3.1.5.1 Reliability in case study research

Yin (2003) and Golafshani (2003) argue that validity and reliability are key determinants in a case study of good quality (see figure 3.2). A case study research is reliable if it has internal and external validity.

Figure 3.2: Validity and reliability in case studies



Source: Author representation based on Yin (2003)

As previously mentioned, validity refers to taking appropriate steps in order to study the phenomenon of interest, for Yin (2003). Validity is of two kinds internal and external:

- **Internal validity**

It refers to establishing causal relationships among the variables taken into account in a case study research. By relating the variables with each other, the researcher makes interference on the phenomena under consideration.

- **External validity**

It refers to generalizing the findings of a case study to greater groups than those analyzed in a case study. Generalization is not automatic, as it should be based on theory. With reference to generalizing from case studies Guba (1985) and Yin (2003), argues that theory in case studies is not only of immense aid in defying appropriate research design and data collection but also becomes the main instrument for generalizing and ensuring external validity in case study methodology. Theory is key. It is the only way to begin to generalize from case studies. Even though generalizing is not easy, selection and repetition of multiple case studies help to generalize. Uses of multiple sources of evidence help the researcher to strengthen its validity. In addition, reliability reinforces the case study validity. The ultimate goal of reliability is to minimize errors and biases in a study and to strengthen its external validity.

In addition, State (1995) and Yin (2003) have suggested that placing boundaries on what elements of the case study are considered for analysis ensures that it will remain reasonable in scope. The establishment of boundaries in case study research is similar to the development of criteria for sample selection. The difference between the two methods is that by placing boundaries in a case study the researcher indicates the breadth and the depth of the study and not simply the sample of the research. For Creswell (2003), in case study methodology boundaries are determined by: (i) time and place, (ii) time and activity, and (iii) definition and context of the case.

- **Reliability**

It aims to minimize the errors and biases in a case study by keeping track of all persons and data collected as if external reviewers will perform an “audit”.

### 3.1.5.2 Criteria for trustworthiness in case study research

According to Lincoln and Guba (1985) and Golafshani (2003), trustworthiness in case study research is depends on several criteria that are mentioned in table 3.1.

Table 3.1: Criteria for a case study with a good degree of quality

No.	Criteria for trustworthiness	Usefulness
1.	Credibility	To assure value in the findings of a case study methodology by documenting all steps followed during the research.
2.	Transferability	To assure that steps and techniques followed in data collection and interpretation can be applied by other or similar research.
3.	Dependability	To assure proper documentation of sources of information when required for external inspection.
4.	Confirmability	To assure that the researcher is neutral so that the findings derive only from the information obtained by using multiple sources of data and do not include any bias and interests of the researcher.
5.	Prolonged engagement	To assure that the researcher was involved long enough in order to enable the researcher to understand better the characteristics and peculiarities of the phenomena under consideration.
6.	Inclusion of primary source material	To assure that information relevant to the research objectives is included in analysis of case studies so that the researcher does not drift away from the research objectives.
7.	Purposeful sampling	To assure that sufficient data from a sample of units under investigation that meet the overall purpose of the research so that the researcher can draw unbiased conclusions.

Source: Lincoln and Guba (1985) and Golafshani (2003)

### 3.1.6. Case study methodology in the literature on inward FDI and the clothing industry

Case study research has and is widely accepted as an effective methodology to investigate on the impact of FDI in host territories. Blomstom and Kokko (1998) argue that initially FDI impact was examined in 1960's using case studies, while the theoretical arguments appeared only in late 1970s. For example, Johanson and Wiedersheim (1975) analyze the effects of embeddedness of four Swedish companies-Sandvik, Atlas Copco, Facit and Volvo. Behrman and Wallender (1976), examine the operations of General Motors, ITT, and Pfizer in several host countries focusing mainly on backward linkages. Evan (1979 studied the impact of FDI in the Brazilian textile industry) while Langdon (1981) investigated foreign subsidiaries in the Kenyan soap industry. In addition, Munday, Morris, and Wilkinson (1995) use case study methodology to examine the impact of Japanese

manufacturing companies in Wales. Phelps, Lovering, and Morgan (1998), rely on a case study methodology to evaluate the impact of LG green field investment in South Wales. Additional studies are those of Larrain, Lopez-Calva, and Rodriguez-Clare (2000), who investigate the impact of Intel (manufacture of microprocessors) in Costa Rica. To continue, Nayak (2005) looks into Suzuki Motor Corporation as a model of inward FDI in an emerging economy like India. Moreover, Paprzycki (2006) uses case study methodology to study the impact of FDI in Japan. He selects subsidiaries from the automobile, finance, and health care industries. Dikkaya and Keles (2006) choose two Turkish subsidiaries and a Japanese subsidiary to evaluate the impact of FDI in Kyrgyzstan. Van Wunnik (2011) analysis the industrial development of Nien Hsing Textile Co, a Vietnamese clothing manufacturing enterprise, operating in Nicaragua and benefiting from the preferential tax and tariff regime. Callychurn, Soobhug, and Hurreeram (2014), highlight the mechanism used by a successful Mauritian clothing manufacturing company to sustain its success despite operating in a difficult and competitive business environment while Shih, Agrafiotis, and Sihna (2014), study the new product development adopted as a competitiveness factor in a Taiwanese textile and clothing manufacturing company.

## **3.2. OUR CASE STUDY METHODOLOGY ON FDI IN THE CLOTHING INDUSTRY IN ALBANIA**

This section presents our methodology on FDI in the clothing industry in Albania. It starts with the main reasons of why we apply this methodology and it continues with the main steps we followed to analyze four clothing manufacturing subsidiaries operating in Albania.

### **3.2.1. Reasons for our case study methodology**

Yin (2003), argues that case study research permits the researcher to explore areas with little pre-existing numerical data. Research on FDI in clothing manufacturing clothing industry in Albania, is a recent phenomena that began in the early 1990's and intensified only after 2000's with the establishment of the market economy and recovery of the country from the civil war in 1997. Currently, the data available on FDI in Albania and more specifically those on the clothing industry are very limited and comes mostly from the information provided by the Bank of Albania. Since the fall of the communist regime, only

two reports on FDI in Albania are published. United Nations Development Programme published together with the Government of Albania the first report on FDI in Albania only in 2010 and the second report in 2011. Currently, little available numerical data (time series, cross section, etc.) consists in a sample of less than ten observations on the overall stock of FDI in Albania was firstly estimated only in 2007, leaving little room to use empirical methods like regression analysis or forecasting. Another reason why case study is the primary methodology of this research is that the literature consists mostly of various donor's reports, which introduce descriptive analysis of FDI trends in the country. These reports provide policy recommendations on foreign investment that cover the overall business environment in Albania including a broad range of industries, without focusing on a particular sector and without examining the numerous variables required for a thorough investigation of a particular industry. Contrary to the existing literature, the case study methodology in this research aims to yield policy recommendations on foreign enterprises in the clothing industry in Albania based on a thorough investigation of the variables included in the proposed framework.

To continue, in the proposed framework of this research the impact of manufacturing FDI depends on many factors. It is very difficult to include all explanatory variables of the framework into a statistical/econometric model. In such models, only a limited number of variables part of the framework can be tested empirically. Blostrom and Kokko (1998, p.9), say that with the detailed information needed in case studies "no analyses of this character have ever been made-one reason, of course is the extreme data requirements." Because of the limited number of variables that can be included in empirical models and of the vast data requirements, findings derived from statistical/econometric models may have limited explanatory power and may capture only a fraction of the overall FDI impact. However, in a case study research the researcher can consider many more variables of interest than the available data (Yin 2003; Rodrik 2012). Moreover, a case study methodology offers the opportunity to observe how enterprises operate on a daily basis. The literature does not account for the procedures and steps followed by subsidiaries in production processes and especially on how technology is transferred, how raw materials and intermediary inputs are obtained from local suppliers, how training programs have proved beneficial for the employees, and how do subsidiaries upgrade.

The four case studies in this research can be categorized as descriptive and representative. They are descriptive as it describes the activity since the beginnings of

operating in Albania up to 2014. The cases studies in this research are also representative as the objective of a representative case study is to examine the circumstances and conditions of an “ordinary unit of analysis” so that it can help in generalizations. Investigating on qualitative effects of foreign clothing enterprises in a host territory is considered as a common unit of analysis in that particular industry.

### **3.2.2. Phases followed in analyzing case studies from the clothing industry in Albania**

In order to analyze the case studies of this research that consist in four clothing manufacturing subsidiaries five steps were undertaken. The steps are summarized in table 3.3.

#### **3.2.2.1 Phase 1- Preliminary research**

Preliminary research focused on a comprehensive literature review: (i) on the effects of foreign direct investment in host economies, (ii) on the characteristics and the main players in the clothing industry, and (iii) on foreign direct investments and the clothing industry in Albania. What followed the literature review was the identification of institutions and organizations to consult and the preparation of the list with representatives to contact. In addition, the main sources of numerical data were identified. Main sources of data include the National Statistical Institute (INSTAT), the Bank of Albania, the Ministry of Finance, the World Bank, and the Chamber of Façon of Albania. By looking into the type and the categorization of the accessible data, it was possible to pinpoint what important numerical information on the clothing industry in Albania was available and not available after the fall of communist regime in the early 1990's. Finally, in this phase a draft questionnaire for the foreign clothing manufacturing enterprises was prepared and was consulted with the representatives of the Chamber of Façon in Albania and the Textile Department of the Polytechnic University of Tirana.

#### **3.2.2.2 Phase 2 - Preparation of the framework**

The second phase was dedicated to the preparation of the framework used to analyze the clothing manufacturing enterprises selected for this research. The framework is based on two main pillars that are the knowledge transferred in the host territory and evolution



in the quality of the subsidiary. In addition, for each pillar respective subareas were identified. After identification of the pillars with the corresponding subareas, the graphical representation of the framework was prepared. The framework was discussed and finalized after consultations with representatives of the Chamber of Façon in Albania and the Textile Department in the Polytechnic University of Tirana. Upon finalization of the framework, the researcher set out the criteria for selection of foreign clothing manufacturing enterprises operating in Albania. Finally, during this phase, the questionnaire on the enterprises was finalized and a tentative schedule of meetings with stakeholders was prepared.

### **3.2.2.3 Phase 3 - Fieldwork**

The third phase of the research was dedicated to fieldwork a key prerequisite to analyze the foreign clothing manufacturing enterprises in Albania and to interview institutions and organizations identified during phase 1 and phase 2. The criteria used to select the four cases studies in this research were:

- to have subsidiaries that started the operational activity in the early 1990's, ensuring this way that the enterprises have been manufacturing in Albania for more than 15 years;
- to have subsidiaries that are geographically spread in the main regions of Albania where the clothing industry is present;
- to have subsidiaries representing the nationality of the main export destinations of finished articles in the clothing industry
- to have subsidiaries that would cover all the variety of goods manufactured in Albania (underwear, sport outfits, traditional dresses, dresses, trousers, swimwear, etc.)

The fieldwork conducted in this research can be characterized as intensive and extensive. Numerous efforts spent on identifying and contacting relevant individuals in order to obtain accurate information in accordance with research objectives set out in the first chapter of the thesis. Institutions and organizations in this research fall into three main categories as presented in figure 3.3. The first category refers to institutions contacted to obtain numerical (quantitative information). From these institutions numerical information on the regional economy, FDI in Albania, the clothing industry, and the doing business environment in the countries located in South-East Europe was obtained. The second

category refers to people interviewed who were helpful in providing information on the clothing industry, people from the government, and those in institutions that are concerned with attracting FDI. The third category refers to group of people that are relevant to the operational activity of clothing manufacturing subsidiaries. From these categories, it was possible to obtain information on different areas covered in this research. In order to receive the needed information frequent contacts were kept with all institutions and organizations.

Figure 3.3: Relevant institutions and organization contacted during fieldwork

<b>Numerical Information (quantitative)</b>	<b>Information on case studies</b>	<b>Other relevant information</b>
<ul style="list-style-type: none"> <li>• INSTAT</li> <li>• Bank of Albania</li> <li>• Ministry of Finance</li> <li>• Chamber of Façon in Albania</li> <li>• National Registration Center</li> <li>• World Bank</li> <li>• United Nations Development Programme</li> </ul>	<ul style="list-style-type: none"> <li>• Shqiperia Trikot sh.p.k</li> <li>• Naber Konfeksion sh.p.k</li> <li>• Valcuvia Alba sh.p.k</li> <li>• Industria Ballkanike sh.p.k</li> <li>• (Owners, administrators, managers, employees of clothing manufacturing subsidiaries)</li> <li>• Subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Economic Development, Trade, Tourism, and Entrepreneurship</li> <li>• AIDA</li> <li>• National Employment Inspectorate</li> <li>• The Chamber of Façon of Albania</li> <li>• Foreign Investors of Association of Albania</li> <li>• Façon Package Black Belt Team, Harvard University</li> <li>• Experts from Polytechnic University of Tirana (Textile Department)</li> <li>• University of Tirana (Economic Faculty)</li> </ul>

Source: Author representation based on fieldwork

During this phase, a special initiative was undertaken with the Chamber of Façon in Albania, which aimed at identifying the total number of clothing manufacturers in Albania. This information was not available in any Albanian institutions, which is designated to publish official statistics. The Chamber of Façon in Albania started to identify all clothing manufactures (foreign and domestic) spread throughout Albania. To continue, interviews with additional relevant organizations were conducted on an ongoing basis. Such organizations include the Foreign Investors Association of Albania, Confederation of Trade Unions, Polytechnic University, donors that have provided funds for strengthening

the clothing industry in Albania, and representatives of Harvard University, Center for International Development, involved in the preparation of the Façon Package in Albania.

Table 3.2: Sources of information in case study research

No.	Category	Type of Data	Purpose
1.	Material & documentary evidence	<p>Official records on the establishment of the subsidiary and subcontractors.</p> <p>Historical data on the operating activity of the subsidiary, subcontractors, owners, suppliers.</p> <p>Financial records on the activity of the subsidiary (confidential information).</p> <p>Administrative procedures on the operations of the subsidiary.</p>	<p>Useful in grasping the activities, of the owners subcontractors, workers, and suppliers of each subsidiary and to obtain necessary information on the performance of their performance since their establishment in Albania.</p>
2.	Interviews	<p>Textual data from conversations held with the interviewers.</p> <p>Historical information obtained during the conversation with representatives of institutions and organizations involved.</p> <p>Information on the establishment of additional production plans in the subsidiaries.</p> <p>Information on the government policies to attract foreign investment in general and the clothing industry in particular.</p> <p>Information on the difficulties encountered by clothing manufacturers in Albania.</p> <p>Information on the trends of the clothing industry in Albania.</p>	<p>Useful information on analyzing the four case studies according to the framework used in this research.</p> <p>The information obtained is necessary to draw overall conclusions in accordance with research objectives.</p>
3.	Participant observation	<p>Textual data in the form of field notes.</p> <p>Descriptions of the events, activities and processes experienced by the participant.</p>	<p>Useful information in collecting descriptive details about the cases and helpful to interpret and understand the data collected during interviews and those obtained from documentary evidence.</p>
4.	Statistical information	<p>Numerical data mostly macro-economic in nature (trade, foreign investment, employment, number of enterprises, GDP etc.), clothing industry and FDI in Albania.</p>	<p>Useful information in understanding and analyzing the economy, clothing industry, and foreign investment in Albania. Useful for establishing links between the four case studies and overall business environment.</p>

Source: Author representation based on fieldwork

Questions addressed were according to a predetermined questionnaire and supplemented with on the spot questions depending on the information that was generated. On-site visits were useful to the researcher to observe operations in all departments and units of the subsidiaries and to understand better the organization and the level of dependency from the head office. The researcher interviewed different levels of employees ranging from administrators, to middle management, and assembly workers. The researcher also talked with representatives of all local subcontractors working with the

clothing manufacturing enterprises under consideration while on-site visits were realized only in three subcontractors.

Frequent contacts with relevant institutions and organizations ensured a correct identification of various categories of sources of information from which the researcher was able to generate different types of data. Table 3.2 lists the main sources of information, the data, and the purpose of the information for each category.

#### **3.2.2.4 Phase 4 - Analysis**


After collecting the necessary information and finalizing the fieldwork, the analysis on the four case studies included in this research was prepared. The analysis was developed based on the comparison among them according to the two main areas of the framework. The comparison served to identify the similarities and the differences between the four cases. In the analysis, an ongoing reference is made to rival and supportive suppositions on the qualitative effects of FDI in the host territory. In addition, in this phase the researcher identified limitations encountered in the activity of foreign clothing manufacturing enterprises in the local economy. Finally, the analysis on the four case studies was discussed with representatives of the Chamber of Façon of Albania, academics of the Polytechnic University of Tirana, and University of Tirana.

#### **3.2.2.5 Phase 5 - Findings, conclusions and policy recommendations**

The last stage of the research was to prepare the findings on the four case studies based on the framework under which the analysis was performed. Identification of findings, served to draw general conclusions on the qualitative effects of foreign clothing manufacturing enterprises in Albania. Based on the findings and conclusions the researcher identified possible policies to propose remedies on the gaps identified during the analysis, on upgrading of the clothing industry in Albania, on possible policy recommendations on making more competitive the clothing industry in Albania, and on areas of further research.

Table 3.3: Main phases in case study methodology in analyzing the four subsidiaries

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
	Preliminary Research	Preparation of the Framework	Fieldwork	Analysis	Conclusions and policy recommendations
Goal	Preliminary research to obtain knowledge on the research area in order to identify the steps to follow in accordance with the overall objectives of the research.	Preparation of the framework to identify the main areas in order to analyze the four clothing manufacturing subsidiaries part of the research.	Fieldwork to obtain the necessary data and information from a variety of sources required to analyze the four clothing manufacturing subsidiaries of this research.	Analysis in order to find the similarities and differences between the four cases. The analysis serves also as the basis for drawing conclusions on the research.	Drawing of conclusions to respond to research objectives and to identify areas of further research.
Activities	<p>Extensive review of the literature on the effects of FDI in host territories.</p> <p>Review of the literature on the characteristics of the clothing industry.</p> <p>Review of the literature on foreign investment and the clothing industry in Albania</p> <p>Identification of the type of data from sources like:</p> <ul style="list-style-type: none"> <li>(i) INSTAT;</li> <li>(ii) Bank of Albania;</li> <li>(iii) Ministry of Finance;</li> <li>(iv) additional sources.</li> </ul> <p>Identification of institutions and organizations relevant to the research area.</p> <p>Identification of persons to contact on behalf of the</p>	<p>Classification of qualitative effects to be included in the framework</p> <p>Identification of two pillars of the framework consisting in:</p> <ul style="list-style-type: none"> <li>(i) knowledge transferred in the host territory;</li> <li>(ii) evolution in the quality of the subsidiary;</li> </ul> <p>Identification of subareas to be included in each pillar of the framework. Preparation of the graphical representation of the framework.</p> <p>Discussion and feedback on the framework with Chamber of Façon in Albania and other relevant stakeholders,</p>	<p>Interviews with government officials (deputy minister, secretary general, directors, head of sectors, and experts) involved in the clothing industry in Albania.</p> <p>Interviews with local government authorities in the four regions where subsidiaries are located.</p> <p>Interviews within the four subsidiaries (clothing manufacturers) under investigation. The persons interviewed in the subsidiaries include:</p> <ul style="list-style-type: none"> <li>(i) administration/high management;</li> <li>(ii) middle management;</li> <li>(iii) workers offering mostly assembly services.</li> </ul> <p>Interviews and on-site visits to subcontractors of subsidiaries.</p>	<p>Comparison between the four subsidiaries according to the framework prepared in phase 2.</p> <p>Identification of similarities and differences between the four cases.</p> <p>On-going reference to rival and supportive propositions identified from literature review during phase 1 and phase 2 of the research.</p> <p>Continuous reference to numerical data collected on subsidiaries and to those related to the local economy, foreign investment, and clothing industry in Albania.</p> <p>Identification of limitations of the qualitative effects of foreign investment in the clothing industry.</p>	<p>Drawing of conclusions for each pillar of the framework.</p> <p>Drawing of general conclusions on qualitative effects of foreign investment in the clothing industry in Albania.</p> <p>Ongoing reference to literature review prepared during phase 2.</p> <p>Identification of possible policies to propose remedies on the gaps identified during analysis of subsidiaries according to the framework.</p> <p>Identification of areas of further research that can serve policy makers to upgrade the clothing industry.</p>

	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
	Preliminary Research	Preparation of the Framework	Fieldwork	Analysis	Conclusions and policy recommendations
Activities	<p>stakeholders involved in the clothing industry in Albania,</p> <p>Specification of criteria to select the four clothing manufacturing subsidiaries to be investigated.</p> <p>Preparation of the initial questionnaire for the case studies to discuss with clothing industry representative of the Chamber of Façon in Albania.</p> <p>Preparation of the first set of interview questions to discuss with relevant institutions and organizations.</p>	<p>determination of the criteria used to select the foreign clothing enterprises in Albania.</p> <p>Finalization of the questionnaire to analyze the four clothing manufacturing subsidiaries.</p> <p>Preparation of a tentative schedule of meetings with stakeholders to be followed during the fieldwork.</p> <p>Identification of gaps in the data available from authorized institutions.</p>	<p>Participation and observations in each department of subsidiaries to understand steps in the production process.</p> <p>Meetings and interviews with representatives of associations of the clothing industry and trade unions in Albania.</p> <p>Meetings and interviews with representatives of various donors related to the clothing industry in Albania.</p>	<p>Discussion of case study analysis with representatives of the Chamber of Façon in Albania.</p>	

Source: Author representation based on fieldwork

### 3.2.3. Establishing reliability in case study methodology

The researcher tried to establish trustworthiness in case study methodology by following the criteria previously introduced for case study research and more specifically as presented in table 3.4.

Table 3.4: criteria for trustworthiness in our case study methodology

No.	Criteria for trustworthiness	Usefulness
1.	Credibility	The steps followed in the case study methodology are documented based on the questionnaire prepared, on the information received through emails, on-site interviews, and when allowed pictures taken in the clothing manufacturing subsidiaries.
2.	Transferability	The case study methodology is based on the two pillars of the framework, which can be applied in analyzing subsidiaries in any host territory and in different industries.
3.	Dependability	Documentation is assured from the information obtained in written from clothing manufacturing subsidiaries part of this research.
4.	Confirmability	In each phase of case study methodology the researcher on an on-going basis consulted the president of the Chamber of Façon in Albania, who has more than twenty years of experience and knowledge of the clothing industry in Albania, in the region, and Europe. The researcher obtained additional feedback from the textile department in the Polytechnic University of Tirana and economic experts from the University of Tirana, Faculty of Economics.
5.	Prolonged engagement	To assure that the researcher was involved long enough in order to enable the researcher to understand better the characteristics and peculiarities of the phenomena under consideration.
6.	Inclusion of primary source material	Thirdly, the chain of evidence was established by collecting detailed information on operations of subsidiaries including production activity, organizational structures, customers, raw materials, suppliers, subcontractors, employment, training of employees, etc.
7.	Purposeful sampling	In order to assure purposeful sampling criteria for sample selection were set based on the traits of the clothing industry in Albania.

Source: Author representation based on fieldwork

### Internal validity

It occurs by establishing relationships between numerous variables identified and obtained for each case study. In order to compare the four case studies the same variables were considered for each case so that similarities and differences could be identified as per the proposed framework and incorporated in policy recommendations. In addition, the variables identified for each case were useful to establish any relationships with the clothing industry in Albania.

### External validity

It is obtained by referring to theory. The framework on which case studies are analyzed is strongly based on extensive literature review. Reference to theory is made throughout the research and especially in drafting the analysis and in drawing conclusions on the four cases. In addition, as presented in table 3.5 the findings and the conclusions of this research are based on the strains of theory introduced in the literature review chapter. Most importantly, external validity in this research relies on the replication of steps followed in the four clothing manufacturing enterprises were useful not only to observe and understand the dynamics in each case but also to draw generalizations from this research.

Table 3.5: Validity in case study methodology

No.	Type	Description
1.	Internal validity	<p>Identification of many variables with reference to production, investments, employment, training, sales, clients, types of products of the subsidiary, etc. for each case study.</p> <p>Establishment of links between the pillars of the framework during case analysis.</p> <p>Connection between variables used to present the clothing industry and foreign investment in Albania with those included in the four cases.</p>
2.	External validity	<p>Construction of the framework based on theory.</p> <p>Continuous reference to theory while analyzing the four clothing manufacturing subsidiaries.</p> <p>Findings, conclusions, and policy recommendations are based on theory introduced in the literature review.</p>

Source: Author representation based on fieldwork

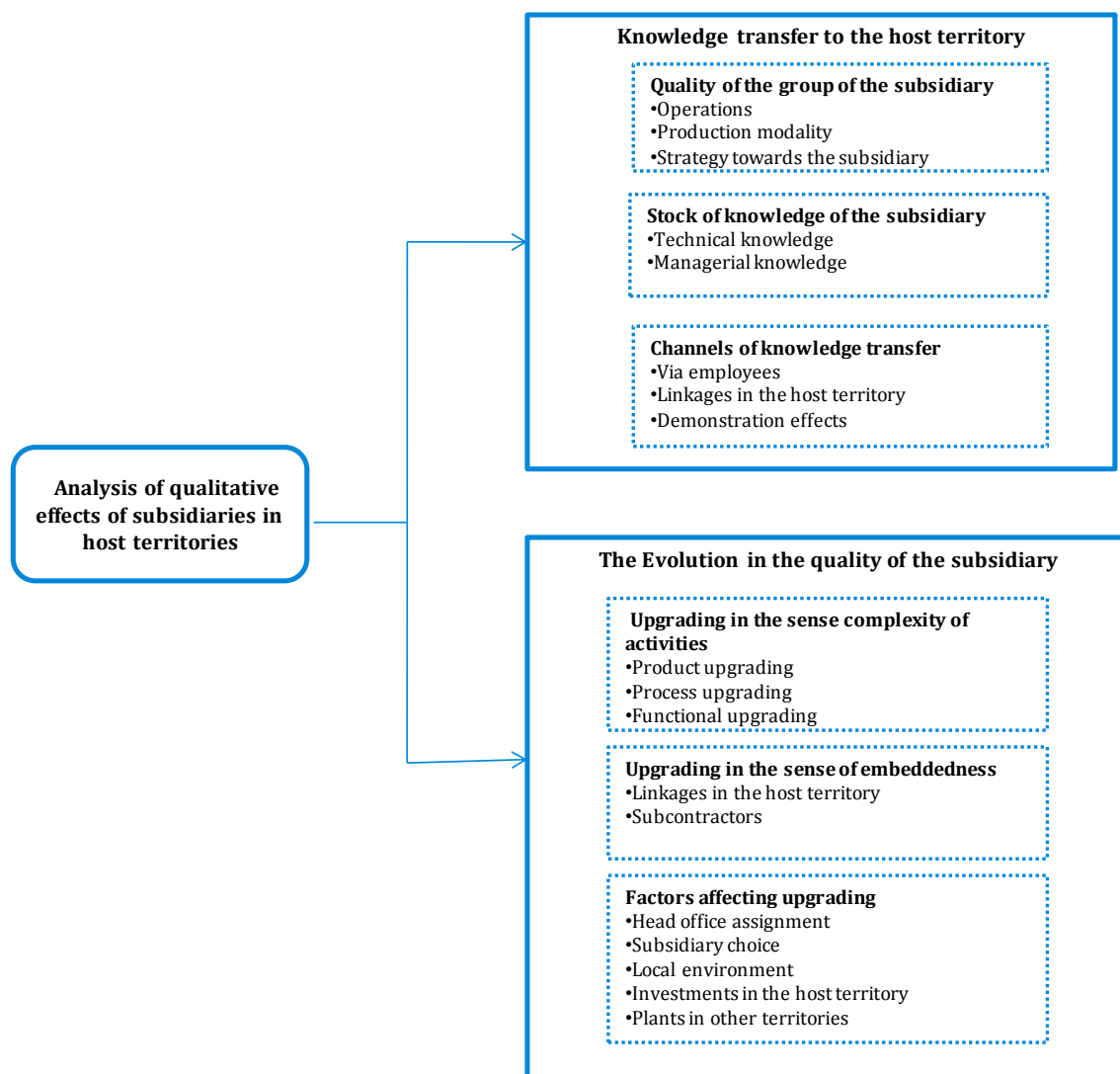


### 3.3. FRAMEWORK FOR OUR CASE STUDY ANALYSIS

#### INTRODUCTION

The proposed framework in figure 3.4 is based on the literature review previously presented. The framework serves as the reference point for analyzing the qualitative effects of foreign clothing manufacturing enterprises in Albania. The proposed framework has two pillars: (i) knowledge transfer to the host territory and (ii) the evolution in the quality of the subsidiary overtime.

Figure 3.4: Framework for case study analysis

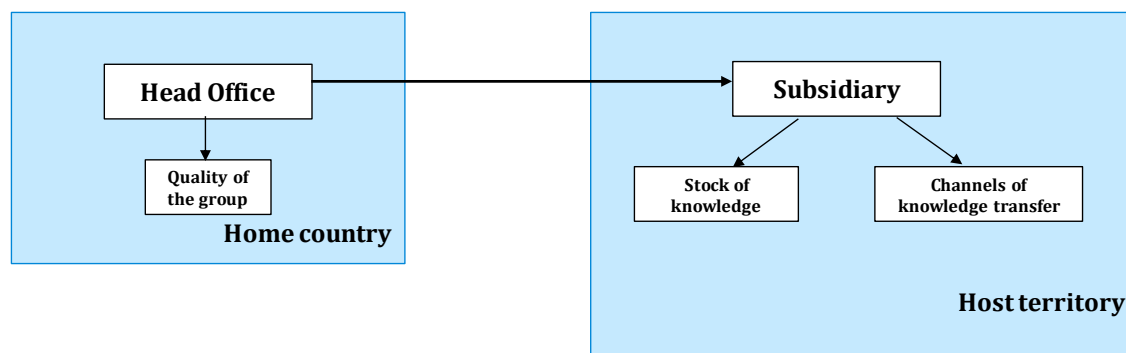


Source: Author representation based on fieldwork

### 3.3.1. Qualitative effects of FDI in host territory

Qualitative effects of FDI in the host territory will depend on the quality of the group to which the subsidiary belongs, the quality of the subsidiary, and the channels of knowledge transfer with the agents of the host territory (see figure 3.5).

Figure 3.5: The connection between the group, the subsidiary, and the host territory



Source: Author representation based on fieldwork

In order to determine the quality of the group<sup>6</sup> and the links to the subsidiary table 3.6 presents the main indicators.

Table 3.6: Quality<sup>7</sup> of the group to which the subsidiary belongs

No.	Quality of the group the subsidiary belongs	Indicator
1.	Operations in the head office	Functions with high gains performed: design, marketing, research and development, purchasing of raw materials, etc.
2.	Production modality	The group depends only on the orders of customers (is only a subcontractor to international brands) or it possesses a degree of independency by producing also its own brand.
3.	Strategy towards the activity of the subsidiary	Delegation of complex activities to the subsidiary, appointment of local employees in high management of the subsidiary, training programs of employees, investments made in the host territory.

Source: Author representation based on fieldwork

<sup>6</sup> The group will refer to the head office, subsidiaries, subcontractors, form of cooperation with suppliers and customer in each clothing manufacturing enterprise.

<sup>7</sup> Quality as a potential emitter of knowledge in the host territory.

The first pillar of the framework refers to the knowledge transferred in the host territory. It considers the quality of the group to which the subsidiary belongs, the stock of knowledge of the subsidiary, and the channels through which knowledge is transferred in the host territory. Indicators for this pillar are included in table 3.7.

Table 3.7: Indicators of knowledge transferred in the host territory

No.	Stock of knowledge of the subsidiary	Areas to consider for clothing manufacturing subsidiaries in Albania
1.	Technical	Quality testing, assembly operations, functions of departments, expansion in the kinds of operations and processes offered over the years, etc.
2.	Managerial	Level of local staff engagement as managers in subsidiaries, responsibilities in selection of employees, financial management, risk diversification, market research, etc.
No.	Channels of technology transfer	Indicators for the research
1.	Via employees	Level of skills in local employees; Position of local employees within the hierarchy of the subsidiary (shop-floor – middle management – top management); rotation within the production process (sewing – cutting – quality testing – supervisor). Training of employees (duration, initial, workshop, technical, fields of knowledge, place of training). Presence of foreign experts, level of interaction with foreign experts, length of visits in the subsidiaries, etc.
2.	Linkages in the host territory	Type of linkages (dependency of sales local supplier/subcontractor to buyer-subsidiary, kind of intermediate product (complex, simple) sold by supplier/subcontractor to subsidiary, price paid to subcontractor/supplier). Counselling of local suppliers/subcontractors by subsidiary.
3.	Demonstration effects	Creation of new firms, spin-offs (by ex-employees of subsidiary) Ex-subcontractor of the subsidiary as an independent enterprise producing directly for the final buyer (customer)

Source: Author representation based on fieldwork

The second pillar of the framework refers to the evolution in the quality of the subsidiary. This pillar includes: (i) upgrading in the sense of complexity of activities, (ii) upgrading in the sense of embeddedness and (iii) factors that affect upgrading. Indicators of subsidiary upgrading are part of table 3.8.

Table 3.8: Indicators of subsidiary upgrading

No.	Upgrading in the sense of complexity of activities	Indicators for the research
1.	Process upgrading	Evolution of processes through time, moving from assembly to full package, complexity of processes realized since settling in the host territory.
2.	Product upgrading	Production of standardized and differentiated products. Changes in the category of finished goods manufactured through years.
3.	Functional upgrading	Functions undertaken within the subsidiaries ranging from marketing, design, branding, selection and monitoring of suppliers, etc. Involvement of subsidiaries in functions realized in the head office.
No.	Upgrading in the sense of embeddedness	Indicators for the research
1.	Linkages in the host territory	Forward and backward linkages in the host territory, the nature of linkages.
2.	Subcontractors	The nature and degree of cooperation with local subcontractors, the number of subcontractors, the functions realized in subcontractors, the level of production, etc.
No.	Factors affecting upgrading at a firm level	Indicators for the research
1.	Head office assignment	Decision of the head office on the responsibilities assigned to subsidiaries in the host territory. Changes and the nature of assigned responsibilities. Degree of autonomy of the subsidiary (investment, selection of suppliers/subcontractors, choosing the employees (workers managers), finding customers, etc.
2.	Subsidiary choice	Decisions of the managers of the subsidiary in the activities in the host territory including establishment of forward and backward linkages. The degree of "freedom" local managers have in operational activities of the subsidiary, their role in selection of suppliers, assignment of responsibilities to subcontractors, etc.
3.	Local environment factors	Identification of any political, social, economic occurrences in the host territory that may have affected operations in case studies.
4.	Investments in the host territory	Investments in specialized equipment that cannot be easily transferred or used in another industry. -High fixed costs associated with the investment made the degree of investment in operational facilities, machines, and ICT of cases in Albania, etc. Expansion in the activity/investment of existing subsidiaries potential for future investments; opening of new subsidiaries in Albania The point in time investments are made in the subsidiary. The more distant in time the investment higher possibilities for moving out. -Identification of when the investments were made and how they are related to the activities of the cases.
5.	Plants in other territories	Existence of other operational plans of the enterprise and the level of subcontracting in other countries, the importance of other plants or subcontractors in production. Capacity of existing plants, market in which plants sell their products.

Source: Author representation based on fieldwork

# CHAPTER 4

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## THE CLOTHING INDUSTRY AND ITS PRESENCE IN ALBANIA

## INTRODUCTION

The clothing industry is a globally spread industry from one continent to the other. It was one of the most protected of all industries, ranging from agricultural subsidies on input materials (cotton, wool, rayon) to a long history of quotas under the Multi Fibre Arrangement (MFA) institutionalized in 1974, which ruled international trade in the clothing industry for two decades and Agreement on Textiles and Clothing (ATC) in 1995. The MFA/ATC restricted exports to major consuming markets by imposing country limits (quotas) on the volume of certain imported products (Gereffi and Frederick, 2010). Trade restrictions have contributed to the international fragmentation in the value chain of the clothing industry, in which developing countries having a cheap labor force engage mostly on assembly activities of imported inputs and re-export final products. The removal of quotas in 2005 marked the end of over 30 years of restricted access to the markets of the European Union and North America. This caused a tremendous flux in the global geography of production and trade together with a restructuring of strategies to adjust production in line with the new economic and political global environment (Tewari, 2006).

The global clothing industry is a multi-billion industry that is considered a source of economic development and industrialization. The clothing industry is also a forerunner of globalization, as it was one of the first industries to adopt a global dimension, incorporating developing countries into the value chain. Today, the industry is undergoing a profound change reflecting the transformation of the global economy (Thoburn, 2009). The clothing industry has closely mirrored the general trends of consumption and taste in the last decade and has become more customer oriented by putting special emphasis on the design, branding, and marketing functions of the industry value chain. Firms in developed countries that are mostly branded manufacturers that dominate the value chain undertake and perform these functions. Developing countries typically participate in the value chain of the clothing industry through provision of services mostly on labor-intensive production processes. Participation in the value chain of the clothing industry is a way for developing countries to: (i) attract investment, (ii) increase technological capability, (iii) build industrial capacity, (iv) foster economic growth, (v) generate employment, and (vi) spread influence in the local labor markets. These benefits make the clothing industry a key player in the global environment.

Clothing manufacturing enterprises face a variety of challenges. Since the removal of quotas, the global clothing industry is faced with overcapacity that is creating intense competition from low-cost countries. Quotas created too many factories in too many countries, and now these factories are competing for orders. In the short term, this has significantly increased the standards as customers are asking for quality products, more services, and faster turnaround times, all for lower costs. Suppliers must meet demand to keep orders, increase volume, and reduce costs while facing an ongoing consolidation in the retail sector giving more power to global customers including retailers, global brands, and large manufacturers that have outsourced their production (Martin, 2013). Customers are aware and sensitive not only to clothing manufacturing but also for utilizing questionable labor practices to reduce costs. Monitoring of these labor conditions is very difficult especially for home workers and for those in the informal market. However, in the clothing industry the importance of skills has increased for general line operators and particularly for supervisors, technical positions, and managers (Ramirez and Rainbird, 2010). Increasing requirements from customers have raised the demand for relatively skilled workers and high labor productivity. Additional challenges in the clothing industry include constant fluctuations in commodity prices, changing seasons and trends, the birth of fast-fashion, and the creation of an environment where speed is of the utmost importance in bringing a product from concept to shelf as quickly as possible. In addition, the role of outsourced manufacturing has created supply chains spanning in countries and continents with inherent challenges of management and oversight (Goto and Endo, 2014).

This chapter begins with a detailed description of the textile-clothing value chain and subsidiary upgrading followed by a presentation of the clothing industry in Albania. It continues with the presentation of the Façon Package and concludes with the advantages offered by Albania to foreign clothing manufacturers.

## **4.1. TEXTILE - CLOTHING VALUE CHAIN**

This section focuses on the value chain of the clothing industry. It starts with the presentation of the concept of the value chain and the description of the producer and buyer driven value chains. The section continues with an explanation of the segments and characteristics of the value chain.

### 4.1.1. Concept of the value chain and two types

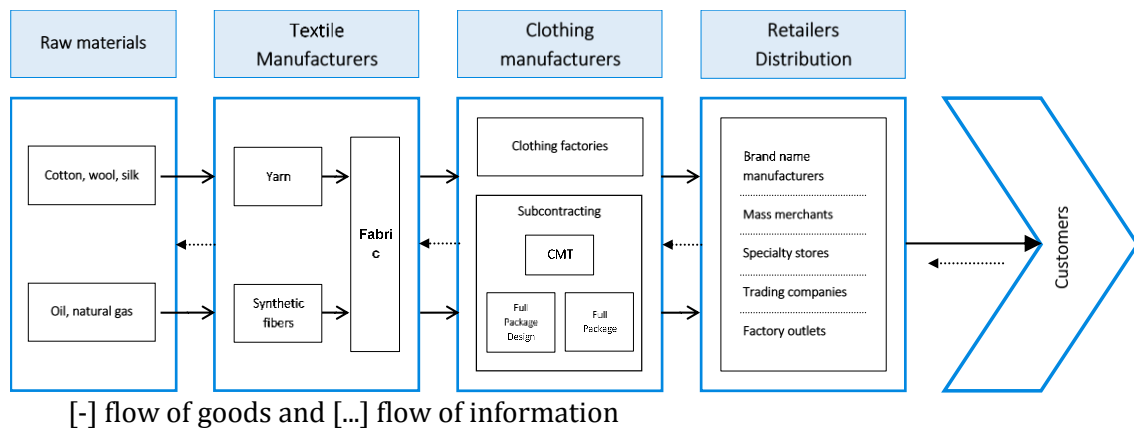
The term “value chain” is used to describe the flow of goods from the first process encountered in the production of a product through the final sale to the end customer (Bruce and Daly, 2004). For Kalpinsky and Morris (2002, p.4), a value chain “describes the full range of activities required to bring a product or service from conception, through different phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use”. It includes all activities involved in delivering a product from sourcing raw materials and parts, manufacturing and assembly, warehousing, inventory tracking, order entry and management, distribution across all channels, delivery to the customer, management information systems necessary to monitor all of these activities (Lam and Postle, 2006). A value chain is characterized by the flow of goods, services, money, and information both within and among business entities including suppliers, manufacturers, and customers. It also includes all types of organizations engaged in transportation, warehousing, information processing, and materials handling. Sourcing, procurement, production scheduling, manufacturing, order processing, inventory management, warehousing, and customer service are the functions performed throughout the value chain. The ultimate goal of the value chain is to meet the demand of the customer more efficiently by providing the right product, in the required conditions, and in the desired time (Romano and Vinelli, 2004).

Each step in the chain generates more value for the customer (Nuruzzaman, Haque, Azad, 2010). Activities in the value chain are not separated as linkages exist between primary activities and supporting activities (Nordas, 2004).

According to Bair and Gereffi (2001, p.1888), the current internalization of markets led to the concept of “global value chains” (see figure 4.1) more specifically for the textile clothing industry it is “composed of links that represent discrete, though interrelated, activities involved in the production and distribution of goods and services. [...] the chain extends from raw materials (e.g., cotton, or petrochemicals), to production of natural or synthetic fibres and textiles, then to the design, cutting, assembly, laundering, and finishing of apparel, and, finally to the distribution, marketing, and retailing of garments”. This chain refers to the production and distribution processes across borders through close cooperation of separate firms, outsourcing and off-shoring activities to developing countries.



Figure 4.1: Textile-clothing value chain



Source: Prepared by the author based on Nordas (2004) and Gereffi and Memedovic (2003)

According to Chan (2003), the value chain in the clothing industry encompasses customers, retail stores, distributions centers, manufacturing plants, textile plants, and raw materials. The dotted lines represent the flow of information, while the solid lines represent the flow of goods. The information flow starts with the customer and forms the basis of what is being produced and when. It is also worth noticing that information flows directly from retailers to the textile plants in many cases. The textile sector produces for clothing manufacturing and for household use. In the first case, there is direct communication between retailers and textile mills when decisions are made on patterns, colors and material. In the second case, textile mills often deliver household appliances directly to retailers (Mohammad and Habib, 2012).

According to Gereffi and Memedovic (2003) a value chain can be a producer-driven value chain or a buyer-driven value chain.

In producer-driven value chains, large multinational manufacturers have the main position in coordinating production networks. Producer-driven value chains are typical for capital and technology intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Profits are generated from scale, volume and technological advances. In producer-driven chains, manufacturers making of sophisticated products like aircraft and automobiles are key players not only in terms of their earnings but also in the ability to control suppliers of raw materials, distribution, and retailing. MNEs operating in such chains are most commonly structured as oligopolies.

On the other hand, buyer-driven value chains involve large retailers, marketers and branded manufacturers whose main role focuses on setting up decentralized production mostly present in developing countries. Buyer-driven value chains are typical for labor-intensive, consumer-goods industries such as clothing, footwear, toys, and handicrafts. Buyer-driven value chains are characterized by highly competitive and globally decentralized factory systems with low entry barriers in manufacturing (Scott, 2006). The firms that develop and sell brand named products have considerable control in determining the manufacturing of goods including the volume, the place, production techniques, and the level of profit at each stage.

Buyer-driven commodity chains are characterized by highly competitive and globally dispersed production systems. Profits in buyer-driven chains derive from unique combinations of high-value research, design, sales, marketing and financial services that allow retailers, branded marketers, and branded manufacturers to act as strategic agents in synchronizing production outsourced in various countries with demands of consumers (Humphrey and Schmitz, 2002).

#### **4.1.2. Textile-clothing value chain: segments**

The textile-clothing value chain has four main segments as per figure 4.1:

- Raw materials refer to materials can be in the form of natural and synthetic fibers. Natural fibers like cotton or wool come from agriculture inputs while synthetic fibers are generated from other natural resources like oil and gas (Nordas, 2004).
- Textile manufacturers include firms that specialize in production of various fabrics by spinning, weaving, dyeing, and printing raw materials. Production is characterized by large scale and sophisticated machines. Textile manufacturers are usually large firms that are able to make high level of investments needed to purchase and maintain sophisticated machines required for production of fabric. This is the most capital-intensive segment of the value chain (Christopher and Towill, 2006).
- Clothing manufacturers include firms that assembly the fabric obtained from textile manufacturers. Compared to textile manufacturing, production of clothing is based on less sophisticated machines (sewing and cutting). Clothing manufacturers are

usually of all sizes ranging from large firms employing thousands of workers to small subcontractors. This segment of the value chain is the most labor intensive.

- Retailers/Distribution include firms that are: (i) brand manufacturers (Levis and Tommy Hilfiger), (ii) brand marketer (Fruit of the Loom and Zara), (iii) mass merchants (Walmart, Tesco, C&A), (iv) specialty stores (Gap, Benetton, H&M), (v) trading companies that work with catalogue delivery (Otto Group), (vi) factory outlet (TK&Max). These firms are regarded as “lead firms” of the value chain as they dominate the export and marketing of goods produced by clothing manufacturers. These firms are the ones that reach the end customer (Gereffi and Frederick, 2010).

#### **4.1.3. Textile-clothing value chain: main characteristics**

The textile-clothing value chain is a typical “buyer-driven chain”, where lead firms coordinate global production of clothing in relation to final customers on the one hand, and local industries in developing countries on the other hand. Most value in the clothing industry is associated with the control of key functions such as branding, designing, and marketing that are undertaken in developed countries by lead firms. These firms obtain the highest profits and possess the negotiating power from the demand side (Gereffi, 1999; Gereffi and Frederick, 2010; Goto, Natsuda and Thoburn, 2011). Changes in trade policy have given rise to new dynamics in the clothing industry. Value chains have undergone profound restructuring to meet new market demands for “fast fashion”, marked by rapid shipments, higher quality requirements, retail inventories, of right quantity, at the right location, on the right time, and in the right condition resulting in geographical fragmentation of the various segments of value chain. Today, the value chain is oriented towards waste reduction, time compression, flexible response, reduction in unit costs emphasizing this way the importance of both intra and inter firm coordination (Brewer & Speh, 2000). This trend recognizes that the way to competitive advantage lies in the value chain (Christopher and Towill 2006).

The main players in the value chain of clothing industry include major international retail chains and that are also known as lead firms. They respond much faster to retailer demands transforming the time involved in meeting orders into a cost. Currently, only few retailers continue to manufacture in the industry as most are focused in outsourcing and subcontracting arrangements (Dicken, 2011).

The emergence of value chains has major policy implications for economic growth in developing countries. For many industries, the spread of clothing manufacturing across various countries has lowered the costs of production of final goods and has increased the productivity of labor and capital. According to Baldwin (2011), the spread of value chain has two main consequences for developing countries. Firstly, it has created a path through which countries can industrialize at a much earlier stage of development as lead firms choose to outsource fractions of the value chain to countries where labor is cheaper or where locational advantages allow a competitive cost advantage on the whole value chain (Thoburn, 2009). Secondly, it allows suppliers to meet standards and regulations that permit them to access markets in developed countries, and to utilize advanced technology that would not otherwise be available (Tewari, 2006).

An example of how the value chain operates is that of US retailers. They typically replenish their stores on a weekly basis. Point of sales data are extracted and analyzed over the weekend and replenishment orders are placed with the manufacturer on Monday morning. The manufacturer is required to fill the order within a week, which implies that he/she will always have to carry larger inventories of finished goods than the retailer. How much larger depends on his own lead-time and volatility in demand (Humphrey and Schmitz, 2002). Frequent fluctuations in demand and the greater the variety of products in style, size and color the larger the inventory has to be. On the other hand, the shorter the manufacturer's lead time, the better the demand forecasts. Upon receiving the replenishment order, the manufacturer will fill it from its inventory and then based on the gap between remaining inventory and the desired inventory level, will place orders to production plants, located in different territories (Lam and Postle, 2006). Retailers may order large quantities of a given product from a number of producers located in several low-wage countries. In order to ensure that goods are similar and can sell under the same label, retailers often buy fabric and accessories in large quantities to provide the same inputs to all clothing manufacturers. In addition, retailers also specify the design, style and sizes to suppliers and assist manufactures during production in order to obtain the desired quality (Christopher, Peck and Towill, 2006).

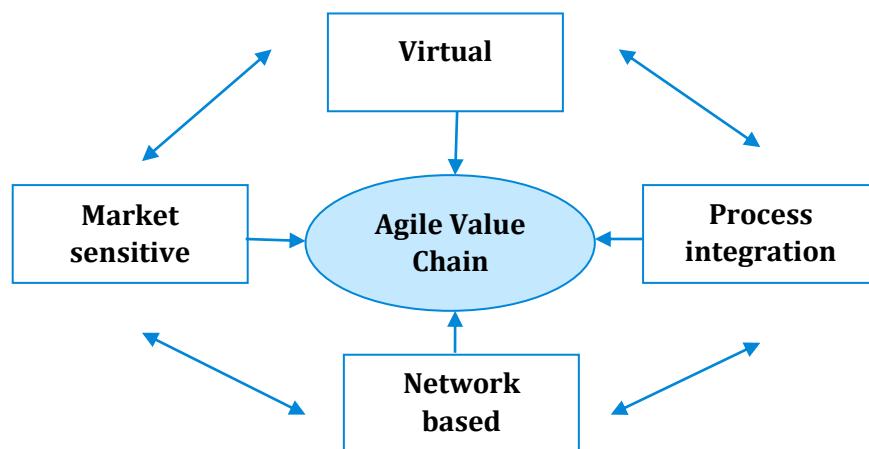
To continue, the value chain is both lean and agile, giving rise to the "leagile" chain. Agility can be regarded as the ability of an organization to respond rapidly to changes in demand both in terms of quantity and in terms of variety (Brewer and Speh, 2000). Agility is an operational capability that encompasses organizational structures, information

systems, logistics processes, and mindsets in particular. A key characteristic of an agile organization is flexibility. In value chains, agility implies the ability to react quickly to changes in market demand (Altenburg, 2006).

For Martin (2000), an agile value chain has a number of distinguishing characteristics (see figure 4.2). Firstly, the agile value chain has to be market sensitive. In this case, the value chain is able to understand and respond to real demand and not to inventory forecasts based on past sales and shipments. An agile value chain obtains data on demand directly from the point of sale permitting players of the value chain to identify the needs of the market and to respond directly to them.

Secondly, the use of information technology to share data between buyers and suppliers has given a virtual trait to value chains. Virtual value chains are information based rather than inventory based. The global online network has enabled organizations in the value chain to act upon the same data to generate the real demand rather than be dependent on the history of orders (Ali and Habib, 2012).

Figure 4.2: Agile value chain



Source: Author representation based on Christopher (2000)

Thirdly, process integration is another characteristic value chains must possess in order to be considered agile. Process integration means a strong cooperation between buyers and suppliers including joint product development, common production systems, and shared information. Along with process integration comes joint strategy determination, buyer-supplier teams, transparency of information, and even open-book accounting. This form of co-operation has a high prevalence in supply chains as companies focus on managing their core competencies and outsource all other activities (Lam and Postle, 2006;

Eliyi, Yurtkulu, and Sahin, 2011). In volatile markets, alliance between suppliers and buyers is both inevitable and essential for maintaining competitiveness.

The forth characteristic of an agile value chain regards association of firms participating in the value chain linked together as a network. The network allows to gain a larger market share as organizations part of a network are better structured and are able to manage more active relationships with end customers. It can be argued that in today's unpredictable global markets sustainable advantage lies in being able to intensify the strengths and competencies of partners in the network aiming at achieving greater responsiveness to market needs (Romano and Vinelli, 2004).

To continue, value chains can also be lean. A lean value chain works best in high volume, stable market environment, and predictable demand. The focus of lean value chain management is elimination of all waste, including time, to enable a level schedule to be established. Lean retailers require rapid replenishment of products, and shipments that restrict requirements in terms of delivery times, order completeness and accuracy. Key to this is the use of bar codes, EDI and shipment marking (Bruce and Daly 2004). However, lean strategies are effective in markets where demand is stable and products are standard. Where volatility dominates the markets then strategies will inevitably become agile. A dominant market strategy is based on the concept of "leagile" value chains (Mason-Jones et al., 2000; Christopher, 2000). "Leagile" takes the view that a combination of lean and agile approaches are essential to compete in a challenging business environment. Agility and leanness are not opposing approaches rather they work best if combined. The issue is not to choose between agility and leanness, rather it relies on selecting and efficiently integrating appropriate features of each strategy into the particular value chain (Ramirez and Rainbird, 2010).

## **4.2. THE CLOTHING INDUSTRY**

This section introduces main characteristics of the clothing industry. It starts with main traits of production in the clothing industry followed by the type of products and categories of firms that operate in this industry. The section continues by introducing the main value adding activities in the clothing industry.

### 4.2.1. Production in the clothing industry

Clothing is one of the most geographically fragmented industries. The geographical dispersion has proved beneficial for newly developed and industrialized countries that used clothing industry as the first step for their economic development. Low barriers to entry in production characterize the industry. However, referring to Rodrik (2013) it is easy to enter production in the clothing industry due to low capital intensity but it is difficult to generate high profits segments as they are controlled by lead firms. The low barriers to entry give this industry its transitory nature and turn it into a relatively mobile industry (Van Wunnik, 2011).

#### 4.2.1.1 Labor in the clothing industry

A key characteristic of the clothing industry is its orientation towards labor-intensive processes, which generate entry-level jobs for unskilled labour in developed and developing countries. Labor costs are the main production cost in the clothing industry (see table 4.1). The major advantage of low labor costs lies in the manufacturing of basic items that sell largely because of price, rather than in fashion garments in which design and style are important (Dicken, 2011).

Table 4.1: Average cost structure in the clothing industry

No.	Category	Weight
1.	Total fabric cost	30%
2.	Trim cost (including pocketing, thread)	20%
3.	Labor costs (Cut, Make, Trim)	50%
4.	Profit per article	8-13%

Source: Author representation based on Li and Sun (2009) and from interviews in the case studies<sup>8</sup>

Employment in the sector has been particularly strong for women in poor countries, who previously had no income opportunities other than the household or the informal sector. Around 80% of employees in the clothing industry are female that are mainly unskilled or semi-skilled (Fernandez-Stark, Frederick, and Gereffi, 2011). Employment in the clothing industry tends to be also of a temporary nature as it fluctuates depending on

<sup>8</sup> Reference is made to the cost structure obtained during interviews with top management in Naber Konfeksion sh.p.k and Shqiperia Trikot sh.p.k

the variations of the demand. Despite that sometimes employees face working conditions falling outside national regulations clothing manufacturing firms do not experience a significant shortage of workers.

#### **4.2.1.2 Knowledge in the clothing industry**

The basic production knowledge in the clothing industry has not changed much over past decades. Technology used in clothing manufacturing leaves little room for change as this industry depends on complex manual operations. Even though basic knowledge and the sequence of operations have not changed much, innovations have improved efficiency at each stage of production and have enhanced coordination in manufacturing. These innovations are mainly related to the pre-assembly phase of production, where technological developments have been more prominent than at the assembly stage (Nordas 2004; Scott, 2006).

According to Dicken (2011), know-how developments in the pre-assembly stage include processes grading, laying out, and cutting of raw materials. Even though sewing accounts for nearly 80% of all labor costs innovations have been minor and mostly focused on increasing the flexibility of sewing machines enabling them to recognize oddly shaped pieces of material and indicating where adjustments need to be made during sewing process. In the post assembly stage, advancements include production delivery systems focusing on conveying individual articles to employees through a conveyer belt system and more efficient warehouse management resulting in cost reduction and time saving. Moreover, Bruce and Daly (2004) argue that in clothing industry modern technology is adopted even in developing and poor countries at relatively low investment costs.

#### **4.2.1.3 Production modalities in the clothing industry**

With reference to OECD (2013) and Goto, Natsuda and Thoburn (2011), there are four main production stages in the clothing industry:

- **Cut Make Trim (CMT)**

It is the most basic production stage in the clothing industry, in which production plants are provided with imported inputs for assembly. The clothing manufacturer is responsible for cutting, sewing, supplying trim, and/or shipping the ready-made garment. The buyer purchases the fabric and supplies it to the manufacturer, along with detailed technical



specification required for production. The manufacturer works with a number of different customers and their operations consist of an order-by-order basis (Bair and Gereffi, 2001).

- **Full Package**

It is a stage in which the manufacturer takes responsibility for all production activities, including the CMT activities, as well as finishing and distribution. The firm must have logistics capabilities, including procuring and financing, the required raw materials needed for production. In some cases, the customer specifies a set of textile firms from which the manufacturer must purchase materials, while in other cases, the firm is responsible for establishing its own network of suppliers (Li and Sun, 2009). The manufacturer is also often responsible for downstream logistics, including packaging for delivery to the retail outlet and shipping the final product to the customer at an agreed selling price (Gereffi and Memedovic, 2013). The customer typically provides to the manufacturer product specifications and designs, but the customer is not involved with the details of the manufacturing process, such as pattern making. Full package service providers can range from single production operations to global suppliers, which have multiple production centers and work on multiple product ranges (Kilduff and Ting, 2006).

- **Full Package with Design**

The manufacturer is responsible for full package services and for the design. A manufacturer that provides full package with design carries out all steps involved in the production of an article including design, fabric purchasing, cutting, sewing, trimming, packaging, and distribution (Fukunishi, Goto, and Yamagato, 2013). Typically, the manufacturer organizes and coordinates the design of the product, approves the samples, purchasing of raw materials, completion of production and, in some cases, delivery of finished products to end customer. Full package with provision of design is common for private-label retail brands (Lopec-Acevedo and Robertson, 2012).

- **Original Brand Manufacturing (OBM)**

It is the most advanced stage of production in the clothing industry as the manufacturer realizes branding of products including promotion and sale of its own branded products (Chan, 2013).

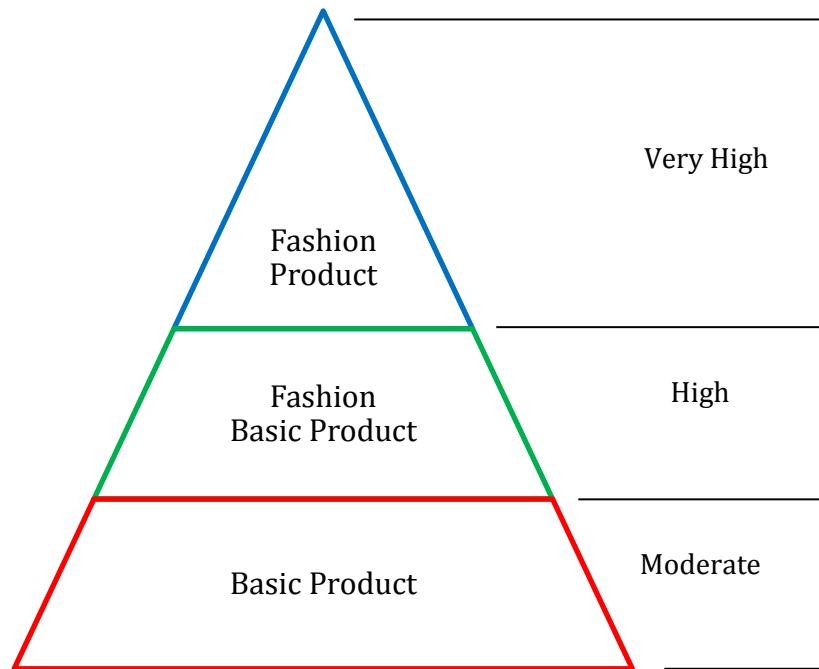
## 4.2.2. Types of products in the clothing industry

This section presents the main products in the clothing industry with reference to the dominating trait of the industry that of “fast fashion”.

### 4.2.2.1 Categorization of products

The market in the clothing industry is divided into differentiated and standardized products. Differentiated products refer to high quality and fashionable products. Firms manufacturing differentiated products are characterized by technology that is more advanced and a high degree of flexibility.

Figure 4.3: Products in the clothing industry with reference to volatility of demand



Source: Daspal (2011)

The competitive advantage of firms in this market segment is related to the ability to produce designs that capture and influence the taste and preferences of customers. On the other hand, firms manufacturing standardized products such as t-shirts, uniforms, underwear are less technologically advanced and are mostly found in developing countries, often in export processing zones and operating under the outward processing regime (Sturgeon and Memedovic, 2013).

According to Dicken (2011) and Daspal (2011), depending on price<sup>9</sup> and income<sup>10</sup> elasticity in customer demand, products in the clothing industry are broadly divided into three types (see figure 4.3):

- Basic are products that usually have a low volatility of demand with an income and price elasticity lower than one.
- Fashion basic are products that have a moderate volatility of demand with an income and price elasticity greater than one.
- Fashion are products that exhibit a high volatility of demand with an income and price elasticity greater than one which is higher than in the case of products falling into fashion-basic category. These products are highly priced. Beyond the level of necessities demand for clothing products increases less rapidly than the growth of income.

#### 4.2.2.2 Towards fast fashion

The idea of fast fashion started in the 1970's when retailers such as Wal-Mart constrained suppliers to implement information technologies for exchange of data on sales, to adopt standards for product labelling and methods for material handling in the United States in the 1970s. This ensured quick replenishment of clothing, which in turn allowed the retailer to offer a broad variety of fashion clothing without holding a large inventory (Abernathy, Volpe and Weil, 2005). The success of this approach in the clothing industry spread to other industries shifting the competitive advantage of manufacturers from being simply an issue of production costs to becoming an issue of costs in combination with lead time and flexibility (Kilduff and Ting, 2006).

In meeting frequent orders of lead firms and in satisfying customer preference manufactures are constrained to deliver final products in the shortest possible time. Therefore, they have implemented the quick response system, giving rise to fast fashion.

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<sup>9</sup> Price elasticity of demand reflects the changes in the quantity demanded by customers when the price of the product changes. A price elasticity  $<1$  means that the demand is inelastic and that the quantity demanded would not be much affected by changes in price. A price elasticity  $>1$  means that changes in price will significantly affect the quantity demanded of the product (McConnell, Brue, and Flynn, 2011)

<sup>10</sup> Income elasticity of demand reflects the changes in the quantity demanded by customers when their income fluctuates. An income elasticity  $<1$  indicates that the quantity demanded will not be much affected. An income elasticity  $>1$  shows that fluctuations in income will affect the quantity demanded (McConnell, Brue, and Flynn, 2011).

Many clothing manufacturers have introduced changes in internal processes and have oriented them towards quick delivery. The quick response system (QRS) permits manufacturers to deliver finished articles in the shortest time possible. QRS gives an emphasis upon flexibility and product velocity in order to meet the changing requirements of a highly competitive, volatile, and dynamic marketplace. QRS encompasses a strategy, structure, culture and set of operational procedures aimed at rapid information transfer resulting in profitable production activities. Implementing a QRS requires a degree of organization within the firm and a good coordination with the customer. Referring to OECD (2013), clothing manufacturers need to address simultaneously four key elements so to ensure that delivery times are at a minimum: (i) reduction of plant throughput time, (ii) implementation of electronic data interchange, (iii) improvements in inventory control systems, and (iv) ensuring minimum transport times.

- **Reduced plant throughput time**

It can be achieved through a combination of implementing modular production systems (MPS) and automating certain production activities. The MPS assembly system reduces work in progress and fastens manufacturer's response. Another step to improve response time is through implementation of automated technology such as advanced cutting machines that are programmed through specific software to cut simultaneously multiple layers of fabric (Lam and Postle, 2006).

- **Implementation of electronic data interchange**

It is another important method applied to streamline the processing of payments and contractual agreements between the manufacturer and retailer through implementation of electronic data interchange (EDI). This system can reduce the time required to perform processes like orders, payments, and contracts to hours and even minutes. Automating the process reduces costs in human resources and results in fewer errors, often due to human mistakes (Morrison, Pietrobelli, and Rabellotti, 2008). This is especially important for retailers and suppliers of different nationalities, where language is often a barrier and orders can be easily misinterpreted.

- **Improvement of inventory control systems**

It is a third method of reducing lead times and to maintain an organized and efficient inventory control system. One problem faced by clothing manufacturers is excessive amounts of inventory arising from the varieties in the same product including design, style,

and colors. Currently, more clothing manufacturers are incorporating point of sale (POS) data from retailers to determine their optimal inventory levels. Despal (2011) has identified four main categories of inventory at which clothing manufacturers are exposed during the production cycle.

- **Reduced transport time**

It refers to many transport delays beyond the control of clothing manufacturers and can include poor roads, bad weather and delays at customs, they need to take additional actions to ensure that shipments to distribution centres of retailers arrive in the minimum amount of time possible (Thoburn, 2009). A common way is to subcontract a transporting company. Even though there are additional costs involved, subcontractors can ensure quick fulfilment of orders making the extra investment worthwhile (Dicken, 2011). Another action is to ensure that shipping containers and cartons are labelled according to agreed standards helping retailers to handle large quantities especially in large distribution centres where orders from hundreds of different suppliers can arrive at the same time

### 4.2.3. Value adding activities in the clothing industry

Unlike producer-driven chains, where profits come from scale, volume and technological advances, in the buyer-driven textile-clothing value chain, profits are generated from combining high-value research, design, sales, marketing, and financial services that allow main firms to act as an intermediary between producers and customers (Gereffi & Memedovic, 2003). The main firms<sup>11</sup> are powerful players in the textile-clothing value chain as they control the main value-adding activities distributed along the value chain. The most notable feature of value adding activities regards the greatest gains generated in the services occurring before and after production (Kilduff and Ting, 2006).

In most cases, these main firms outsource manufacturing process to a global network of suppliers. Manufacturing of cloths is highly competitive and is becoming more consolidated. Developing countries are in constant competition for foreign investments and contracts with global brand owners, leaving many suppliers with little advantage in the

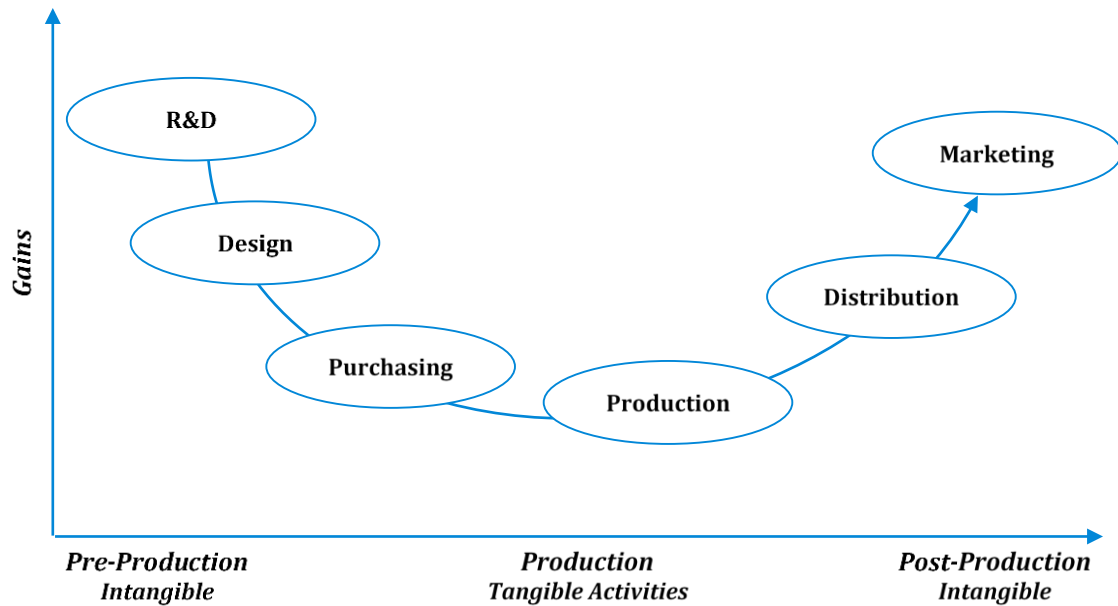
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<sup>11</sup> Main firms are primary sources of material inputs, technology transfer, and knowledge in the organizational networks of the clothing industry. They use different networks and sources in multiple regions of the world.

chain. The result is an unequal partition of the total value-added activities along the textile-clothing value chain in favor of the main firms (see figure 4.4).

Fernandez-Stark, Frederick, and Gereffi (2010) and Lopec-Acevedo, and Robertson (2012), have identified the following value adding activities in the clothing industry:

Figure 4.4: Gains in the operational activity of clothing manufacturing enterprises



Source: Fernandez-Stark, Frederick and Gereffi (2011)

- R&D – It refers to activities related to improving the product, restructuring processes, identifying new markets, and complying with customer demand.
- Design – It refers to activities used to attract attention, improve product performance, cut production costs, and may increase the competitive advantages of the product in the market.
- Purchasing/sourcing – It refers to inbound processes involved in purchasing and transporting textile products. It includes physical transporting of products, as well as managing or providing technology and equipment for supply chain coordination. Logistics can involve domestic or overseas coordination required for goods to reach final consumers and for intermediate goods to reach assemblers.
- Production/assembly/(cut, make, trim -CMT) – It refers to processes like cut, sew, woven, or knit fabric and yarn. Manufacturers usually acquire raw materials like knitted fabric or yarn from specialized suppliers as agreed with lead firms. After

goods are manufactured, they are distributed and sold via a network of wholesalers, agents, logistics firms, and other companies responsible for value-adding activities outside production.

- Marketing and sales – It refers to activities like pricing, selling, and distributing a product, including also branding or advertising.

### **4.3. THREE TYPES OF UPGRADING IN THE CLOTHING INDUSTRY**

Upgrading in the clothing industry refers to the ability to perform activities that are more complex by improving the efficiency of production processes and by realizing progressively more complex product lines. Upgrading allows clothing manufacturers to move into higher segments of the value chain. For clothing manufacturers, it means to move from assembly to original brand manufacturing. What follows in this section are the three main types of upgrading together with the main factors that affect upgrading in clothing manufacturers.

Referring to Kaplinsky and Morris (2005) and Humphrey and Schmitz (2002), upgrading can be achieved by: (i) improving the efficiency of production processes (process upgrading), (ii) adding new product lines due to improvements in design or technical specifications (product upgrading), and (iii) taking on new functions which require higher level of skills, knowledge, and intensity (functional upgrading).

- **Process upgrading**

It refers to application of new technology or rearranging existing production systems. Nevertheless, several empirical studies have indicated that transfer of advanced technologies through linkages with production and distribution networks coordinated by international buyers have become important in process upgrading (Goto, Natsuda and Thoburn, 2011).

- **Product upgrading**

It refers to a shift into product lines, which are normally more difficult to produce because of differences in technical specification and input materials. For instance, a subsidiary may experience product upgrading by shifting from production of casual woven

shirts to expensive suits. The ability of clothing manufacturers to generate higher value products is strongly correlated to the extent manufactures are able to achieve upgrading in production processes (Bair and Gereffi, 2001).

- **Functional upgrading**

It refers to moving into more complex functions in a particular value chain. In essence, functional upgrading has to do with shifting towards more knowledge and skill-intensive functions in the value chain (Goto and Endo, 2004). In the clothing industry, such functions include product design, material sourcing, branding, and marketing. Moving up the chain into higher value-added functions entails organizational changes in distribution and production, which is probably most difficult to achieve (Nordas, 2004). The CMT modality consists in functions that are mostly dependent on unskilled or semi-skilled labor and, therefore, is one with the lowest value-added contents. Suppliers can functionally upgrade and shift to OBM, by integrating higher knowledge-intensive functions such as sourcing, designing, branding and marketing. Functional upgrading depends heavily on the capacity of manufacturers to handle the increasingly complex functions and to a certain extent on the willingness to delegate such functions to manufacturers.

Nevertheless, when clothing manufacturers in developing countries upgrade in terms of processes and products, this does not mean that those manufacturers are moving up along the value chain and entering into higher value-added activities. This type of upgrading occurs within the same operations such as higher efficiency levels within the CMT assembly (process upgrading) or lead to production of more sophisticated products within the same product category (product upgrading). However, this can be achieved through:

- **Marketing & networking**

According to Hussain and Figueiredo, et al. (2011), clothing manufacturers need to put considerable efforts oriented toward marketing and networking to form alliances with other firms and international organizations dedicated to development, research, and best practices. Participation in such networks is encouraged through participation in international trade shows to increase visibility to potential buyers.

- **Investments in technology**

Investments are needed to upgrade machines used in production as well as logistics and information technologies that enable manufacturers to become more integrated into



the networks of the global value chain of the industry (Fukunishi, Goto, and Yamagata, 2013).

## 4.4. THE CLOTHING INDUSTRY IN ALBANIA

In this section, a comparison of Albania with neighboring countries is followed by the situation of the clothing industry in the country. The section introduces also policies towards the clothing industry in Albania with the focus on the Façon Package reinforced by location advantages available in Albania.

### 4.4.1. Albania compared to neighboring countries

This section presents an overview of the doing business indicators in Albania and neighboring countries. The doing business indicators in a host territory are among the first quantitative data that foreign investors look into before deciding to locate production. The data is obtained from the World Bank Doing Business Report (2014) by selecting the indicators that are of relevance to the doing business in the clothing industry.

Table 4.2: Doing business and protecting investors (2010-2014)

Year	2010		2011		2012		2013		2014	
Indicator (Rank)	Doing Business	Protecting Investors	Doing Business	Protecting Investors	Doing Business	Protecting Investors	Doing Business	Protecting Investors	Doing Business	Protecting Investors
Albania	82	15	82	15	82	16	85	17	90	14
Croatia	103	132	84	132	80	133	84	139	89	157
FYR Macedonia	32	20	38	20	22	17	23	19	25	16
Serbia	88	73	89	74	92	79	86	82	93	80
Montenegro	71	27	66	28	56	29	51	32	44	34
Bosnia Herzegovina	116	93	110	93	125	97	126	100	131	115

Source: World Bank Doing Business 2014

With regard to the ease of doing business, Albania lags behind other regional countries like FYR Macedonia and Montenegro. In 2014, Albania has lost eight places compared to 2010 mostly attributed to the change in the fiscal regime from a flat into a progressive one (see table 4.2). Albania is well placed for protection of foreign investors not only in the region but also worldwide in the 14 place in 2014. The ranking is in line with the government initiatives to attract foreign investors in the country.

Table 4.3: Export<sup>12</sup> with other countries (2010-2014)

Year	2010		2011		2012		2013		2014	
	Cost to export US\$/ container	Time to export days	Cost to export US\$/ container	Time to export days	Cost to export US\$/ container	Time to export days	Cost to export US\$/ container	Time to export days	Cost to export US\$/ container	Time to export days
Albania	725	19	725	19	745	19	745	19	745	19
Croatia	1,281	20	1,281	20	1,300	20	1,335	20	1,335	18
FYR Macedonia	1,436	12	1,376	12	1,376	12	1,376	12	1,376	12
Serbia	1,398	12	1,398	12	1,433	12	1,455	12	1,635	12
Montenegro	775	14	775	14	805	14	985	14	985	14
Bosnia Herzegovina	1,125	16	1,240	16	1,140	15	1,140	15	1,200	16

Source: World Bank Doing Business 2014

For clothing manufacturing enterprises, trading across borders is a key indicator to determine the costs encountered when shipping final goods (see table 4.3). In 2014 Albania, had the lowest cost to export per container in the region amounting to 745\$. It was 32% lower than Montenegro and 95% lower than the cost in Serbia. The cost reflects the shortest distance of Albania compared to regional countries from the EU market. Even though the

<sup>12</sup> Doing Business measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. Time is measured in hours, and 1 day is 24 hours. Costs are reported in U.S. dollars. Insurance cost and informal payments for which no receipt is issued are excluded from the costs recorded. Documentary compliance captures the time and cost associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination economy and any transit economies.

cost of export may be lower than other regional countries, the time required for export is higher than other regional countries 19 days, and has not remained the same since 2010. The high number of days reflects the lengthy custom procedures, one of the main obstacles in manufacturing identified in this research.

A similar scenario occurs also with the cost of import (see table 4.4), in 2014 Albania had the lowest cost among the regional countries, which is 26% lower than Montenegro while the cost of importing in Serbia is 2.41 times higher than in Albania. This indicator is key to clothing manufacturers as the majority of raw materials are imported in the country where the region is placed. In addition, the time required to import in Albania remains the longest in the region with 5 working days more than Bosnia Herzegovina, which does not have the access to the EU market (through major ports) like Albania. This is another indicator that customs procedures in Albania need to be simplified.

Table 4.4: Import with other countries (2010-2014)

Year	2010		2011		2012		2013		2014	
Indicator (Rank)	Cost to import US\$/ container	Time to import days	Cost to import US\$/ container	Time to import days	Cost to import US\$/ container	Time to import days	Cost to import US\$/ container	Time to import days	Cost to import US\$/ container	Time to import days
Albania	710	18	710	18	730	18	730	18	730	18
Croatia	1,141	16	1,141	16	1,180	16	1,180	16	1,185	16
FYR Macedonia	1,420	11	1,380	11	1,380	11	1,380	11	1,380	11
Serbia	1,559	14	1,559	14	1,609	14	1,660	14	1,760	15
Montenegro	890	14	890	14	915	14	915	14	985	14
Bosnia Herzegovina	1,090	16	1,200	16	1,200	16	1,200	13	1,200	13

Source: World Bank Doing Business 2014

In addition, Albania had the lowest average wage among the regional countries (see table 4.5). The average wage before tax in 2014 in Albania is 28% lower than in Bulgaria. On the other hand, in Croatia the average wage before tax is 3.78 times higher than in

Albania. The data reflects the availability of the cheap labor force in Albania, one of the main locational advantages identified during fieldwork in the four clothing manufacturing subsidiaries.

Table 4.5: Average monthly wage before tax (2014)

Country	Albania	Bulgaria	Rumania	Serbia	Montenegro	Croatia
Average Wage (before tax) in EUR	266	340	476	528	972	997

Source: Albanian Investment and Development Agency

#### 4.4.2. Situation of the clothing industry in Albania

From early 1960's until 1989, the textile, clothing, and leather/footwear industries were among the main components of the manufacturing industry in the Albanian economy. Enterprises operating in this industry were state owned and operated in a centralized economy dominated by a socialist regime.

Production within the 30-year period was very diverse as the domestic economy was self sustaining. Products ranged from raw material (fibers, fabrics, etc.) used in manufacturing to finished products (dresses, coats, upholstery, etc.).

With the fall of the socialist regime and the establishment of the market economy, state owned enterprises were privatized and manufacturing enterprises including those in the clothing industry started to produce through the inward processing regime<sup>13</sup>. This regime is also called Façon manufacturing (Belussi and Sammarra, 2010).

According to the World Bank Enterprise Investment Survey (2007), foreign owned clothing manufacturing enterprises since the start of their operational activity in Albania in the 1990's have enriched the variety of articles they manufacture. Between 76.6% percent of foreign-owned clothing manufacturing enterprises reported to have introduced new products compared to only 37.5% of locally owned firms.

<sup>13</sup> Inward processing regime allows imported raw materials or semi-manufactured goods to be processed for re-export without the requirement that the manufacturers have to pay customs duty and VAT on the goods being used. ([http://ec.europa.eu/taxation\\_customs/customs/procedural\\_aspects/imports/inward\\_processing/index\\_en.html](http://ec.europa.eu/taxation_customs/customs/procedural_aspects/imports/inward_processing/index_en.html))

With reference to United Nations Development Programme Survey (2005) on foreign investors, Italian owned clothing manufacturing enterprises, mentioned the proximity and the possibility to transport quickly finished articles in the EU market as key factors on deciding to move production in Albania. With reference to calculations of OECD (2008) the costs enterprises incur in shipping products from Albania to Italy is equal to 1.43% of the value of imports. The data is in line with the average shipping costs of 1.48% in the Western Balkans but it is substantially lower than 11.8% required to ship products from China

Clothing manufacturers in Albania (local and foreign) incur higher production costs due to unreliable supply of electricity. They face many difficulties and are afraid to use in production modern equipments or technologically advanced machines because they are afraid that unpredictable interruptions in power supply can permanently damage them (World Bank, 2007).

Table 4.6: Manufacturing and clothing industry and FDI in Albania (2010-2012)

Description	2010 (Mln/EUR)	2011 (Mln/EUR)	2012 (Mln/EUR)
Gross Domestic Product 14(GDP) at market prices	8,855	9,290	9,539
Gross Value Added 15(GVA) factor costs	7,696	8,079	8,267
Manufacturing industry (Value Added)	865	801	727
Clothing industry (Value Added)	129	152	137
Total FDI Stock 16	2,436	3,400	3,262
FDI Stock in manufacturing of cloths	34	29	17

Source: National Accounts, INSTAT, Bank of Albania

Between 2010 and 2012, the share of the value added of the clothing industry in the Gross Value Added generated in the Albanian economy ranges from 1.6% to 1.8% (see table 4.6). On the other hand, the share of the value added of the manufacturing industry in the Albanian economy fluctuates between 14.9% in 2010 to 18.8% in 2012. The share of FDI stock in manufacturing of cloths fluctuates between 1.3% of the total FDI in 2010 to 0.5% in 2012.

<sup>14</sup> The Gross Domestic Product (GDP) is calculated by adding to the Gross Value Added (GVA) the Net Taxes on Products and by deducting Subsidies on Products.

<sup>15</sup> Value added is calculated as the difference between production value and intermediate consumption

<sup>16</sup> FDI stock is calculated based on standards of IMF and Eurostat on preparation of Balance of Payments.

Table 4.7: Enterprises, employment, and nationality in clothing industry (2014)

Description	Total	Foreign	Italian Ownership	Geek Ownership	German Ownership	Total employment	Total employment in foreign owned enterprises
Clothing manufacturing enterprises	553	110	60	15	5	39,331	16,589

Source: The Chamber of Façon of Albania

According to the Chamber of Façon of Albania, in 2014, the number of clothing manufacturing enterprises in Albania was 553<sup>17</sup> and employed 39,331 workers (see table 4.7). Foreign owned clothing manufacturing enterprises are 19.8% out of which 59% have Italian ownership, 18.18% have Greek ownership, and 4.5% have German ownership.

Table 4.8: Regions of Albania with the majority of active clothing enterprises (2014)

No.	Description	Number of clothing manufacturing enterprises	Number of employees	Average number of employees
1.	Tirana	130	11,646	90
2.	Shkodra	31	3,364	109
3.	Durres	85	9,429	111
4.	Berat	15	3,339	223
5.	Korca	42	2,760	66

Source: The Chamber of Façon of Albania

The clothing manufacturing enterprises are located in the main regions of Albania (see table 4.8). Referring to the Chamber of Façon of Albania, in the region of Tirana are located 23.5% of the total enterprises employing 29.61% of workers. The average number of employees in the clothing manufacturing enterprises located in the region of Berat is 223; higher than in any other region.

<sup>17</sup> The number of enterprises is according to an initiative undertaken by the Chamber of Façon in Albania entitled "Creation of an integrated database for the Clothing Industry in Albania". The aim of the initiative was to identify the current active clothing manufacturing enterprises in Albania. The need for proper identification arose as the researcher and the project team identified that enterprises registered in the National Registration Center as clothing manufacturers were not engaged in production but only imported cloths sold in various shops around Albania.

Table 4.9: Trade in the clothing industry (2010-2013)

Description	2010 (Mln/EUR)	2011 (Mln/EUR)	2012 (Mln/EUR)	2013 (Mln/EUR)
Total exports of Albania	1,151	1,406	1,522	1,760
Exports of cloths	214	239	230	253
Total imports	3,413	3,886	3,775	3,661
Imports of intermediate goods of the clothing industry	77	83	85	100

Source: INSTAT

Exports in the clothing industry in 2013 have increased by 18.2% compared to 2010 (see table 4.9). The increase of exports has caused an increase of 29.8% in the import of intermediated goods used to produce final goods for exports.

Table 4.10: Final export destinations of the clothing industry in Albania (2010-2013)

Year	2010		2011		2012		2013	
	Amount (Mln/EUR)	% of total exports of cloths	Amount (Mln/EUR)	% of total exports of cloths	Amount (Mln/EUR)	% of total exports of cloths	Amount (Mln/EUR)	% of total exports of cloths
Italy (exports of cloths)	175	81.8%	195	81.6%	188	81.7%	205	81.0%
Greece (exports of cloths)	13	6.1%	15	6.3%	17	7.4%	20	7.9%
Germany (exports of cloths)	10	4.7%	13	5.4%	15	6.5%	18	7.1%
Spain (exports of cloths)	2	0.9%	2	0.8%	3	1.3%	4	1.6%
Total (exports of cloths)	214	N/A	239	N/A	230	N/A	253	N/A

Source: INSTAT

Italy, Greece, Germany, and Spain are the main trade partners in the clothing industry. Italy remains the main partner with 81% of the exports in the clothing industry (see table 4.10). The high share in the level of exports reflects the high number of Italian owned clothing manufacturing enterprises operating in Albania. The second trading partner is Greece with a much lower share at only 8% of the exports in the industry.

Table 4.11: Production value and value added of surveyed enterprises (2013)

Year	2013					
	Description	Production value (Mln/EUR) (1)	Intermediate consumption (Mln/EUR) (2)	Value added in production (Mln/EUR) (3)=(1)-(2)	Value added/Production (%) (4)=(3)/(1)	Average monthly wage (EUR) (5)
In the industry <sup>18</sup>		3,975	2,549	1,426	35.8	265
In the manufacturing industry <sup>19</sup>		1,327	925	402	30.3	235
In clothing manufacturing		108	39	69	63.6	250

Source: Structural Survey of Economic Enterprises<sup>20</sup>, INSTAT

In 2013, the share of production in the clothing industry for the enterprises subject to the survey was 8.1 % of the total production<sup>21</sup> generated in the manufacturing industry. This industry in Albania is characterized by a high share of value added in production of 63.6% (see table 4.11). Intermediate consumption<sup>22</sup> in the clothing industry is only 36.4% of the total production, almost half of 69.7% of the manufacturing industry. In 2013, the average monthly wage offered was 250 EUR. The number of enterprises surveyed in the manufacturing industry is 7,912 while the number in the clothing industry is 740.

Table 4.12: Production costs of the surveyed enterprises (2013)

Year	2013					
	Description	Total Costs (Mln/EUR)	Raw materials and consumables <sup>23</sup> (Mln/EUR)		Personnel costs	
		Amount (Mln/EUR)	Amount (Mln/EUR)	% of Total costs	Amount (Mln/EUR)	% of Total costs
In the industry		3,953	2,549	64.5%	443	11.2%
In the manufacturing industry		1,421	925	65.1%	176	12.4%
In clothing manufacturing		94	39	41.5%	37	39.4%

Source: Structural Survey of Economic Enterprises, INSTAT

<sup>18</sup> Industry includes all economic activity production and services.

<sup>19</sup> Manufacturing industry includes the economic activities that relate to production.

<sup>20</sup> The survey is conducted for an approximate of 80% of the enterprises operating in the year in Albania and for each categorization included in the survey in a given year. Information on them is gathered on varies forms including questionnaires, interviews, information from tax authorities.

<sup>21</sup> Production is an activity exercised under the control and responsibility of an institutional unit (enterprise), which combines the sources of labor, capital and raw materials to produce or provide the services.

<sup>22</sup> Intermediate consumption represents value of products or services transformed or totally consumed during the production process. The use of fixed assets is not taken into consideration.

<sup>23</sup> Raw materials and consumables are equal to intermediate consumption



The main cost categories are presented in table 4.12. Raw materials and personnel costs that together make up more than 75% of the total costs for clothing manufacturers.

Table 4.13: Main investments in the surveyed enterprises (2013)

Year	2013							
Description	% of enterprises with investments among those surveyed	Total investment (Mln/EUR)	Buildings (% of total investment)	Construction & installations (% of total investment)	Machinery & Equipment (% of total investment)	Means of transport (% of total investment)	Land (% of total investment)	Other investments (% of total investment)
In the industry	14.6	663	35.0%	1.1%	47.3%	2.5%	2.5%	11.6%
In the manufacturing industry	12.2	203	30.0%	1.4%	39.9%	1.4%	5.9%	21.4%
In clothing manufacturing	22.3	5	6.0%	0.6%	40.0%	8.0%	40.0%	5.4%

Source: Structural Survey of Economic Enterprises, INSTAT

The clothing industry in Albania is characterized by low level of investments in 2013. Investments in the clothing industry are only 2.5% of the total investments undertaken in the same year in the manufacturing industry (see table 4.13). For the same reporting period, in the clothing industry, the number of enterprises with investments is 10% higher than in manufacturing industry and 8% higher than investments in the industry. Main investments are made in equipment for production and for land where production facilities are located.

## 4.5. POLICY TOWARDS THE CLOTHING INDUSTRY IN ALBANIA: THE FAÇON PACKAGE

This section presents the “Façon Package” which constitutes the first set of measures targeting a particular industry introduced by Government of Albania after the establishment of the market economy in the early 1990’s.

### 4.5.1. Context of the Façon Package

In 2013, a political rotation occurred in Albania from a right into a left wing government, which changed the system of taxation in the country from a flat system into a progressive one. The new tax system exposes the enterprises categorized as “Façon firms”

to an increase in the income tax from 10% to 15%. With the aim to ease the tax burden and to maintain the competitiveness of the enterprises in the region, the Government of Albania drafted the “Façon Package” that includes a number of fiscal and economic measures targeting production activity of clothing manufacturing enterprises operating under a Façon regime (inward processing) in Albania.

For the drafting of the package within the Ministry of Economic Development, Trade, and Entrepreneurship a working group<sup>24</sup> chaired by the Minister was formed and included representatives of the Chamber of Façon of Albania, of clothing and footwear manufacturing enterprises, Chambers of Commerce, a number of line ministries<sup>25</sup>, General Directorate of Customs, General Directorate of Taxation. The working group for this package was set up in the Ministry of Economic Development, Trade and Entrepreneurship with representatives of active Façon enterprises in the country. The working group was continuously supported by a group of academics and experts from the International Center of International Development of Harvard Kennedy School of Government, led by Ricardo Hausman. The main objective of the working group was to identify the measures to be included in the package and derived from an intensive dialogue with Façon manufacturing enterprises.

In its first public declaration, the working group announced the two objectives of the package to be achieved within three years after the implementation of all measures. The first objective is to increase the value of exports in the clothing and footwear industry by 80%, reaching 900 Mln/EUR while the second objective is to increase every year with 15,000 the number of workers employed in the Façon industry. The Façon package consists of 32 measures<sup>26</sup> of which 23 are being implemented. These measures include adoption of 14 legislative acts including 2 laws and 14 governmental decisions.

Financial support to this package is provided through various government funds and donors contributions. According to the Ministry of Economic Development, among the government financed funds are: (i) the Albanian Investment and Development Agency Fund in support of the clothing industry amounting to 360,000 EUR, (ii) the Competitiveness Fund which in 2014 has supported 19 façon clothing manufacturing firms with a total

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<sup>24</sup> The researcher participated in the working group between January-December, 2014.

<sup>25</sup> Ministries involved in the preparation of the Façon Package included: The Ministry of Finance, The Ministry of Social Welfare and Youth, the Ministry of Foreign Affairs.

<sup>26</sup> The measures of the Façon Package are included at the end of the thesis

amount of 200,000 EUR, (iii) the Innovation Fund, which has financed 17 projects in the clothing industry with a total amount of 100,000 EUR, (iii) the Creative Economy Fund has financed 20 projects in the clothing until November 2014 with a total amount of 265,000 EUR or 61% of the annual amount. The objective of the Creative Economy Fund is to finance a fraction of the loans that façon clothing manufacturing enterprises have acquired in financial intermediaries in order to finance new production lines.

Among the donors, the Italian Cooperation is implementing the disbursement of a soft loan with a total value of 40 Mln/EUR for enterprises operating in Albania. By the end of 2015, the amount disbursed to 110 enterprises is 28.5 Mln/EUR. Among the beneficiaries 20 enterprises are clothing manufacturers. The clothing manufacturing enterprises were included as beneficiary enterprises of the Italian Cooperation loan only after the Façon Package became effective. The amount allocated to clothing manufacturing enterprises by the end of 2015 is approximately 3 Mln/EUR.

#### **4.5.2. Main measures of the Façon Package**

The Façon Package was introduced to the public by having a wide coverage in the media. The first measure of the package mostly discussed in the Albanian media was on the decrease in the profit tax from 15% to 10% for enterprises operating under the façon regime so that they can increase the level of retained earnings and make new investments resulting in expanding their operational capacity.

The second key measure of the Façon Package regards the VAT exemptions on machinery purchased by enterprises in the Façon industry used in production. Imported machines having an amount of over 500,000 EUR do not pay any VAT. The list of machines subject to VAT exemption increased with the implementation of the Façon Package. The enterprises get VAT reimbursement within 30 days of the compiling tax declarations. Data from the General Directorate of Taxation shows that between January 2015 and August 2015 clothing manufacturing enterprises have imported machineries amounting to 2.52 million EUR.

To continue, enterprises subject to Façon Package are subsidized for additional workers. As the third measure, the Ministry of Finance allocated a 1,000,000 EUR reserve fund to be used for façon enterprises that employed additional workers. For additional workers enterprises would benefit: (i) wages for four months, (ii) one year of social security

contributions per worker, and (iii) if the enterprise is a small medium enterprise the government will cover 70% of the training costs.

The fourth measure of the *façon* package refers to advantageous loans for *façon* enterprises including reduced rates or when the amount of the loan is above 500,000 EUR the collateral required to get the loan is the responsibility of the government. In the *Façon* Package are also included lease contracts for 1 EUR on existing production facilities. The lease contracts have a duration between 15 to 20 years.

The fifth measure refers to the intention of the Government of Albania to establish the first EPZ in Albania in the Spitala area<sup>27</sup>, close to the port of Durrës that is the largest in Albania. The EPZ has an area of 850 Ha and is expected that one of third of the area will be occupied by clothing manufacturing enterprises producing for international brands that will transfer production from Asian countries. The EPZ will be operational by 2020 and it is expected to create 150,000 new jobs. The Government of Albania has initiated the procedure for the selection of an international developer of the EPZ.

## 4.6. LOCATION ADVANTAGES/DISADVANTAGES OF ALBANIA TO FOREIGN INVESTORS

This section presents the main advantages and disadvantages of Albania with respect to foreign clothing manufacturing enterprises (see table 4.14). Depending on which dominate foreign investors decide to locate production in Albania.

Table 4.14: Locational advantages and disadvantages of Albania for foreign investors

Advantages	Disadvantages
Geographical position/proximity to market	Electricity supply problems
Cost of the labor force	Political instability
Government policies to attract FDI	Administrative Bureaucracy
Social similarities	Lengthly custom procedures

Source: Author representation based on fieldwork

<sup>27</sup> The information on Spitala EPZ was obtained during interviews with government officials in the Ministry of Economy, Trade, Tourism and Entrepreneurship.

### **4.6.1. Location advantages**

The geographical position of Albania is a dominant advantage of the country. Since the 1990's many Italian, Greek, and German companies have located production in Albania as proximity to the European market ensures a quick response and a faster delivery time of finished goods to end customers (Bitzenis and Nito, 2005).

To continue, foreign clothing manufacturing in Albania can benefit from a flexible and young labor force that if properly trained can produce a variety of articles for recognized international brands like Versace, Prada, Diesel, etc. The labor force available in Albania is employed by foreign enterprises at very competitive rates with an average monthly wage of 266 EUR benefiting also from the handy craft skills of the labor force. In addition, foreign investors can outsource at reasonable costs assembly services to subcontractors that employ or can engage local workers during production peaks (Penev, Mancellari, and Shapo, 2008; ACIT, 2010).

Moreover, the Government of Albania intends to attract more foreign investors in the clothing industry through policies that include a favorable tax treatment for imports on raw materials and machines, reimbursement of the VAT, eliminating transportation fee for Albanian vehicles carrying to Italy final goods in Albania (IMF, 2013). Furthermore, foreign investors in the clothing industry can benefit from improved transport infrastructure on which Government of Albania has heavily invested in recent years. The improved transport infrastructure available in Albania speeds up the delivery of finished articles and eases for the manufacturer compliance with tight delivery schedules (OECD, 2008).

To continue, Albania shares similar social features with many European countries. In particular, Albania shares similar traditions, culture, music, cuisine with Greece and Italy due to immigration and the presence of respective minority groups in the country. For neighboring countries like Italy and Greece the doing business in Albania is facilitated from the language skills locals have in several European languages (English, Italian, Greek, and German) and the presence of foreign investors operating in other industries.

### **4.6.2. Location disadvantages**

According to a study of the World Bank (2010), foreign clothing manufacturers that decide to locate production in Albania have to cope with several challenges. Production

related challenges faced in Albania include frequent interruptions in electricity during production.

Another disadvantage is bureaucracy, which is reflected in slow custom procedures to import raw materials required for manufacturing of goods and export of finished articles. Also clothing manufacturing enterprises need to cope with bureaucracy in getting permissions required for development of production sites can be slow and arbitrary with requirements fluctuating from one elected government to the other.

In addition, foreign clothing manufacturers are exposed to a political instability and economic uncertainty. Political instability is reflected in frequent changes undertaken in governmental reforms like continuous changes in the tax regime that occur when a new government is elected (Cela, 2012).

# CHAPTER 5

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## PRESENTATION OF CASE STUDIES

## 5.1. OVERVIEW OF CASE STUDIES

This chapter introduces the four case studies subject to this research (see table 5.1). Presentation of each case starts with the introduction of the main characteristics of the region in which the subsidiary is located, it continues with a description of the group to which the subsidiary belongs and with an in-depth presentation of the subsidiary including its history, production activity, investments, organizational structure, staff training, and compensation. The group to which the four case belong are foreign owned as they exercise their operational activity mostly in two countries.

Table 5.1: Overview of clothing manufacturing subsidiaries

Indicator	Shqiperia Trikot sh.p.k	Naber Konfeksion sh.p.k	Valcuvia Alba sh.p.k	Industria Ballkanike sh.p.k
<b>Realization of the field work</b>	February-April, 2015	January-March, 2015	May-June, 2015	April-June, 2015
<b>Head office/group to which the clothing manufacturing subsidiary belongs</b>	Cotonella S.p.A, an Italian enterprise that manufactures intimate apparel for its own brand, for retailers, and branded marketers.	Naber Moden, a German enterprise that manufactures apparel for its own brand, for retailers, and branded marketers.	Valcuvia Alba S.r.l an Italian enterprise that manufactures intimate apparel for retailers and branded marketers.	Industria Ballkanike, a Greek enterprise that manufactures apparel for retailers and branded marketers.
<b>Categorization of production modalities</b>	Full package with brand.	Full package with brand.	Full package.	Cut, make, trim.
<b>Kinds of clothing articles</b>	Underwear for men, women, and children, swimwear, night gowns, pyjamas.	Trousers, skirts, parkas, blouses, jeans, coats, fur coats, traditional dresses.	Underwear for men, women, children swimwear, night gowns, pyjamas.	Sport outfits, shirts, shorts, swimwear.
<b>Degree of competition in the product market</b>	Medium competition in the market for its own brand products. Strong competition in the market for assembly of other brands.	Medium competition in the market for its own brand products. Strong competition in the market for assembly of other brands.	Strong competition in the market for assembly of other brands.	Strong competition in the market for assembly of other brands.
<b>Principal motivation for investment in the host territory</b>	Reduction in the delivery time of finished articles, cheap labor force, and social cultural similarities found in Albania.	Reduction in the delivery time of finished article, cheap labor force, proximity of the country to the EU market.	Cheap labor force and the skills of the labor force in clothing manufacturing.	Cheap labor force and the skills of the labor force in clothing manufacturing.



Indicator	Shqiperia Trikot sh.p.k	Naber Konfeksion sh.p.k	Valcuvia Alba sh.p.k	Industria Ballkanike sh.p.k
<b>Date of start of production in Albania</b>	1995	1995	1992	1993
<b>Employment in the subsidiary</b>	78	850	800	529
<b>Operations performed in the subsidiary</b>	Assembly, cutting, comprehensive quality control of raw materials, packaging, distribution of finished products, research and development in neighboring countries of the Balkan region, brand marketing, distribution of finished products.	Assembly, cutting, quality control of raw materials, preparation of models for cutting, buttoning, embroidery, labeling, ironing, packaging, distribution of finished products.	Limited quality control of raw materials, cutting, assembly, packaging, distribution of finished products.	Limited quality control of raw materials, cutting, assembly, printing, embroidery, stamping, pressing, packaging, distribution of finished products.
<b>Investments made in the host territory</b>	Ownership of production facilities (land and buildings), information technology (system and equipment), quality control laboratories, variety of machines (printing, pressing, ultrasound, cutting, sewing).	Ownership of production facilities (land and buildings), information technology (system and equipment), quality control laboratories, cutting machines, sewing machines, embroidery machines, vehicles, power supply generators.	Ownership of production facilities (land and buildings), information technology (system and equipment), quality control laboratories, variety of machines (printing, pressing, ultrasound, cutting, sewing).	Ownership of production facilities (land and buildings), cutting machines, sewing machines, embroidery machines, information technology (system & equipment), vehicles, power supply generators.
<b>% of total production of the head office manufactured in Albania</b>	98%	95%	75%	100%
<b>Modality</b>	Full package with design	Full package with design	Full package with desing	Full Package
<b>Relations with local suppliers of raw materials and intermediary products</b>	Totally absent	Totally absent	Totally absent	Totally absent
<b>High and middle management in the subsidiary</b>	Occupied by local staff only	Occupied by expatriates and local staff	Occupied by expatriates and local staff	Occupied by expatriates and local staff
<b>Possession of subsidiaries in other countries</b>	No	No	No	No

Indicator	Shqiperia Trikot sh.p.k	Naber Konfeksion sh.p.k	Valcuvia Alba sh.p.k	Industria Ballkanike sh.p.k
<b>Possession of subcontractors in other countries</b>	China and India	FYR Macedonia	Serbia and North Africa	No
<b>The region in which the subsidiary is located</b>	Shkodra	Durres	Berat	Korce
<b>GDP per capita of the region (EUR) in 2013</b>	2,394	3,340	2,394	2,476
<b>GDP of the region as % GDP of Albania in 2013</b>	5.52%	9.58%	3.68%	5.83%
<b>Foreign owned enterprises compared to the total number of enterprises in the region (%)</b>	4.22%	4.94%	0.09%	2.97%

Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, Industria Ballkanike sh.p.k, INSTAT

## 5.2. SHQIPERIA TRIKOT SH.P.K

This section presents the first case study of the research. It is dedicated to the operational and production activity of the Italian enterprise Cotonella S.p.A and its subsidiary Shqiperia Trikot sh.p.k. Presentation of the case starts with the activity of the group and continues with the activity of the subsidiary and its subcontractors.

Figure 5.1: The map of Albania with the region of Shkodra circled



Source: [www.europe-atlas.com](http://www.europe-atlas.com)

### 5.2.1. Overview of the region of Shkodra

The region of Shkodra is situated in the north of Albania sharing borders with Montenegro (see figure 5.1). It is one of the oldest and most historic places in Albania, as well as an important cultural and economic center. The region had a population of

Shkodra<sup>28</sup> 221,422 inhabitants in 2013. The region has an unemployment rate of 17.1%. In this region can be found the largest hydropower plants of Albania. Recently, the region has attracted major Austrian companies that have developed two additional hydropower plants in 2012.

In 2013, the GDP in current prices for the region of Shkodra amounted to 530 million EUR contributing to the Albanian GDP with 5.52% (see table 5.2). The GDP per capita for the region in 2013 was 2,394 EUR. The main economic activity of the region of Shkodra is based primarily on agriculture, which contributes by 34.5% in the region's GDP. This region has also a well-developed fish processing industry, which is based on the variety of fish and related species that are found in the Adriatic Sea.

Table 5.2: Table presenting the region of Shkodra in 2013

Indicator	Region of Shkodra	Albania
Population	221,422	2,898,293
Total GDP in (Mln/EUR)	530	9,600
GDP per capita (EUR)	2,394	3,313
<b>GDP composition in (%) of the total GDP</b>		
Agriculture, forestry, and fishery	34.5%	18.61%
Industry	14.0%	12.17%
Construction	10.1%	9.78%
Trade, transport, hotels, and restaurants	13.7%	15.75%
Information and communication	1.6%	1.98%
Financial and insurance activities	1.9%	2.17%
Real estate activities	6.8%	6.06%
Scientific, professional, administrative, and supporting activities	1.5%	4.11%
Public administration, education, health, and social activities	14.1%	10.57%
Artistic, entertaining, and related activities	1.8%	1.83%
Number of enterprises	5,945	111,083
Number of foreign owned enterprises	251	4,654
Number of enterprises in the clothing industry	31	553

Source: INSTAT and the Chamber of Façon in Albania

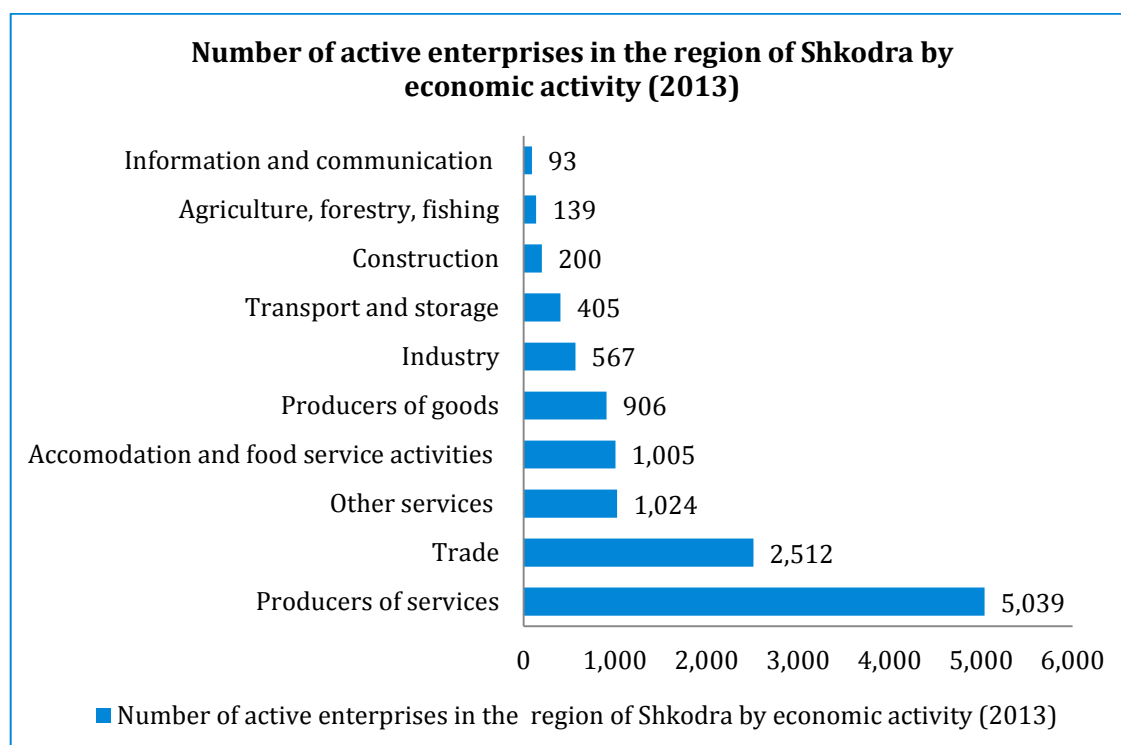
<sup>28</sup> In Albania with the few exceptions regions are named after the largest city located within the geographical area of the region.

Trade (wholesale and retail) and tourism related economic activities (restaurants, hotels, entertainment, etc.) have a share of 13.7% in in the region’s GDP. The main trade partners of the region are Montenegro, Croatia, and Serbia.

After the establishment of the market economy in Albania, several foreign clothing manufacturing enterprises started to operate in the region of Shkodra, mainly originating from Italy. Handcrafting (embroidery and carpet making, etc.) is an area of the regional economy, which is flourishing due to the high demand from foreign visitors. Shkodra is well-known for manufacturing of luxurious Venetian masks. Enterprises that engage in the manufacturing of masks are major suppliers for the carnivals organized annually in Venice.

In 2013, the region of Shkodra had 5,945 active enterprises, 5.35% of the total active enterprises in the country (see graph 5.1). Of the active enterprises, females own 1,565 while 251 of 5,945 enterprises have foreign ownership with Italian enterprises amounting to 95 followed by 18 Turkish enterprises and 14 Greek enterprises. The region is dominated by SMEs amounting to 5,377 that employ up to four workers. Enterprises employing up to 49 persons are 497 while those having over 50 employees are only 71.

Graph 5.1: Number of enterprises in the region of Shkodra in 2013



Source: National Statistical Institute (INSTAT), Business Register 2013

## 5.2.2. The Cotonella S.p.A Group

This section presents the history and the operating activity of Cotonella S.p.A. This section includes the history, the customers, the output, customers, suppliers of raw materials, logistics the organizational structure, and value added activities.

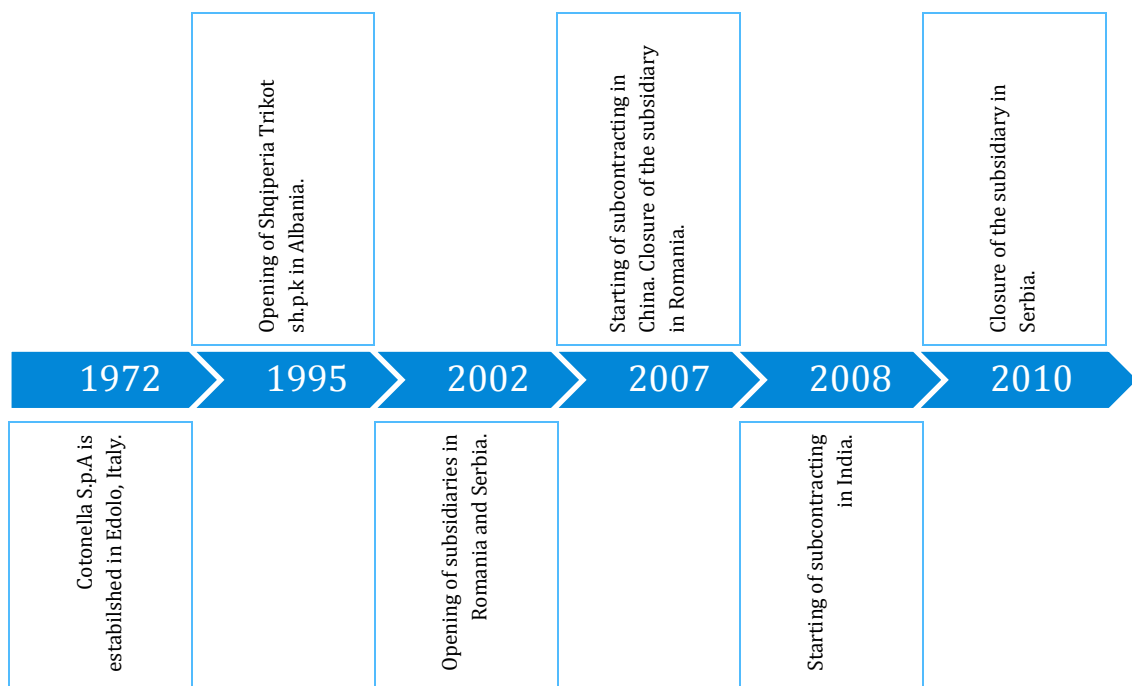
### 5.2.2.1 The group

The group is composed of offices in Italy and a production unit in the form of a subsidiary in Albania. The head office and the design department are located in Sonico (Brescia) while logistics unit is located in Malonno (Brescia). Cotonella S.p.A has also offices in Val di Chiana (Tuscany), Franciacorta (Brescia) and Milan. In 2015, Cotonella S.p.A had 90 employees. In Albania, the group has its subsidiary Shqiperia Trikot sh.p.k located in the region of Shkodra.

### 5.2.2.2 History of Cotonella S.p.A

In 1972, Cotonella S.p.A started its operations as a small clothing manufacturing enterprise for the production of intimate apparel in Edolo located in the province of Brescia in north of Italy (see figure 5.2).

Figure 5.2: History of Cotonella S.p.A (main events)



Source: Based on the information provided by Shqiperia Trikot sh.p.k

In 1995, it opened in Albania its subsidiary Shqiperia Trikot sh.p.k. In 2000's the activity expanded both with opening of additional subsidiaries in Romania and Serbia and with subcontracting in China and India. By 2010, the two subsidiaries in Romania and Serbia closed down limiting the activity of Cotonella S.p.A to production in Albania and subcontracting in Asia.

### 5.2.2.3 Output

Cotonella S.p.A, is able to manufacture through its subsidiary in Albania and subcontractors in Asia all kinds of intimate apparel for men, women, boys, girls, and babies both for its own brand and other customers. The main product lines for its own brand are shown in table 5.3. The daily production capacity for all goods (underwear, loungewear, and nightwear) is about 50,000 items.

In addition to its own brand, Cotonella S.p.A has manufactured intimate apparel also for international Italian and European brand such as Coop, Esselunga, Magnun, Galeria Kaufhof, Guess, and Calvin Klein. The annual output of Cotonella S.p.A exceeds that of 16 million pieces per year. Over 98% of the total output including goods for "Cotonella" brand and orders from customers are manufactured by its subsidiary Shqiperia Trikot sh.p.k located in the region of Shkodra.

Table 5.3: The product lines of Cotonella brand

No.	Line of Cotonella Brand	Description of the line
1.	Premier	Line focused on articles with details in desing
2.	Original	Traditional underwear
3.	Optima	Underwear for sale in commercial centers
4.	Invisible	Underwear line that is not visible from cloths
5.	Silhouette	Underwear line focusing in the body anatomy
6.	In & Out	Models visible out of sweaters and jackets
7.	Boy & Girl	Underwear line for children
8.	Cotonella Come Seta	Intimate underwear of fine fabric
9.	L'Altra Cotonella	Intimate underwear at convenient prices
10.	Night & Day	A line of nightgowns and pyjamas
11.	Natale	Intimate underwear designed for end year holidays

Source: Based on the information provided by Cotonella S.p.A

Cotonella S.p.A is lead by its president that is the highest decision taking authority of the enterprise. Since 2011, he is the president of the Italian-Albanian Chamber of Commerce. In 2007, revenues of Cotonella S.p.A reached 31 million EUR while in 2008 due to the global financial crisis Cotonella S.p.A suffered a loss of 2 million EUR. In 2009 and in 2010, the enterprise started to recover and its revenue collection was between 28 and 30 million EUR.

On this experience president Zannier says “I am pleased about the recovery. We have already developed new projects that are about to start. In the short run, we are thinking about new products and innovative distribution systems. Making new investments is the only way to respond to difficult times”.<sup>29</sup>

Table 5.4: Former subsidiaries of Cotonella S.p.A in Rumania and Serbia

No.	Indicator	Subsidiary in Rumania	Subsidiary in Serbia
1.	Starting date of the activity	2002	2002
2.	Articles	Slip for men and women, bras, and shirts	Slip for men and women, bras
3.	Activities in production cycle	Sewing and packaging	Sewing and packaging
4.	Number of subcontractors	5	3
5.	Exit date of the country	2007	2010

Source: Based on the information provided by Cotonella S.p.A

Previously, Cotonella S.p.A had subsidiaries in Rumania and Serbia (see table 5.4). These subsidiaries offered only sewing and packaging services. Subsidiaries cooperated also with five subcontractors Romania and three in Serbia.

Table 5.5: Subcontractors of Cotonella S.p.A in China and India

No.	Indicator	China	India
1.	Starting date of the production activity	2007	2008
2.	Types of items produced	corsetry, pyjamas, slip	corsetry, shirts
3.	The average quantity <sup>30</sup> of articles produced annually	100,200	47,730
4.	% in the annual total output of Cotonella S.p.A in 2014	1.5%	0.5%

Source: Based on the information provided by Cotonella S.p.A

<sup>29</sup> This statement was made during an interview in one of the visits in Shqiperia Trikot sh.p.k

<sup>30</sup> The average quantity of articles manufactured annually is calculated by taking the average of the quantity manufactured from 2010-2014.



Cotonella S.p.A decided to terminate its activity in Romania when the labor cost started to go up after it joined the European Union and to exist Serbia in 2010 when the new production site in Albania became operational. However, Cotonella S.p.A still has subcontractors in China and India that produce mainly corsetry and pyjamas (see table 5.5).

#### 5.2.2.4 Customers

In addition to Cotonella brand that covers 50% of total production, Cotonella S.p.A produces intimate apparel for a number of customers through its subsidiary in Albania (among others retailers like Coop, Esselunga, and Avon). For each customer it is able to produce a variety of articles like in case of Coop and Gerko when the number goes to 30 (see table 5.6).

Table 5.6: Main customers of Cotonella S.p.A

No.	Main customers	Category	Number of various articles	Output in % for 2014
1.	Coop	Slip and shirts for men, women, and children	30	15%
2.	Esselunga	Slip for men and women	20	10%
3.	Gerko	Slip and shirts for men, women, and children	30	10%
4.	Avon	Slip for women	25	5%
5.	Giannini distribution	Slip and shirts for men, women, and children	30	5%
6.	Kaufhof	Slip for women	6	5%

Source: Based on the information provided by Shqiperia Trikot sh.p.k

#### 5.2.2.5 Suppliers of raw materials

In the 1990s, Cotonella S.p.A was responsible for the selection of suppliers and imports of raw materials and accessories (slingshot, thread, labels) which are sent to its subsidiary Shqiperia Trikot sh.p.k. Only after the 2000's Cotonella S.p.A made ShqiperiaTrikot sh.p.k responsible for the import of fabrics and accessories required for sewing and packing, while it remains responsible for the selection of suppliers. The subsidiary imports raw materials mainly from Turkey and a minor fraction from Italy, Romania, Bulgaria, and China. For an output of 12-16 million pieces a year, it requires around 500-700 tons of imported fabric. In recent years, imports from Turkey have increased considerably as the result of the agreement between the customs office of Albania and Turkey, which consists in preferential rates on these imports.

Raw materials are imported based on price-quality ratio and according to the preferences of the customers of Cotonella S.p.A. The quality of raw materials is guaranteed in Shqiperia Trikot sh.p.k through continuous tests and controls immediately after they are stored in the premises of the subsidiary. In case non-conformities are identified during quality control, suppliers are immediately notified for their presence. In case suppliers are skeptical on testing procedures, they are invited to observe testing procedures and results in the laboratories of Shqiperia Trikot sh.p.k. The rejection rate of raw materials has been small and sporadic. In addition, Cotonella S.p.A schedules regular meetings every three months during which executives and technicians coming from the head office: (i) get familiar with the newly manufactured fabrics, (ii) make recommendations on improving the technical specifications of existing fabrics, and (iii) place orders on specific fabrics asked from customers that are not available in the market. Local suppliers are absent in operations of Cotonella S.p.A. Up to now no local firms are able to produce raw materials able to meet the stringent requirements set by Cotonella S.p.A.

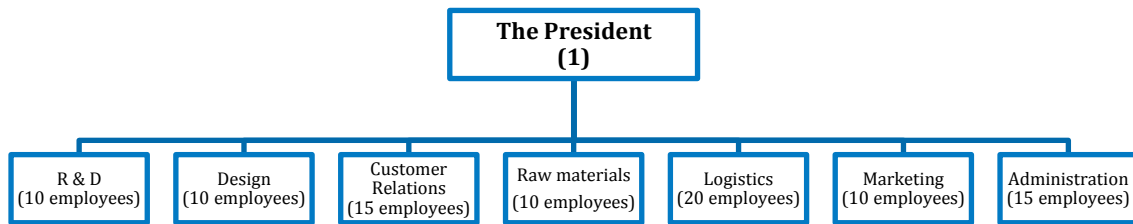
#### **5.2.2.6 Logistics**

Cotonella S.p.A acts both as a distributor of finished articles to end customers and as a supervisor of the logistic network created through its subsidiary. It has assigned Shqiperia Trikot sh.p.k to deliver finished goods to end customers. The subsidiary delivers the goods of the “Cotonella” brand across the selling points and customers assigned by the head office. The head office has financed the purchase of large vehicles. These vehicles use the European road transportation system to assign finished articles according to the instructions of the logistic department in the head office. For selling points that are not located in nearby countries and that are not convenient and lengthy, to be reached by the road transportation system Shqiperia Trikot sh.p.k delivers finished articles in the store houses of Cotonella S.p.A. It is the responsibility of the logistic department within Cotonella S.p.A to assign respective goods to selling points.

#### **5.2.2.7 Organizational structure in the head office of Cotonella S.p.A**

Key departments are located in the head office of Cotonella S.p.A. These departments closely cooperate with Shqiperia Trikot sh.p.k (see figure 5.3).

Figure 5.3: Organizational structure of Cotonella S.p.A



Source: Author representation based on the information provided by Cotonella S.p.A

- **Research and development (R&D)**

It is a department with 10 employees with one of them serving as the department head. The main objective of the department is to analyze the global developments of the clothing industry and to identify the techniques to improve the quality of goods of the “Cotonella” brand. The department conducts research on: (i) manufacturing of new intimate apparel, (ii) creating innovative products that allow for maximal customization to the human body anatomy, and (iii) generating new goods in accordance with the changes in the preferences of customers.

- **Raw materials**

It is a department with 10 employees that deals mainly with orders and control of raw materials, especially for fabrics used in the manufacturing of intimate apparel. In the raw materials department is placed the internal quality control laboratory. This laboratory is equipped with modern instruments able to perform quality testing for all raw materials. Raw materials used in manufacturing of intimate apparel are certified according to OEKO - TEX 100 standard, which guarantees the highest levels of hygiene in accordance with environmental regulations indicating the absence of potentially harmful substances. In 2001, the quality system managed to get the UNI EN ISO 9001:2008 certification ensuring the quality of the enterprise to carry out constant checks to obtain finished articles acceptable to international standards.

All intimate apparel is equipped with an antibacterial silver ionized AB100 fortress, which prevents the formation of bacteria that cause irritation. This extra special antibacterial fortress is placed on all lines of production of the “Cotonella” brand. For orders other than Cotonella brand, intimate apparel is manufactured according to their specifications set by clients of Cotonella S.p.A who are well integrated into global production chains.

- **Design**

It is a department that is present since the start of the activity of of Cotonella S.p.A in 1972. The department has 10 employees and is in charge for preparing all styles and models for the 11 intimate apparel lines of “Cotonella” brand. Furthermore, this department adapts the designs received from various customers into the manufacturing process of Cotonella S.p.A.

- **Marketing**

It is a department that deals with sales of “Cotonella” brand and in promoting the quality of services to potential international customers. It has 10 employees. This department organizes the advertising campaign of “Cotonella” brand and identifies new selling points for its products. It is supported by the logistics department, which ensures that all the selling points have the supply of intimate apparel according to their needs.

- **Customer relations**

It is a department that has 15 employees and is responsible to obtain continuous feedback from customers in order to identify new services to be provided to customers.

- **Logistics department**

It is a department with 25 employees who are responsible for the delivery of finished articles to customers and for the placement of “Cotonella” brand in respective stores and shopping centers.

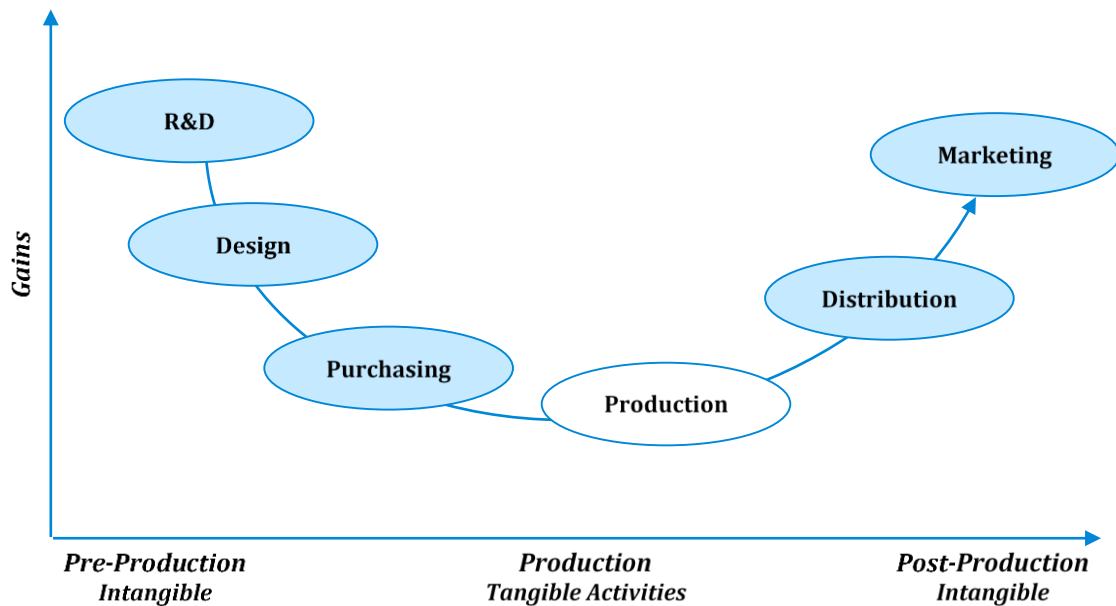
- **Administration**

It is a department in the head office that includes accounting department, human resources, drivers, security, etc. In total, 15 employees are part of this department.

### **5.2.2.8 Value Added Activities in Cotonella S.p.A**

The figure 5.4 presents the value added activities occurring in Cotonella S.p.A in the clothing industry according to Fernandez-Stark, Gereffi, and Frederick (2011). The head office is responsible for all activities except production that occurs in the subsidiary. However, the subsidiary is partially involved activities that go beyond production.

Figure 5.4: Value adding activities in Cotonella S.p.A



Source: Based on the information provided by Cotonella S.p.A and Shqiperia Trikot sh.p.k

### 5.2.3. The Subsidiary-Shqiperia Trikot sh.p.k

This section presents the operational activity of Shqiperia Trikot sh.p.k including organizational structure, production, and investment. Training and compensation.

#### 5.2.3.1 History of Shqiperia Trikot sh.p.k

Shqiperia Trikot sh.p.k was established in 1995. President Zannier says, “in Albania we manufacture the majority of our products, an experience that has been highly satisfactory both at a professional and personal level”<sup>31</sup>. Cotonella S.p.A decided to produce 98% of its annual output in Albania because of:

- the favorable political and economic conditions;
- Shqiperia Trikot sh.p.k since its establishment in 1995 has demonstrated a continuous improvement in its performance;
- easy access to the head office of Cotonella S.p.A which can be reached through the international road transportation system that connects the north of Albania

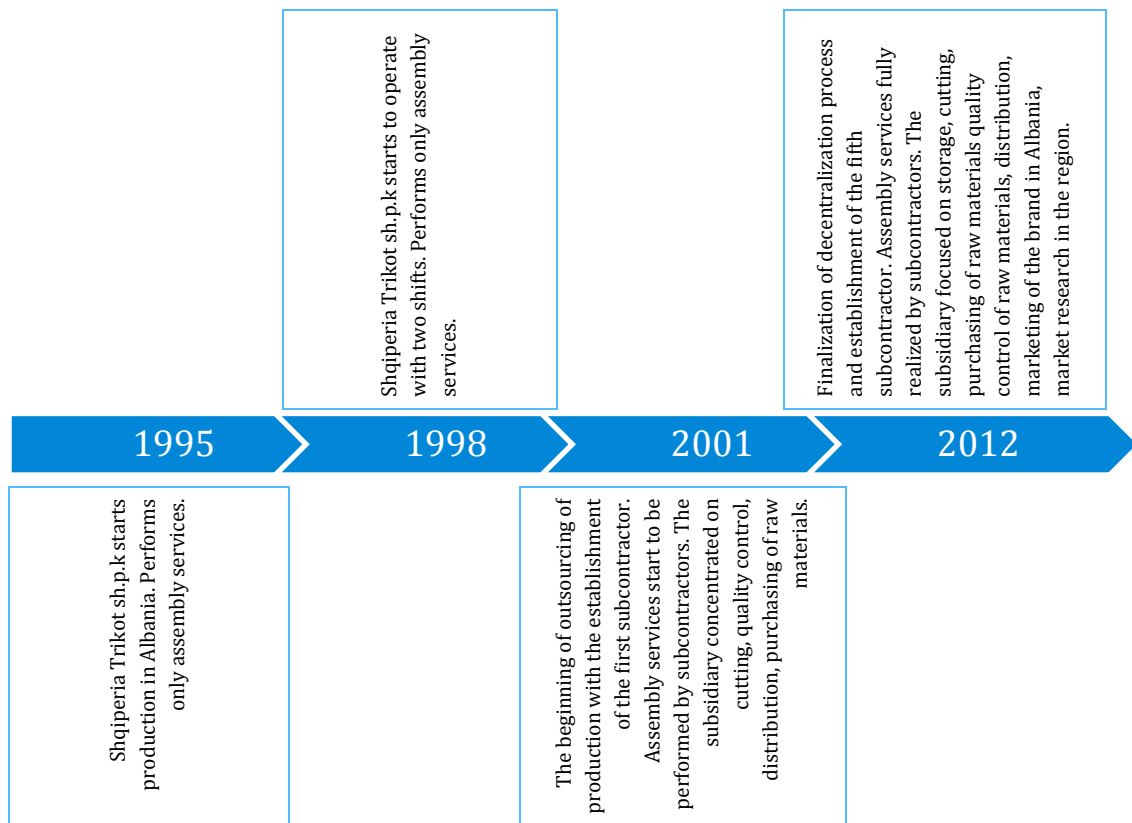
<sup>31</sup> This statement was made during a short interview with the President in the production facilities of Shqiperia Trikot sh.p.k

with the north of Italy. The short distance to Italy improves logistics and accelerates the delivery of finished articles to every customer;

- ease of operating in the local economy due to social and cultural similarities between the two neighboring countries and of ease of communication as about 90% of the Albanian population speaks the Italian language.

In 1998, after three years of operations Shqiperia Trikot sh.p.k started to operate for the first time with two shifts because of its satisfactory performance in manufacturing of intimate apparel (see figure 5.5). Within five years, it managed to have a staff level of 450 employees and was able to produce between 10 and 12 million pieces per year.

Figure 5.5: History of Shqiperia Trikot sh.p.k (main events)



Source: Based on the information provided by Shqiperia Trikot sh.p.k

The large volume of production led to the second restructuring of Shqiperia Trikot sh.p.k, which consisted in outsourcing of production into five main units that operate today as its subcontractors. The main objective of decentralization was to achieve a higher flexibility in production and a better diversification of production risk. In addition, restructuring in production and outsourcing of assembly services occurred as Shqiperia

Trikot sh.p.k aims to focus on functions that are more complex and move up in the value chain of the clothing industry.

The process of decentralization proved successful not only for Cotonella S.p.A and Shqiperia Trikot sh.p.k but also for its employees and associates. Employees with the best working performance and the most experienced technicians were given the opportunity to become in charge for the management of subcontracting firms. Subcontractors are separate fiscal entities and possess the buildings in which assembly services are performed while the machines (sewing, etc.) are provided by Cotonella S.p.A. Cotonella S.p.A and Shqiperia Trikot sh.p.k provide a continuous support to each subcontractor especially in improving manufacturing productivity and in strengthening staff capacities.

After the decentralization process was finalized, Shqiperia Trikot sh.p.k remained with a staff of 78 employees (see table 5.7) while five subcontractors employ directly more than 400 employees. The new organization of production permits Shqiperia Trikot sh.p.k to provide not only assembly services but also cutting, quality control of raw materials, and delivery of finished articles to end customer.

Table 5.7: Level of employment in Shqiperia Trikot sh.p.k

No.	Year	Level of employment
1.	1995	82
2.	1998	450
3.	2010	120
4.	2015	78

Source: Based on the information provided by Shqiperia Trikot sh.p.k

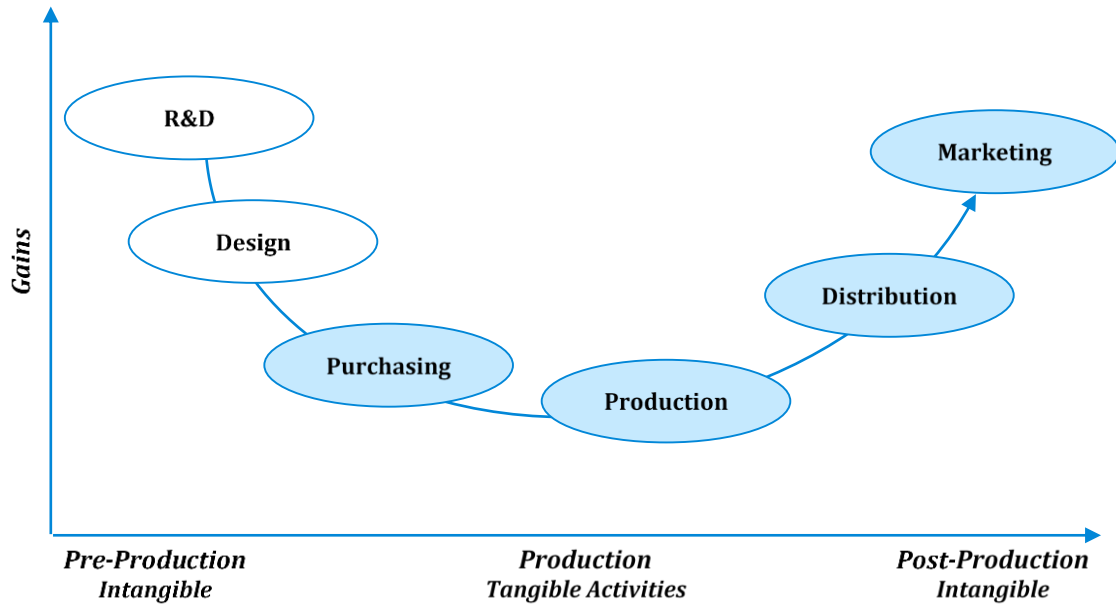
Currently, Shqiperia Trikot sh.p.k has taken the first steps in research and development activities and in marketing of Cotonella brand through the opening of new stores in the Balkan Peninsula. Current services of Shqiperia Trikot sh.p.k include:

- storage of raw materials;
- control of raw materials;
- cutting and preparation of fabrics for sewing;
- control of finished product;
- packing and delivery of finished products to clients of Cotonella S.p.A;

- market research in the Balkan Peninsula;
- management and marketing of “Cotonella” brand stores in Albania.

The figure 5.6 presents the value added activities occurring in Shqiperia Trikot sh.p.k with reference to Fernandez-Stark, Gereffi, and Frederick (2011) as presented in figure 5.6.

Figure 5.6: Value adding activities in Shqiperia Trikot sh.p.k



Source: Based on the information provided by Shqiperia Trikot sh.p.k

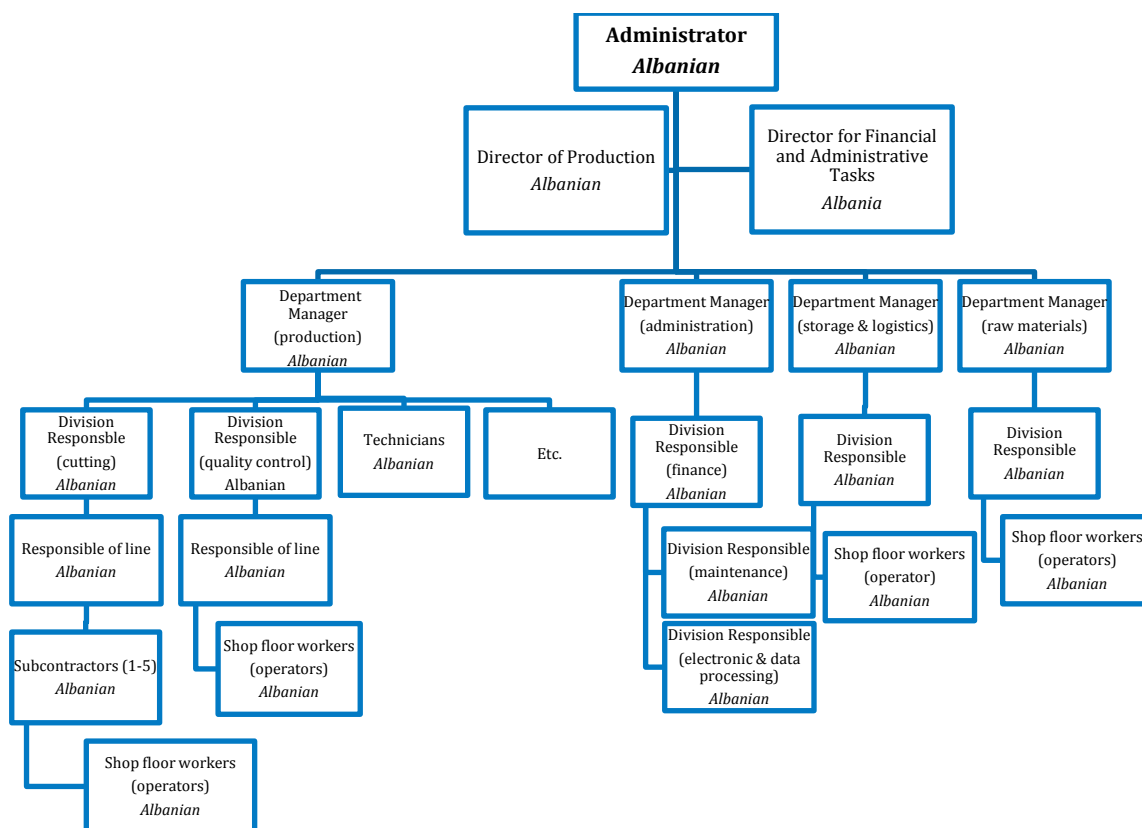
### 5.2.3.2 Organizational Structure of Shqiperia Trikot sh.p.k

Production is realized based on the principle of division of various stages of production, which has brought over the years an increased level of production of the subsidiary (see figure 5.7).

Shqiperia Trikot sh.p.k aims at increasing the interaction between employees in a way that a process and a task are performed by several employees in the same department and not turning them into the monopoly of a single employee. Consequently, the entire staff ranging from executives to blue-collar employees share and transmit knowledge among each other and express their recommendations on particular tasks and processes.



Figure 5.7: Organizational structure of Shqiperia Trikot sh.p.k



Source: Author representation based on the information provided by Shqiperia Trikot sh.p.k

The highest executive of Shqiperia Trikot sh.p.k is the general administrator who coordinates production through the company director and the director for finance administration. These refer also to high management level of the subsidiary.

The company director directly supervises the departments of: (i) storage of raw materials, (ii) cutting department, (iii) storage of finished goods and logistics, and (iv) control of the quality in the testing laboratories. Each of these units has its management structure, which consists of the department manager, the deputy manager of the unit, and responsible for divisions in the department. Department managers are also considered as middle level management of the subsidiary while responsible for divisions are considered as low level management.

The department of raw materials was established in 2008. Previously it was the only division within the production department. The purpose of this department is the storage of raw materials including fabrics and accessories and the execution of physical and

chemical controls on all types of fabrics used in manufacturing of intimate apparel. The cutting department was created in 2009. Previously it was only a division within the production department. This department is responsible for cutting raw materials, which has been subject to the quality control tests in the department of raw materials. In this department, raw materials are cut into samples and are prepared for sewing. These samples are distributed to subcontractors to continue with sewing and packing processes. To continue, the department of storage of finished articles and logistics was also created in 2008. This department stores all finished goods that are manufactured by subcontractors. Furthermore, this department is responsible for the quality control of finished products delivered to Shqiperia Trikot sh.p.k by its subcontractors and for exporting them directly to customers of Cotonella S.p.A.

The director for finance administration directly supervises three divisions: (i) finance, (ii) maintenance and (iii) electronic data processing. These divisions are all included in the administration department of the subsidiary. They have a supportive role in the daily operations of Shqiperia Trikot.

### **5.2.3.3 Investments**

Up to now, capital investments focus on: (i) production facilities including storage, administration, and security, (ii) machines used in production, and (iii) information technology (see table 5.8).

In 1995, the initial investment amounted to 190,000 EUR. The highest level of capital investments in production facilities of Shqiperia Trikot sh.p.k was made between 2006 and 2010 during which new manufacturing premises of 25,000 square meters costing 3.2 million EUR was built in the suburbs of the city of Shkodra. Executives and the administration occupy single space offices. The new premises have: (i) a canteen of 56 places for its employees, (ii) fully furnished apartments for professionals and technicians visiting Shqiperia Trikot sh.p.k for a short period of time, (iii) large elevators that permit transportation of high amounts of finished goods, and (iv) a lighting system which is customized depending on the process needed to be completed. Storage spaces in the new facilities have an advanced thermo-isolation system to ensure protection from moisture or extreme heating. In addition, the cutting department is equipped with a ventilation system that absorbs the majority of the waste generated during the cutting of various fabrics. Since

2010, when the new production facilities became operational the total investment has accumulated to 3.8 million EUR.

Table 5.8: Investments in Shqiperia Trikot sh.p.k up to 2014

Category of investment	Amount in EUR
<b>Investments in operating facilities</b>	
Building	2,600,000
Ventilation	300,000
Electricity generators	450,000
Guest house/canteen	200,000
Security	50,000
<b>Investments in machines</b>	
Cutting machines	700,000
Sewing machines	1,000,000
Printing machines	150,000
Quality testing	350,000
<b>Investments in information technology</b>	
Hardware	155,000
Software	45,000
<b>Total of investments</b>	<b>6,000,000</b>

Source: Based on the information provided by Shqiperia Trikot sh.p.k

Another objective of Cotonella S.p.A is to manufacture intimate apparel based on modern machines. The initial investment in machines amounted to 295,000 EUR. In the new production facilities, additional investments were made in sewing machines.

Shqiperia Trikot sh.p.k is the one of the few inward processing companies in Albania that has sewing machines working based on particle filtering technology. This technology minimizes noise while sewing and absorb most of the particles emitted by working with various fabrics. The investment made in sewing machines amounts to 1,000,000 EUR. After the decentralization, the beneficiaries of the investment on machineries are only the subcontractors as in Shqiperia Trikot sh.p.k sewing is no longer available. The technology used in cutting is one of the latest editions of Gerber<sup>32</sup> production and it is almost fully

<sup>32</sup>Gerber Technology is a world leader in providing sophisticated automated manufacturing systems. The company serves 25,000 customers including more than 100 Fortune 500 companies, in the aerospace, apparel, retail, technical textiles, furniture, and transportation interiors industries in 130 countries.

automated. The amount spent on cutting machines is 700,000 EUR or 32% of the total investment. The investment made in machineries used to print the designs received from the head office is 150,000 EUR.

Today, the information technology is extended to all administration of Shqiperia Trikot sh.p.k. Investments in information technology are ongoing. The initial investment was 45,000 EUR followed by an additional investment of 155,000 EUR in 2010. The additional investment was mainly dedicated to the distribution system that is supported by high storage capacity servers. The distribution system operates with special software that identifies the location of finished goods until they reach their final destination.

Investments are made also in laboratories used for testing of raw materials and quality control of finished articles. These laboratories able to perform on different types of fabric various physical and chemical tests including: weight, horizontal and vertical flexibility, washing stability, resistance, gentleness, level of acid proof alcalino (loss of color from sweat). Tests for elasticity required in manufacturing of intimate apparel include: mechanical tight, elasticity, color degradation during washing, gentleness, resistance to washing of 1000 cycles. The testing laboratories have a digital and a modern controlling system that make it possible to eliminate any adverse effect in the health and hygiene of customers. All intimate apparel starting from, shorts, jackets, pajamas, lingerie, to those for babies and children are guaranteed by quality checks that are performed by specialized technicians in the testing laboratory of Shqiperia Trikot sh.p.k. Statistical data are kept at each stage of control. The amount invested in the testing and quality control laboratories is 350,000 EUR.

Finally, investments in information technology are also made for the administration of Shqiperia Trikot sh.p.k, which operates with an I core 7 technology. All departments and their units are equipped with computers and video cameras that used by employees to have video conferences with Italian technicians when they encounter difficulties during manufacturing addressing every obstacle that postpones production.

#### **5.2.3.4 Production Activity**

The strategy of production in Cotonella S.p.A is oriented toward a gradual decline in the level of manufacturing in countries like China and India in favor of more manufacturing in Albania (see table 5.9). For the president of Cotonella S.p.A the Albanian labor market has a

high awareness for quality goods and is able to compete with the more experienced Asian countries. As a result, Shqiperia Trikot sh.p.k has gradually acquired a larger share in the total output of Cottonella S.p.A.

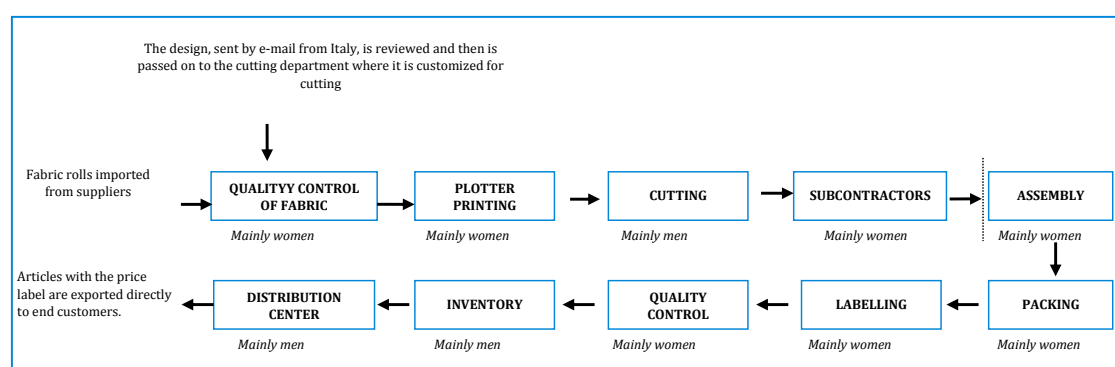
Table 5.9: Output of Shqiperia Trikot sh.p.k and subcontractors (2010 - 2014)

No.	Item	Output (pieces) 2010	Output (pieces) 2014	Change in output (%)
1.	Slip	10,000,000	11,800,000	18.00%
2.	Shirts	450,000	1,300,000	188.89%
3.	Bras	15,000	70,000	366.67%
4.	Pajamas	2,000	10,000	400.00%
5.	<b>Total</b>	<b>10,467,000</b>	<b>13,180,000</b>	<b>25.92%</b>

Source: Based on the information provided by ShqiperiaTrikot sh.p.k

The output of Shqiperia Trikot sh.p.k has increased over the years. In 1998, Shqiperia Trikot sh.p.k manufactured only 60% of Cottonella’s total output while in 2014 it manufactured 98% of total output, experiencing an increase of 35% compared to 1998. Comparing the level of output in 2014 to that of 2010 there is an increase of 25.92%. In the first years of its operations, Shqiperia Trikot sh.p.k manufactured only intimate apparel for men and women. Later on, it started to manufacture more goods like bras, jersey and items in the product line for children and babies. In the last 5 years, Shqiperia Trikot sh.p.k started to manufacture pajamas for men, women, and children as well as nightgowns. Worth noting is the growth of 366% in the total output of bras from 2010 to 2014. The increase in output of these goods is in full compliance with the head office objective to transfer production from China and India to Shqiperia Trikot sh.p.k. The production cycle in Shqiperia Trikot is presented in figure 5.8. In the production cycle assembly occurs in the five subcontractors.

Figure 5.8: Production cycle in Shqiperia Trikot sh.p.k



Source: Author representation based on the information provided by Shqiperia Trikot sh.p.k

The subcontractors in China manufacture 99 % of the cheap bras line of Cotonella S.p.A. It is more convenient to manufacture the economic line bras in China because of the availability of raw materials in the Asian market. The manufacturing of more expensive bras lines occurs in Shqiperia Trikot sh.p.k with a total output of 5,000 pieces per year. Pajamas are mostly produced in India because of the specialization this country has in the manufacturing of textiles required for this product range. The general administrator of Shqiperia Trikot sh.p.k states that the increase in the level of output is reflected in the revenues of Shqiperia Trikot sh.p.k. From 2000's and onwards, revenues of Shqiperia Trikot sh.p.k have grown parallel to the expansion in production. In 2014, revenues increased by 126% compared to those in 2000.

### 5.2.3.5 Vertical integration

One of the most important objectives of Shqiperia Trikot sh.p.k is to achieve a vertical integration system. It aims: (i) to complete transfer of production from Asian countries, (ii) to reduce the level of imported raw materials, (iii) to reduce further the delivery time of finished goods, (iv) to improve the technical skills of employees by bringing them closer to those required by European standards, (v) to realize weaving, stamping, and painting in the city of Shkodra. A vertical production system will be supported by the establishment of a regional center for manufacturing of textiles and fabrics to be used by clothing manufacturing enterprises in South East European countries. Cotonella S.p.A intends to realize an investment of 12 million euro for this purpose. The regional center is expected to open up a minimum of 800 new jobs. With this investment, Cotonella S.p.A intends to achieve:

- a reduction in the time required to manufacture each good;
- a reduction in the delivery time of finished products to end customers;
- minimal losses from volatile exchange rates against the euro;
- the creation of pool of local suppliers in the provision of raw materials;
- an increase in the exports of goods “Made in Albania” so to be able to gain a higher market share.

In order to accomplish this project Cotonella S.p.A is working closely with its subsidiary and Shqiperia Trikot sh.p.k in evaluating the optimal time to make this investment because the regional center needs a minimum output of 5,000 tons cloths to be profitable. Shqiperia

Trikot sh.p.k will be in charge to implement the project that would enable to move along the value chain of the textile clothing industry.

### **5.2.3.6 The project in the Balkan Peninsula**

Shqipëria Trikot sh.p.k has started the Balkan Peninsula Project. For this project, Shqiperia Trikot sh.p.k has undertaken extensive research to promote the goods of the Cotonella brand in the Balkan Peninsula. Promotion is based on points of sale that are managed by local employees in the countries of the peninsula.

In this project, the head office and Shqiperia Trikot sh.p.k encountered several difficulties including, sale of fake goods, smuggled goods, and competition of cheap goods from Chinese and Turkish brands. In Kosovo, the project has been most successful as customers appreciate comfort and quality. Shqiperia Trikot sh.p.k is also in charge for the administration of the eight shops of Cotonella Brand that are opened throughout Albania. Another project on which the head office is supporting Shqiperia Trikot sh.p.k is on the manufacturing of bathing suits. Shqiperia Trikot sh.p.k has started to manufacture bathing suits thanks to the acquisition of the Linea Sprint enterprise by Cotonella S.p.A.

### **5.2.4. Subcontractors**

Assembly tasks in Shqiperia Trikot sh.p.k are fully delegated to its subcontractors (see table 5.10). Of these subcontractors Madish sh.p.k was established in 1995 as a division of Shqiperia Trikot sh.p.k. After restructuring occurred in 2001, Madish sh.p.k became a separate entity and a subcontractor of Shqiperia Trikot sh.p.k. Other subcontractors are Laurus sh.p.k (2006), Melkans sh.p.k (2008), Silvana sh.p.k (2012), and Andrea sh.p.k (2012). These enterprises are managed by former employees of Shqiperia Trikot sh.p.k.

Services offered by subcontractors are limited to sewing and packing on all type of intimate apparel (slips, jerseys, bras, pajamas). Among the subcontractors, 50% of the output of Madish sh.p.k and 80% of the output of Laurus is Shqiperia Trikot sh.p.k and the rest is for other customers they work with. The output of the three remaining subcontractors is 100% for Shqiperia Trikot sh.p.k. The five subcontractors have in total 429 employees and all of them are local staff.

Table 5.10: Employment and output in subcontractors of Shqiperia Trikot sh.p.k 2014

No.	Subcontractor	Establishment date	No. of employees	Process	Goods manufactured	% of output in the total of Shqiperia Trikot sh.p.k
1.	Madish sh.p.k	1995	103	Sewing Packing	Slip and shirts for men, women, and children	33%
2.	Laurus sh.p.k	2006	126	Sewing Packing	Slip and shirts for men, women, and children	22.30%
3.	Melkans sh.p.k	2008	88	Sewing Packing	Slip and shirts for men, women, and children	19%
4.	Silvana sh.p.k	2012	97	Sewing Packing	Slip for men and women	19%
5.	Andrea sh.p.k	2012	15	Sewing Packing	Slip for men and women	4%
6.	<b>Total</b>		<b>429</b>			<b>98%</b>

Source: Based on the information provided by Shqiperia Trikot sh.p.k

Shqiperia Trikot sh.p.k provides support to its subcontractors that consists in:

- selection of employees;
- training of staff working in sewing and packing so they can adapt to the requirements of different customers of Cotonella S.p.A;
- on-site support to employees responsible for quality control;
- technical assistance for the maintenance of machines;
- financial support on investments for subcontractors.

In addition, Shqipëria Trikot sh.p.k continuously monitors each subcontractor. Monitoring occurs at three different levels. Firstly, a technician of Shqiperia Trikot sh.p.k is present throughout the production activities in each subcontractor. Technicians prepare periodic reports identifying problems and difficulties encountered at each production stage. Secondly, the quality control department monitors the standards of the finished goods delivered to Shqiperia Trikot sh.p.k by each subcontractor. Thirdly, Shqiperia Trikot sh.p.k undertakes frequent audits to monitor the implementation of international standards required by Cotonella S.p.A and of technical specifications agreed with each customer. Because of the support offered by Shqiperia Trikot sh.p.k and the increasing market demand for products of Cotonella S.p.A subcontractors have experienced an increase in output and in the number of employees.



## 5.2.5. Employment

This section presents the composition of the staff employed by Shqiperia Trikot sh.p.k together with training and compensation at each staff level.

### 5.2.5.1 Level of employment/local staff

The number of employees went down to 78 after sewing and packing services is provided by subcontractors (see table 5.11). In 2014, the number of female employees Shqiperia Trikot sh.p.k is almost equal to that of male employees. Male employees are present in the department of raw materials while in the cutting department the number of male and female employees is the same. Shqiperia Trikot sh.p.k has 12 employees serving as managers and 66 as non-management staff. Employees having a higher education degree are 24 while those having secondary education are 54. Graduates are placed in leadership positions in Shqiperia Trikot sh.p.k as administrators, heads of departments, or sector managers. The number of female employees in Shqiperia Trikot sh.p.k has fluctuated over the years. Between 1998 and 2000, the company had 385 female employees while in 2004 this number reached to 426. Today, the total number of females working in Shqiperia Trikot sh.p.k is only 34. The majority of female employees previously working for Shqiperia Trikot sh.p.k are now employed by the the five subcontractors. On the other hand, the number of male employees in Shqiperia Trikot sh.p.k was only 10 in 1998, it reached to 66 in 2010 and today it is 44.

Table 5.11: Employment according to functions in Shqiperia Trikot sh.p.k in 2014

No.	Sector	Male Employees	Female Employees	Total
1.	Administration	8	9	17
2.	Raw materials	12	3	15
3.	Cutting	6	6	12
4.	Logistics	18	16	34
5.	<b>Total</b>	<b>44</b>	<b>34</b>	<b>78</b>

Source: Based on the information provided by Shqiperia Trikot sh.p.k

Worth emphasizing, is the fact that since the first day of its establishment Shqiperia Trikot sh.p.k has had only Albanian employees. Foreign employees have not been present neither in production nor in management. Foreign staff (mainly Italian) visit Shqiperia Trikot sh.p.k only for short periods to provide technical assistance or to attend executive

meetings that aim to monitor the performance of the subsidiary, to specify future objectives, and to identify appropriate expansion strategies.

Employees are selected by the heads of departments and by sector managers. Employees are hired based on previous experience in the clothing industry and the skills acquired during the three-month training period. All employees are required to have a secondary education, to speak at least one foreign language, and to have adequate computer skills. The general administrator selects heads of departments and sector managers. They should possess a higher education degree, have relevant experience in the clothing industry, speak at least two foreign languages, and demonstrate good management skills. The policy of Shqiperia Trikot sh.p.k is to select its management staff from employees who have worked in the subsidiary for many years and who have been able to grow in responsibility.

Evaluation of staff is included in daily operations of Shqiperia Trikot sh.p.k. Direct supervisors are responsible to evaluate employees they supervise every three months. Evaluation criteria vary by position and the tasks of employees. For employees placed in low to medium level positions evaluation criteria include commitment, disposability, teamwork, and precision in completing the assigned processes. Evaluation of employees having management positions include: reliability, performance, and ability to meet targets. The evaluation form is approved by the head office and is bilingual in English and Italian. Rating for each employee is from 1 to 10. Moreover, Shqiperia Trikot sh.p.k is organized in such a way to ensure daily cross checking of its operations. For the management of the enterprise daily cross-checks are a good indicator for the overall performance of staff and the subsidiary. In the same time Shqiperia Trikot sh.p.k invests financial resources amounting to 30,000 euro annually for acquiring international audit services on its operations and for the working conditions of its employees.

#### **5.2.5.2 Training**

Moreover, staff training is another engagement of Shqiperia Trikot sh.p.k. Trainings begin on the first day which new employees start a three months training period. During this period employees are on probation, in case they underperform than Shqiperia Trikot sh.p.k reserves the right to replace them. During the three months, experienced employees supervise new employees. Training programs last for 2 weeks, 1 month, 3 months or up to a year. Trainings at the parent company are supplemented with trainings in the premises of

Shqiperia Trikot sh.p.k. These trainings are run by domestic and foreign experts and are supported by national universities. Trainings are conducted primarily to:

- improve the quality control of raw materials and finished goods;
- develop new organizational structures of various departments;
- use of advance software to speed up delivery of finished products;

Shqiperia Trikot sh.p.k by the end of 2015 had 20 employees that are trained long term at the head office. In addition to training, employees of Shqiperia Trikot sh.p.k attend ongoing study visits at the head office during which they gain on the spot experience and knowledge. Former employees of Shqiperia Trikot sh.p.k are hired by international brands like Armani and Calvin Klein. Executives of Cotonella S.p.A and those of Shqiperia Trikot sh.p.k emphasize the necessity of a vocational training center to train employees on cutting, design, and quality control with the intend to enrich the local supply of labor in the clothing industry in Albania.

Working hours at Shqiperia Trikot sh.p.k are between 8:00 am to 16.30 p.m. including a 30-minute lunch break. The lunch break differs from one department to the other. Employees are required to use personal identification card to enter and to leave the company in order to record their working hours. Weekly working hours are in full compliance with the national Labor Code, with a maximum of 50 hours per week. Overtime hours are paid 25% more for working on a Saturday, 50% for working on a Sunday. Employees working on national holidays are paid 100% or they can take vacation the next day after receiving the approval of the supervisor. The same policy applies for the five subcontractors.

The annual leave for each employee is 28 working days including Saturdays and Sundays. All employees have 14 days of annual leave on August when Shqiperia Trikot sh.p.k closes its activity. Employees can take the rest of the annual leave depending on their specific needs. Shqiperia Trikot sh.p.k offers daily transportation for all its employees. Staff turnover is very low and even after employees leave Shqiperia Trikot sh.p.k in order to have a new professional experience or go through motherhood they are re-employed in the enterprise. During high intensity production periods, Shqiperia Trikot sh.p.k employs also part time staff.

### 5.2.5.3 Compensation of employees

Compensation for employees is above the average offered by similar enterprises in the clothing industry in Albania (see chapter 4). The policy of the enterprise is to periodically review the salaries of employees in accordance with their performance and the number of years working for Shqiperia Trikot sh.p.k. Employees who have more than 10 years working for Shqiperia Trikot sh.p.k receive an additional salary (see table 5.12).

Table 5.12: Compensation of employees in Shqiperia Trikot sh.p.k

No.	Category of employee	Monthly wage range
1.	Sectors managers	420 EUR
2.	Personnel performing work with relatively high liability	332 EUR
3.	Blue collar employees	260 EUR

Source: Based on the information provided by Shqiperia Trikot sh.p.k

### 5.3. NABER KONFEKSION SH.P.K

This section presents the second case study of the research. It concentrates on the operational and production activity of the German enterprise Naber Moden and its subsidiary Naber Konfeksion sh.p.k<sup>33</sup> that is composed of three production plants.

Figure 5.9: The map of Albania with the region of Durrës circled



Source: [www.europe-atlas.com](http://www.europe-atlas.com)

Presentation of the case starts with a description of the host region, the activity of the group and it continues with the activities occurring in the subsidiary.

<sup>33</sup> Naber Konfeksion sh.p.k is composed of three production plants Naber Konfeksion 1 sh.p.k, Naber Konfeksion 2 sh.p.k, and Grori Konfeksion sh.p.k

### 5.3.1. The region of Durres

The region of Durres is situated in the west of Albania, 35 km from Tirana, the capital of Albania (see figure 5.9). The region of Durres is the second largest in Albania in terms of population and economic activity. In 2013, the region had a population of 275,425 inhabitants. It has the largest seaport in Albania through which over 800,000 thousands passengers commute annually and where over 3 million tons of goods circulate within a year.

In 2013, the GDP in current prices for the region of Durres amounted to 920 million EUR having a share of 9.58% in the country's GDP (see table 5.13). In the same time, the GDP per capita for the region was 3,340 EUR at the market exchange rate. Trade (wholesale and retail) and tourism related economic activities (restaurants, hotels, and entertainment) have the highest share with 23.4% of the region GDP.

Table 5.13: Table presenting the region of Durres (2013)

Indicator	Region of Durres	Albania
Population	275,425	2,898,293
Total GDP in (Mln/EUR)	920	9,600
GDP per capita in (EUR)	3,340	3,313
<b>GDP composition in (%) of the total GDP</b>		
Agriculture, forestry, and fishery	17,2%	18.61%
Industry	14.9%	12.17%
Construction	14.6%	9.78%
Trade, transport, hotels, and restaurants	23.4%	15.75%
Information and communication	1.2%	1.98%
Financial and insurance activities	1.5%	2.17%
Real estate activities	10.4%	6.06%
Scientific, professional, administrative, and supporting activities	5.7%	4.11%
Public administration, education, health, and social activities	9.7%	10.57%
Artistic, entertaining, and related activities	1.4%	1.83%
Number of enterprises	10,599	111,083
Number of foreign owned enterprises	524	4,654
Number of enterprises in the clothing industry	85	553

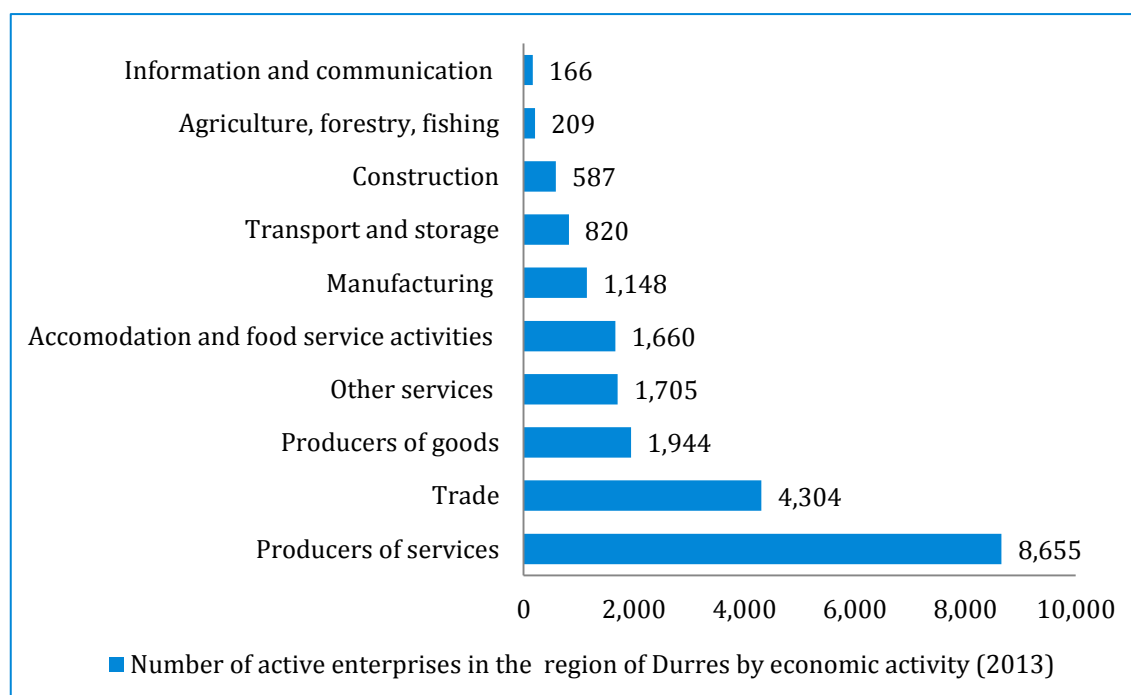
Source: INSTAT, and the Chamber of Façon in Albania

Agriculture is one of the main economic activities in the region spread mainly in rural areas. Most agricultural products are exported to the European market. This region has also a well-developed fish processing industry, which is based on the variety of fish and related species that are found in the Adriatic Sea.

In the early 1990's, with the establishment of the pluralist regime and a market economy, a high number of clothing manufacturing enterprises settled in the region of Durres to benefit from the presence of the largest port and the proximity with the European market (especially to Italy). In 2014, according to the Chamber of Façon in Albania there were 85 clothing manufacturing enterprises in the region of Durres employing 9,429 workers.

Moreover, in 2013, in the region of Durres were 10,599 active enterprises making 9.5% of the total active enterprises in the country (see graph 5.2). Of the active enterprises in the region 524 of them have foreign ownership out of which, 309 are owned by Italian entrepreneurs, 61 by Kosovo entrepreneurs, and 30 enterprises by Greek entrepreneurs. The region of Durres is dominated by small and medium size enterprises. Among active enterprises, 9,482 of them employ up to four persons while those employing up to 49 employees are 966. Enterprises with over 50 employees are only 151.

Graph 5.2: Number of active enterprises in the region of Durres in 2013



Source: National Statistical Institute (INSTAT), Business Register 2013

### 5.3.2. The Naber Moden Group

This section introduces the Naber Moden Group with reference to its history and operating activity. In presenting the activity of the group this section starts with the history of the group, the types of articles manufactured, the customers, suppliers, and the organizational structure.

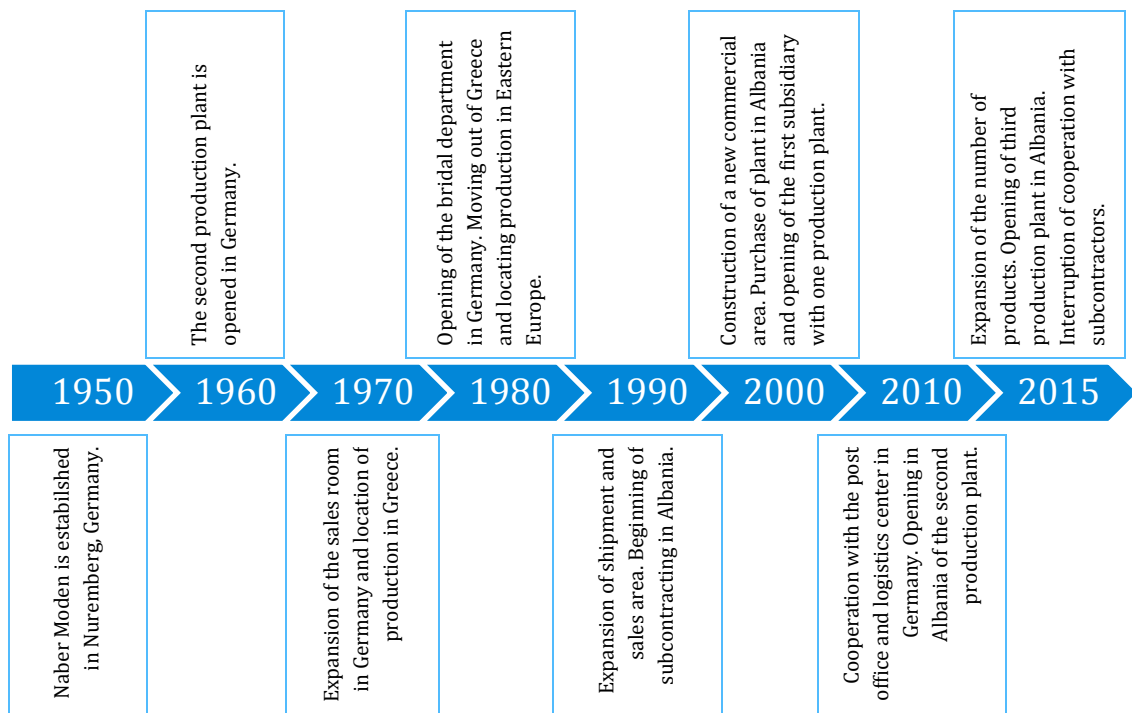
#### 5.3.2.1 The group

As of 2015, Naber Moden is composed of: (i) the head office in Germany, (ii) 8 stores located in the Bavaria region, (iii) three production plants in Albania, (iv) subcontractors in FYR Macedonia.

#### 5.3.2.2 History of the group

Naber Moden was established in 1951 when Herbert Naber and his wife Kunigunda opened in Nuremberg, Germany, a clothing manufacturing enterprise named “Naber Damen Moden”, specialized in female outfits and having only six employees (see figure 5.10).

Figure 5.10: History of Naber Moden (main events)



Source: Based on the information provided by Naber Moden



In the 1990's, the enterprise shortened its name to Naber Moden as the range of its products was not limited to those designated for women. Until the end of 1960's, Naber Moden served as a subcontractor for production of blouses to its German customers. In 1970's, Naber Moden transferred production of blouses to Greece where it operated under rented facilities with no purchases in land or buildings. After almost ten years of production, when Greece became a member of the European Union in 1981, Naber Moden experienced rising manufacturing costs coming mainly from the increase in the cost of labor forcing the enterprise to move production towards Eastern Europe where the labor force was cheaper. It started to manufacture through subcontractors in Poland, Bulgaria, and FYR Macedonia. It operated in Poland for almost 6 years while it maintained short-term contracts for up to 2 years with subcontractors in Bulgaria and FYR Macedonia. In 1995, Naber Moden started to produce in Albania by subcontracting Ambra sh.p.k in the city of Durres. In 2015, after opening three production plants, Naber Moden terminated outsourcing of assembly activities to five local subcontractors in Albania.

Table 5.14 summarizes the main characteristics of production plants possessed by Naber Moden in Albania.

Table 5.14: Production plants owned by Naber Moden in Albania

Naber Moden production plants in Albania			
Plant	Naber Konfeksion 1	Naber Konfeksion 2	Grori Konfeksion sh.p.k
Products	Blouses, parkas, gilets, skirts, dresses, jackets, shirts, etc.	Trousers, parkas, gilets, skirts, dresses, jackets, shirts, etc.	Jeans
Jobs (June, 2015)	400	320	80
Industrial facilities m2 (June, 2015)	8,500	1,141	850
Date of setting up	2004	2012	2015

Source: Based on the information provided by Naber Konfeksion 1 sh.p.k

### 5.3.2.3 Output

Naber Moden manufactures its own brand Naber Collection (see table 5.15) and serves also as a subcontractor for major German international brands including S.Oliver, Lebek International, Brax, etc. Own brand accounts for 60% in the total output while subcontracting for 40%. Naber Moden offers full package with design services. The output

is generated in its subsidiary in Albania and subcontractor in FYR Macedonia. The main clothing lines manufactured by Naber Moden<sup>34</sup> are:

Table 5.15: Main clothing lines of Naber Moden

No.	Main clothing lines	Articles
1.	Young fashion	Blouses, trousers, shirts, skirts, dresses, jackets, coats, parkas, furs, etc.
2.	Women fashion until size 54	Blouses, trousers, shirts, skirts, dresses, jackets, coats, parkas, furs, etc.
3.	Children clothing line	Blouses, shirts, dresses, trousers, skirts, coats

Source: Based on the information provided by Naber Moden

In addition, Naber Moden is a retailer for ceremonial clothing lines and accessories that it buys directly from producers. Ceremonial clothing lines include: wedding dresses and male gowns, communion clothing, shoes and bags, accessories (belts, scarfs, hats, bracelets, earrings).

#### 5.3.2.4 Customers

Naber Moden sells its output mostly in Germany. Articles manufactured for Naber Collection are sold through the eight shops located in the Bavaria region while the rest is delivered to respective customers. The number of customers of Naber Moden has increased over the years<sup>35</sup>. The customers of Naber Moden are mainly international German retailers (see table 5.16). Naber Moden produces finished articles for Brax International<sup>36</sup> (trousers), for Otto Group<sup>37</sup>, for Weber/Toni<sup>38</sup> dress. Most of the children line manufactured by Naber Moden is for the well-know Mafrat group, which includes brands like Gianfranco Ferre, Ferarri, Laura Biaggiotti, etc. During an interview in June 2015 with Bern Naber he mentioned that for a pair of trousers Brax pays 3-4 EUR for the cut, make and trim service. Brax sells in its shops a pair of trousers for 100-150 EUR.

<sup>34</sup> During an interview realized with Bernd Naber in April 2014 he stated that Naber Moden is working towards obtaining ISO standards in clothing manufacturing In order meet the criteria to receive the international standards Naber Moden has received consulting and auditing services from international companies and extensive feedback from its customers

<sup>35</sup> In April 2014, during an interview with the founder Herbert Naber noted that “Even during the international economic crisis of 2008-2010 the enterprise continued not only to take orders from its customers but also expanded the range of its customers”.

<sup>36</sup> Brax international has more than 1,720 shops in Germany and 115 stores worldwide ([www.corporate.brax.com](http://www.corporate.brax.com)).

<sup>37</sup> Otto Group consists of 123 companies in more than 20 countries in Europe, Americas and Asia. In e-commerce the group is the number one fashion and life style company ([www.ottogroup.com](http://www.ottogroup.com)).

<sup>38</sup> Weber/ Toni has more than 1,000 company managed stores, 2,800 shops-in-shops, and 281 franchise stores ([www.gerryweber.com](http://www.gerryweber.com))

Table 5.16: Main customers of Naber Moden and daily output (pieces) in 2014

No.	Main customers	Type of articles manufactured	Average daily production (pieces)
1.	Brax	Trousers	500
2.	Adler	Blouses, dresses	370
3.	Klingel	Blouses, dresses, skirts, shirts, trousers, parka, gilet	250
4.	Bader	Blouses, dresses	250
5.	Emilia lay	Blouses, shirts	250
6.	K & L Ruppert	Blouses, tops, shirts	250
7.	Unit O	Blouses, dresses, dirndl	300
8.	Otto Baur Witt WeidenSieh An	Blouses, skirts, trousers, jackets, parka, shirts	300
9.	Katag	Blouses, dresses	200
10.	Weber / Toni Dress	Blouses, tops, shirts	250
11.	Gelco	Blouses, shirts, jackets	600
12.	BG Mode	Dresses, dirndl <sup>39</sup> , blouses, shirts	200
13.	Mafrat	Blouses, shirts, dresses, skirts, coats, parka, for children	150
14.	Versace	Dresses, trousers, skirts	200
15.	Vestebene	Trousers	150

Source: Based on the information provided by Naber Moden

### 5.3.2.5 Suppliers of raw materials

Naber Moden acquires all of its raw materials from foreign suppliers. Local suppliers are absent for two main reasons: (i) there are no local suppliers able to produce the variety of fabrics used by Naber Moden in production of cloths and (ii) local suppliers are unable to meet the standards required from customers even for simple raw materials like cardboard boxes and labels<sup>40</sup>. According to Bernd Naber “Everything is imported”. In 2014, the quantity of imported fabric was 1,574,000 linear meters coming mainly from Turkey and Egypt. From Turkey are imported mostly fabrics containing a high degree of cotton while from Egypt it imports more delicate fabrics like silk, etc.

For many years, Naber Moden has been working with the same pool of suppliers. According to Bern Naber, a long and good cooperation is essential to guarantee the quality

<sup>39</sup> Traditional German dresses that are popular during October Fest.

<sup>40</sup> According to an interview wit Bern Naber on raw materials in June 2016 he states tha”Everying is importet”.

and the on-time delivery of raw materials. Occasionally, Naber Moden asks its suppliers to produce special fabrics when customers are launching in the market a new product or a limited collection. Special fabrics are mostly produced in Egypt as Naber Moden is working with a large regional manufacturing enterprise specialized in stamping which meets the technical specifications required for production in Naber Moden. Selection of suppliers and placements of orders occurs in the head office while import procedures are performed in the subsidiary.

The head office is also responsible for organizing annual and semiannual meetings with suppliers. These meetings serve to: (i) revise the schedule of orders, (ii) recommend technical improvements in existing fabrics, (iii) introduce new fabrics that need to be included in upcoming orders, (iv) and to be informed on the projects suppliers are working on that may be of interest to Naber Moden.

Naber Moden applies a rigid quality control system on raw materials. Initial quality control consists on numerous tests on sample fabrics including endurance, stretching, appearance retention, thermal resistance. These tests are performed in the head office and are mandatory before making any order from suppliers.

A second level of quality control is performed before and during production in the plants located in Albania. This second level of quality control consists in the identification of possible marks, holes, missing threads, etc.

#### **5.3.2.6 Logistics**

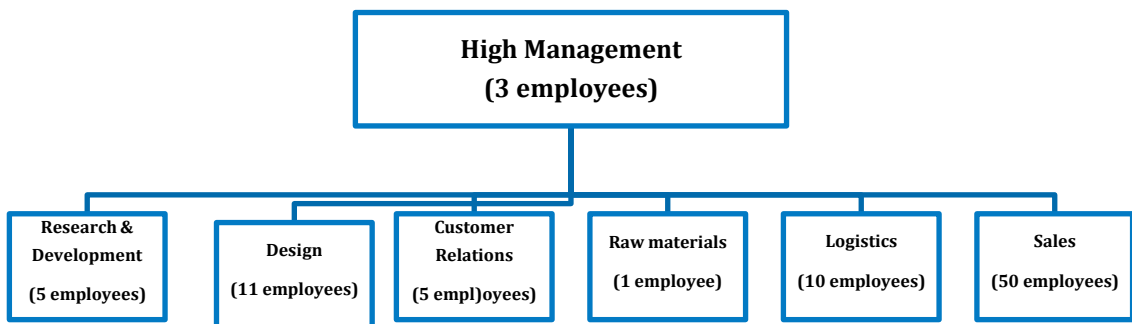
Naber Moden has subcontracted an Albanian company specialized in international transport services to deliver finished articles manufactured in Albania to storage facilities that are managed by the head office in Germany. The storage facilities operate with an inventory system, which records the inflow/outflows of goods and shows the stock at any point of time. Naber Moden is not responsible to deliver goods to every customer.

When orders are placed in storage facilities customers like Brax, Gerry Weber are informed to take them out. Under specific circumstances, customers can retrieve finished goods from Naber Collection shops that are spread in the Bavaria region in Germany or to end customers.

### 5.3.2.7 Organizational structure in the head office of Naber Moden Group

Today, the head office of Naber Moden is still in Nuremberg, Germany and the enterprise continues to be a family run business. It has 85 employees in Germany. The head office of Naber Moden operates under the organizational structure presented in figure 5.11 is composed of high management and six departments required to run the enterprise.

Figure 5.11: Organizational structure in the head office of Naber Moden in Germany



Source: Author representation based on the information provided by Naber Moden

- **High management**

It consists of the founder, Herbert Naber and his two sons. The founder serves as the honorary president and frequently monitors production in Albania. He is assisted mostly by his son Bernd Naber a textile engineer who also leads the top management.

- **Research and Development**

It is a department that has five employees, with one of them serving as the department head. The main responsibilities of the department are to: (i) monitor the global trends of new raw materials used in the clothing industry, (ii) identify new categories of fabrics that may be used in production, (iii) propose new specifications to suppliers according to the requirements of customers, and (iv) expand the Naber Collection by including new articles.

- **Design**

It is a department in the head office run by eleven employees. This department is responsible for: (i) preparing for production the designs received by customers on samples and articles, (ii) proposing new designs to customers on their articles, and (iii) creating the designs for the Naber Collection.

- **Customer relations**

It is a department that has five employees and it is in charge to obtain continuous feedback from customers in order to identify new services that can be introduced to customers.

- **Raw materials**

It is a department run by one employee who is in charge for getting hold of raw materials in accordance with technical specifications obtained from customers and the design department. The employee is also responsible for ensuring that raw materials are delivered to production plants in Albania according to the order placed by Naber Moden for its own brand and respective customers.

- **Logistics department**

It is a department that is run by 10 employees who are responsible for the delivery of finished articles to end customers and for the placement of Naber Collection in the eight stores owned by the enterprise in the Bavaria region of Germany.

- **Sales**

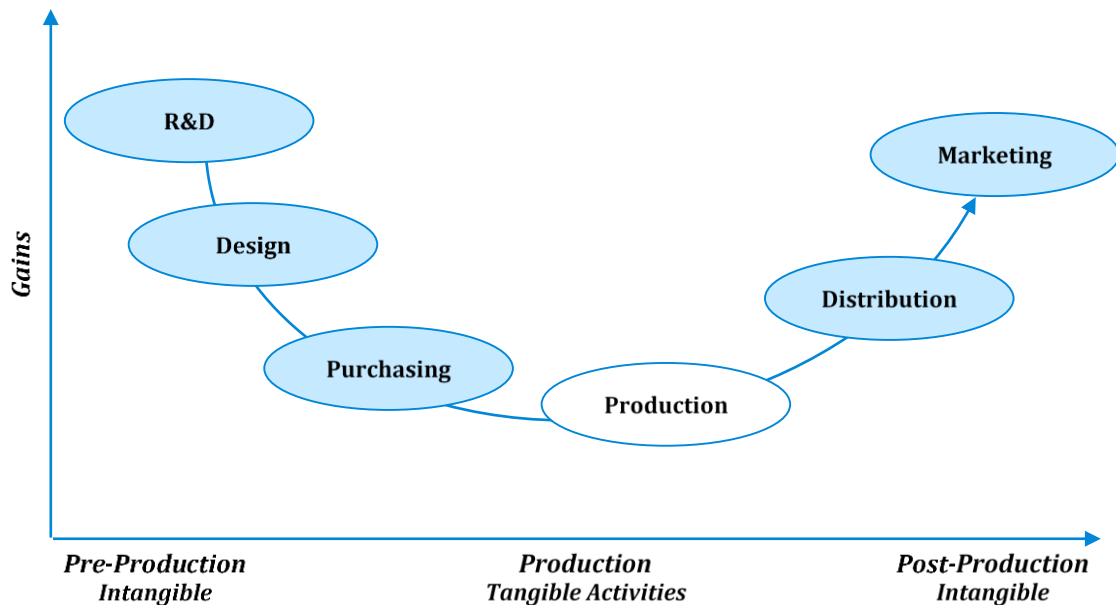
It is a department with the highest number of employees and it is in charge for all sales in Naber Moden. The department is composed of two main units one that is in charge for the sales of Naber Collection and the other one that is in charge for the sales of the customers of Naber Moden.

### **5.3.2.8 Value added activities in Naber Moden**

From the organizational structure of Naber Moden the head office still remains responsible for key segments of the clothing manufacturing value chain including research and development, design, and relationships with customers. In Albania, the three production plants of Naber Moden undertake only assembly functions. In June 2015, during an interview with Bernd Naber he said that in Germany is done: “Everything except sewing”.

Figure 5.12 presents the value added activities in the clothing industry according to Fernandez-Stark, Gereffi, and Frederick (2011). In blue are value adding activities occurring in the head office in Germany (except production) and in white production occurring in Albania.

Figure 5.12: Value adding activities in Naber Moden



Source: Based on the information provided by Naber Moden

### 5.3.3. The subsidiary Naber Konfeksion sh.p.k

This section presents the production activity of Naber Moden plants in Albania. The information included in this section was obtained from fieldwork in the three production plants in Albania.

#### 5.3.3.1 History

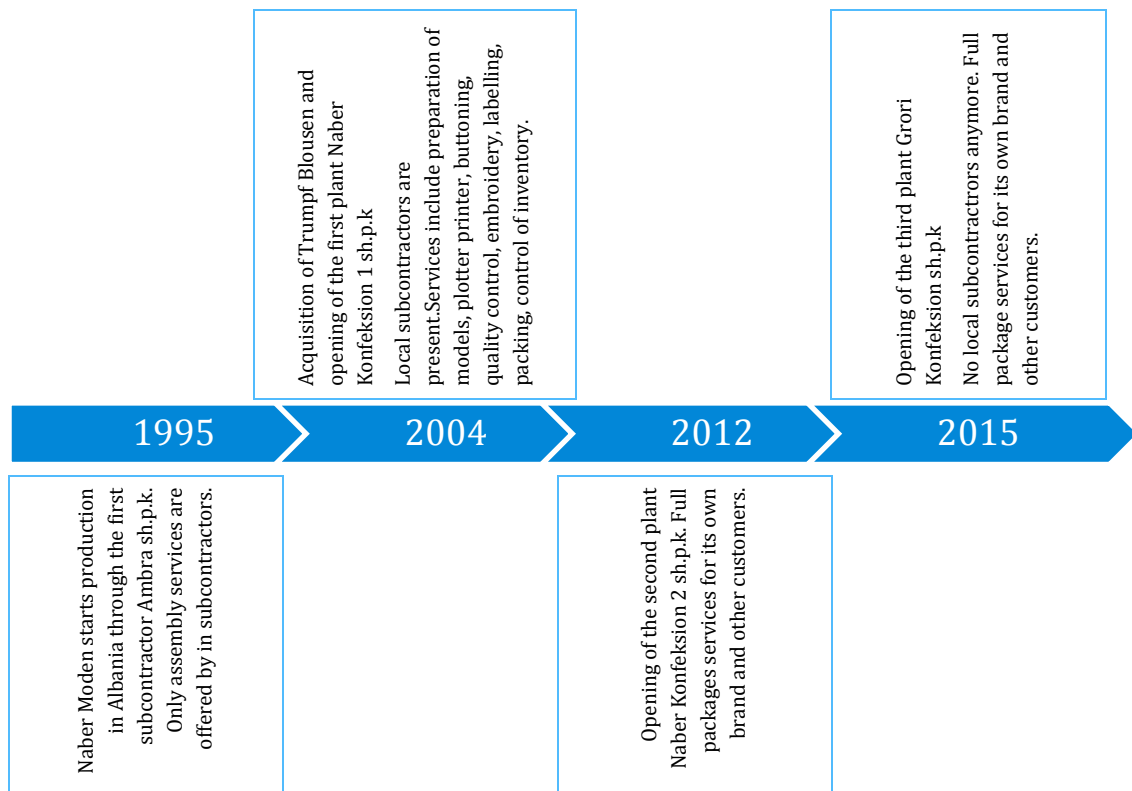
In the 1990's, the management of Naber Moden feared that the labor cost in Eastern European countries would increase as previously occurred in Greece in the early 1980's. Therefore, the owners of Naber Moden started to look for new potential territories where to locate production. In 1995, Naber Moden entered in the Albanian territory and started production through its first subcontractor Ambra sh.p.k.

As Naber Moden extended its presence in Albania the number of subcontractors expanded to five. For Bernd Naber Albania was considered a good option as it still has the lowest labor costs in the region while production costs in Asia were going up due to the increase in the price of raw materials, transportation, and labor costs. Gradually, Naber Moden started to receive more orders from customers in German speaking countries in Europe (Germany, Austria and Switzerland) that opened up new opportunities for the

enterprise to have its own production site in Albania and not to depend entirely on local enterprises that served as subcontractors.

In 2004, Naber Moden opened its first plant in Albania by acquiring production facilities of Trumpf Blusen<sup>41</sup>, another German company located in the city of Durres, which was experiencing numerous losses. The acquisition led to the establishment of the first plant Naber Konfeksion 1 sh.p.k (see figure 5.13).

Figure 5.13: History of Naber Konfeksion sh.p.k (main events)



Source: Based on the information provided by Naber Moden

Before opening a second plant in Albania, the high management in the head office considered other countries like Romania, Macedonia and Turkey, which resulted inappropriate for locating production. In Romania, Naber Moden could lose workers due to emigration, in Macedonia they could not hire more people as they are already employed,

<sup>41</sup> Founded in 1932 in Munich traditional company Trumpf Blouses Dresses GmbH & Co. KG was temporarily the largest blouses manufacturer in Germany. The company struggled for years with quality problems and declining customer acceptance in early 2000's, which had continuous sales declines result. In 2005, the year of bankruptcy, with annual sales of only 28 million euro and the workforce had now been reduced to 150 employees Today, the status of the company is described as completed insolvency proceedings (www.mhbk.de).



and in Turkey, the labor cost was 1,000 euro/month compared to 300 euro/month in Albania. Consequently, the owners decided to open in 2012 a second production plant, Naber Konfeksion 2 sh.p.k, specialized mostly in the production of trousers.

In 2015, a third production plant on rented facilities for, Grori Konfeksion sh.p.k, became operational. It is specialized in production of jeans for Primark and Brax. These international brands decided to transfer production of jeans from Turkey to Albania in order to achieve shorter delivery times and to save on labor costs.

To continue, the level of employment in the three plants of Naber Moden in Albania has increased (see table 5.17). In 2004, Naber Konfeksion sh.p.k employed in Albania 190 workers while in 2015 the number of workers reached to 800, an increase of 321% and of 710 workers compared to 2004.

Table 5.17: Level of employment in Naber Konfeksion sh.p.k in Albania (2004-2015)

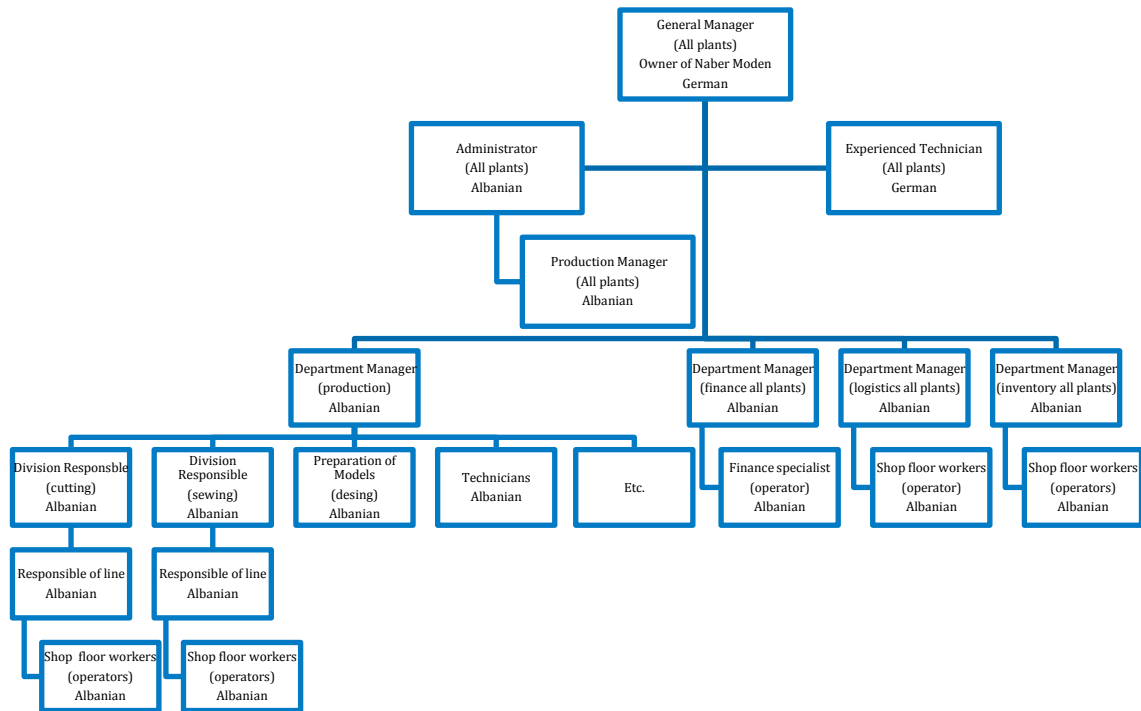
No.	Year	Level of employment
1.	2004	190
2.	2009	320
3.	2012	580
4.	2015	800

Source: Based on the information provided by Naber Konfeksion sh.p.k

### 5.3.3.2 Organizational structure

The plants of Naber Konfeksion sh.p.k in Albania are organized in such a way to offer full package services (see figure 5.14). The organizational structure in the three plants is shown below. The general manager, the administrator, the production manager, and the German technicians are in charge to oversee production in the three plants. The manager in charge for production supervises and visits daily the responsible for the production division in the three plants. Moreover, the subsidiaries have in common the finance, the logistics, and the inventory department (see table 5.16). The production departments in the three plants cooperate closely with each other as some processes for specific products like trousers cutting occurs in the plant while assembly in another plant. In addition to production, the two smaller plants work closely with Naber Konfeksion sh.p.k for the distribution of raw materials and transportation of finished articles.

Figure 5.14: Organizational structure in Naber Konfeksion sh.p.k plants in Albania



Source: Author representation based on the information provided by Naber Konfeksion sh.p.k

The organizational structure of departments is broken down into divisions, production lines, and shop floor workers that serve as operators. The three production plants in Albania differ in the divisions available in the production department:

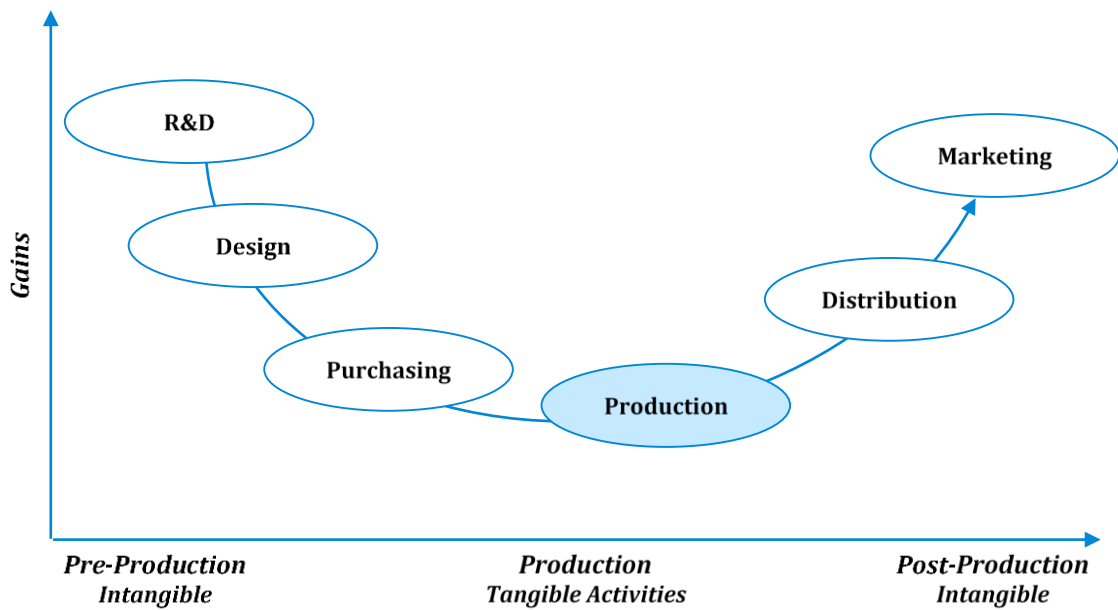
Table 5.18: Production units of Naber Konfeksion sh.p.k plants in Albania

No.	Subsidiary	Divisions of Production Department
1.	Naber Konfeksion 1 sh.p.k	Preparation of models, plotter, cutting, sewing, buttoning, labeling, ironing, packing,
2.	Naber Konfeksion 2 sh.p.k	Plotter, cutting, sewing, buttoning, labeling, ironing, packing,
3.	Grori Konfeksion sh.p.k	Sewing, buttoning, labeling, ironing

Source: Based on the information provided by Naber Konfeksion sh.p.k

The figure 5.15 presents the value added activities in the clothing industry according to Fernandez-Stark, Gereffi, and Frederick (2011). In dark are the value adding activities occurring at the production plants in Albania. These activities are limited only to production.

Figure 5.15: Value added activities of Naber Konfeksion plants in Albania

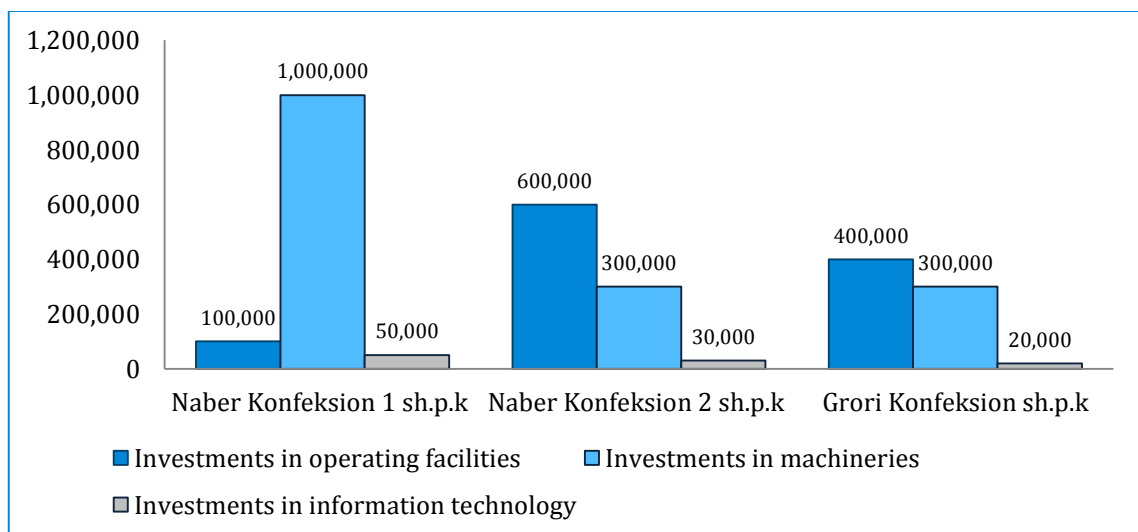


Source: Naber Konfeksion sh.p.k

### 5.3.3.3 Investments

This section presents the level of investments Naber Moden has made in its subsidiary Naber Konfeksion sh.p.k in Albania (see graph 5.3). Investments are categorized into those made on operating facilities, on machines required to manufacture finished goods, and on information technology.

Graph 5.3: Investments in Naber Konfeksion sh.p.k up to 2014



Source: Based on the information provided by Naber Konfeksion sh.p.k

Operating facilities in Naber Konfeksion 1 sh.p.k occupy a surface area of 8,500 square meters including production site and residential area (see table 5.19). These facilities are fully owned by Naber Moden. Initially, Naber Moden invested 100,000 EUR in renovating production site, which was previously occupied by Trump Blusen. Additional investments transformed Naber Konfeksion 1 sh.p.k into a two store production facility. An amount of 50,000 EUR is spent in renovating the two guest houses located near the production site. These guesthouses host the high-level management, the technicians and the international consultants.

In 2012, Naber Moden inaugurated its second production plant in Albania, Naber Konfeksion 2 sh.p.k. The facilities of Naber Konfeksion 2 sh.p.k occupy an area of 1,141 square meters and are fully owned by Naber Moden. Even though smaller in size than the first plant, the head office has made an investment of over 600,000 EUR in the facilities of Naber Konfeksion 2 sh.p.k.

Table 5.19: Investments in Naber Konfeksion sh.p.k up to 2014

Category of investment	Amount in EUR
<b>Investments in operating facilities</b>	
Naber Konfeksion 1 sh.p.k	100,000
Naber Konfeksion 2 sh.p.k	600,000
Grori Konfeksion sh.p.k	400,000
<b>Investments in machines</b>	
Cutting machines	100,000
Sewing machines	1,100,000
Embroidery machines	100,000
Specialized machines (buttoning, studding, etc.)	150,000
Ironing machines	50,000
Pressing machines	100,000
<b>Investments in information technology</b>	
Hardware	70,000
Software	30,000
<b>Total of investments</b>	<b>2,800,000</b>

Source: Based on the information provided by Naber Konfeksion sh.p.k

In 2015, Naber Moden opened a third production plant in Albania. The facilities are rented and occupy an area of 850 square meters. Even though under rented facilities, Naber Moden has invested 400,000 EUR in adapting facilities for production. A common feature in

the operating facilities of the three plants is the availability of parking space for: (i) placement of large trucks used to transport finished articles, (ii) positioning of shuttle buses used for transportation of employees, and (iii) parking places for the administration.

To continue, Naber Konfeksion sh.p.k has acquired a variety of machines needed to realize production in Albania. In total, there are six cutting lines<sup>42</sup> available in three production plants in Albania. Samples are prepared for cutting by two new plotters purchased by Naber Konfeksion sh.p.k as specialized machines for 30,000 EUR in 2012.

Sewing machines are categorized depending on the type of articles they are used to produce and include machines for (i) coats, parkas, and jackets, (ii) shirts and skirts, blouses, (iii) trousers, and (iv) for manufacturing traditional German dresses “dindl”. Most of sewing machines can be used to manufacture different articles as they operate on a program that allows employees to switch articles. In addition, machines used to perform specific processes in manufacturing of cloths include:

- automated embroidery<sup>43</sup> machines used to prepare the design in different articles; machines used to prepare ruffles on a variety of fabrics and for different types of articles;
- two lines of buttoning, stitching, and studding machines (Buttoning and stitching machines are used on any kind and size of buttons and models of stitches);
- automated studding machines able to insert studs in any fabric and kind of cloth;
- ironing machines that operate based on vapor irons and ironing tables which can be used uninterruptedly as they are connected to large heaters that ensure hot water at all times.

Up to 2014, the amount invested in machines required for production amounts to 1,300,000 EUR or 62.5% of the total investment. When machines require spare parts they are purchased in Germany.

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<sup>42</sup> Standardized garments like shirts and skirts prepared are cut in large quantities in the automated machines while delicate fabrics used mostly in the production of blouses go through the manual cutting machines.

<sup>43</sup> Embroidery machines operate based on the model inserted through the USB port in the computer connected to machines. In the computer monitor employees monitoring follow every step until completion of the model inserted through USB port is finalized. In the monitor also appear the various signs that indicate when the embroidery process is interrupted like in the case when a machinery is running out of threads or when a needle is not functioning properly.

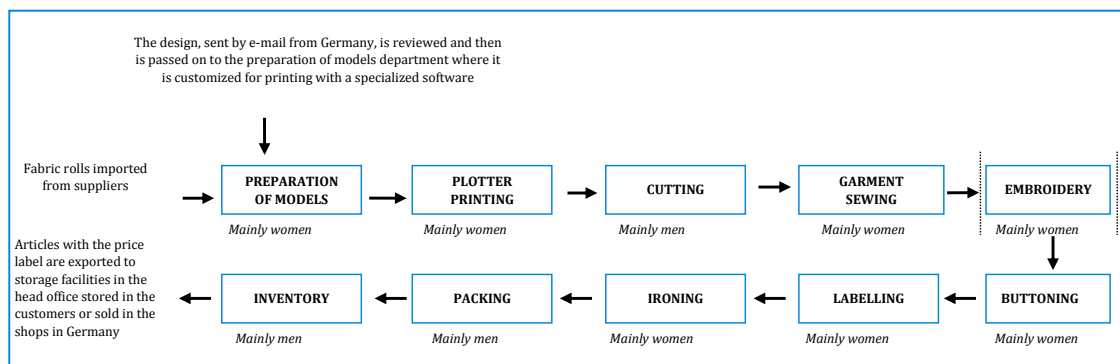
Apart from investing in machines, Naber Konfeksion sh.p.k has also invested in information technology (IT). It has invested an amount of 80,000 EUR in hardware which include desktops, laptops, and printers while engineers employed by Naber Moden use working station computers. The main IT investments are: (i) an advanced software purchased to run the plotters, (ii) the “Gemini software” used to prepare various samples based on the design received from the head office, and (iii) an inventory program which assists the inventory and the finance department to keep track between new orders placed by customers and those that are ready for shipment.

### 5.3.3.4 Production

This section presents the production activity in Naber Konfeksion sh.p.k including the production cycle, articles manufactured, and former subcontractors of Naber Konfeksion sh.p.k.

Production in Naber Konfeksion sh.p.k is divided in two stages. The first stage occurs in the head office and the second takes place in production plants located in Albania (see figure 5.16). Production starts within the design department in the head office where employees prepare for manufacturing the design<sup>44</sup> of the requested articles including those for customers and Naber Collection.

Figure 5.16: Production cycle <sup>45</sup> in the plants of Naber Konfeksion sh.p.k in Albania



Source: Author representation based on the information provided by Naber Konfeksion 1 sh.p.k

<sup>44</sup> Employees can either receive the design directly from customers or can propose to them various designs and may work for up to a week to finalize it. With regard to Naber Collection, design is prepared within the department and is approved by the top management in the head office.

<sup>45</sup> Embroidery is applicable only to specific articles manufactured in the subsidiary. The dotted line indicates a production cycle without embroidery.

After, the design is finalized employees in the raw materials department perform quality tests (stretching, de-coloring, heat resistance, etc.) on the fabric chosen for a particular model. Then the sales department sends electronically the design to the production plants in Albania and with courier, the amount of fabric required to produce two samples of the article. Together with the fabric is included the model card that contains the technical specifications and the deadline when the head office expects the delivery of samples.

Within production plants in Albania, engineers working in the preparation of model department print the designs received electronically from the head office through plotters (specialized printers). The printed design together with the fabric is cut and then undergoes sewing, embroidery (if applicable), buttoning, and labeling. Finished samples get specialized ironing depending on the type of fabric, are properly packed, and receive a final control with the inventory departments before reaching the head office. In case a customer or the top management for Naber Collection decides to make further changes on the samples than the whole production cycle is repeated. This process may take up to two weeks. If samples are satisfactory then an order is placed specifying the quantity and the delivery time. The same production cycle is repeated until the entire quantity is produced.

Table 5.20: Output of Naber Konfeksion sh.p.k in Albania in 2010 and 2014 (pieces)

No.	Article	Output 2010 (articles)	As % in the total	Output 2014 (articles)	As % in the total	change in %
1.	Skirts	35,125	5.00%	42,646	4.00%	21.41%
2.	Women Trousers	189,673	27.00%	329,843	30.94%	73.90%
3.	Shirts	35,125	5.00%	52,984	4.97%	50.85%
4.	Dresses	21,075	3.00%	27,323	2.56%	29.65%
5.	Blouses (long/short sleeve/ruffles)	280,997	40.00%	420,457	39.44%	49.63%
6.	Jackets	21,075	3.00%	28,323	2.66%	34.39%
7.	Coat	21,075	3.00%	30,984	2.91%	47.02%
8.	Parka	28,100	4.00%	37,646	3.53%	33.97%
9.	Gilets	21,075	3.00%	25,984	2.44%	23.30%
10.	Fur articles	14,050	2.00%	17,661	1.66%	25.71%
11.	German Traditional outfits (Dirndl)	21,075	3.00%	29,969	2.81%	42.20%
12.	Children Line	14,050	2.00%	22,323	2.09%	58.88%
13.	Total output	702,493	100%	1,066,142	100%	51.77%

Source: Based on the information provided by Naber Konfeksion 1 sh.p.k

To continue, articles manufactured in the plants of Naber Konfeksion sh.p.k are diverse. Within four years, overall production has experienced an increase of 51.77% (see table 5.20). The increase is mostly attributed to production of blouses and trousers coming mainly from the output generated after the opening of the second plant, Naber Konfeksion 2 sh.p.k. Fur articles, gilets, and the line of children have the lowest share in output of Naber Konfeksion sh.p.k.

Naber Moden has cooperated with Sequa Consulting Company, a partner of the German Ministry of Economic Cooperation, for improvement in production. Thanks to this program, Naber Moden and Naber Konfeksion sh.p.k managed to optimize various production processes and to introduce additional operations in its production plants. In addition, Naber Konfeksion sh.p.k has also worked with 30 consultants from Weis Consulting, a German consulting company specialized in the clothing industry, and with the Polytechnic University of Tirana. From this cooperation, the head office and Naber Konfeksion sh.p.k have been able to improve production within its plants by:

- organizing work in line with the placement of carriages that move from one department to; another to complete all production cycle;
- registering the time required to complete each process;
- implementing a quality management system for each process starting from inception up to packing;
- counting on new planning techniques to meet relevant deadlines;
- speeding ironing of finished goods.

#### **5.3.4. Subcontractors**

In 1995, the first subcontractor of Naber Moden in Albania was Ambra sh.p.k. After three years, Naber Moden started to expand its subcontractors by adding Dyrrah Sped sh.p.k (1998) and Nels sh.p.k (1999). As sales were going up, Naber Konfeksion engaged two more subcontractors Ones sh.p.k (2000) and Shiroka sh.p.k (2001) (see table 5.21). In 2015, the owners of Naber Konfeksion sh.p.k decided to end cooperation with five subcontractors. Subcontractors of Naber Konfeksion sh.p.k were all Albanian enterprises employing only local staff. Even though they provided the same services (cutting, sewing, and packaging), their degree of specialization was different.



Table 5.21: Subcontractors of Naber Konfeksion sh.p.k in Albania

No.	Subcontractors	Date of cooperation	End date of cooperation	Number of employees	Processes	Articles manufactured	Level of production
1.	Ones sh.p.k	2000	2015	40	Cut, Sewing, Ironing & packaging	Blouses	1,000-1,500 pieces in a week
2.	Shiroka sh.p.k	2001	2015	60	Cut, Sewing, Ironing & packaging	Blouses	1,000-1,500 pieces in a week
3.	Ambra sh.p.k	1995	2015	300	Cut, Sewing, Ironing & packaging	Coats, shirts	1,000-1,500 pieces in a week
4.	Dyrrah Sped sh.p.k	1998	2015	70	Cut, Sewing, Ironing & packaging	Trousers	1,000-1,500 pieces in a week
5.	Nels sh.p.k	1999	2015	50	Cut, Sewing, Ironing & packaging	Blouses	1,000-1,0500 pieces in a week

Source: Based on the information provided by Naber Konfeksion 1 sh.p.k

Three subcontractors specialized in manufacturing of blouses, one in manufacturing of coats and shirts, and the remaining only in trousers. The quantity manufactured by each subcontractor was between 1,000 and 1,500 pieces a week with a maximum amount of 6,000 pieces per subcontractor a month. According to Bern Naber cooperation with subcontractors ended as “To do it on your own is to have it under control”<sup>46</sup>. During cooperation with its subcontractors Naber Konfesion sh.p.k provided on-going support to its subcontractors that consisted in:

- training of employees to meet technical specifications required by various customers;
- periodic training of employees responsible for the quality control during production;
- technical assistance in increasing operational efficiency;
- training of female employees in mastering sewing and cutting tasks.

<sup>46</sup> Interview June 2015

In addition, Naber Konfeksion sh.p.k monitored production in each subcontractor. Monitoring occurred mostly through experienced technicians coming from the head office that periodically visited each subcontractor. Technicians prepared reports informing the top management of Naber Konfeksion sh.p.k on the difficulties and problems encountered during production. Furthermore, the management of Naber Konfeksion sh.p.k periodically met administrators of each subcontractor to discuss on: (i) the degree of performance for a given period, (ii) possible solutions to overcome operational difficulties, and (iii) the degree of compliance on technical specifications imposed by Naber Konfeksion sh.p.k. During on-site visits and interviews with representatives of Ambra sh.p.k and Ones sh.p.k they stated that cooperation with Naber Moden helped them to improve their production capabilities and to continue manufacturing even though cooperation with Naber Konfeksion sh.p.k has terminated. Today, these subcontractors offer assembly services directly to customers of Naber Konfeksion sh.p.k.

### **5.3.5. Employment**

This section presents the level of employment in the three production plants of Naber Konfeksion sh.p.k, the training programs for employees at all organizational layers, and the compensation with regard to three production plants.

#### **5.3.5.1 Level of employment/local staff**

Naber Moden employs 800 workers in Albania of which 400 work in Naber Konfeksion 1 sh.p.k (see table 5.22). Only 5.25% of employees are male compared to 94.75% of females. Assignment of responsibilities between male and females employees is done based on the tasks that are to be completed. Tasks that require attention to detail like sewing and ironing are completely occupied by female employees while in tasks that require physical strength male employees have the lead.

Technicians, drivers, electricians, gardeners, and cleaners assist in the daily operations in the three plants. Among them, some technicians have over 20 years of experience in maintaining machines and are able to fix on the spot the majority of problems occurring during production. In addition, technicians are capable to identify the parts needed to be replaced without causing long interruptions in the production cycle. Cleaners continuously remove the waste generated after cutting and sewing.

Table 5.22: Employment in Naber Moden plants in Albania, 2015

Plant		Naber Konfeksion 1 sh.p.k			Naber Konfeksion 2 sh.p.k			Groni Konfeksion sh.p.k			Totals
No.	Category	Total	Female	Male	Total	Female	Male	Total	Female	Male	Value
1.	Administration	5	4	1	4	4	0	2	2	0	11
2.	Finance	2	2	0	0	0	0	0	0	0	2
3.	Plotter	3	3	0	2	2	0	0	0	0	5
4.	Inventory	2	0	2	2	0	2	0	0	0	4
5.	Labelling	3	1	2	2	0	2	2	0	2	7
6.	Cutting	22	16	6	15	5	10	0	0	0	37
7.	Buttoning	10	10	0	12	12	0	0	0	0	22
8.	Preparation of models	5	4	1	0	0	0	0	0	0	5
9.	Ironing	15	15	0	15	15	0	9	9	0	39
10.	Packaging	12	12	0	10	10	0	0	0	0	22
11.	Sewing lines	210	210	0	200	200	0	52	52	0	462
12.	Maintenance	12	5	7	7	3	4	4	2	2	23
13.	Logistics	1	0	1	1	0	1	1	0	1	3
14.	Employees in the training period	98	98	0	50	50	0	10	10	0	158
15.	Totals	400	381	19	320	302	18	80	75	5	800

Source: Based on the information provided by Naber Konfeksion1 sh.p.k

Employees of Naber Moden in Albania are only local staff. German experts and technicians that periodically support local employees, are employed by the head office and are in charge for: (i) providing on-going technical assistance, (ii) suggesting new techniques for increasing labor productivity, (iii) participating in administrative meetings on the performance of operations and the level of output and (iv) setting future targets for production in Albania. The high management of the head office visits Albania every month to evaluate the performance and to provide solutions on problems that could not to be solved by local administration.

Criteria for the selection of employees depends on the degree of responsibility and the difficulty of assigned tasks. Local administrators are directly hired from the owners of Naber Konfeksion sh.p.k. They should have a university degree, speak at least two foreign languages, and have a good command of computer programs. Heads of departments, divisions, and responsible for production lines are hired from local management depending on previous experience in the clothing industry. They need to have a secondary or higher

degree, speak at least one foreign language, and possess a basic level of computer capabilities. Engineers working for Naber Konfeksion sh.p.k must have university degrees in textile engineering and previous experience in the clothing industry.

In Naber Moden, employees have the opportunity to get promoted. For example, employees that start working in sewing lines after several years can become in charge of a division or unit. According to the management, when it comes to hiring shop floor employees in charge for cutting, sewing, and buttoning the enterprise has difficulties in finding employees able to produce quality goods and willing to learn new processes and techniques. For Naber Konfeksion sh.p.k it is also hard to find additional female employees. New female employees are found through existing employees or via advertising in the surroundings of manufacturing plants. Support from regional employment centers has been very limited in finding female employees. Naber Moden has also experienced difficulties in identifying middle management employees that possess adequate knowledge of the industry and are interested in joining the enterprise.

Evaluation criteria in the subsidiary vary by position, responsibility, and required experience. For low to medium level ranked employees evaluation criteria are commitment, teamwork, precision, and the time required in manufacturing the assigned quality of articles. Middle management is evaluated on the ability to instruct and guide their employees, to meet targets, and to improve staff performance. The evaluation form is prepared in the head office and is approved by the high management of Naber Konfeksion sh.p.k. The form is structured in such a way to incorporate production cycle and quality cross-checking on a daily basis.

### **5.3.5.2 Training**

Naber Moden has training programs for all its employees working in Albania. In the production plants of Naber Konfeksion sh.p.k two lines used to train new employees for three months. Employees are trained on various processes like sewing, cutting, and buttoning. At the end of the training period, employees are evaluated from their supervisors and depending on the skills they have acquired are assigned to respective departments and divisions. Employees in the other two production plants, where most articles are made of

delicate fabric, need one year to catch the same productivity as an experienced employee<sup>47</sup>. On the other hand, employees in Naber Konfeksion 2 sh.p.k and Grori Konfeksion sh.p.k require three months training to have the same productivity as an experienced worker, as the tasks performed are specialized and repetitive.

Engineers working in the preparation of models and the plotter department undergo a more professional training mostly in the head office. They are trained to master computer programs used in daily operations of the subsidiaries. Engineers follow also online trainings with their counterparts in the head office. These trainings are oriented towards preparation of samples of articles required before customers place their orders with Naber Moden.

Employees working in the finance department are trained to properly use accounting programs required to record financial transactions of the subsidiaries in Albania and to determine the monthly salary of each employee depending on the minutes required to complete the number of articles produced daily.

To continue, Naber Konfeksion sh.p.k is one of the clothing manufacturing enterprises in the country that together with the head office has prepared an educational program for local technical schools. The current, educational program for technical schools is outdated and not in line with the developments of the clothing industry in Albania. The management of Naber Konfeksion sh.p.k together with leading German experts in the clothing industry has drafted curricula to prepare students according to the needs of the market and to increase the availability of properly educated employees that are nowadays absent in the local labor market. This initiative has no cost for the Albanian Government as its implementation is a donation of Naber Moden.

### **5.3.5.3 Compensation of employees**

Working hours in Naber Konfeksion sh.p.k are from Monday to Saturday between 7:00 am to 15:30 p.m. including a 30-minute lunch break. The lunch break varies from one department to the other. Employees are required to use the personal identification card to enter and to leave the company in order to record their working hours. Weekly working hours are in full compliance with the national Labor Code, with a maximum of 50 hours per week. If employees work during national holidays the day off can be replaced after prior

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<sup>47</sup> Interview in June 2015

approval from the supervisor or can be added to the annual leave of employees. The annual leave for each employee is 28 working days including Saturdays and Sundays. All employees have 14 days of annual leave on August when production is interrupted while the rest of the annual leave can be taken based on the needs of each employee.

All employees have working uniforms assigned based on the responsibilities and tasks of employees. Naber Konfeksion sh.p.k offers daily transportation for the employees. During peak production seasons, temporal workers are hired.

Table 5.23: Compensation of employees working in Naber Moden plant in 2014

No.	Category of employee	Monthly wage range
1.	Administration	570-700 EUR
2.	Head of Department/Division	400-450 EUR
3.	Blue collar employees	200-350 EUR depending on their daily production

Source: Based on the information provided by Naber Konfeksion 1 sh.p.k

Furthermore, employees are paid depending on the amount of articles they complete by working for a total of 480 minutes every day. For example, if the estimated time of making a collar is 1 minute and the employee makes 600 collars in a day then he gets paid for 600 minutes and not for 480 (see table 5.23). This system not only encourages employees to work more but also stimulates them to become more efficient and productive. Employees are paid 25% more if they work after 15:30 and are paid 125% if they work during holidays. All employees are insured. Representatives of trade unions participate in the meetings and are involved in drafting the internal regulation.

## 5.4. VALCUVIA ALBA SH.P.K

This section presents the third case study of the research. It is dedicated to the operational and production activity of Valcuvia s.r.l an Italian enterprise and its subsidiary Valcuvia Alba sh.p.k. Presentation of the case study starts with the activity of the group and it continues with the operational activities occurring in the subsidiary.

Figure 5.17: The map of Albania with the region of Berat circled



Source: [www.europe-atlas.com](http://www.europe-atlas.com)

### 5.4.1. Overview of the region of Berat

The region of Berat is situated in the south of Albania (see figure 5.17). The population of the region in 2013 was 145,211 inhabitants. The main town of the region, the city of Berat is one of the oldest cities of Albania and has a unique cultural heritage and it is an important touristic center of Albania.

The processing industry in the region focuses on making the best out of resources found in the region. There is a growing stone processing industry, which turns natural stone into decorative ones used in the construction industry. Expansion of stone processing industry is replacing to some extent the use of imports in the local market. Handcrafting (embroidery, painting, iconography, etc.) is another area of the regional economy that is flourishing due to the high demand from foreign visitors. Agriculture remains the main economic activity of the region. The region is well-known for producing olives, figs, and wine. These products are exported in regional and European countries.

The clothing industry is an important industry for the regions. Before the 1990's, in the region of Berat was operating the state owned textile manufacturing enterprises that stopped production in the early 1990's. In the surroundings of the region there is a concentration of clothing manufacturing enterprises.

Table 5.24: Table presenting the region of Berat (2013)

Indicator	Region of Berat	Albania
Population	145,211	2,898,293
Total GDP in (Mln/EUR)	353	9,600
GDP per capita in (EUR)	2,394	3,313
<b>GDP composition in (%) of the total GDP</b>		
Agriculture, forestry, and fishery	49.5%	18.61%
Industry	11.0%	12.17%
Construction	6.1%	9.78%
Trade, transport, hotels, and restaurants	11.7%	15.75%
Information and communication	1.4%	1.98%
Financial and insurance activities	1.3%	2.17%
Real estate activities	3.9%	6.06%
Scientific, professional, administrative, and supporting activities	1.2%	4.11%
Public administration, education, health, and social activities	13.1%	10.57%
Artistic, entertaining, and related activities	0.9%	1.83%
Number of enterprises	4,557	111,083
Number of foreign owned enterprises	42	4,654
Number of enterprises in the clothing industry	15	553

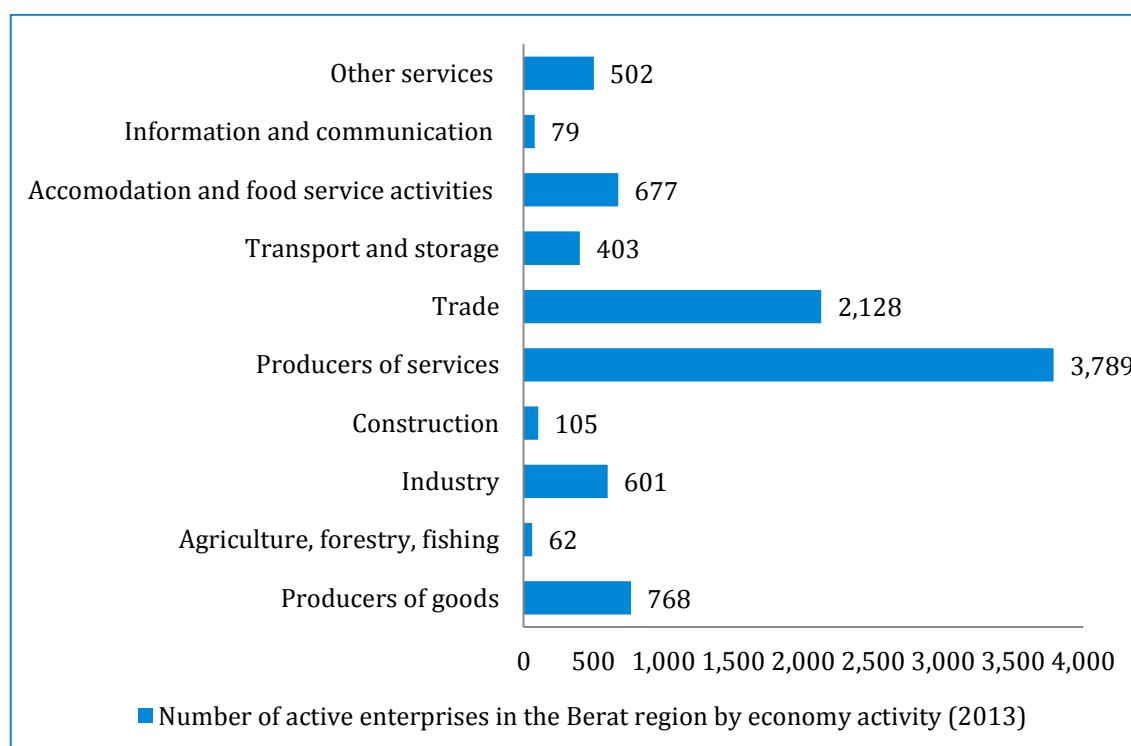
Source: INSTAT, Chamber of Façon in Albania, Municipality of the city of Berat



In 2013, the GDP in current prices for the region of Berat amounted to 353 million EUR having a share of 3,67% in the country's GDP. In the same year, the GDP per capita for the region was 2,394 EUR at market prices (see table 5.24). Agriculture has the main share in the region's GDP.

According to the National Statistical institute in 2013 in the region were 4,557 active enterprises, 4.1% of the total active enterprises in the country (see graph 5.4). Of the active enterprises in the region females own 1,270 while only 42 of 4,557 enterprises are have foreign ownership with Italian enterprises amounting to 17. The region is dominated by SMEs. In total there are 4,261 SMEs in the region that employ up to four persons. Enterprises employing up to 49 persons are 151 while those having over 50 employees are only 40.

Graph 5.4: Number of enterprises in the region of Berat in 2013



Source: National Statistical Institute, Business Register 2013

## 5.4.2. The Valcuvia s.r.l Group

This section introduces Valcuvia s.r.l including its history and operating activity. It also covers the types of articles manufactured, the customers, suppliers, and the organizational structure in the head office of the enterprise.

### 5.4.2.1 The Group

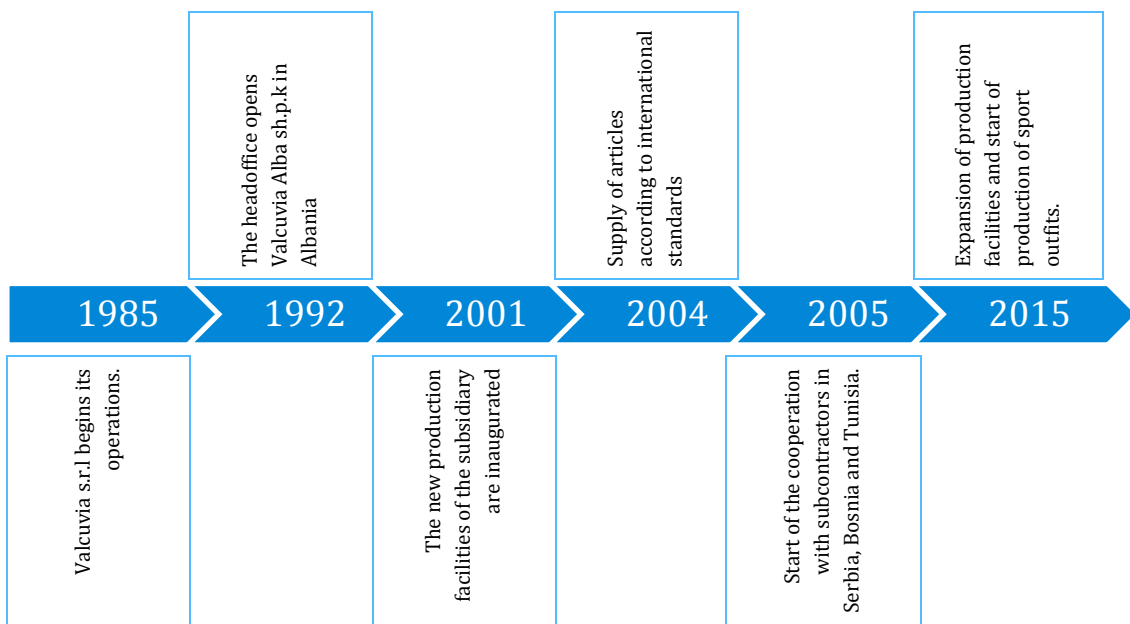
Valcuvia s.r.l is an Italian enterprise specialized in the design and supply of underwear for women, men, and children. Its finished articles range from underwear for children to corsetry. As of 2015, the enterprise has the head office in Italy while production occurs in its subsidiary Valcuvia Alba sh.p.k located in Albania and subcontractors in Serbia and North Africa.

### 5.4.2.2 History of Valcuvia s.r.l

Valcuvia s.r.l is an Italian enterprise with over 30 years of experience in manufacturing of underwear (see figure 5.18). The head office of Valcuvia s.r.l is located in the north of Italy, in Cuveglio, province of Varese, and 80 km distant from Milan.

Since the establishment, Valcuvia s.r.l offers to its international customers a complete set of services ranging from research and development of raw materials to delivery of finished products ready to be sold individually. Valcuvia s.r.l operates with its customers in developing new articles by focusing on style, design, and preferences of customers. Valcuvia s.r.l provides to its customers the collection developed by the designers of the enterprise. This collection is updated each season with hundreds of new designs.

Figure 5.18: History of Valcuvia s.r.l (main events)



Source: Based on the information provided by Valcuvia s.r.l

### 5.4.2.3 Production in Valcuvia s.r.l

Valcuvia s.r.l is present for more than 15 years in Albania, with a manufacturing subsidiary. In addition, Valcuvia s.r.l relies also on subcontractors located in Serbia, Bosnia, and Tunisia. These subcontractors are monitored periodically in order to ensure that they manufacture articles according to the requirements of the customers. Subcontractors engage in manufacturing only during seasonal peaks when the Albanian subsidiary works under full capacity and is unable to accommodate additional orders.

In 2013, the total volume of sales was 4.8 million EUR while in 2014 total sales amounted to 5.3 million EUR experiencing an increase of 10.42% despite of difficulties in the European economy.

Valcuvia s.r.l is characterized by a high degree of market adaptability. Initially it was present only in Italy and later it entered the British market manufacturing for Arcadia group especially for Debenhams. Afterwards, it started to enter into the German, French, USA, Eastern Europe, and Latin America markets. For Valcuvia s.r.l it has not been easy to adjust to the requirements of various clients operating in markets with diverse customer taste and preference.

Since 2004, Valcuvia s.r.l is able to supply its products to the safety of the Oeko-Tex 100 Standard. This standard ensures that textile used in manufacturing of underwear does not contain or release substances harmful to human health.

Valcuvia s.r.l is also certified to ISO 9001:2000 for Quality Management. The ISO 9001:2000 is the new reference, recognized worldwide for the certification of quality management system of organizations in all industries and of all sizes. The 2000 revision of ISO 9000 (the third since 1987) has as its main objective the applicability to any type of business.

The ISO 9001: 2000 focuses on: (i) implementation of a management system, (ii) customer and his satisfaction, (iii) vision of the company as a set of processes in close relationship with each other aiming to provide products that consistently meet the standards of each customer. For Valcuvia s.r.l quality management means achieving the effectiveness and efficiency of its processes through knowledge, monitoring, and involvement of human resources.

#### 5.4.2.4 Customers

Valcuvia s.r.l produces for a number of international brands (see table 5.25). The number of customers has increased and has become more diverse within the years. The customers sell the articles manufactured by Valcuvia s.r.l not only in the EU market but also in Russia, China, Latin America, etc.

Table 5.25: Main customers of Valcuvia s.r.l

No.	Main Clients	Products for each client	Output in % for 2014
1.	Guess	Slip, boxer, shirts, brass, tops, shirts	20%
2.	Versace	Slip, boxer, shirts, brass, tops, shirts	5%
3.	Schiesser	Slip, boxer, brass, children, camisole	10%
4.	Disney	Slip, boxer, brass	3%
5.	Santini	Sport line (shirts)	10%
6.	Go Sport	Slip, boxer, brass for sports	3%
7.	Pier Roberti	Slip, boxer, shirts, brass, tops, shirts	15%
8.	Womo	slip, boxer, shirts, tops	16%
9.	Esselunga	Slip, boxer, shirts, brass, tops, shirts, pyjamas	10%
10.	Myllen	Slip, boxer, shirts, brass, tops, shirts, camisole	8%

Source: Based on the information provided by Valcuvia Alba sh.p.k

#### 5.4.2.5 Suppliers of raw materials

Production is based on imported raw materials. Local suppliers of raw materials are not present as they do not meet the standards imposed by international customers. Inputs like card boxes and labels are also imported as each customer provides its own packaging inputs. Packaging inputs are imported mostly from Italy while most of fabric is imported from Turkey or China (depending on the preferences of the customer). Imports from Asian countries include a variety of fabrics like cotton, lace, elastic etc. Yearly, Valcuvia s.r.l imports over 50 tons of fabrics to meet its annual production. Due to its presence in diverse markets and regions, Valcuvia s.r.l has worked with a considerable number of suppliers.

A good cooperation between the enterprise and the suppliers is based on a clear division of tasks between the head office and the subsidiary. The head office discusses with customers on the inputs required to meet orders. They establish direct contacts with suppliers of raw materials and perform rigid quality control tests on samples of raw materials including endurance, stretching, thermal resistance, color fading, etc. in the

quality control laboratory of the head office. If tests are satisfactory the sample of raw materials are sent to the subsidiary in Albania. In Valcuvia Alba sh.p.k samples undergo a second quality control on possible marks, holes, missing threads, etc. from the responsible unit and only after the sample undergoes a final test in machines.

The annual rejection rate in the total quantity of imported raw materials is 2-3%. Meetings with suppliers are very frequent and they reach up to 12 times in a year. Meetings serve mainly: (i) to suggest technical improvements on existing materials, (ii) to introduce seasonal fabrics especially for limited editions, (iii) to keep suppliers updated on the trends of clothing industry, (iv) to perform a cross-checking data analysis that serves to pinpoint new areas of cooperation with existing pool of suppliers. The management of Valcuvia Alba sh.p.k states that a close and efficient cooperation with suppliers is a key factor in achieving quality within short delivery times.

#### 5.4.2.6 Logistics

Oriented towards efficiency Valcuvia s.r.l has established a delivery system for its finished garments. For the transportation, a company is subcontracted. Trucks are used to deliver finished article to the head office in the north of Italy. Albanian seaports are used to cross the Adriatic Sea and reach the port of Bari in the south of Italy and to continue afterward in the Italian national road transportation network to reach the final destination. Valcuvia s.r.l is not responsible to deliver goods to every customer. In the head office finished articles are placed in the vast storage houses monitored through an inventory system which records the inflow/outflows goods and shows the stock at any point of time. When orders are placed in the storage unit customers are informed to take them out.

#### 5.4.2.7 Organizational structure in the head office of Valcuvia s.r.l

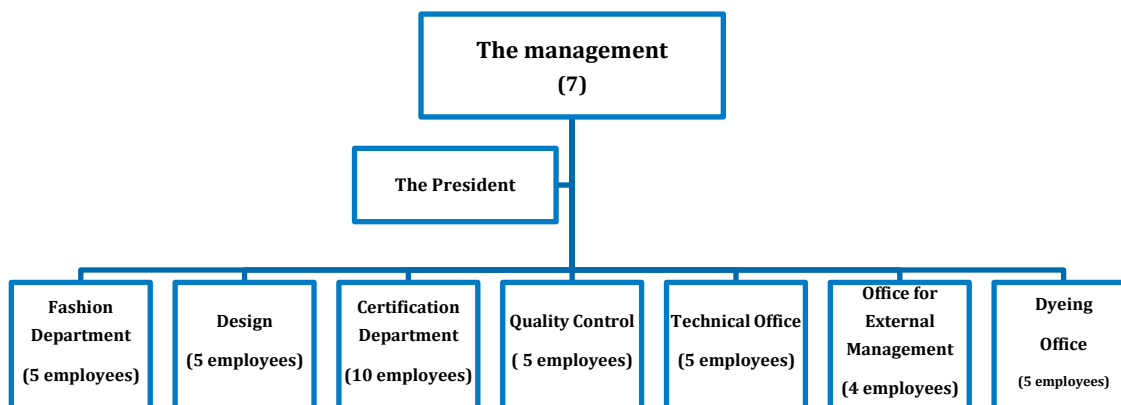
Today the head office of Valcuvia s.r.l is still located at its founding location and continues to be a family run business (see figure 5.19). The company has 40 employees in the head office and 145 in the subsidiary in Albania.

- **The management**

It includes stakeholders and the senior management (finance, operations, strategy etc.) that oversees operations in the head office and in the subsidiary of the enterprise. It is the main decision making body on the operations of Valcuvia s.r.l and in charge of the company's

expansion strategies including establishments of new manufacturing sites, promotion activities, and entering in new markets.

Figure 5.19: Organizational structure of in Valcuvia s.r.l



Source: Author representation based on the information provided by Valcuvia s.r.l

- **Fashion department**

It is a department responsible to ensure that a wide range of products are renewed every six months with the spring/summer and autumn/winter collection totally in line with the new fashion trends and specific needs of customers.

- **Design**

It is a department in charge to use sophisticated software for the design of underwear. It is also able to fit the needs of customers into easy to use graphics that can enter into production in the subsidiary.

- **Certification laboratory**

It is a department that assures the quality of raw materials for the manufacturing of samples and the dry cleaning for small batches. The certification laboratory operates in close cooperation with the quality control department.

- **Quality Control**

It is a department that performs ongoing controls during the production cycle and the final check on the manufactured products before they are shipped to corresponding customers. The laboratory is capable of performing the required tests mainly in the textile

and clothing industry, using both international regulations and those tested and evaluated internally by Valcuvia s.r.l. Since 2000, the enterprise is certified and audited annually by Arcadia Group Limited.

- **Technical office**

It is a department that gets constantly informed on recent innovations that are introduced in clothing manufacturing. This department guides the head office to apply these changes both in terms of design and subsequently in production. Valcuvia s.r.l. was in the past one of the first companies to adopt automatic cutting, CAD, laser cutting, and ultrasound stitching.

- **Office for external management**

It is a department responsible to monitor daily production in the subsidiary and to maintain continuous communication and cooperation with customers and the selling points.

- **Dyeing office**

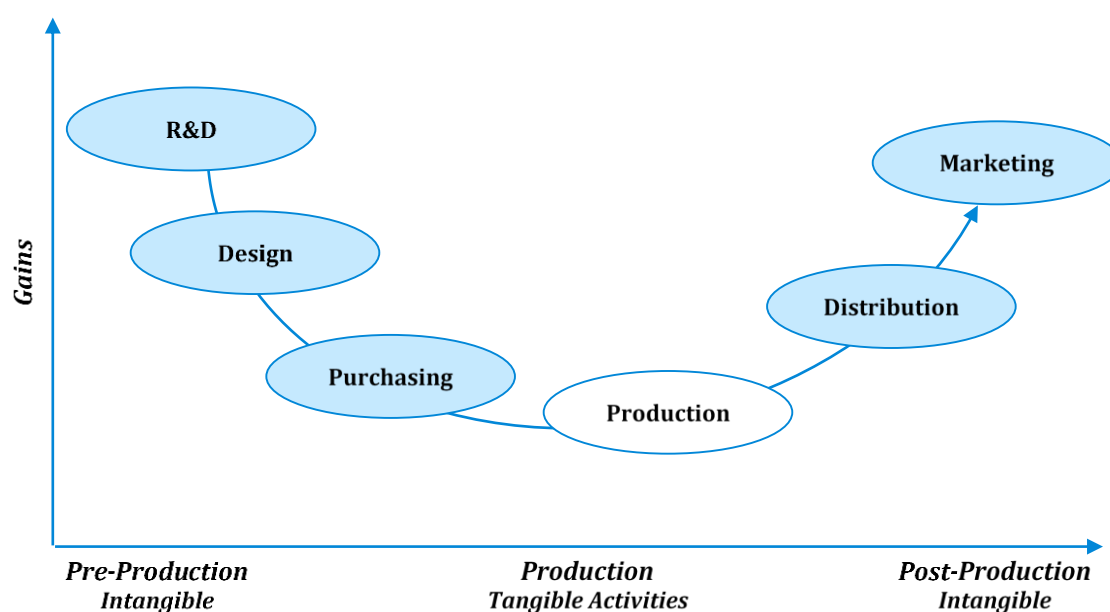
It is a department in charge to realize in a short time any dyeing of samples including tissues, elastic, and lace in every shade of color. The office is equipped with the latest technology that can give the maximum precision in dosage in the repetition of the same colors. It uses machines for continuous dyeing of tapes, pressure, flow (for dyeing fabrics) and tumblers (fabrics, hooks etc.). This allows the enterprise to shorten the time needed in the dyeing process, to achieve the highest accuracy in color reproduction, and to yield maximal strength. With the same machines, the enterprise is also able to dye fabrics required for producing small quantities.

#### **5.4.2.8 Value added activities in Valcuvia s.r.l**

Referring to value adding activities of clothing manufactures introduced by Frederick and Gereffi (2010), the figure below presents the value adding activities that occur at Valcuvia s.r.l (see figure 5.20).

As seen, the activities having the higher gains occur in the head office, leaving only production to occur in its subsidiary in Albania. The president of Valcuvia s.r.l. closely monitors production in the subsidiary and decides on the expansion of production including new lines of sport outfits and new operating facilities.

Figure 5.20: Value adding activities of Valcuvia s.r.l



Source: Based on the information provided by Valcuvia s.r.l

### 5.4.3. Valcuvia Alba sh.p.k in Albania

This section presents the operational activity of Valcuvia Alba sh.p.k, which reflects the information obtained during fieldwork in the premises of the subsidiary.

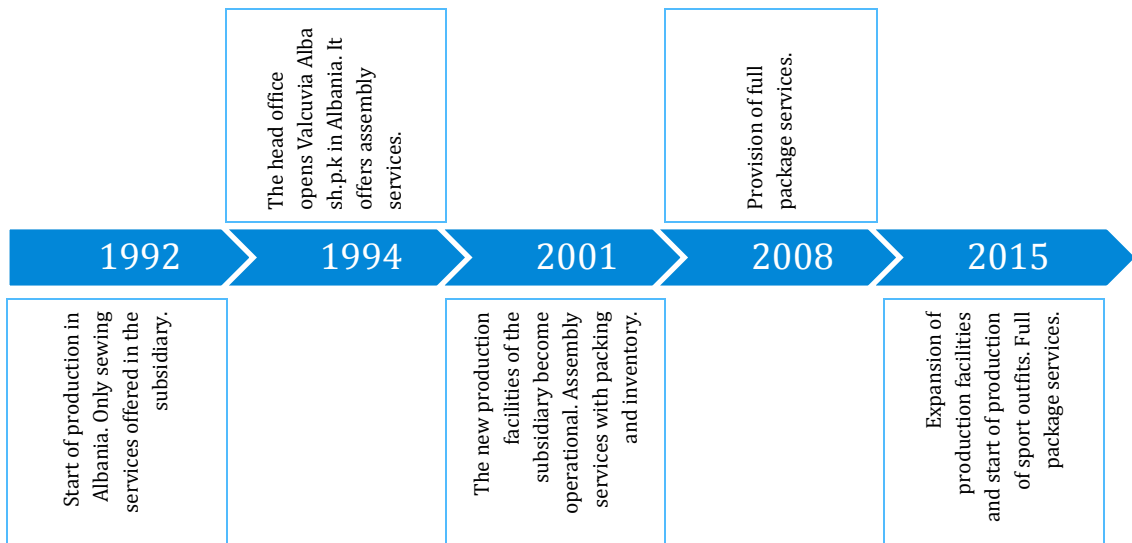
#### 5.4.3.1 History of Valcuvia Alba sh.p.k

In 1992, immediately after the fall of the socialist regime, Valcuvia s.r.l opened its subsidiary in Albania (see figure 5.21). However, the subsidiary became a fully operating enterprise only in December 1994, after the local private sector started to function under the market economy. In 1992, the subsidiary had only four employees working with five sewing machines in the basement of a house set up before the 1990's. Despite of the difficulties the four employees together with the ongoing support of head office in Italy managed to expand the activity and in 2001 the subsidiary constructed its own facilities occupying an area of 8,000 square meters.

The management of Valcuvia s.r.l decided to open a subsidiary in Albania mainly because of low labor cost and the proximity the country has to the Italian and European market. However, it is one of the few foreign and Italian enterprise that is located in the region of Berat.



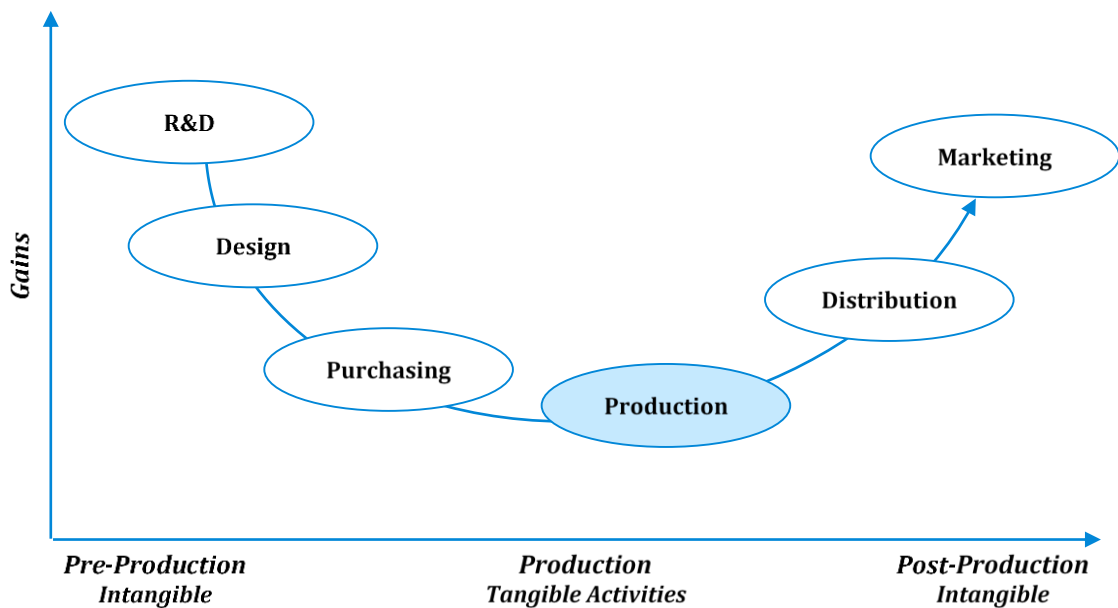
Figure 5.21: History of Valcuvia Alba sh.p.k (main events)



Source: Based on the information provided by Valcuva Alba sh.p.k

The main reason for the management was to benefit from the skills that the population has gained from the textile manufacturing that was the heart of the city’s economy during the socialist regime. Textile manufacturing stopped after the 1990’s and the majority of workers were unemployed. It was very advantageous for Valcuvia s.r.l to train local employees upon the skills they have obtained from working in textile manufacturing during the socialist regime.

Figure 5.22: Value added activities in Valcuvia Alba sh.p.k



Source: Based on the information provided by Valcuvia Alba sh.p.k

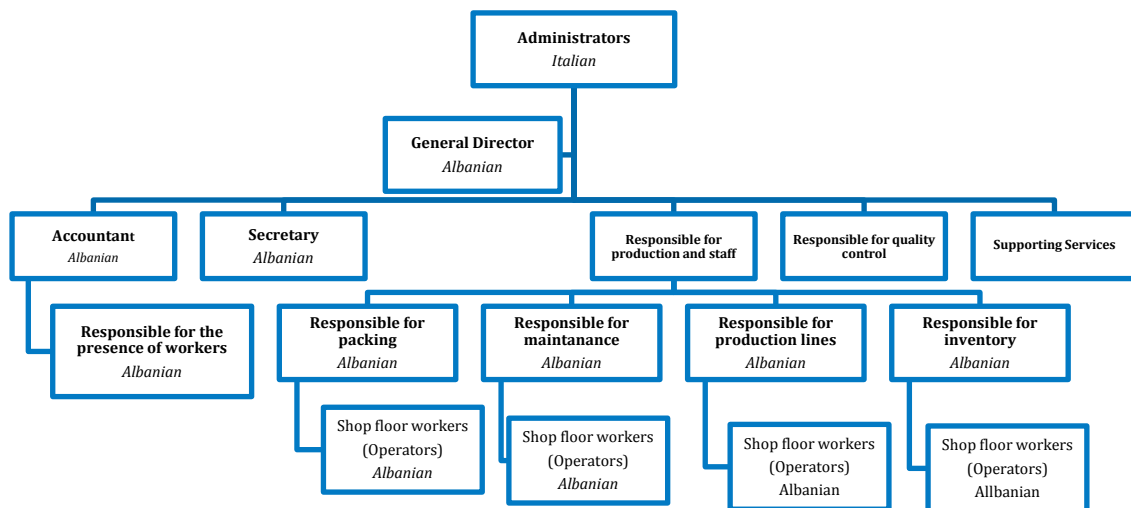
Referring to value adding activities of clothing manufactures introduced by Frederick and Gereffi (2010), figure 5.22 presents the value adding activities that occur at Valcuvia Alba sh.p.k.

### 5.4.3.2 Organizational Structure

Initially the subsidiary provided only sewing. Under direct supervision from the head office more processes and production lines were added in its facilities in Albania (see figure 5.23).

The subsidiary is lead by two Italian administrators that are appointed from the head office. They are in charge for overall operations of the subsidiary ranging from acceptance of raw materials to the delivery of finished articles to the head office. Administrators have deep understanding of clothing manufacturing and on the operations of the industry in Albania. Administrators are able to provide on the spot technical support to employees working in production lines and in the quality control department. The administrators reside in Albania on the working days and during weekends, they go to Italy. Currently, the organizational structure of Valcuvia Alba sh.p.k is presented in figure 5.23:

Figure 5.23: The organizational structure of Valcuvia Alba sh.p.k



Source: Author representation based on the information provided by Valcuvia Alba sh.p.k

In running the subsidiary, administrators are assisted by the general director who oversees overall production including communication with local staff, relations with local agents including tax authorities, custom authorities, and approval of training programs for

new employees. The general director has been working for Valcuvia Alba sh.p.k for more than 10 years and has strongly supported its expansion in the city of Berat. A secretary supports the administrators and the general director in their duties, including arrangements of various meetings, scheduling of events, travel arrangements, and management of office supplies.

Responsible for financial transactions is the accountant of the subsidiary. The accountant administrates the online national system for tax declarations, payment of employees' social contributions, customs declarations on imports of raw materials and the level of exports. The responsible records the presence twice a day and records on the absences, permissions or sick leaves for the each employee. The monthly presence is also included in the overall evaluation of employees.

In Valcuvia Alba sh.p.k the responsible for production and staff is the one that daily monitors all the three production lines. He closely cooperates with employees in charge of each production line. The responsible provides solutions to problems encountered during production, assigns the level of daily production to be manufactured, introduces new models to each production line, and ensures that samples meet all the requirements demanded by each customer. As Valcuvia s.r.l relies on division of labor it has assigned one responsible for each production in a line. Employees in charge for each production line strictly monitor completion of the steps required for a particular article to go through the line.

In the subsidiary, there is a unit responsible for inventory that is divided in two storage places. In the first one are stored raw materials to be send to the production lines while the second one stores the finished articles that are ready to be transported to the head office or directly to customers. The main objective of the inventory unit is to keep detailed records of raw materials that enter in the subsidiary and the finished goods that are exported.

Before all the merchandise that enters or exits the premises of the subsidiary, the inventory unit performs rigid quality control checks. After finished articles undergo quality control checks they pass through the packing unit where goods are packed based on the requirements (boxes, labels, folding, numbering) of each customer.

Finally, the subsidiary has a unit of supporting services that monitors that the power supply, ventilation and the alarm system are properly functioning so that the manufacturing

of articles is not interrupted. Moreover, in this category are included employees cleaning the working space from materials remaining after cutting and sewing.

### 5.4.3.3 Investments

In 2001, the enterprise settled in an area of 8,500 square meters half of which were occupied by manufacturing facilities. The investment made in the new manufacturing facilities constituted at that time the largest foreign investment made in the country. On its opening day, the Albanian president inaugurated the facilities. Even today, Valcuvia Alba sh.p.k continues to be the major foreign investment in the region of Berat.

The total investment for the operating facilities exceeds 1.5 million EUR (see table 5.26). In the main building are placed production lines, administration, the packing, and the quality control department of the subsidiary. In the second building is placed the inventory of the subsidiary, and in the third one that is undergoing renovations a new production line for sports outfits will be located.

Table 5.26: Investments in Valcuvia Alba sh.p.k up to 2014

Category of investment	Amount in EUR
<b>Investments in operating facilities</b>	
Building	1,000,000
Ventilation	50,000
Electricity generators	600,000
Guest house/canteen	500,000
Security	60,000
<b>Investments in machines</b>	
Cutting machines	70,000
Sewing machines	1,000,000
Printing machines	150,000
Molding machines	100,000
Ultrasound machines	80,000
Pressing machines	100,000
<b>Investments in information technology</b>	
Hardware	35,000
Software	15,000
<b>Total of investments</b>	<b>3,810,000</b>

Source: Based on the information provided by Valcuvia Alba sh.p.k

The subsidiary has given special attention to ensuring uninterrupted power supply at all times. Inadequate power supply is cited as one of the major problems encountered in the production process. The investment made on the power supply generator ensures continuity of production. The enterprise has also invested in the canteen that may serve up to 100 employees during lunch breaks and in five apartments that host the administration and the guests of the subsidiary including client representatives of customers and suppliers of raw materials.

Investments in machines include: laser cutting machines, machines to prepare all sizes of bras cups, machines for printing the designs, machines to eliminate edges through heating and seam, automatic machines for application of rhinestones, and machines capable of cutting and fixing cold materials using ultrasound. Machines are of Italian and Japanese brands including Mecasonic and Juki. With exception of few machines that are used in the training of new employees, the rest are programmed to perform various processes depending on the type of fabric and stitches (single thread, double needle, zigzag etc.). In addition, the subsidiary has three cutting machines used mostly to cut cotton slips, shirts, and pyjamas that operate with ultrasound technology.

Investments were made also on machines used to prepare different bras cups through heating and high pressure. Such machines are capable to prepare any cup on any fabric that is preferred by the customer. During peak seasons, additional or specific machines are required to meet the temporary needs of a customer. The head office supplies them as in Italy there is a large inventory of modern machines that is regularly updated to keep up with market trends and demands.

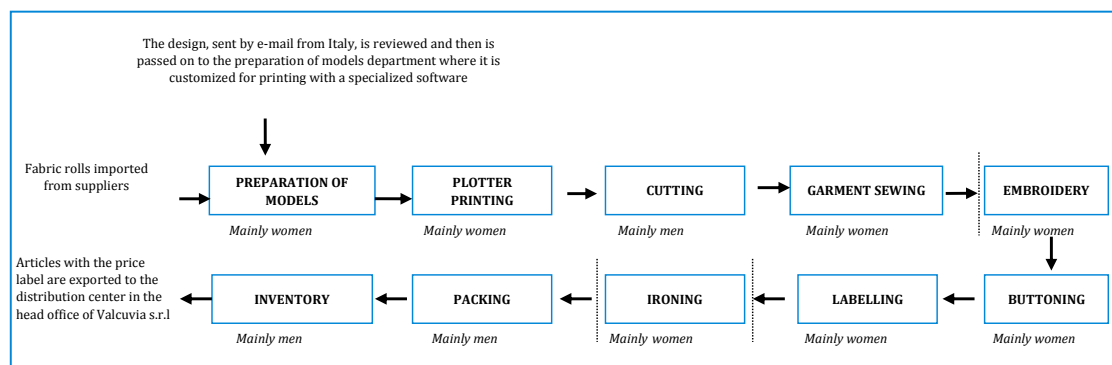
In the subsidiary investments, are made also in information technology. Administration has modern computers supported with advanced servers and software used to monitor the level of inventory in the subsidiary including imports of raw materials and exports of finished articles. In the same time, the subsidiary has purchased modern programs for sample cutting and development of new models.

#### **5.4.3.4 Production**

Production starts after head office sends to Valcuvia Alba sh.p.k the raw materials together with the corresponding model in order to prepare the samples that need to be

controlled by customers before they determine the quantity and the delivery date of their order (see figure 5.24).

Figure 5.24: Production flow <sup>48</sup> in Valcuvia Alba sh.p.k



Source: Author representation based on information provided from Valcuvia Alba sh.p.k

Samples are prepared depending on the sizes asked by the customer. Usually, samples are prepared in small, medium, and large sizes. However, different customers may ask for special sizes like five extra large or extra extra small (see table 5.27).

Table 5.27: Output of Valcuvia Alba sh.p.k in 2010 and 2014

No.	Item	Output (pairs) 2010	Output (pairs) 2014	Change in output (%)
1.	Slip	100,000	160,000	60.00%
2.	Boxer	220,000	260,000	18.18%
3.	Brass	98,000	120,000	22.45%
4.	T-Shirts	18,000	1,150,000	6288.89%
5.	Pyjamas	2,000	30,000	1400.00%
6.	Tops	210,000	220,000	4.76%
7.	Camises	7,000	20,000	185.71%
8.	Total	655,000	1,960,000	199.24%

Source: Based on the information provided by Valcuvia Alba sh.p.k

Valcuvia Alba sh.p.k adjusted part of its facilities to manufacture sport outfits especially those used in cycling including quality outfits for international cycling competition like Giro d’Italia and Tour de France. These special outfits are expected to be manufactured by using special fabrics including silver ionized fabrics that ensure adequate

<sup>48</sup> Embroidery and ironing are part of the production cycle only on specific articles. The vertical lines indicate the production flow of articles that are not subject to embroidery and ironing.

perspiration in order to maintain an optimal level of body temperature. Valcuvia Alba sh.p.k is preparing also a training program for employees that will be involved in the production of cycling outfits.

The other project, which Valcuvia Alba sh.p.k is expecting to introduce is with Schiesser, the German underwear brand. In this project Valcuvia Alba sh.p.k will be responsible to produce 7 different types of female bras that will be tailored to the female anatomy meaning that for each bra cup size the waist and the strips attached to the bras will be adjusted to cup size.

#### **5.4.3.5 Subcontractors**

After setting into new operating facilities Valcuvia Alba sh.p.k tried to cooperate with different subcontractors located in the city of Vlora, where it identified local enterprises available at the shortest distance. However, this cooperation was for less than two years as subcontractors could not meet the quality standards agreed by the head office and their customers. Having trouble in finding appropriate subcontractors in Albania induced the head office to seek alternative companies offering these services in Serbia, Bosnia Herzegovina, and Tunisia. The management of Valcuvia Alba sh.p.k emphasized that despite of the expansion in their production they are not looking for new subcontractors in Albania.

#### **5.4.4. Employment**

This section presents the level of employment in Valcuvia Alba sh.p.k, the training programs of employees, and their compensation.

##### **5.4.4.1 Level of employment/Local Staff**

As of 2015, Valcuvia Alba sh.p.k has 145 employees out of which 16 are male and 124 are female (see graph 5.7). Female employees dominate the three production lines, the accounting department, and in tracking the daily presence of employees. However, in the subsidiary there are two male employees working with sewing machines. In peak seasons, especially between April and August the subsidiary hires between 35-40 seasonal employees. Overall, male dominate in management positions with 10 employees while females are only six.

Table 5.28: Level of employment in Valcuvia Alba sh.p.k (1992-2015)

No.	Year	Level of employment
1.	1992	4
2.	2001	100
3.	2012	120
4.	2015	145

Source: Based on the information provided by Valcuvia Alba sh.p.k

Among employees are also those involved in the maintenance including mechanics, drivers, guards, gardeners, and cleaners. Mechanics assist in the daily operations of the firm. Each of them has over 20 years of experience in maintaining machines and are able to fix on the spot the majority of problems occurring during production. In the same time, they are capable to correctly identify the parts needed to be replaced without causing long interruptions in production. In addition, cleaners are essential in keeping a tidy working environment especially in removing the waste generated after cutting and sewing.

Italian administrators focus on: (i) suggesting new techniques for increasing labor productivity, (ii) participating in administrative meetings aimed at monitoring operations in the subsidiary, (iii) setting future objectives, (iv) informing the head office on the level of operations and performance of the subsidiary, and on (v) providing solutions to difficulties in production that cannot be solved by local administration.

Criteria for selection of employees depends on the degree of responsibility and the difficulty of assigned tasks. Administrators are directly hired and appointed by the head office. They have a university degree speak at least two foreign languages, and possess deep knowledge on clothing manufacturing. The general director is selected by the administrator of Valcuvia Alba sh.p.k and is approved by the head office. The general director possesses not only extensive knowledge on clothing manufacturing but also a good understanding of the business environment in the country.

Division heads are selected from administration based on previous experiences in the industry. They need to have a secondary or higher degree, speak at least one foreign language, and possess basic level of computer capabilities. In total, there are seven division heads in Valcuvia Alba sh.p.k. Employees have the opportunity to be promoted. For example, after several years employees that start working in sewing lines can be become a division or a department head. When it comes to hiring blue-collar employees for processes like



cutting, sewing, and packing the management of the enterprise has difficulties in finding quality employees willing to learn new processes and techniques. New employees are found through current employees or advertising in nearby surroundings of the subsidiary. Support from regional employment centers has been very limited in finding female employees.

Evaluation of employees is critical for Valcuvia Alba sh.p.k as it is directly related to improving the quality of finished articles. Evaluation criteria varies by position, responsibilities, and the tasks required to perform. For low to medium level employees, evaluation criteria are the number of goods completed daily, commitment, teamwork, precision, and amount of overtime hours. Head of departments and division are evaluated based on the ability to instruct and guide their unit in meeting targets, reliability, and improved performance. The evaluation form is prepared in the head office and approved by the management of its subsidiary in Albania. The form is structured in such a way to ensure not only inclusion of production cycle but also to allow quality cross-checking on a daily basis.

#### **5.4.4.2 Training**

Valcuvia Alba sh.p.k provides training programs for its employees. Trainings are organized for all level of employees. In the subsidiary there is a special line to train new employees for 60 days. Employees are trained on various processes like sewing, cutting, buttoning. At the end of the training period employees are evaluated from their supervisors and depending on the performance they are assigned to respective divisions.

Employees responsible for various units have undergone training in the head office in Italy. In total eight employees have had international training. These employees are considered as assets of the enterprise and in several cases they are the ones to suggest possible solutions to the head office. Employees responsible for finances are trained in two directions. Firstly, they are trained for accounting programs required to record financial transactions of the subsidiary in Albania. Secondly, they learn how to determine the monthly salary of each employee depending on the number of goods produced on a daily basis. Trainings in Valcuvia Alba sh.p.k include also topics like safety and health in the workplace, maintenance of sewing machines, training and basic knowledge of machines, training against discrimination of color, religion, and origin.

### 5.4.4.3 Compensation of employees

Working hours at Valcuvia Alba sh.p.k are from Monday to Saturday between 8:00 am to 16.30 p.m. including a 30-minute lunch break. Employees are required to use the personal identification card to enter and to leave the company in order to record their working hours. Weekly working hours are in full compliance with the national Labor Code, with a maximum of 50 hours per week. Overtime hours are paid 25% more and working hours during national holidays are paid 125%. National holidays can be replaced another day after approval with the supervisor or can be added to the annual leave of employees.

The annual leave for each employee is 28 working days including Saturdays and Sundays. All employees have 14 days of annual leave on August when production is interrupted and the rest of annual leave can be taken based on the needs of each employee. All employees are required to follow the set of safety and emergency rules and they all have their special uniform customized based on responsibilities and tasks of each employee. The subsidiary covers daily transportation for all its employees. Staff turnover is very low at 1% annually. Employees are paid depending on the quality and quantity of articles manufactured (see table 5.29). All employees are insured and are paid in a timely manner without delays. Representatives of trade unions participate in the meetings and are involved in drafting of new staff regulation.

Table 5.29: Compensation of employees in Valcuvia Alba sh.p.k

No.	Category of employee	Monthly wage range
1.	Administration	700 EUR
2.	Head of Department/Division	350-400 EUR
3.	Blue collar employees	200-300 EUR depending on the quantity of production

Source: Based on the information provided by Valcuvia Alba sh.p.k

## 5.5. INDUSTRIA BALLKANIKE SH.P.K

This section presents the fourth case study of the research. It is dedicated to the operational and production activity of the Greek enterprise Industria Ballkanike and its subsidiary Industria Ballkanike sh.p.k. The subsidiary has two production plants. Presentation of the case starts with the activity of the group and it continues with the activities occurring in the subsidiary.

Figure 5.25: The map of Albania with the region of Korca circled



Source: [www.europe-atlas.com](http://www.europe-atlas.com)

### 5.5.1. Overview of the region of Korca

The region of Korca is situated in the southeastern part of Albania (see figure 5.25). The region of Korca is very mountainous with an average height of 850 m on the sea level. In 2013, the region had a population of 226,244 inhabitants. Korca has a favorable

geographical position because it is situated between trading roads that join Albania with Macedonia (47 km) and Greece (35 km). The food industry is very developed and focused on dairy and honey products. Artisanry in the region has ancient traditions. It is distinguished for the processing of wool, stone, wood, metal, etc. Tourism has a potential to attract foreign visitors due to the presence of natural attractions and cultural monuments. The majority of the enterprises in the clothing industry are in the form of Greek-Albanian joint venture operating with imported raw materials and exporting of goods overseas.

In 2013, the GDP in current prices for the region of Korca amounted to 560 million EUR, contributing to the Albanian GDP with 5.83% (see table 5.30). In 2013, the GDP per capita in the region of Korca was 2,476 EUR. Agriculture remains the main economic activity of the region contributing to the GDP of the region by 38.71% in 2012. The region is well-known for producing apples, beetroots, and beans. These products are exported to neighbouring and European countries.

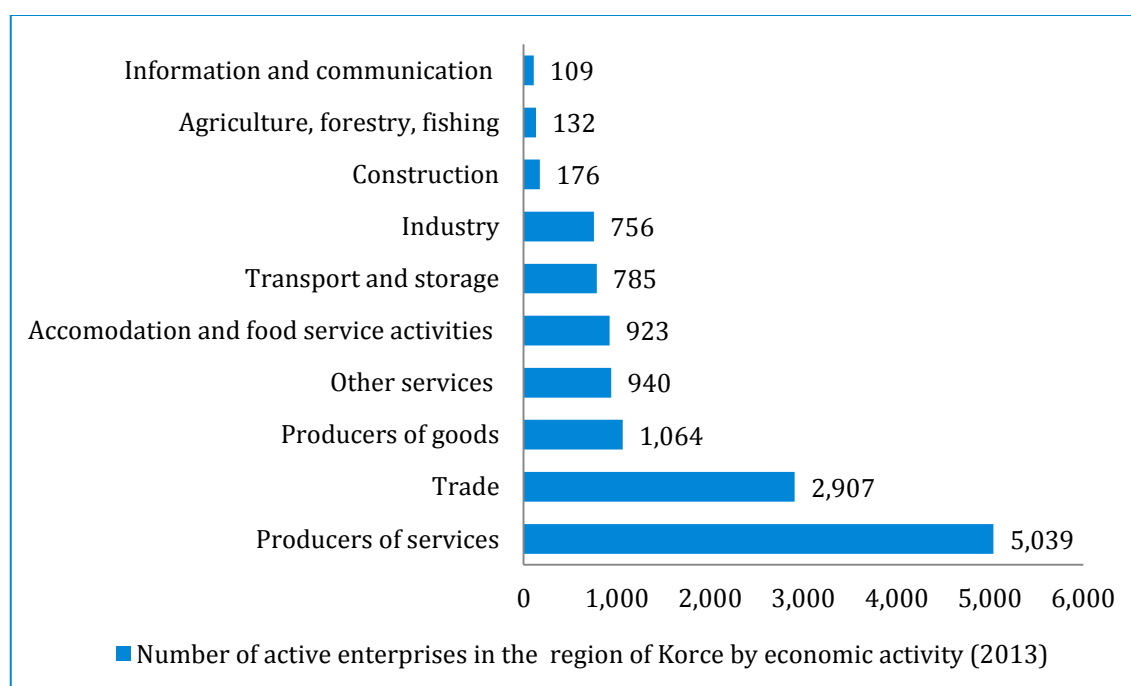
Table 5.30: Table presenting the region of Korca (2013)

Indicator	Region of Korca	Albania
Population in 2013	226,244	2,898,293
Total GDP in 2013 (Mln/EUR)	560	9,600
GDP per capita in 2013 (EUR)	2,476	3,313
<b>GDP composition in (%) of the total GDP</b>		
Agriculture, forestry, and fishery	39.1%	18.61%
Industry	7.8%	12.17%
Construction	8.8%	9.78%
Trade, transport, hotels, and restaurants	17.6%	15.75%
Information and communication	1.1%	1.98%
Financial and insurance activities	2.4%	2.17%
Real estate activities	5.6%	6.06%
Scientific, professional, administrative, and supporting activities	2.4%	4.11%
Public administration, education, health, and social activities	13.8%	10.57%
Artistic, entertaining, and related activities	1.4%	1.83%
Number of enterprises	6,728	111,083
Number of foreign owned enterprises	200	4,654
Number of enterprises in the clothing industry	42	553

Source: INSTAT and the Chamber of Façon in Albania

According to the National Statistical institute, in 2013, in the region of Korca were 6,728 active enterprises, 6.05% of the total active enterprises in the country (see graph 5.5). Of the active enterprises in the region females own 1,742 while only 200 out of 6,728 enterprises have foreign ownership with Greek enterprises amounting to 77. The region is dominated by small enterprises in total 6,222 that employ up to four persons. Enterprises employing up to 49 persons are 241 while those having over 50 employees are only 57.

Graph 5.5: Number of active enterprises in the region of Korca in 2013



Source: National Statistical Institute (INSTAT), Business Register 2013

## 5.5.2. Industria Ballkanike Group

This section introduces the head office of Industria Ballkanike including its history and operating activity. This section includes also the type of articles manufactured, the customers, suppliers and the organizational structure of the head office.

### 5.5.2.1 The Group

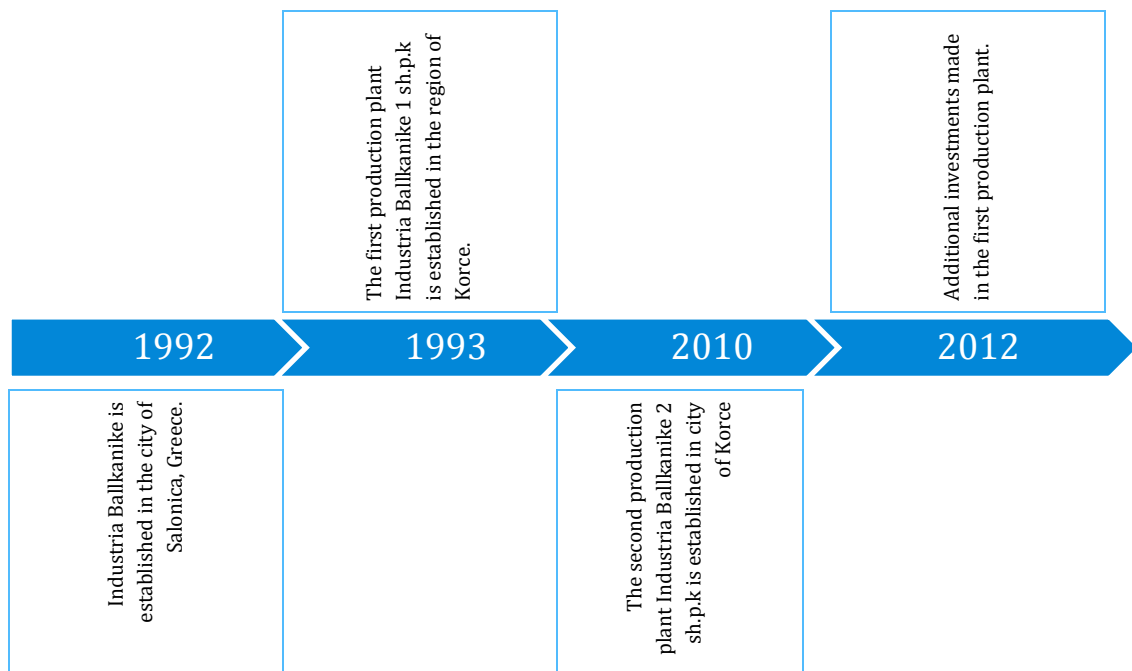
The group of Industria Ballkanike consists of a head office dealing mostly with administrative issues and one subsidiary Industria Ballkanike sh.p.k located in Albania. The subsidiary is composed of two production plants Industria Ballkanike 1 sh.p.k and Industria Ballkanike 2 sh.p.k.

### 5.5.2.2 History of the head office

Industria Ballkanike is a clothing manufacturing enterprise founded in 1992 in the city of Thessalonica, Greece (see figure 5.26). It started to operate in the region of Korca in 1993 being one of the first Greek enterprises that located its production in Albania. The enterprise is the initiative of two brothers that after the socialist regime was abolished believed in the potential of economic development of Albania. The main reasons they decided to transfer production to Albania were: the (i) proximity with the Greek border, (ii) the cheap labor force, (iii) the tradition of the Korca region in the textile industry, (iv) the vicinity with the European market, (v) the similar social characteristics of the region with the Greek ones.

The enterprise continued its manufacturing activity even during the civil war in Albania in 1997. In its beginnings, the enterprise had only 10 employees and 15 machines. Its first customers were Greek brand names like BSB, CAM, and On Line. Gradually, the enterprise became a subcontractor of international brands like Decathlon, Assos, C&A etc.

Figure 5.26: History of Industria Ballkanike (main events)



Source: Based on the information provided by Industria Ballkanike sh.p.k

Table 5.31 below summarizes the main characteristics of production plants possessed by Industria Ballkanike in Albania. In the early 2000's, the management of the enterprise decided to concentrate only on the production of swimwear and sport outfits. In 2010, a second production plant of Industria Ballkanike was opened in the city of Korca through

acquisition of the previously state owned clothing manufacturing enterprises. Currently, Industria Ballkanike is considered one the main employers in the region of Korca amounting to 529 employees.

Table 5.31: Production plants of Industria Ballkanike in Albania

Plants of Industria Ballkanike in Albania		
Indicator	Industria Ballkanike 1	Industria Ballkanike 2
Products	Bikini, swimsuits, shorts, shirts, children line	Bikini, swimsuits, shorts, shirts, children line
Jobs (June, 2015)	391	138
Industrial facilities m2 (June, 2015)	4,000	1,500
Date of setting up	1993	2010

Source: based on the information provided by Industria Ballkanike

### 5.5.2.3 Production

The head office of the enterprise is located in the North of Greece in the city of Thessalonica and since the opening of the subsidiary in Albania have been responsible only for administrative tasks. Administrative operations include financial management, tracking of orders, customer relations, and monitoring activity of the subsidiary. Since the establishment of Industria Ballkanike, the manufacturing activity has taken place in its subsidiary in Albania. The head office of Industria Ballkanike has only six employees. The team in the head office is lead by the president that is one of the founding brothers of the enterprise.

### 5.5.2.4 Customers

Since the 2000's the main customer of Industria Ballkanike is Decathlon, the international retailer of sports outfits that has a share of 60% in the total output of Industria Ballkanike (see table 5.32). Asos and C&A are the two other major customers of Industria Ballkanike with a share of 25% in the total output of the enterprise. La Redoute a distributor of fashion outfits ordered through a catalogue for home delivery has only a share of 5% in the total output. The category of goods manufactured for each customer include bikini, shorts, swimsuits, and shirts.

Table 5.32: Main Customers of Industria Ballkanike and output in (%) for 2014

No.	Main Customers	Products for each customer	Output in 2014 (%)
1.	Decathlon	Bikini, shorts, swimsuits, shirts	60%
2.	C&A	Bikini, shorts, swimsuits, shirts	15%
3.	Asos	Bikini, shorts, swimsuits, shirts	10%
4.	Intersport	Bikini, shorts, swimsuits, shirts	10%
5.	La Redoute	Bikini, shorts, swimsuits, shirts	5%

Source: Based on the information provided by Industria Ballkanike

### 5.5.2.5 Suppliers of raw materials

Industria Ballkanike receives in its subsidiary all raw materials required for clothing manufacturing. The management of the enterprise tried to cooperate with local suppliers that manufacture plastic bags but the customers found it to be very expensive and not in line with the quality demanded. Yearly, Industria Ballkanike imports around 15 tons of fabrics to meet its annual production. Considering that the main article manufactured in Industria Ballkanike is swimwear for international brands, the fabric is fully imported from Turkey and China. Raw materials reach the premises of the subsidiary of Industria Ballkanike only after they are fully tested in the laboratories of the customer. The customers establish direct contacts with suppliers and perform rigid quality control tests on samples including endurance, stretching, thermal resistance, color fading etc. If tests are satisfactory, the samples of raw materials are sent from the head office to the subsidiary in Albania. In the subsidiary, samples of raw materials undergo a second quality control on possible marks, holes, missing threads, etc. After the second quality control raw materials are ready to go to production lines.

The annual rejection rate of raw materials is 2-3%. Industria Ballkanike has had over the years the same suppliers. Furthermore, inputs like card boxes and labels are imported as each client provides its own packaging inputs. Packaging inputs are imported mostly from Greece. Meetings of the management of Industria Ballkanike with suppliers of raw materials occur up to three times a year mostly when the management of Industria Ballkanike is invited by its customers in the meetings they have with the suppliers of raw materials. These meetings serve: (i) to suggest technical improvements on existing materials, (ii) to introduce seasonal fabrics especially for limited editions, (iii) to keep suppliers updated on the trends of the clothing industry, (iv) to perform a crosschecking data analysis, and (v) to pinpoint the new areas of cooperation with the existing pool of



suppliers. The management of Industria Ballkanike states that a close and efficient cooperation with suppliers is a key factor in manufacturing quality products within the requirements of each customer.

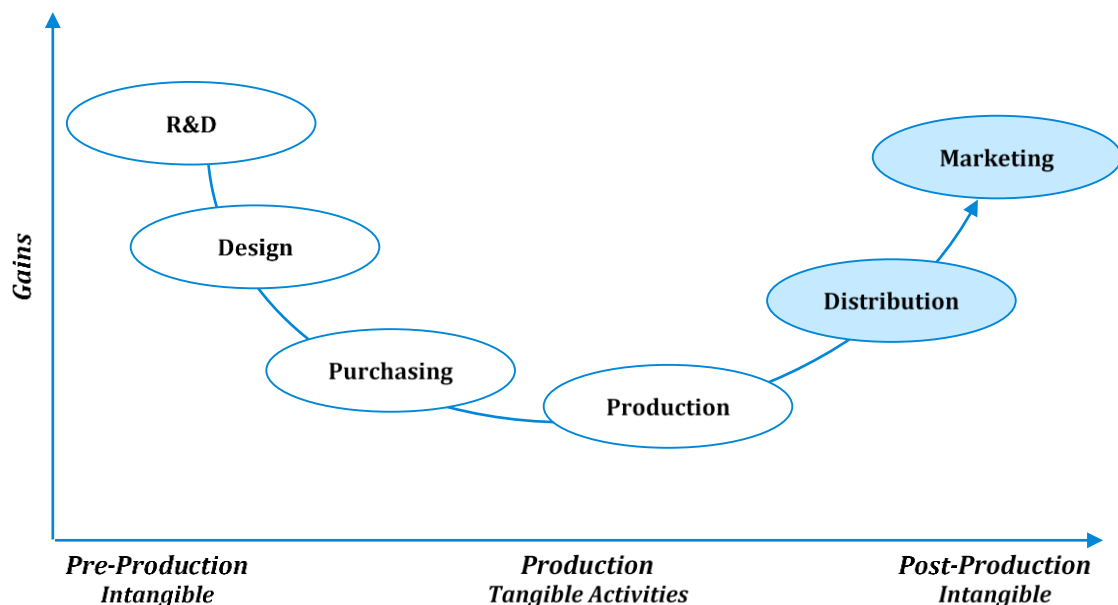
### 5.5.2.6 Logistics

Industria Ballkanike has established a delivery system for its finished articles to meet the short delivery times required by its customers. It has acquired both its own transporting vehicles and has subcontracted a delivery company. The vehicles owned by Industria Ballkanike are used to bring in the premises of the enterprise, goods between the two production plants in order to undergo all processes required for production. In the same time, these trucks are used to deliver finished articles to nearby ports of Albania through which they reach end customers. On the other hand, the vehicles of the subcontracted company are used to deliver finished articles to end customers like Decathlon, La Redoute, etc.

### 5.5.2.7 Value added activities in Industria Ballkanike

Figure 5.27 presents the value added activities of Industria Ballkanike according to Fernandez-Stark, Gereffi, and Frederick (2011). Value added activities are limited to distribution to end customers and marketing of the services by the enterprise.

Figure 5.27: Value added activities in Industria Ballkanike



Source: Based on the information provided by Industria Ballkanike sh.p.k

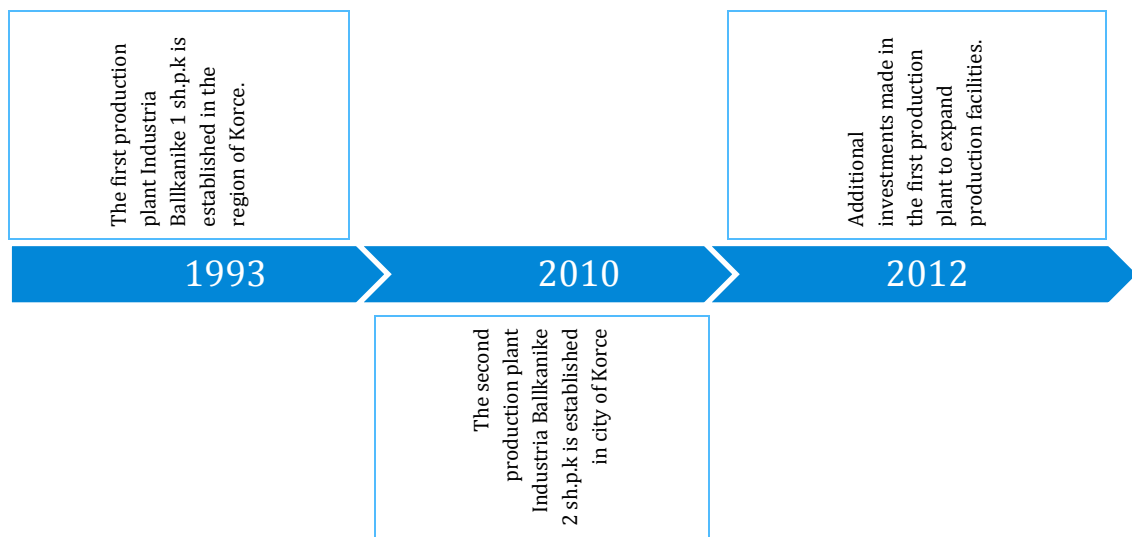
### 5.5.3. The plants of Industria Ballkanike

This section presents the production activity in the plants of Industria Ballkanike in Albania. It includes the history of the subsidiary.

#### 5.5.3.1 History of Industria Ballkanike sh.p.k

Manufacturing in Industria Ballkanike sh.p.k started with the opening of the first production plant in 1993 and continued with the opening of the second production plant in 2010 (see figure 5.28). As of 2012, the head office is undertaking additional investments to expand the existing production facilities to accommodate the increase in the orders from customers.

Figure 5.28: History of Industria Ballkanike sh.p.k (main events)



Source: Based on the information provided by Industria Ballkanike sh.p.k

The level of employment in Industria Ballkanike has increased since 1993 in which the subsidiary had only 10 employees. As of 2015, Industria Ballkanike has 529 workers (see table 5.33).

The increase in the level of employment generated by Industria Ballkanike results mainly for the increase in the operational activity and acquisition of additional operating facilities that resulted in the opening of the second plant of the subsidiary. Additional, employment is generated from expansion of existing production facilities and adding up of more cutting and sewing lines.

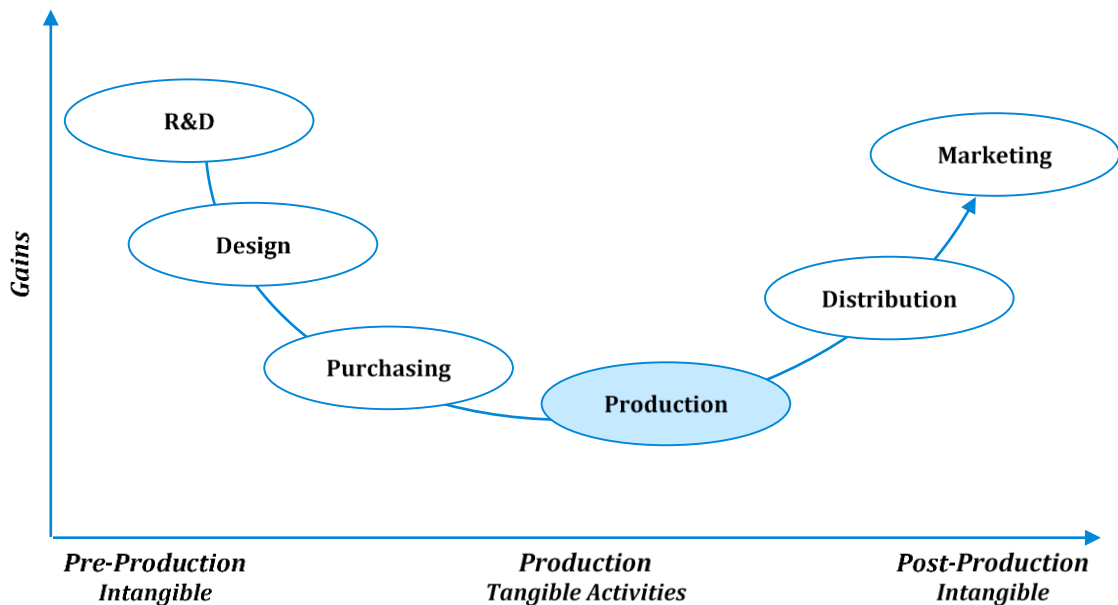
Table 5.33: Level of employment in Industria Ballkanike 1993-2015

No.	Year	Level of employment
1.	1993	10
2.	2009	370
3.	2012	480
4.	2015	529

Source: Based on the information provided by Industria Ballkanike

Figure 5.29 presents the value added activities of Industria Ballkanike sh.p.k according to Fernandez-Stark, Gereffi, and Frederick (2011). Value added activities are limited to production.

Figure 5.29: Value added activities in Industria Ballkanike sh.p.k

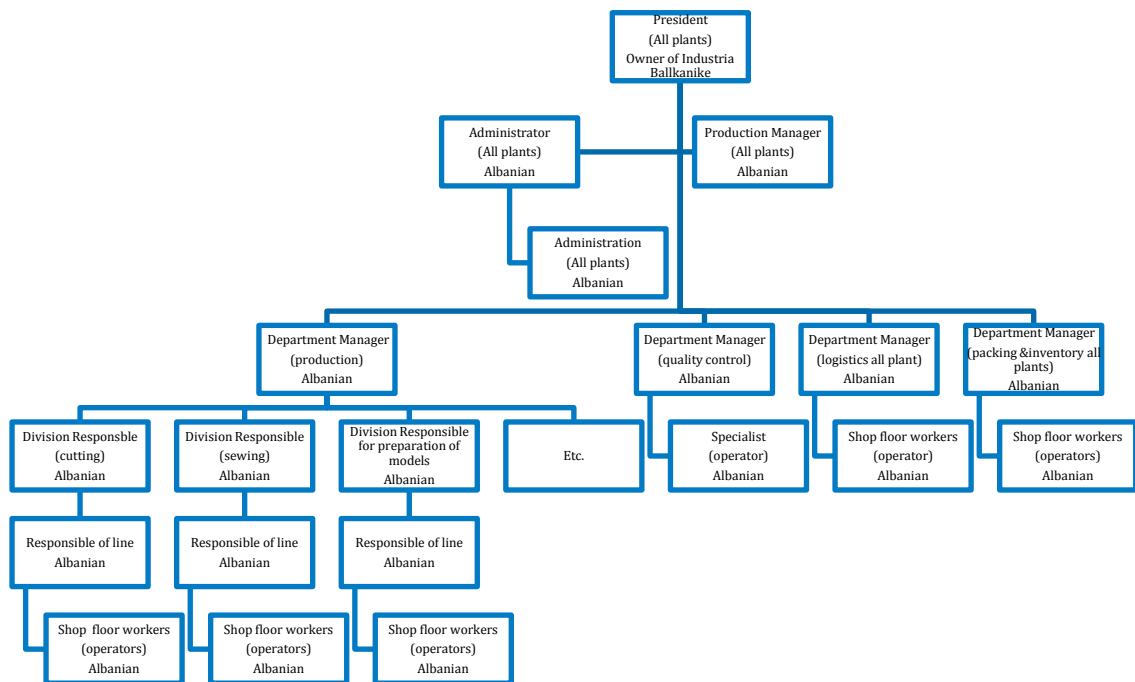


Source: Based on the information provided by Industria Ballkanike sh.p.k

### 5.5.3.2 Organizational Structure

The organizational structure of Industria Ballkanike sh.p.k is presented in figure 5.30. The president of Industria Ballkanike is in charge of setting the strategy and operations in the two subsidiaries. The president is the main decision making authority together with the administrative staff in the head office. The president is also the only foreign staff working in the two production plants.

Figure 5.30: Organizational Structure of Industria Ballkanike



Source: Author representation based on the information provided by Industria Ballkanike sh.p.k

In running the two production plants, the president is assisted by the General Administrator, a native of the region of Korca who is in charge of the operations of the two subsidiaries including communication with custom and tax officials. The general administrator proposes structural changes in the operations of the subsidiary after extensive consultations with production managers and the administration. Finally, the general administrator is responsible for hiring new employees in production. The general administrator supervises the manager for production and the administration in the two production plants.

The production manager is a woman with over twenty years of experience in the clothing manufacturing industry. The production manager supervises all units involved in the manufacturing activity in the two production plants of Industria Ballkanike. In addition, the production manager is responsible for ensuring on time delivery of the finished articles, to address any difficulties arising during production, and to administer the demands of employees assigned to various tasks during manufacturing. The key departments are:

- **Quality control**

It is a department that is responsible for controlling of raw materials used in manufacturing of goods. The quality control in Industria Ballkanike consists in physical control like identification of any holes, inappropriate stamping. Chemical, physical, and stretching tests of raw materials are performed in the premises of each customer before they are shipped to Industria Ballkanike to start production. The post-production quality control of raw materials consists in performing a final check on finished articles to ensure that they are fully in line with the requirements of the customers before they are send to the final destination.

- **Production**

It is a department that covers several units. The units composing this department are cutting of raw materials, sewing, ironing, embroidery, cleaning of finished goods, and preparation of models for production. The second production plant is specialized in cutting and embroidery while the first production plant is focused on assembly services like sewing, limited cutting, and reparation of defects.

- **Packing and inventory**

It is a department in which finished articles are placed into appropriate boxes and where the quantity sent to each customer is recorded in the inventory system. In addition, this department is responsible to monitor the quantity of raw materials available in Industria Ballkanike sh.p.k and to report on a weekly basis to the production manager the quantity that can be used for production.

- **Logistics**

It is a department responsible for the delivery of finished goods. Finished goods are delivered by subcontracting a local company that owns large trucks that periodically go to Greece while trucks owned by Industria Ballkanike go to the port of Durres where finished articles are shipped to the European market. The daily movement of goods from from one production plant is done through the vans owned by Industria Ballkanike.

- **Administration**

It is a department that depends on the general administrator. Administration in Industria Ballkanike includes the finance and accounting units that is responsible for

monthly tax declaration, payables and receivables resulting from operations in Industria Ballkanike, and the monthly payrolls of the staff in two production plants. In addition, in the administration are included also the supporting services part of which are security guards, cleaners, drivers, the IT staff, and present during the production hours.

### 5.5.3.3 Investments

Investments made in Industria Ballkanike sh.p.k are easily spotted. The first production plant is located in the suburbs of the region of Korca while the second production plant is located in the city of Korca. The investment made in the first production plant Industria Ballkanike 1 sh.p.k covers a surface area of 4,000 sq/m. The investment was finalized in 2012. The amount invested in its facilities is over 900,000 EUR while investments in the second production plant Industria Ballkanike 2 sh.p.k were about 500,000 EUR (see table 5.34). During the interview with the president of Industria Ballkanike, he highlighted several times his commitment to operate in premises that meet all the European Standards.

Table 5.34: Investments in Industria Ballkanike sh.p.k up to 2014

Category of investment	Amount in EUR
<b>Investments in operating facilities</b>	
Building	750,000
Ventilation	80,000
Electricity generators	230,000
Guest house/canteen	150,000
Security	80,000
<b>Investments in machines</b>	
Cutting	100,000
Sewing	400,000
Printing	100,000
Embroidery	70,000
Stamping	100,000
Pressing	30,000
<b>Investments in information technology</b>	
Hardware	90,000
Software	30,000
<b>Total investments</b>	<b>2,210,000</b>

Source: Based on the information provided by Industria Ballkanie sh.p.k

The major share of investments in operating facilities consist in the buildings in the two production plants with 500,000 EUR in Industria Ballkanike 1 sh.p.k and 250,000 EUR in Industria Ballkanike 2 sh.p.k. When the head office decided to open the second production plant, based on local legislation it was able to privatize the previously state owned clothing manufacturing enterprise, which was operating for over 10 years under its potential capacity. The management of the enterprise decided to renovate production facilities and to locate part of its manufacturing activity in a second production plant.

The facilities of the enterprise are equipped with a ventilation system, which ensures an adequate temperature required during production of fabrics used in manufacturing of swimwear. Concurrently, there is a ventilation system, which absorbs the particles generated during sewing and cutting of goods. The total amount invested in ventilation system is 80,000 EUR.

The second major investment in operating facilities of Industria Ballkanike sh.p.k is made on electricity generators. Still in 2015, the region of Korca does not have uninterrupted power supply. Since its first days of operations in the host territory, the enterprise has had electricity generators, as frequent interruptions in the power supply would significantly harm the machinery used in manufacturing and the delivery of finished articles to end customer. Even during fieldwork in the premises of Industria Ballkanike, the electricity was interrupted twice. Investments made in electricity generators amount to 230,000 EUR. However, the maintenance of these generators is performed on a monthly basis to avoid any possible defects in them. The yearly amount spent on the maintenance of generators reaches to 20,000 EUR.

Premises of Industria Ballkanike sh.p.k have canteen services, which are used by employees during the day for lunch and coffee breaks. The enterprise does not have any guesthouse for representatives of customers or technicians that visit the two subsidiaries.

To continue, the expansion of Industria Ballkanike sh.p.k has occurred in parallel with the acquisition of modern machines. The majority of machines found in Industria Ballkanike sh.p.k are sewing machines: 250 in the first plant and 80 in the second plant. Sewing machines are acquired from brands like Juki and Gerber and are programmed to perform tasks like the use of multiple threads, different kinds of seams, ruffles, etc. The amount spent in sewing machines totals to 400,000 EUR.

In addition to sewing, Industria Ballkanike sh.p.k has six cutting machines that are used to cut the various types of fabrics automatically or manually depending on the category of the model that is under production. Cutting machines are programmed before a model enters into production. Investments in cutting machines amount to 100,000 EUR and it is expected to go up, as more customers require the services of Industria Ballkanike. In addition, Industria Ballkanike sh.p.k has sophisticated printing machines, which are used to print on large scale models received from customers while machines used in stamping are used to insert designs (stamps). The investment made on these machines amounts to 200,000 EUR in the two production plans. Another investment made in Industria Ballkanike sh.p.k is on embroidery machines in which the employer inserts the model through a flash drive to insert the logo of each customer. Finally, production in Industria Ballkanike sh.p.k is facilitated through the presence of additional machines used for stitching, pressing, buttoning, etc. needed to meet the needs of its customers.

Industria Ballkanike sh.p.k has made also investments in information systems. The administration is equipped with computers supported with servers and software used to monitor the level of inventory of imported raw materials and exports of finished goods. In the same time, modern programs and specialized software for preparing the designs received from the customers are available in the subsidiary. Additional investments are made in computer hardware that are placed in several points in production facilities and are used to track all stages of production for each article manufactured in the subsidiary. These computers operate under a specific program, which are directly linked to the computer of the heads of various divisions and the production manager.

#### **5.5.3.4 Production Activity**

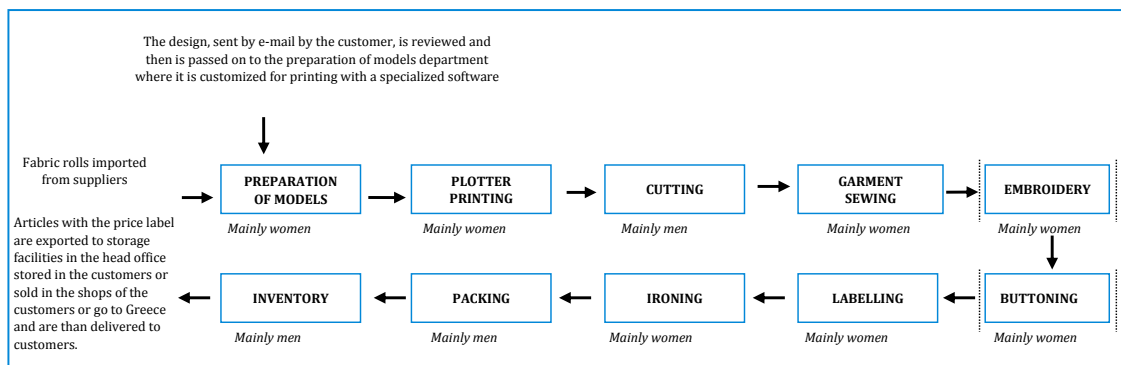
At the beginning of its activity, Industria Ballkanike offered only sewing services to its customers. Under the guidance of its founders, more processes and production lines started to operate in the premises of the two production plants. Industria Ballkanike is capable to meet all international standards (ISO) required by its customers (see figure 5.31).

During fieldwork in the two production plants the management, supervisors, and shop floor workers emphasized that production in Industria Ballkanike is guided by team work between the management and production at all levels. Production starts immediately after the president of Industria Ballkanike has agreed with customers on the terms and services to be provided. Industria Ballkanike receives raw materials selected by each customer. In



parallel, the subsidiary gets electronically the design together with technical specifications for samples so that various processes like cutting, sewing, embroidery, control of defects, cleaning, ironing, etc. can start. After samples are prepared and sent to customers, they determine the quantity and the delivery date of the order. Among the customers, Decathlon has an office in Industria Ballkanike sh.p.k in which two technicians monitor the production of their output.

Figure 5.31: Production flow <sup>49</sup> in Industria Ballkanike sh.p.k



Source: Author representation based on information provided by Industria Ballkanike sh.p.k

The overall output of Industria Ballkanike has increased by 61.54% within the last four years amounting to 210,000 items per year (see table 5.35). The main category in the output of Industria Ballkanike is bikini with 65% in the total output of 2014. The smallest share in the output of Industria Ballkanike is on children line with only 3%.

Table 5.35: Output of Industria Ballkanike in 2010 and 2014 (pieces)

No.	Item	Output (pieces) 2010	Output (pieces) 2013	Change in output (%)
1.	Bikini	78,000	136,500	75.00%
2.	Swimsuits	26,000	31,500	21.15%
3.	Shorts	19,500	21,000	7.69%
4.	Shirts	10,400	14,700	41.35%
5.	Children line	2,600	6,300	142.31%
6.	Total	130,000	210,000	61.54%

Source: Based on the information provided by Industria Ballkanike

<sup>49</sup> In the production flow embroidery and buttoning as showed with interrupted lines as they are subject only for specific articles in Industria Ballkanike sh.p.k.

### **5.5.3.5 Future Projects**

The management of Industria Ballkanike is currently working towards two new expansion projects. The first consists in the construction of a new production line for Decathlon within the existing premises. For the new production line 120 new workers will be employed. The other project expected to be completed within 5 years includes the opening of another subsidiary in the region. The management is considering two options. The first one is the city of Tetova across the border with Macedonia and the other option is the south of Kosovo.

### **5.5.4. Subcontractors**

After consolidating its presence in Albania with the establishment of two production plants Industria Ballkanike does not intend to source production to subcontractors. It expects to expand its existing modern facilities or to open another subsidiary in the region. According to the management of Industria Ballkanike, the enterprise aims to provide full package services to its customers. Industria Ballkanike is a subcontractor of Shqiperia Trikot sh.p.k when it needs to manufacture its swimwear. Their cooperation will last until Shqiperia Trikot sh.p.k finalizes its own production line for swimwear.

### **5.5.5. Employment**

This section presents the level of employment in the two production plants of Industria Ballkanike, the training programs for employees at all organizational layers, and their compensation.

#### **5.5.5.1 Level of employment/Local Staff**

In 2015, Industria Ballkanike had a staff of 529 employees in the two production plants out of which 493 are female and 36 are male (see table 5.36). In peak seasons especially between April and August the subsidiary hires between 35-40 seasonal employees. Male employees including the president, the general administrator, the responsible for inventory, and the responsible for packing manage the subsidiary. Female employees dominate the three production lines and the administration. The Greek administrators are responsible mainly for (i) suggesting new techniques to increase staff productivity, (ii) setting future targets for the subsidiary, and (iii) providing solutions to the problems occurring during

production that cannot be solved by local administration. In the second production plant there is one male employee operating a sewing machine and two that run the embroidery machines. Overall, male dominate in management positions with 22 employees while females are 15.

Table 5.36: Employment in Industria Ballkanike in 2014

Plant		Industria Ballkanike 1			Industria Ballkanike 2			Totals
No.	Category	Total	Female	Male	Total	Female	Male	Value
1.	Administration	27	10	17	10	5	5	37
2.	Sewing lines	218	217	1	70	70	0	288
3.	Preparation of Models	12	12	0	0	0	0	12
4.	Quality Control in Production	27	27	0	9	9	0	36
5.	Cleaning of sewing remains	17	17	0	8	8	0	25
6.	Packaging	26	23	3	10	10	0	36
7.	Inventory	6	6	0	0	0	0	6
8.	Quality control of raw materials	5	5	0	0	0	0	5
9.	Ironing	11	11	0	0	0	0	11
10.	Cutting	2	0	2	16	10	6	18
11.	Responsible	17	17	0	6	0	0	23
12.	In charge for defects	7	7	0	0	0	0	7
13.	Stamping	5	5	0	0	0	0	5
14.	Embroidery	0	0	0	5	3	2	5
15.	Assistants	11	11	0	4	4	0	1
16.	<b>Totals</b>	<b>391</b>	<b>368</b>	<b>23</b>	<b>138</b>	<b>125</b>	<b>13</b>	<b>529</b>

Source: Based on the information provided by Industria Ballkanike sh.p.k

Proper maintenance of production facilities is guaranteed through 15 employees including mechanics, drivers, guards, gardeners, and cleaners. Mechanics are key personnel in daily operations of Industria Ballkanike. Each of them has over 15 years of experience and is able to fix on the spot the majority of problems occurring during production.

The criteria for selection of employees in Industria Ballkanike depends on the degree of responsibility and the difficulty of assigned tasks. The president has an advanced university degree, speaks at least two foreign languages, and possesses deep knowledge on clothing manufacturing. The general director possesses also has a good understanding of

the business environment in the country. The manager of production is selected by the administrators of Industria Ballkanike and is approved by the president. Employees responsible for divisions and units are selected from the production manager of Industria Ballkanike based on previous experiences in the clothing industry. They need to have at least a secondary degree, speak one foreign language, and possess basic knowledge of computer software. In total, there are 23 division heads in Industria Ballkanike. The staff turnover rate is less than 2%.

Evaluation of employees is critical for Industria Ballkanike as it is linked to the quality of finished articles. Evaluation criteria varies by position, responsibility, and duties required to perform. For low to medium level positions occupied mostly by shop floor employees evaluation criteria include the number of goods completed daily, team-work, precision in goods manufactured, and amount of overtime hours spent to generate the assigned daily quantity. Employees responsible for units and divisions are evaluated based on the ability to instruct and guide employees they supervise, the ability to meet assigned targets, reliability, and the overall performance of the unit. The evaluation form is prepared by the production manager and is approved by the president and the administrator of the subsidiary. Employees that on a regular basis receive evaluations above the average have the opportunity to be promoted. For example, after several years employees that start working in sewing lines can become responsible for the unit or the division.

#### **5.5.5.2 Training**

Industria Ballkanike is committed to provide adequate training to its employees. Trainings are organized for all level of employees. In the subsidiary, there is a special line to train new employees for 90 days. In the same time, all employees are trained to use a software to record the processes, the number, and the types of article they are working with so that the supervisors can monitor at any time at what state a single good is. Employees are trained on various processes like sewing, cutting, buttoning. At the end of the training period, employees are evaluated by their supervisors and depending on their performance are assigned to respective departments. Continuous training is offered to employees of Industria Ballkanike from technicians of Decathlon.

Employees in charge of production units have had previous experience in clothing manufacturing. In total 20 employees have been exposed to international training especially by those that have been organized by Decathlon and C&A. These employees have gained

extensive knowledge and practice in clothing manufacturing. Employees responsible for financial management are trained for using accounting programs required to record financial transactions of the subsidiary and for determining the monthly salary of each employee depending on the number of items produced daily. Trainings in Industria Ballkanike sh.p.k have included safety and health in the workplace, maintenance of sewing machines, training against discrimination of color, religion and origin.

### 5.5.5.3 Compensation of employees

Working hours at Industria Ballkanike are from Monday to Saturday between 8:00 am to 16.30 p.m. including a 30-minute lunch break. The lunch break varies from one unit to the other. Employees are required to use the personal identification card to enter or to leave the company in order to record their working hours. The number of weekly working hours is in full compliance with the national Labor Code, a maximum of 50 hours per week. Overtime hours during weekdays are paid 25% more, while working hours during national holidays are paid 125%. National holidays can be replaced with another day after approval with the supervisor or can be added to the annual leave of employees.

The annual leave for each employee is 28 working days including Saturdays and Sundays. All employees take 14 days of the annual leave on August when production is interrupted. The rest of the annual leave can be taken based on the needs of each employee. All employees are required to follow the set of safety and emergency rules and they all have their special uniform prepared depending on the responsibilities and tasks of each employee.

Employees in production are paid depending on the quality and quantity of goods they manufacture daily (see table 5.37).

Table 5.37: Compensation of employees in Industria Ballkanike sh.p.k in 2014

No.	Category of employee	Monthly wage range
1.	Administration	500 EUR
2.	Head of Department/Division	1000 EUR
3.	Blue collar employees	200-250 EUR

Source: Based on the information provided by Industria Ballkanike sh.p.k

# CHAPTER 6

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## CASE STUDY ANALYSIS

## INTRODUCTION

This chapter presents an analysis of the four clothing manufacturing subsidiaries that comprise the case studies of this research. Analysis is based on the framework previously introduced in chapter 3, which focuses on the qualitative effects of these subsidiaries in the host territory. The analysis offers a dynamic perspective as it deals primarily with the evolution of these subsidiaries since starting of the operational activity in Albania in the early 1990's. The two main areas of analysis according to framework are the: (i) knowledge transfer in the host territory and (ii) evolution in the quality of the subsidiary.

### 6.1. KNOWLEDGE TRANSFER

With reference to the framework, this section looks into the knowledge the four clothing manufacturing subsidiaries have transferred into the host territory. In order to determine the knowledge transferred focus is given to: (i) the quality of the group to which the subsidiary belongs, (ii) the stock of knowledge, and (iii) the channels used by clothing manufacturing subsidiaries to transfer knowledge in Albania (see table 6.1).

#### 6.1.1. Quality of the group of the subsidiary

The operational activity of the group directly affects the activity of the subsidiary in the host territory and therefore the knowledge transferred. Among the case studies, in two of them the majority of operations are undertaken in the head office of the group. This is true for Naber Moden and Valcuvia s.r.l. While in Cotonella S.p.A and Industria Ballkanike the majority of operations are undertaken in their respective subsidiaries. With regard to the kind of operations, the group is responsible for key operations like marketing of own brand, design, relations with customers and suppliers, and market research. Similarities among the case studies occur also in their strategy towards operations of the subsidiary. This strategy is mostly oriented toward allocating production in the subsidiaries affecting this way the knowledge transferred in the host territory. An exception occurs with Cotonella S.p.A, which has assigned the subsidiary with additional operations including brand marketing, market research, and relations with customers and suppliers. In all case studies, the services in the subsidiary are offered to international customers while in the case of Cotonella SpA and Naber Moden services are rendered also for production of own brand.

Suppliers of raw materials are key for the operational activity of the group and their subsidiaries. The four groups have established developmental linkages with suppliers of raw materials. They have a long-term interaction with suppliers occurring mostly through periodic meetings. In all cases, these meetings encourage mutual learning like on how to produce new fabrics demanded by a customer for a specific collection or for the needs of production of own brand as in the case of Naben Moden and Cotonella S.p.A

Cotonella S.p.A, Naber Moden, and Valcuvia s.r.l cooperate with subcontractors outside the host territory where their subsidiaries are located. However, the level of output generated by these subcontractors is very low ranging from 1%-1.5% and occurs during seasonal production peaks. The impact of these subcontractors in the operations of the group is not significant.

### **6.1.2. Stock of knowledge of the subsidiary**

In the host territory, foreign owned enterprise can transfer two kinds of knowledge (i) technical and (ii) managerial knowledge. The four clothing manufacturing enterprises differ among each other on the kinds of knowledge transferred in the host territory.

#### **6.1.2.1 Technical knowledge**

Technical knowledge is the most common knowledge transferred in the host territory. All clothing manufacturing subsidiaries have introduced a compulsory training program for their employees especially for those providing assembly services. The compulsory training ranges from six weeks in Valcuvia Alba sh.p.k to three months in the three remaining subsidiaries. Additional technical knowledge is transferred in the host territory through on-site interaction of foreign technicians (Italian, German, Greek, and French) with local employees during their frequent visits in production facilities in Albania and through organization of various workshops and seminars from international experts. The seminars are customized depending on the activity of each department/unit aiming to expose employees to more advanced knowledge than that acquired during the compulsory training. In case of Industria Ballkanike sh.p.k technicians of Decathlon are placed long term in the subsidiary guiding local employees on a daily basis.



Technical knowledge is also transferred among various departments in the subsidiary. This occurs through staff rotation from one department to another where local employees exchange their know-how acquired while working in other departments.

However, only two subsidiaries managed to transfer additional technical knowledge in Albania. Naber Konfeksion sh.p.k has drafted and launched a vocational training program to prepare students according to the needs of the clothing industry and to create a potential base of qualified labor force in the region of Durres. This program started in 2016 to train the first generation of students. In addition, Shqiperia Trikot sh.p.k cooperates with industry associations including the Chamber of Commerce, the Austrian Development Agency and universities, especially with the Polytechnic University of Tirana, in order to organize trainings not only for its employees but also for its five subcontractors.

#### **6.1.2.2 Managerial knowledge**

With reference to managerial knowledge the level transferred in the host territory has been limited and only for few employees that serve in middle and high management running the clothing manufacturing subsidiaries. In the four case studies, local employees have been able to gain managerial knowledge through executive trainings organized in the premises of subsidiaries and participation in multiple workshops led by foreign experts specialized in the provision of consulting services in the clothing industry. Workshops organized by international experts are mostly oriented towards handling major customers, dealing with orders received from international suppliers, and achieving better organization in the operations performed within the subsidiary. Among the four case studies, Naber Konfeksion sh.p.k is the subsidiary that has cooperated mostly with international consultants including Sequa and Weiss from which local employees have benefited not only additional managerial knowledge but also know-how on establishing internal organization structures for a smoother functioning of the subsidiary.

Managerial knowledge acquired in the head office has been less frequent as trainings organized in the head office have been very few and mostly for the managers that have been working for many years in the subsidiary or for employees that have worked in different departments.

However, the knowledge transferred remains mostly within production function without involving more value added functions like design, research and development as

they still remain within the head office. Little managerial knowledge is transferred as few local employees are appointed in management positions especially in high management. The only exception occurs in Shqiperia Trikot sh.p.k in which managerial knowledge is acquired also through relationships with customers, suppliers, brand promotion, and market research. In addition, managers in Shqiperia Trikot sh.p.k have acquired knowledge on preparing business plans aiming at new investments to expand operations and production activity of the subsidiary.

### **6.1.3. Channels of knowledge transfer**

This section presents an analysis of the channels through which knowledge is transferred into the host territory.

#### **6.1.3.1 Channel 1: Via employment**

The first channel of technology transfer is through hiring of local employees in high management that act as administrators or general manager, in middle management responsible for various departments, in low management responsible for divisions within the departments, and in production as shop floor workers.

In Shqiperia Trikot sh.p.k only local employees are appointed in the management and production since the start of operational activity in Albania. Local employees are appointed as the administrator of the subsidiary as department heads and responsible for divisions. As production expanded, the number of local employees serving in high management positions within Shqiperia Trikot sh.p.k increased by training and promoting employees that started to work in assembly since the early years of operations in Albania. What has favored the presence of local employees in the management of Shqiperia Trikot sh.p.k is the confidence of the Italian president and owner of Cotonella S.p.A in the abilities of local employees and the belief that in a host territory an enterprise is better run by local employees.

A different scenario occurs in the remaining three clothing manufacturing subsidiaries. Naber Konfeksion sh.p.k is administered by German employees that is also the owner of the three production plants in Albania. In Naber Konfeksion sh.p.k only recently local employees have been appointed in the high management of the subsidiary serving as the administrator and the manager of production. However, local employees have served in

middle management as department head and low management as responsible of divisions throughout the presence of Naber Konfeksion sh.p.k in the host territory. In Industria Ballkanike sh.p.k one of the owners serves as the general administrator of the subsidiary and is assisted by two local employees that are appointed as the administrator and the manager of production. In Valcuvia Alba sh.p.k the two administrators are directly appointed from the head office and are in the same time the relatives of the president and the owner of Valcuvia S.r.l. Up to now, only one local employee has made it in the high management serving as the administrator of the subsidiary. With regard to middle and low managers in Industria Ballkanike sh.p.k and Valcuvia Alba sh.p.k only local employees have appointed in these positions.

A common feature in the four clothing manufacturing subsidiaries is that local employees in high management have worked for the enterprise for at least fifteen years, have participated in multiple trainings both in the head office and in the premises of the subsidiary, and are fluent in the native language of the owners of the subsidiary. Employees appointed in middle management are promoted based on the performance they have achieved during multiple years of service in the subsidiary after starting as employees in assembly functions. A key factor that has limited the number of local employees in management positions especially in high management is the control that owners wish to have in the operational activity of the subsidiary and the time they need to build confidence in local employees. In the four clothing manufacturing subsidiaries, only local employees are present in production. Production consists mostly in assembly work. As previously presented value added activities like research and development, marketing, design, etc., remain with the head office and in three case studies, no efforts are made from the owners of enterprises to transfer them in Albania. What discourages owners to transfer these activities is the lack of tradition of local employees in realizing such processes by local employees in Albania. An exception is Shqiperia Trikot sh.p.k in which a fraction of these functions is taking place Albania.

Only few local employees in Shqiperia Trikot sh.p.k go beyond mere assembly work. They are involved in more advanced processes like testing of raw materials, quality control of finished articles, participate in meetings organized in the head office regarding selection of suppliers, are involved in brandmarketing in the host territory, and perform minor research and development tasks mostly regarding market analysis for promoting the Cotonella brand in the region. Local employees in Shqiperia Trikot sh.p.k have been able to

do so as the head office decided to decentralize production by transferring assembly activities to five subcontractors and focusing on training of local employees on more complex functions.

### **6.1.3.2 Channel 2: Linkages in the host territory**

The second channel through which knowledge is transferred in the host economy is through linkages established with local suppliers of intermediary goods and subcontractors. To start with, linkages established with the host territory, are influenced by the quality of the group they belong. With regard to Cotonella S.p.A and Naber Moden they are partially dependent on customers as their output is divided between their own brand and orders received from other customers. As such, they are independent from customers on the decisions they make on suppliers of raw materials and articles manufactured for Cotonella and Naber Collection. When it comes to orders from other customers, Cotonella S.p.A and Naber Moden are constrained to meet their requirements regarding raw materials, design. On the other hand, Valcuvia s.r.l and Industria Ballkanike act only as subcontractors for international customers as they do not have their own brand. They are constrained to follow the requirements of the customers. The four clothing manufacturing subsidiaries have failed to establish any linkages with local suppliers. A unified statement comes from all clothing manufacturing subsidiaries that in the Albanian market there are no local suppliers that can be contracted for provision of raw materials used as intermediate inputs in clothing manufacturing. Local suppliers are absent even for simple raw materials like plastic bags and card boxes because they do not meet the requirements imposed by customers in terms of quality and price or the brand managed by the group.

Differently from linkages with suppliers of raw materials that are present at the group level, linkages with subcontractors occur for specific case studies both at a group and at subsidiary level. With regard to linkages with local subcontractors, the four case studies display a mix behavior. Shqiperia Trikot sh.p.k has managed to create strong linkages as its five subcontractors are managed by employees formerly working and trained in Shqiperia Trikot sh.p.k. The linkages of Shqiperia Trikot sh.p.k with its subcontractors are mostly dependent in nature. Four of its subcontractors rely entirely on the orders they receive from Shqiperia Trikot sh.p.k while only one is semi dependent as only 50% of its orders are from Shqiperia Trikot sh.p.k. Despite of the technical support and training offered by Shqiperia Trikot sh.p.k to its subcontractors, it remains limited only to assembly functions without including additional ones like quality control or even cutting. Subcontracting of assembly

services allows Shqiperia Trikot sh.p.k to expand its operational activity on more advanced functions like marketing and research and development. The nature of the linkages of Naber Konfeksion sh.p.k with its subcontractors has fluctuated since the start of production activity from fully dependent to completely independent. In the early 1990's Naber Moden was the only customer of local subcontractors providing mostly assembly services. When Naber Moden decided to open its own production plants linkages with local subcontractors turned into semi-dependent as subcontractors started to produce also for other customers. Naber Konfeksion sh.p.k turned from the only customer of its local subcontractors into one of the customers, as with the experience they gained from manufacturing for Naber Konfeksion sh.p.k they were able to expand production activity. In early 2015, when the third production plant of Naber Konfeksion sh.p.k opened in Albania the owners decided to terminate any linkages with the subcontractors. Even though Naber Moden stopped being a customer of its local subcontractors, by 2015 their operational activity has become independent of the orders received from Naber Moden. During the years of cooperation with local subcontractors, Naber Konfeksion sh.p.k provided technical support, however limited to assembly services.

The other two subsidiaries Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k do not have any subcontractors in Albania, as they have not found any subcontractor to meet the requirements set by their customers. Only in 2014, Valcuvia Alba sh.p.k started to look for a subcontractor that can offer stamping services on a variety of fabrics used in manufacturing of cloths. Despite of these efforts, the administrators of Valcuvia Alba sh.p.k had not managed to find an appropriate local firm on which to rely on for the required stamping services.

### **6.1.3.3 Channel 3: Demonstration effects**

The third channel of knowledge transfer occurs through demonstration effects. Demonstration effects in the four clothing manufacturing subsidiaries in the Albanian economy have been very limited and mostly occurring in Shqiperia Trikot sh.p.k and Naber Konfeksion sh.p.k. In Shqiperia Trikot sh.p.k the majority of demonstration effects occurred when it decided to reorganize production that lead to the establishment of five new local clothing manufacturing enterprises administered by former local employees of Shqiperia Trikot sh.p.k that provide assembly services. Also, demonstration effects have occurred in the establishment of local clothing manufacturing enterprises from former employees of Shqiperi Trikot sh.p.k that do not serve as subcontractors.

A similar situation occurs in Naber Konfeksion sh.p.k in which demonstration effects happened through five local manufacturing enterprises that previously served as subcontractors of Naber Moden. Today these local clothing manufacturing enterprises are fully capable to operate and serve a number of customers, including some that they share with Naber Konfeksion sh.p.k. In addition, when Naber Moden decided to acquire Triumph Blousen some employees decided not to join the new owner but establish new local clothing manufacturing enterprises. The other two subsidiaries, Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k have the lowest degree of demonstration effects as they did not have any subcontractors and are characterized by a very low degree of labor turnover. Therefore, no former employee has been able to open a local clothing manufacturing enterprise.

Table 6.1: Knowledge transferred in the host territory from the four case studies

Quality of the group				
Case	Shqiperia Trikot sh.p.k (Cotonella S.p.A)	Naber Konfeksion sh.p.k (Naber Moden)	Valcuvia Alba sh.p.k (Valcuvia S.r.l)	Industria Ballkanike sh.p.k (Industria Ballkanike)
Types of knowledge				
Operations	The head office is responsible for key operations like brand marketing, relationship with suppliers of raw materials, customers, market research. Fractions of these activities are performed in the subsidiary.	The head office is responsible for key operations like brand marketing, relationship with suppliers of raw materials, customers, market research.	The head office is responsible for key operations like brand marketing, relationship with suppliers of raw materials, customers, market research.	The head office is responsible for key operations like brand marketing, relationship with suppliers of raw materials, customers, market research.
Production modality	Full package with design with production occurring in the subsidiary and subcontractors. It has also its own brand.	Full package with design with production occurring in the subsidiary. It has also its own brand.	Full package with design with production occurring in the subsidiary.	Cut, make, trim
Strategy towards the subsidiary	Cooperation with the subsidiary in undertaking key operations and in planning additional investments to expand production activity.	The subsidiary depends on the head office for its activity and is in charge only for production.	The subsidiary depends on the head office for its activity and is in charge only for production.	The subsidiary depends on the head office for its activity and is in charge only for production.

Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k

Table 6.1 (continuing): Knowledge transferred in the host territory from the four case studies

Quality of the group				
Case	Shqiperia Trikot sh.p.k (Cotonella S.p.A)	Naber Konfeksion sh.p.k (Naber Moden)	Valcuvia Alba sh.p.k (Valcuvia S.r.l)	Industria Ballkanike sh.p.k (Industria Ballkanike)
Kinds of knowledge				
Technical	<p>Compulsory training for all employees for three months.</p> <p>Ongoing and customized training for each unit.</p> <p>On-site support from Italian technicians and experts.</p> <p>Cooperation with clothing industry associations and universities.</p> <p>Training of employees working for subcontractors.</p>	<p>Compulsory training for three months .</p> <p>Long term training for engineers in the head office.</p> <p>On-site support from German experts and technicians.</p> <p>Drafting and promotion of a vocational training program for a professional school in the city of Durres.</p> <p>Training of employees working for subcontractors until the cooperation terminated.</p>	<p>Compulsory training for six weeks.</p> <p>On-site support from Italian experts and technicians that run the subsidiary.</p> <p>Organization of workshops in the subsidiary covering all departments. Customized training for specific units.</p>	<p>Compulsory training for three months for each employee.</p> <p>On-site technical support from technicians placed by major customers. (e.g. Decathlon) in operating facilities of the subsidiary.</p> <p>On-site support from Greek employees that run the subsidiary.</p>
Managerial	<p>Executive trainings for the management (high and middle) level in the premises of the subsidiary and the head office.</p> <p>Organization of workshops on how to handle major customers.</p> <p>Trainings for the management and employees of subcontractors.</p>	<p>Executive trainings for high level management in the head office.</p> <p>Engagement of consultants like Sequa and Weiss.</p> <p>Organization of workshops on how to handle major customers.</p> <p>-Until 2014 trainings for subcontractors.</p>	<p>Executive trainings occurs in the head office for high level management.</p> <p>Trainings are mostly for Italian employees that run the subsidiary.</p> <p>Few local employees are trained in the head office.</p>	<p>Executive trainings for high level management occurs in the premises of the subsidiary and in the head office of a key customers (Decathlon).</p> <p>Organization of workshops from customers in the premises of the subsidiary.</p> <p>Few local employees are trained in the head office.</p>

Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k

Table 6.1 (continuing): Knowledge transferred in the host territory from the four case studies

Quality of the group				
Case	Shqiperia Trikot sh.p.k (Cotonella S.p.A)	Naber Konfeksion sh.p.k (Naber Moden)	Valcuvia Alba sh.p.k (Valcuvia S.r.l)	Industria Ballkanike sh.p.k (Industria Ballkanike)
Channels of knowledge transfer				
Via employees	No presence of foreign employers since the opening of the subsidiary in Albania. Local employees range from high level management to assembly workers.	German employees (owners of Naber Modem) are the administrators of the plants in Albania. Local employees only lately have been assigned to high level management positions. All departments and units involved in assembly are occupied by local employees.	Italian employees appointed by the head office are the administrators and the highest managers of the subsidiary. Local employees only lately have been assigned to high level management positions. All departments and units involved in assembly are occupied by local employees.	Greek employees (one of the owners) are the administrators together with other Greek employees as high level managers of the subsidiary. Local employees only lately have been assigned to high level management. All departments and units involved in assembly are occupied by local employees.
Linkages with the host territory	No linkages with local suppliers as they do meet the requirements of customers. As part of decentralization five subcontractors were established with employees formerly working for Shqiperia Trikot Sh.p.k.	No linkages with local suppliers as they do meet the requirements of customers. The enterprise cooperated with five subcontractors until 2014. Since January 2015 it does not have any subcontractors.	No linkages with local suppliers as they do meet the requirements of customers. No current subcontractors. The enterprise is looking for subcontracting companies for stamping purposes of different fabrics and models.	No linkages with local suppliers as they do meet the requirements of customers. No subcontractors as they do not meet the requirements of Decathlon.
Demonstration effects	Occurring through establishment of five subcontractors that have expanded the activity of their enterprises by working with other clients other than Cotonella. Few employees that have left Shqiperia Trikot Sh.p.k and have established their own clothing manufacturing enterprises.	Subcontractors have been able to operate on their own and to work directly with customers including those of Naber Moden and do not to depend exclusively on the orders received from Naber Moden. Through employees that decided to create their company after Naber Moden acquired Triumph Blousen.	Limited demonstration effects due to the absence of local subcontractors and limitations in employment of local workers in high management positions.	Limited demonstration effects due to the absence of local subcontractors and limitations in employment of local workers in high management levels Demonstration mostly through employees that decided to move to other clothing manufacturing enterprises

Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k



## 6.2. UPGRADING

Upgrading in the four clothing manufacturing enterprises is analyzed at the subsidiary level. As introduced in chapter 2 it will focus on the evolution of activities realized overtime and the integration within the host territory. In addition, this section focuses on the factors that have influenced the different upgrading paths of subsidiaries in the host territory.

### 6.2.1. Subsidiary upgrading: Complexity of Activities

This section focuses on the degree of upgrading achieved by clothing manufacturing enterprises in Albania. The three kinds of upgrading are analyzed based on the activities of the subsidiary and the integration within the host territory (see table 6.2, table 6.3, table 6.4 and table 6.5).

#### 6.2.1.1 Process upgrading

Since the early 1990's when the four clothing manufacturing subsidiaries started their activity in Albania they have achieved process upgrading mostly dominated by adding new processes in order to realize production. In the 1990's the processes performed in the subsidiaries were limited to cut, make, and trim. Gradually the four clothing manufacturing subsidiaries started to add more processes in their operational activity including quality control of raw materials, labelling, buttoning, ironing, etc. The only clothing manufacturing subsidiary that is able to realize processes that fall outside production is Shqiperia Trikot sh.p.k. The type of articles clothing manufacturing subsidiaries produce also affects process upgrading. Naber Konfeksion sh.p.k and Industria Ballkanike sh.p.k are able to offer more specialized processes within production like embroidery, as they are required to manufacture traditional dresses or symbols in sport outfits. The other two subsidiaries Shqiperia Trikot sh.p.k and Valcuvia Alba sh.p.k, oriented in manufacturing of underwear, realize more specialized processes within production that refer to ultrasound pressing to make the correct size of the cup on various bras models that are required by customers and stamping of fabric used in the manufacturing of cycling outfit.

#### 6.2.1.2 Product Upgrading

Product upgrading has been limited in the four clothing manufacturing subsidiaries as the majority of articles manufactured in Albania are categorized as standardized goods

mostly for wide spread consumption at reasonable prices. Even though all manufacturers have more than twenty years of experience in the clothing industry in Albania, differentiated goods manufactured in the host territory in 2015 are a few and include: (i) traditional German dresses, (ii) luxury goods like fur articles and branded outfits (Versace, Calvin Klein, etc.) and (iii) sports outfits produced for international cycling competitions.

However, all four clothing manufacturing subsidiaries within the range of standardized articles have been able to produce more sophisticated items. Naber Konfeksion sh.p.k started with manufacturing of cotton shirts and today is able to produce a variety of blouses made of delicate fabric like silk; Shqiperia Trikot sh.p.k and Valcuvia Alba sh.p.k have been able to produce thermal underwear, pyjamas on any fabric, and swimwear; Industria Ballkanike sh.p.k started to manufacture only shirts for Decathlon and today is able to produce running uniforms and swimwear.

### **6.2.1.3 Functional upgrading**

Functional upgrading in the clothing manufacturing subsidiaries has been very limited as the head office still remains responsible for more advanced operations like design, marketing, selection of suppliers, research and development, etc. Only Shqiperia Trikot sh.p.k and Naber Konfeksion sh.p.k have been able to achieve a minor functional upgrading since the start of their activity in the early 1990's. The minor functional upgrading derives from the ability of these two subsidiaries to expand their operational activity beyond production. To start with, Shqiperia Trikot sh.p.k has been responsible for opening of "Cotonella" brand shops in Albania and Kosovo and it has been involved in research and development projects in countries of the Balkan Peninsula to conduct a market analysis with the ultimate goal to expand the market share of "Cotonella" brand in the Balkans.

In addition, Shqiperia Trikot sh.p.k has been able to create its own production line of swimwear sold in the United States. Naber Konfeksion sh.p.k has achieved minor functional upgrading mostly from the involvement of the subsidiary in undertaking research on identifying the gaps in the educational system. Naber Konfeksion sh.p.k has proposed a new training program for a vocational training school in the region of Durrës in order to prepare the students in line with the needs of the clothing industry. Within Naber Konfeksion sh.p.k a slight involvement in functional upgrading has occurred through the engagement of textile engineers in the design of various blouses for Naber Moden Collection that sells successfully in the shops throughout Germany.

On the other hand, the two remaining subsidiaries Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k have not been able to obtain functional upgrading as their operating activity still remains within production and does not involve any marketing, design, or selection of suppliers. Industria Ballkanike sh.p.k and Valcuvia sh.p.k are far from functional upgrading, as its activity is dominated by assembly services.

### **6.2.2. Subsidiary upgrading: Integration within the host territory**

With regard to integration in the host territory process upgrading is achieved by delegating mostly assembly processes to local subcontractors. Local subcontractors that perform such processes are still present only in Shqiperia Trikot sh.p.k. In Naber Konfeksion sh.p.k integration in the host territory decreased since it stopped to place orders to local subcontractors. Integration of Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k is limited to their operational activity, as they did not have any subcontractors since the start of manufacturing activity in Albania.

Subsidiary upgrading in the sense of integration in the host territory for all clothing manufacturing subsidiaries is not achieved as none of these subsidiaries has local suppliers that can provide raw materials to manufacture products they assemble. Local suppliers are not present as none of them is able to provide raw materials according to the standards required by international customers of the clothing manufacturing subsidiaries.

### **6.2.3. Summary of the evolution of the four subsidiaries since their installation in Albania**

Table 6.3 presents a summary of the evolution occurring in the four subsidiaries after installation of production in the host territory. All subsidiaries have experienced evolution. The evolution reflects the characteristics of the group they belong to as subsidiaries cannot be better than the group. Key functions like design, selection of suppliers, marketing, etc. are performed in the head office.

For each case study, a table is prepared to synthesize the evolution experienced after settling of production activity in Albania. In order to analyze each case a comparison is made on the operational activity of the subsidiary between the early 1990's up to 2015.

Table 6.2: Summary of evolution of Shqiperia Trikot sh.p.k

Subsidiary	1990		2015	
Case study	Complexity of activities	Integration within the host territory	Complexity of activities	Integration within the host territory
Shqiperia Trikot sh.p.k (Cotonella S.p.A)	<p>Engaged only in assembly (CMT).</p> <p>Production of standardized articles like vest, slippers, and bra for men and women.</p>	<p>Only local employees in administration, high, middle, low management, and production.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>No local subcontractors.</p>	<p>Full package services with own brand.</p> <p>Control of raw materials.</p> <p>Deliver of finished articles to end customer.</p> <p>Involvement in R&amp;D projects especially in the Balkan region.</p> <p>Marketing and brand promotion through opening of Cotonella brand shops in Albania and Kosovo.</p> <p>Involvement in the selection of suppliers.</p> <p>Increase in the range of standardized products including vest, slippers, bra, thermal underwear, pyjamas, night gowns for men, women, children.</p> <p>Production of differentiated products of luxury line of swimwear.</p> <p>Working with the head office in realizing the regional center for manufacturing of fabric and dyeing.</p>	<p>Only local employees in administration, high, middle, low management, and production.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>Five local subcontractors that offer assembly services.</p>

Source: Shqiperia Trikot sh.p.k

Table 6.3: Summary of evolution of Naber Konfeksion sh.p.k

Subsidiary	1990		2015	
Case study	Complexity of activities	Integration within the host territory	Complexity of activities	Integration within the host territory
Naber Konfeksion sh.p.k Naber Moden	<p>Production through subcontracting a local clothing manufacturing enterprise for assembly services (CMT).</p> <p>Production of standardized articles like shirts, dresses, skirts, etc.</p>	<p>Foreign employees in the administration and high management.</p> <p>Local employees in middle and low management.</p> <p>Local employees in production.</p> <p>No plants in the host territory.</p> <p>Plants and subcontracting in other territories.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>Investments in acquiring a former German company and opening of the first plant in the host territory.</p> <p>Local subcontractors offer assembly services.</p>	<p>Full package services with brand.</p> <p>Increase in the range of standardized. products manufactured including parkas, coats, trousers, jeans, blouses, etc. for men, women, and children.</p> <p>Production of differentiated products like traditional dresses and expensive outfit for international brands like Versace.</p> <p>Additional processes within the production function like buttoning, embroidery, inventory, etc.</p> <p>Key functions like marketing, research and development, selection of suppliers, etc. remain in the head office.</p> <p>Dependency from the head office in the operational activity of the subsidiary.</p> <p>Working with the head office staff training and establishment of a vocational training program.</p>	<p>Foreign employees in the administration of the subsidiary</p> <p>Local employees in high, middle, low management and production</p> <p>Three plants in the host territory.</p> <p>No local subcontractors after opening of the third production plant.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>Considerable investments in operating facilities, machines, and information technology.</p>

Source: Naber Konfeskin sh.p.k

Table 6.4: Summary of evolution of Valcuvia Alba sh.p.k

Subsidiary	1990		2015	
Case study	Complexity of activities	Integration within the host territory	Complexity of activities	Integration within the host territory
Valcuvia Alba sh.p.k (Valcuvia s.r.l)	Only assembly services. Production of standardized articles lips and shirts for men and women.	<p>Foreign employees in the administration and high management.</p> <p>Local employees in middle and low management.</p> <p>Local employees in production.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>No production plants.</p> <p>Renting of old buildings.</p>	<p>Full package services.</p> <p>Increase in the range of standardized products manufactured including nightgowns, pyjamas, thermals, etc. for men, women, and children.</p> <p>Production of differentiated products like sport outfit for international cycling competition.</p> <p>Additional processes within the production function like stitching, molding, inventory, etc.</p> <p>Key functions like marketing, research and development, selection of suppliers, etc. remain in the head office.</p> <p>Dependency from the head office in the operational activity of the subsidiary.</p> <p>Working with the head office on expansion of production facilities.</p>	<p>Foreign employees in the administration of the subsidiary.</p> <p>Local employees in high, middle, low management and production.</p> <p>One plant in the host territory.</p> <p>No local subcontractors.</p> <p>No plants in other host territories.</p> <p>Subcontracting in other host territories on seasonal basis.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>Considerable investments in operating facilities, machines, and information technology.</p>

Source: Valcuvia Alba sh.p.k

Table 6.5: Summary of evolution of Industria Ballkanike sh.p.k

Subsidiary	1990		2015	
Case study	Complexity of activities	Integration within the host territory	Complexity of activities	Integration within the host territory
Industria Ballkanike sh.p.k (Industria Ballkanike)	<p>Only assembly services</p> <p>Production of standardized articles, sportive shirts and trousers for men and women.</p>	<p>Foreign employees in the administration and high management.</p> <p>Local employees in middle and low management.</p> <p>Local employees in production.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>No production plan.</p> <p>Renting of old buildings.</p>	<p>Cut, make, trim.</p> <p>Increase in the range of standardized products manufactured including shirts, trousers, swimwear, etc. for men, women, and children.</p> <p>Additional processes within the production function like embroidery,, inventory, etc.</p> <p>Key functions like marketing, research and development, selection of suppliers, etc. remain in the head office.</p> <p>Dependency from the head office in the operational activity of the subsidiary.</p> <p>Working with the head office on expansion of production facilities with another plant in a neighboring country.</p>	<p>Foreign employees in the administration of the subsidiary.</p> <p>Local employees in high, middle, low management and production.</p> <p>One plant in the host territory.</p> <p>No local subcontractors.</p> <p>No plants in other host territories.</p> <p>Subcontracting in other host territories on seasonal basis.</p> <p>No local suppliers as they do not meet the requirements for the brand and for customers.</p> <p>Considerable investments in operating facilities, machines, and information technology.</p>

Source: Industria Ballkanike sh.p.k

## 6.3. FACTORS AFFECTING UPGRADING

This section refers to the factors that affect upgrading at the subsidiary. These factors explain the different upgrading paths in the four clothing manufacturing subsidiaries.

### 6.3.1. Head office assignment

As seen in the literature and the framework, head office assignment is a key factor that affects subsidiary upgrading. In the four case studies, the degree of independence between the clothing manufacturing subsidiaries in Albania and the respective head office varies from case to case. The highest degree of independence is observed between Shqiperia Trikot sh.p.k and its head office Cotonella S.p.A. Among the four case studies, Shqiperia Trikot sh.p.k is the only subsidiary to which the head office has assigned responsibilities that go beyond production. Their relationship is oriented towards a high degree of trust in local management of the subsidiary. The head office has appointed Shqiperia Trikot sh.p.k in charge of 98% of total output and has engaged the subsidiary: (i) to participate in the meetings organized in the premises of the head office aiming at selection of suppliers of raw materials including fabrics with a high content of cotton, (ii) to undertake regional research and development activities on market trends and preferences and (iii) to promote the “Cotonella” brand in the Balkan Peninsula. The freedom given to local employees appointed in high level management in reorganizing production in Shqiperia Trikot sh.p.k has resulted not only in the establishment of five subcontractors but has also proved beneficial in the identification of new business expansion opportunities like the upcoming investment to make functional a regional operational center for which a 12 million EUR investment is required. It was the local management of Shqiperia Trikot sh.p.k that identified the need to open a regional center for production of fabric and dyeing facilities to serve the clothing manufacturing enterprises located in South East Europe. Together with the headoffice, the management of Shqiperia Trikot sh.p.k participated also in the preparation of the business plan of the regional center.

With regard to the three remaining clothing manufacturing subsidiaries, the degree of independence from the head office diminishes gradually. In Naber Konfeksion sh.p.k and its respective head office Naber Moden the degree of independence is lower than in the case of Shqiperia Trikot sh.p.k. In Naber Konfeksion sh.p.k local employees appointed in



management positions are involved in the decision making process only by informing the owners during frequent visits in production facilities in Albania on the operational activity of the three production plants. Despite of this slight involvement, the head office has not taken any steps to delegate in Albania activities including design, marketing, purchase of raw materials, etc.

Finally, Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k are fully dependent for their operational activities from the head office. The respective head offices take all the decisions regarding production and operations on respective subsidiaries. The management in Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k whether foreign or local strictly follows all instructions and guidelines provided by the head office. Due to this dependency, these two subsidiaries within the last 15 years have not been able to perform any activity that goes beyond that of production function.

### **6.3.2. Local environment**

The four clothing manufacturing subsidiaries operate in a small country like Albania and are exposed to the same traits of local environment that affect their operational activity and upgrading. During fieldwork with the management in the four clothing manufacturing subsidiaries, the location<sup>50</sup> within Albania (different regions) did not influence their upgrading. Among local environment factors identified from fieldwork that hinders upgrading in the four clothing manufacturing subsidiaries are the unavailability of uninterrupted power supply and the lengthy custom procedures.

From on-site interviews, the most cited obstacle for production was the inability of Albanian authorities to provide uninterrupted power supply in the regions where these subsidiaries operate in particular and the country in general. Frequent interruptions in power supply is costly. In order to ensure uninterrupted power supply considerable investments are made not only in purchasing power supply generators but also in running and maintaining the equipment. The budget allocated yearly for ensuring uninterrupted power supply is an additional cost, which shrinks the funds available for additional investments and in the same time diminishes the confidence to obtain efficient production

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<sup>50</sup> Due to the small size of the host territory the region in which the subsidiary is located has an insignificant impact in the upgrading of subsidiaries.

within the local environment. Moreover, frequent interruptions in power supply may damage sewing, cutting, buttoning, etc. machines and in most cases, machines need to be re-programmed. These difficulties encountered during production make reluctant the head office to bring more advanced machines in the host territory as they are afraid that these machines will damage quickly. Consequently, the head office is reluctant to bring additional operations in the country and to expose local employees to more advanced training. The other impeding factor identified during the fieldwork are the lengthy custom procedures in importing raw materials that are required to produce finished articles. The existing lengthy customs procedures increase the time required to deliver final goods. They pose a threat to the favorable geographical position, a major competitive advantage of Albania, on ensuring quick delivery times to end customers or the head office. In addition, overcoming lengthy custom procedures requires the involvement of the management of the subsidiary limiting their time to engage in additional activities or even to undertake in Albania more complex activities increasing further the time required to deliver finished articles to end customers.

Another impeding factor consists in the frequent changes of the fiscal package that starting from 2010 are introduced every year in the Albanian economy. These changes bring uncertainty to the owners/administrators of the subsidiaries and to the head office on the decisions they need to make on future investments, expansion of production capacities, and the increase of more advanced technology in Albania. Frequent changes in the fiscal package mostly on taxes and subsidies are a threat to long-term investments, which require considerable amounts and consist in more advanced knowledge for the host territory.

The absence of economic zones is the final impeding factor identified during fieldwork in the four clothing manufacturing subsidiaries. The four cases identified the benefits they might have if production occurred in an economic zone where they could cooperate with other enterprises that could complement their production activity. These may include availability of local suppliers that meet the requirements of customers or other enterprises that may offer dyeing of fabric services that can facilitate operational activity.

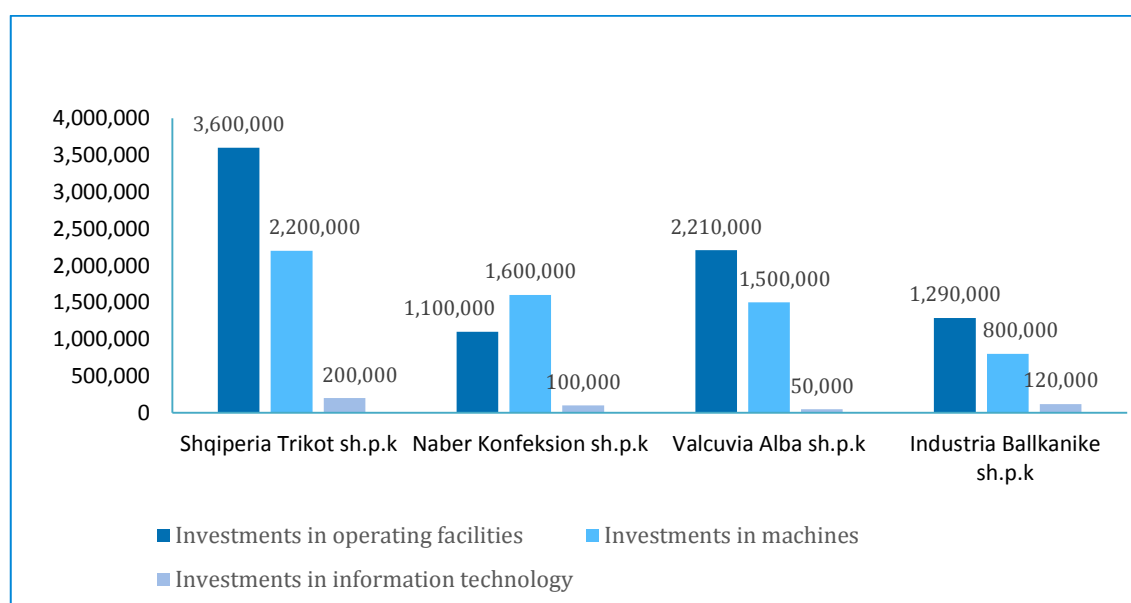
### **6.3.3. Investments in the host territory**

This section introduces investments undertaken in the host territory. It focuses on the investment that increases the presence of the clothing manufacturing subsidiaries in the host territory.

### 6.3.3.1 Nature of investments in the host territory

The four clothing manufacturing subsidiaries have made considerable investments in the host territory (see graph 6.1). The majority of investment is in the form of fixed assets that consist mostly in production facilities including purchase of land and construction of buildings that are customized to fit the organizational arrangements and steps followed in production. The second type of investment made refers to machines used to realize production in Albania. All four clothing manufacturing enterprises have purchased modern sewing, cutting, embroidery, etc. machines that are present in production plants. For this type of investment, the clothing manufacturing enterprises have a risk to incur a loss due to the yearly depreciation of machines, fluctuations in the price of used machines, and transportation costs, as they can be easily moved from one territory to the next. The third category refers to additional investments that include information technology (computers, inventory system, etc.) within subsidiaries, vehicles used for transportation of employees, and power generators in order to ensure uninterrupted electricity during production.

Graph 6.1: Investments in four clothing manufacturing subsidiaries up to 2014 (EUR)



Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k

The kinds of investments made are the same in all clothing manufacturing subsidiaries however they differ in the amount invested. Shqiperia Trikot sh.p.k is the subsidiary with the highest level of investment followed by Valcuvia Alba sh.p.k, Naber Konfeksion sh.p.k, and Industria Ballkanike sh.p.k. The higher the amount of investments made in the host

territory the greater the presence to the host territory. This is particularly true for immovable investment like purchasing of land and operating facilities.

### **6.3.3.2 Chronology of major investments**

Investments in the four clothing manufacturing subsidiaries are continuous for two main reasons. Firstly, investments are made because of expansion in the production activity coming mostly from the increase in the orders received from customers. Secondly, investments are continuous as the head offices decided to close production plants in other countries and transfer production to Albania. The owners did not encounter many difficulties to close production plants in other host territories, as the level of investment made was not significant. They operated under rented facilities and subcontracted most of production activities to local enterprises. As previously shown major investments are made mainly in operating facilities and machines.

### **6.3.3.3 Upcoming projects**

The fieldwork served also to identify upcoming projects planned by the four clothing manufacturing subsidiaries in Albania. Even though projects are different for each subsidiary, are categorized into: (i) expansions of production facilities, (ii) manufacturing of new articles, (iii) targeting of new customers, (iv) brand promotion, and (v) creation of a qualified labor force.

- Expansion of production facilities will occur in Shqiperia Trikot sh.p.k that intends to establish a regional production center with an investment expected to amount up to 12 million EUR. The center will produce various fabrics and will serve as large-scale factory for dye of various fabrics. In Valcuvia Alba sh.p.k and Industria Ballkanike sh.p.k new production facilities will be obtained by expanding existing facilities.
- Production of new articles is expected to occur in Valcuvia Alba sh.p.k as it will manufacture sports outfits mostly for international cycling competitions and will introduce a limited edition of female intimate apparel for the luxury German brand Schiesser. In addition, Shqiperia Trikot sh.p.k intends to expand its production line of swimwear.
- Targeting of new customers is a common objective in the four clothing manufacturing subsidiaries. Shqiperia Trikot sh.p.k aims to produce for Victoria

Secret; Industria Ballkanike sh.p.k for Nike; Valcuvia Alba sh.p.k for Chantelle; and Naber Konfeksion sh.p.k for Calvin Klein Jeans.

- Brand promotion occurs only in Shqiperia Trikot sh.p.k as it is appointed by the headoffice to increase the number of shops selling the “Cotonella” brand products in Albania and in the Balkan region.
- Efforts to create a qualified labor force are made by Naber Konfeksion sh.p.k that has launched a vocational training program with professional schools in the region of Durres and by Shqiperia Trikot sh.p.k that through cooperation with universities organizes different training programs that include participants from numerous clothing manufacturing enterprises that operate in the region of Shkodra.

#### **6.3.4. Plants in other host territories**

Possession of substitute plants or subcontracting in another country are among the factors that facilitate the transfer of production to another location.

##### **6.3.4.1 Possession of substitute plants**

The head offices of the four subsidiaries: Cotonella S.p.A, Valcuvia Alba s.r.l, Naber Moden, and Industria Ballkanike do not possess any substitute plants in other host territories. Absence of substitute production plants, has constrained the head offices to make more investments in Albania in order to expand their production facilities and to accommodate an increase in the level of output.

##### **6.3.4.2 Subcontracting in other host territories**

Absence of substitute plans has left room for the three clothing manufacturing subsidiaries to subcontract a fraction of their output in other countries. Cotonella S.p.A subcontracts part of production (pyjamas and economic bras lines) in China and India as it can save on costs, as raw materials are readily available in these countries. Despite of subcontracting, the ultimate objective for Cotonella S.p.A is to transfer production from Asian countries to Albania. After the acquisition of “Linea Sprint”, an international swimwear brand, Shqiperia Trikot sh.p.k started subcontracting also in Tunisia a fraction of the output due to limited capacities in the host territory.

Valcuvia s.r.l subcontracts a fraction of production in Tunisia due to limited production capacity it has in Albania. However, with expansion in production facilities that are underway Valcuvia s.r.l aims to transfer production from Tunisia into Albania.

Table 6.6: Factors affecting the quality of clothing manufacturing subsidiaries

Factors of upgrading				
Case	Shqiperia Trikot sh.p.k (Cotonella S.p.A)	Naber Konfeksion sh.p.k (Naber Moden)	Valcuvia Alba sh.p.k (Valcuvia S.r.l)	Industria Ballkanike sh.p.k (Industria Ballkanike)
Head office assignment				
Relationship with the head office	Close cooperation with the head office in the management of the subsidiary.	Full dependency from the head office in running the subsidiary.	Full dependency from the head office in running the subsidiary.	Full dependency from the head office in running the subsidiary.
Local environment				
Hindering factors	Unavailability of uninterrupted power supply. Lengthy custom procedures. Frequent changes in the fiscal regime. Absence of economic zones.	Unavailability of uninterrupted power supply. Lengthy custom procedures. Frequent changes in the fiscal regime. Absence of economic zones.	Unavailability of uninterrupted power supply. Lengthy custom procedures. Frequent changes in the fiscal regime. Absence of economic zones.	Unavailability of uninterrupted power supply. Lengthy custom procedures. Frequent changes in the fiscal regime. Absence of economic zones.
Subsidiary Choice				
Level of subsidiary choice	The administrator and the management have some degree of freedom on taking decisions regarding foperations of the subsidiary.	The administrator and the management have no freedom to take decisions on the operations of the subsidiary.	The administrator and the management have no freedom to take decisions on the operations of the subsidiary.	The administrator and the management have no freedom to take decisions on the operations of the subsidiary.
Other plants in other countries				
Possession of substitute plants in other countries	No possession of substitute plants in other countries.	No possession of substitute plants in other countries.	No possession of substitute plants in other countries.	No possession of substitute plants in other countries.
Subcontracting in other countries	Subcontracting in China, India, Tunisia.	Subcontractors in FYR Macedonia.	Subcontracting in Egypt and Tunisia.	No subcontracting in other countries.

Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k

The enterprise will continue to subcontract in Egypt especially production of articles that require delicate fabric like lace and silk due to the availability of raw materials in the country. Industria Ballkanike sh.p.k is the only production facility of the enterprise. With regard to subcontractors abroad the enterprise finds it more advantageous to produce in Albania where expansion of production facilities is underway.

Table 6.6: (continuing) Factors affecting the quality of clothing manufacturing subsidiaries

Factors of upgrading				
Area	Shqiperia Trikot sh.p.k	Naber Moden sh.p.k	Valcuvia Alba sh.p.k	Industria Ballkanike sh.p.k
<b>Investments in the host territory</b>				
Investments	<p>Considerable investments in owing operating facilities buildings and land.</p> <p>Investments in technology (machineries + ICT).</p> <p>Investment in human resources of running the subsidiary from middle management and above</p> <p>Investments in distribution network.</p> <p>Support subcontractors.</p>	<p>Investments in owing operating facilities buildings and land.</p> <p>Investments in technology (machineries +ICT).</p> <p>Investments in human resources especially middle management and above.</p> <p>Investments in the local educational systems.</p> <p>Investments for subcontractors</p>	<p>Investments in owing operating facilities buildings and land.</p> <p>Investments in technology (machineries +ICT).</p> <p>Investments in human resources especially middle management and above.</p> <p>Investments in electricity generators in which the factory is placed.</p>	<p>Investments in owing operating facilities land and buildings</p> <p>Investments in technology (machineries +ICT).</p> <p>Investment in human resources especially middle management and above.</p>
Chronology in the investment	<p>Repeated investments in operating facilities, machines, and information technology.</p> <p>Investments are expected to increase in the future.</p>	<p>Considerable investments in operating facilities, machines, and information technology</p> <p>Investments are expected to increase in the future.</p>	<p>Repeated investments in operating facilities, machines, and information technology.</p> <p>-Investments are expected to increase in the future.</p>	<p>Repeated investments in operating facilities, machines, and information technology.</p> <p>Investments are expected to increase in the future.</p>
Upcoming projects	<p>Establishment of a center to manufacture and dye fabric (12 mln/euro).</p> <p>Transfer in Albania of the production occurring in China, India, Tunisia in Albania.</p> <p>Increase the number of Cotonella stores in Balkan region.</p> <p>Production of swim suits.</p> <p>Become a customer of Victoria Secret.</p>	<p>Manufacturing of jeans through targeting of main brands of the jeans industry.</p> <p>Preparation of the the first generation of students coming from vocational training according to the industry needs.</p>	<p>Expansion of production site by starting to produce sport outfits especially in cycling.</p> <p>Provision of stamping services to all customers.Establishment of a partnership with Schiesser in order to produce customized bras for seven models.</p>	<p>Expand of production site.</p> <p>Opening of another plant either in Albania or a neighboring country like Kosovo or FYR Macedonia.</p>

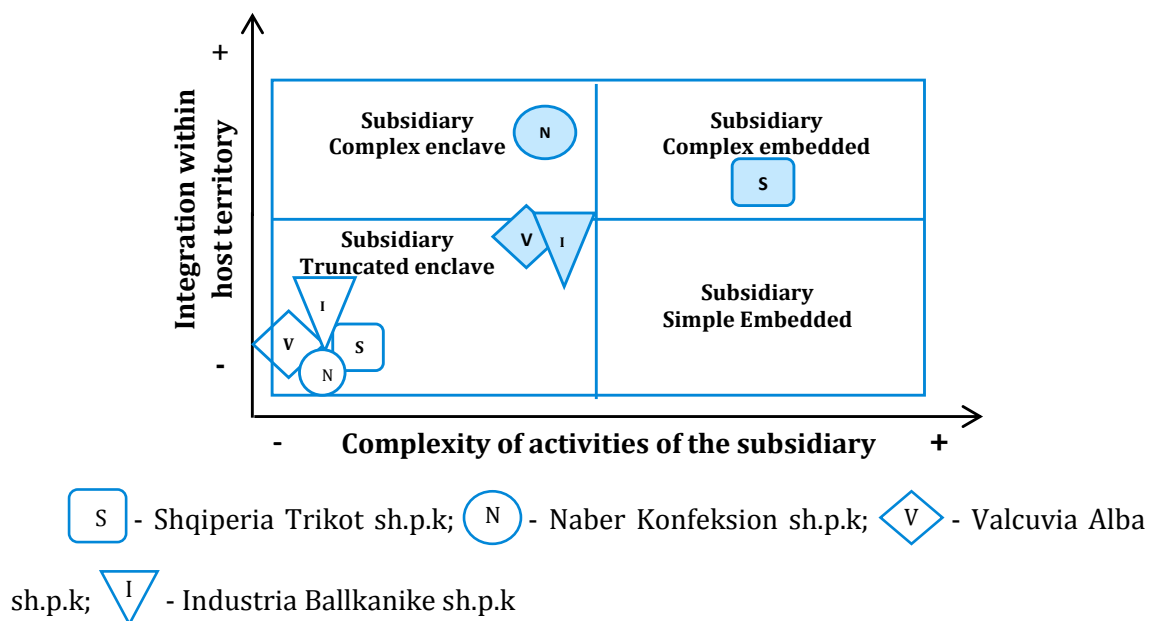
Source: Shqiperia Trikot sh.p.k, Naber Konfeksion sh.p.k, Valcuvia Alba sh.p.k, and Industria Ballkanike sh.p.k

Naber Moden subcontracts a fraction of its production in FYR Macedonia, as production in the plants in Albania could not accommodate all the orders received from customers. However, with the opening of the third production plant in Albania subcontracting in FYR Macedonia will soon terminate.

## 6.4. CONCLUSIONS

With reference to knowledge transferred in the host territory and the evolution in the quality, the four clothing manufacturing subsidiaries can be classified as presented in figure 6.1. The degree of integration within the host territory refers to the linkages subsidiaries have created with the host territory (suppliers and subcontractors), creation of a qualified labor force, and investments made. On the other hand, the complexity of activities refers to the kinds of upgrading achieved by each clothing manufacturing subsidiary.

Figure 6.1: Categorization of clothing manufacturing subsidiaries



- Shqiperia Trikot sh.p.k can be categorized as a complex embedded subsidiary as it is well integrated in the host territory coming mainly from linkages with local subcontractors, its efforts to create a qualified labor force through cooperation with various institutions (chambers of commerce, international organizations, and universities), and investments made in operational facilities and equipment. The



degree of complexity of activities undertaken by Shqiperia Trikot sh.p.k is higher compared than in other clothing manufacturing subsidiaries as it has been able to obtain the three kinds of upgrading by expanding its operational activity beyond assembly services. The responsibilities of Shqiperia Trikot sh.p.k go beyond production and include also marketing and selection of suppliers. With regard to the relationship with the head office, Shqiperia Trikot sh.p.k closely works with the head office in meeting the objectives of the group while it retains a certain level of independency in taking its own decisions in the daily management of the subsidiary and in proposing new organization structures or expansion projects. Shqiperia Trikot sh.p.k has also achieved a good degree of integration in the host territory through the presence of its subcontractors. Since the start of operations in the host territory, Shqiperia Trikot sh.p.k has not established any linkages with local suppliers.

- Naber Konfeksion sh.p.k is categorized as a complex enclave subsidiary. Its integration in the host territory results mainly from the qualified labor force it has created through training programs, establishment of clothing manufacturing enterprises with local ownership that previously were subcontractors of Naber Konfeksion sh.p.k, and investments made in making operational three production plants in Albania. On the level of complexity of activities realized in the host territory Naber Konfeksion sh.p.k has made little advancements to upgrade its operational activity beyond processes and activities involved in production. Referring to the relationship with the head office, Naber Konfeksion sh.p.k depends on the head office in undertaking most of the activities in the subsidiary. A good cooperation with the head office is observed in provision of consultancy services for training and reorganizing production processes of the subsidiary. However, the operational activity of Naber Konfeksion sh.p.k depends on the instructions of the head office for the output manufactured in the subsidiary.
- Valcuvia Alba sh.p.k is categorized as a truncated enclave with a moderate degree of integration in the host economy due to the absence of any linkages with suppliers or subcontractors, limitations in the training of the labor force but considerable investments already made and expected to be made. Referring to the complexity of activities realized in the host territory, its operations regard only assembly services resulting in little upgrading of this subsidiary in Albania. Regarding the relationship

with the head office, Valcuvia Alba sh.p.k strictly follows all the instructions and guidelines of the head office in the overall operations of the subsidiary.

- Industria Ballkanike sh.p.k is also categorized as a truncated enclave as since starting of activity in Albania it has achieved only a small degree of integration in the host economy as it does not have any linkages with local suppliers or subcontractors, and qualification of the labor force remains only within its employees. However, with regard to investments it is one of the major investments made in the region and an important employment generator. This subsidiary in Albania serves to its customers only for services falling within production and only for cut, make, trim services. The relationship of Industria Ballkanike sh.p.k with the head office is categorized by a high degree of dependency in undertaking daily operations of the subsidiary as one of the owners of the group is present on a daily basis in the subsidiary.

# CHAPTER 7

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## CONCLUSIONS AND POLICY RECOMMENDATIONS

## **INTRODUCTION**

This chapter presents the main findings of the research drawn from analyzing the four clothing manufacturing subsidiaries. The chapter starts with conclusions referring to the clothing industry, the knowledge transferred in the host territory, and the evolution of the subsidiary. What follows are policy recommendations on the qualitative effects of clothing manufacturing subsidiaries in the host territory. Finally, the chapter presents areas for further research aiming at industrial development in the clothing industry and beyond.

### **7.1. BREAKING THE FDI TRAP**

Clothing industry in Albania needs to break the vicious circle of FDI and encourage a virtuous circle. This section tries to generalize on the progress made to break the vicious circle and move towards a virtuous one by focusing on the evolution of subsidiaries and industrialization in the host territory.

#### **7.1.1. Breaking the FDI trap- Evolution of the subsidiary in the host territory**

In order for Albania to break the FDI trap, it is critical to attract more quality FDI and to be part of a virtuous circle. A virtuous circle can occur if enterprises in Albania including those in the clothing industry upgrade. Upgrading in the clothing industry should not be limited only to foreign firms but it needs to include also local enterprises operating in this industry.

Clothing manufacturing enterprises need to obtain process, product, and functional upgrading. The four clothing manufacturing subsidiaries managed to achieve process upgrading mostly from the increase and diversity in the number of services realized (from only sewing services to packing, embroidery, stamping, packing, and delivery). Product upgrading occurs mainly in manufacturing of more complex standardized products and little in the manufacturing of differentiated products. Functional upgrading has been very limited in the clothing manufacturing subsidiaries.

Knowledge transferred in the host territory helps breaking the vicious circle and opens the road to the virtuous circle. To start with, the clothing manufacturing subsidiaries have

been able to increase employment in Albania; however, the increase is dominated mostly by low skilled labor that are hired to perform assembly services. On average 5% of total employees are placed in high management, 10% fall into middle level management, and the remaining 85% are employees that provide assembly services. The quality of local employees has not improved much as in three out of four subsidiaries labor tasks mostly include only the cut, make, and trim through the use of machines required to complete these tasks. Most local employees do not possess any previous experience or training even on simple assembly tasks. However, only a limited number of shop floor workers have become more specialized as they have been able to move within various departments in the subsidiary, like those that started with sewing, went into buttoning, than embroidery, etc. Local employees serving in middle and top management of the subsidiaries are more qualified; however, the number is small as few local employees are appointed in these positions. Local employees in management positions are better qualified as they have been able to gain both technical knowledge through various trainings or study visits in the head office and managerial knowledge due to frequent interactions with managers and administrators in the head office. They have also gained more knowledge from interaction with customers and suppliers compared to local employees allocated only to assembly services. On the other hand, local employees in production have mostly benefited from technical knowledge accumulated during the years they were exposed to new processes. Local employees mostly exposed to new processes are the ones that have been with the subsidiary for a number of years by getting involved in quality control of raw materials, preparation of models, embroidery, etc. Despite that technical and managerial knowledge are within the clothing industry, local employees have they achieved some professional progress as they have gained knowledge not previously available in the host territory and have mastered skills and that may be useful in learning similar tasks in other industries.

To continue, clothing manufacturing subsidiaries have weak linkages with local economy resulting mostly from the absence of local firms that might serve as suppliers of clothing manufacturing subsidiaries even for simple raw materials like card boxes and plastic bags. Local suppliers are not able to meet the standards imposed by international customers of subsidiaries. Mixed evidence is drawn on linkages of subsidiaries with regard to subcontractors engaged in production. These linkages range from dependent in nature when the operational activity of subcontractors depends at a large extend on the orders it

receives from the subsidiary as in the case of Shqiperia Trikot sh.p.k and independent linkages as in the case of Naber Konfeksion sh.p.k.

Demonstration effects occurring from clothing manufacturing subsidiaries in the host territory are present only partially. Demonstration effects have occurred through opening up of local clothing manufacturing enterprises from local employees that previously served in middle management of subsidiaries. These newly created clothing manufacturing enterprises serve either as subcontractors to the subsidiary in which the owner previously worked for or as direct subcontractors to international customers. A good example are the former subcontractors of Naber Moden that initially offered services to international customers only through Naber Moden, while since 2015 have become independent of Naber Moden and are offering services directly to international customers.

### **7.1.2. Breaking the FDI trap- Industrialization**

The case study analysis indicates that even though the four clothing manufacturing subsidiaries operate in the same host territory, are part of the same industry, produce mostly standardized products, and are located in regions that are more or less homogenous, they have achieved different industrialization paths. A key determinant of the different evolution paths is the relationship of the subsidiary with the head office. The four clothing manufacturing subsidiaries started as receptive subsidiaries by depending for their operations entirely on the head office. With the passing of time, a relationship based on trust in local management transformed Shqiperia Trikot sh.p.k an active subsidiary. Shqiperia Trikot sh.p.k has acquired from the head office a good degree of freedom in performing daily operations, in proposing new expansions projects, in undertaking more complex functions, in participating in the strategic meetings organized in the head office on selection of suppliers, and setting of business developing strategies. The other three clothing manufacturing subsidiaries have maintained the dependency from the head office in the daily operations of the subsidiary. This dependency has not allowed these subsidiaries to go beyond provision of assembly services. The subsidiaries administered by foreign staff are the ones that have evolved the least. Despite of the different evolution paths the clothing manufacturing subsidiaries did not become better than the group as their strategy towards the host territory is mostly based on profit maximization.

Realization of more complex functions and products would strengthen location advantages of Albania by better serving customers through provision of more services and by reducing even further the delivery time of finished articles. The latter is of high importance at times when the clothing industry is heavily dominated by the concept of “quick fashion”. A change in location advantages would favor clothing manufacturing enterprises to connect to key players of the value chain of the clothing industry opening up the opportunity to focus on complex operations like design, research and development, marketing and outsource services related to production to countries of North Africa like Tunisia and Morocco. A similar scenario occurred with South Korea and Taiwan that outsourced production in Bangladesh or Central America while retaining key operations in the host territory. The cheap labor force due to lower wages compared to neighboring countries and the rising costs encountered in Asian countries, are temporary location advantages that appeal to foreign clothing manufacturing to transfer production in Albania. However, in the near future production may be transferred in other host territories like African countries, where the labor force could be cheaper than in Albania, leaving the existing host territory without inheriting any qualitative effects.

Even though the clothing industry is labor rather than capital intensive, it remains an interesting industry for Albania in terms of obtaining industrialization. When this industry is considered as the first step of the ladder of industrialization, it mostly refers to assembly services of the industry and its basic tasks that may be replicated in other industries. This way the host territory may attract foreign investors in industries which are currently absent from Albania like toy, mobile, etc.

As introduced in chapter four, the low barriers to entry in the production segment of value chain of the clothing industry are accompanied with higher competition from a number of developing countries, making it more difficult to develop.

However, Albania can move up in the value chain of the clothing industry by revitalizing production of textiles that was fully operational before the 1990’s and that is also more capital intensive segment than clothing manufacturing. Availability in the host territory of fabrics that meet the criteria to be used in the manufacturing of cloths would diminish imports of raw materials and would further reduce the delivery time to end customers, especially to those in the EU market. To make functional the textile industry in Albania is costly. It requires the necessary knowledge to generate quality output making it difficult for local enterprises that struggle to meet the standards even for basic raw materials like plastic

bags. As such, foreign enterprises able to afford high capital investments and possess the knowledge on the textile industry are able to take this initiative. Participation of subsidiaries in such ventures can increase the benefits of the host territory. This is the case of Cotonella S.p.A and its subsidiary Shqiperia Trikot sh.p.k that are committed to establish a regional center for fabric and dyeing that is expected to put Albania into new segments of the value chain. In addition, the presence of the textile industry would facilitate creation of a base of local suppliers of raw materials like cotton and silk that have appropriate harvesting conditions in Albania.

A threat to industrialization of the host territory are factors that limit upgrading to which all the clothing manufacturing subsidiaries are exposed despite of being located in different regions. These factors include: (i) unstable electricity supply, (ii) lengthy custom procedures, (iii) frequent changes in the fiscal regime, and (iv) absence of economic zones. Another, threat is the small size of the population which means that as the number of clothing manufacturers in Albania goes up so will the competition to have access to more trained employees (middle management) in particular. Even though the unemployment rate in Albania is on average 16% of the labor force it is unlikely to favor employment in the clothing industry as the majority of the labor force has been to graduate schools due to the increase in the number of private universities that offer higher educational programs.

## **7.2. POLICY MEASURES**

This section presents several policy measures that can be undertaken in Albania and other developing countries in order to intensify the qualitative effects of FDI in the host territory.

### **7.2.1. Policy measures with respect to the clothing industry**

Obtaining industrial upgrading in the clothing industry requires a set of policy measures that include but are not limited to:

- Creation of a stable local environment for doing business in Albania by removing (fiscal barriers, custom burdensome procedures, uninterrupted power supply, etc.) that will reduce any uncertainties and encourage foreign investors to locate production in the host territory including complex functions like design, marketing,



etc. The external/international environment of doing business also affects the stability in the local environment. Despite of the fluctuations in the external environment, which cannot be controlled by local authorities, the long term location advantages play a key role in retaining attractiveness for foreign investors. Creation of economic zones would permit both foreign and local enterprises operating in the clothing and in the manufacturing industry to grasp the benefits of having in the same area manufacturers, suppliers of raw materials, or subcontractors. This could benefit Albania as it would facilitate connection between suppliers and producers, a problem encountered in Albania also in other industries in which local suppliers are available. The economic zones will serve as a good example to enterprises in the clothing industry and to those in other industries on how to realize full production cycle. This can be achieved by creating the first economic zone in the region of Durrës or Vlora where major ports are located so to ensure even a quicker delivery time of finished articles. China is one of key players in the world economy that has created successful economic zones where enterprises rely on each other to realize full production cycle. In these economic zones, some enterprises serve as suppliers, others as producers, and the remaining as distributors. Based on the example of economic zones in China, the government of Albania is establishing the first economic zone in Albania near Spitala area close to a major port.

- Policies need to focus not only in attracting new FDI but also in increasing integration of existing FDI in the host territory. Integration in the host territory of existing FDI can be achieved by looking for possible local suppliers, train them, and introduce them to clothing manufactures both foreign and domestic. Up to now this policy has been applied on suppliers of products like hand-made lace used in manufacturing of delicate products. Another policy to promote local suppliers is to impose for every foreign enterprise a minimum local requirement of raw materials on the goods manufactured in Albania. In order to impose these requirements the Government of Albania needs to strengthen its location advantages by making locally accessible raw materials that meet international standards so that the share of imports on these kinds of articles is reduced.
- Institutions in Albania can facilitate a higher degree of integration of foreign investors in the host territory, especially by allocating more responsibilities to the Albanian Investment and Development Agency (AIDA). These responsibilities would not be limited only at attracting FDI in the country but also in retaining

investment and expanding the activity of existing foreign investments in Albania. As such, a new department that will monitor and get continuous feedback on the activity of foreign enterprises in general and of clothing manufacturing enterprises in particular needs to become functional within the agency. In order to support foreign investors located in all regions of Albania, it is necessary to open regional branches of AIDA that will facilitate the doing business of foreign enterprises in all regions of Albania. These responsibilities can be allocated to AIDA by approving all the required legal framework as a Decision of the Council of Ministers.

### **7.2.2. Policy measures with respect to knowledge transfer**

In order to acquire more knowledge from the presence of clothing manufacturing subsidiaries the Government of Albania can initiate several policies.

Firstly, promotion of fiscal incentives for acquisition of new investments in physical capital in the form of modern machines that will enable local employees to learn new processes and operations. In order to benefit from the investment made the clothing manufacturing enterprise will hire and train a number of employees. For example, Latin American countries have launched in cooperation with financial institutions new financing programs that increase the level of credit in the economy (Vasquez-Barquero, 2002).

A second policy option is by undertaking national campaigns that would promote training of employees in the clothing industry. A national vocational program that supports clothing manufacturing enterprises to organize trainings for local employees that span beyond the minimal skills required for assembly services needs to be created. The Government of Albania can intervene by making the vocational training program compulsory for clothing manufacturing enterprises at all levels. Training of local employees can be facilitated through creation of national training centers based on a triple helix model that involves: (i) educational institutions, (ii) clothing manufacturers, and (iii) government institutions. Malaysia is one of the countries that has undertaken nation spread programs to increase the skills of the labor force in the clothing industry through intensive programs run by international experts. A similar training program is undertaken also in the electronic industry (Ritchie, 2004).

A third policy option can occur by developing backward linkages with the local economy through financial incentives in the form of tax reductions, subsidies to finance

modern machines targeting of producers that can serve as suppliers of raw materials for clothing manufacturers in the country. The presence of more sophisticated machines can bring additional knowledge that will strengthen technical capacities of local employees working for local suppliers and ensuring production of raw materials like card boxes and plastic bags to meet the standards required by international customers in the clothing industry.

A fourth policy option refers to launch a series of trainings to strengthen technical abilities of local management in running clothing manufacturing subsidiaries. These trainings can run in coordination with educational institutions that will provide these trainings. Establishment of regional training centers that would identify the needs of employees in the clothing industry and organize appropriate training programs can spread the required skills throughout the country. This way, the trainings will address not only the needs of employees but also will be in line with any developments occurring in clothing manufacturing enterprises.

### **7.2.3. Policy measures with respect to subsidiary upgrading**

In order to facilitate upgrading of clothing manufacturing subsidiaries in the Albanian economy a number of policy measures can be undertaken which include but are not limited to:

- Reduction in the time required for processing of imports of raw materials and exports of finished goods by eliminating redundant custom procedures and by reducing paper work through digitalization of services in all custom points in Albania. This would save the time of the high and middle management that are daily engaged on these issues allowing them to dedicate it to changes in the operational activity of the subsidiary like engaging in more complex processes or manufacturing of more complex articles.
- Commitment of the government to strengthen the power supply network in areas in which industrial production occurs throughout Albania. This would save clothing manufacturing subsidiaries financial resources required to purchase and maintain power supply generators. These resources can be invested in purchasing technologically more advanced machines or in training programs for employees needed to perform in the host territory more advanced operations.

- Opening of branches of international design schools in Albania in order to educate quality designers in the country, increasing this way the possibility for partial/full transferring of the design function in Albania. This can be achieved through twinning projects between international schools and local institutions already engaged in provision of study programs on fashion design. Through these projects, local firms can acquire more knowledge in the field that can be of use to clothing manufacturing enterprises for the design of goods they manufacture. This policy is beneficial also for local clothing manufacturing enterprises that would like to expand beyond assembly provision of services to their customers.
- Promotion of the clothing industry in Albania by increasing its capability of participating in more segments of the value chain of the clothing industry (fabric, design, etc.) and ensuring the local clothing industry moves up in the value chain. By following such policy, Albania may rely less on low wages to attract foreign investors that can afford to make large investments on advanced machines and initiate processes like design and research and development on which local enterprises in Albania do not possess adequate knowledge.

### **7.3. AREAS FOR FURTHER RESEARCH**

Additional research is required to maximize qualitative effects in the host territory. These areas can include but are not limited to:

Identification of areas that hinder local firms to become suppliers of clothing manufacturing subsidiaries in Albania together with the actions that are necessary to fill in the gaps. Among the proposed actions can be identification of current manufacturers of potential raw materials in Albania, and launching of a national dialogue between clothing manufacturers and suppliers. Creation of a base of local suppliers that meet the needs of clothing manufactures may serve as a stepping stone in the transferring more processes and functions in Albania.

Investigations of the electrical distribution network in order to identify the mistakes made in the implementation of previous reforms that were unsuccessful to reduce or eliminate interruptions in the power supply and to propose concrete actions that need to be taken in order to provide short and long-term solutions.

Investigation in the quality of products manufactured in Albania with regard to those manufactured in Asian Countries and to identify improvements needed to be made so that more production is transferred from Asia to Albania. Moving up in the value chain of the clothing industry especially on how to revitalize the manufacturing of various fabrics that ceased to be functional in the 1990's.

Undertaking due diligence and feasibility studies on the creation of the economic zones in Albania including possible scenarios on the impact it might have in the development on the clothing industry and local economy.

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## APPENDIX

### A.1. THE MEASURES OF THE FAÇON PACKAGE

No.	Business Proposals	Government Initiatives	Effects
1.	Lowering the price of land and rent of business premises, existing and new investments	<p>1. DCM No. 54 dated 5.02.2014 is adopted 'On defining the criteria, procedure and manner of renting, leasing or other contracts of state property'</p> <p>1.1 Guidelines 'For determining the criteria, procedure and manner of renting, leasing or other contracts of state property.' is adopted</p>	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• 1 EUR cost of the lease</li> <li>• About 24 million ALL remain to Façon business every year</li> </ul>
2.	Simplification of import-export procedures for secondary compensating products (technological waste)	It adopted Directive no. 1.1, dated 29.01.2014 'On some additions to Instruction No.01, dated 09.06.2012, On the practical application of the Regime Active processing', article 9, paragraph 2.2.1	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduction of administrative costs</li> <li>• Reduction of time for economic operators</li> </ul>
3.	Offering custom service at border crossing points even after office hours	Order pursuant to the DCM no. 205, dated 13.04.1999 'On the Customs Code Implementing Provisions', Chapter 4, Article 14 'Working hours of customs offices' has been approved.	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• 24 hour service for declaration and control</li> </ul>
4.	The elimination of delays in the reimbursement of VAT	<p>4.Law No.179/2013 'On tax procedures in the Republic of Albania', amended; has been approved</p> <p>4.1 Instruction No.06 dated 27 02.2014 "On some additions and changes in instruction No. 17, dated 13.05.2008 'On value added tax' amended", has been approved</p> <p>4.2 The DCM no. 202, dated 09.04.2014 'On the determination of terms and conditions to exporters for the purpose of reimbursement of VAT has been approved</p>	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Refund of VAT will be benefited</li> <li>- Immediately if the taxpayer is a zero risk exporter</li> <li>- Within 30 days if the taxpayer is an exporter</li> <li>- Within 60 days in the case of other taxpayers</li> <li>• 900 million leke increase in liquidity for taxpayers</li> </ul>
5.	Clarifying and facilitating business registration procedures (tacit approval)	The efficiency of the implementation of Law no. 9723, dated 05.03.2007 "About the National Center of Registration" will be increased	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Facilitated and improved registration procedures through online application in the portal of Albania</li> <li>• Reduction of recording time from 1 day to 8 hours</li> <li>• The platform will be used 20% of businesses within 2014, 40% during 2015, and 50% during 2016</li> </ul>

			<ul style="list-style-type: none"> <li>• Attracting online abstracts and papers by 30% of businesses in 2014 and 50% during 2015, 2016</li> </ul>
6.	Annual renewal of authorization for fuel consumption	Authorization of VAT on fuel is regulated by Instruction No. 6/3, dated 08.04.2014 "On Amendments to the Instruction No. 17, dated 13.05.2008" On the value added tax ", amended	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• VAT of fuel is immediately credited.</li> <li>• Reduction of the time and costs for business.</li> </ul>
7.	Supply with certificate EUR-1, as a certificate of origin of the Albanian production for all goods exported from Façon entities willing to operate in Albania referring to European standards	Conditions for the granting of preferential origin of goods are determined by the Stabilisation and Association Agreement (SAA)	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Immediate Supply with 1 EUR certificate if they meet the defined criteria</li> </ul>
8.	Political representation in decisionmaking bodies of Façon industry for the problems of this sector	Associations of Façon Industry based on the principle of rotation will be represented in the National Economic Council.	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Increase of active dialogue with the Government</li> </ul>
9.	Strengthening institutional capacities related to formulating support policy for this sector (the creation of an agency, engagement of a contact person, promotion of the image)	Commitment is taken to strengthening the role of AIDA in support of industry It was agreed the establishment of a counter 'One Stop Shop' dedicated to Façon industry at AIDA	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Financial support for at least six Façon ventures through grant schemes</li> <li>• 10.8 million ALL or 34% of the total grant will go for the Façon Industry</li> <li>• Mediation to resolve the problems to be addressed at the counter</li> <li>• Creation of database for this industry</li> <li>• Web page dedicated to the promotion of the sector</li> <li>• Annual Conference on Façon from AIDA</li> </ul>
10.	Fiscal facilitation and budgetary support from the state for social and health insurance for the new job	<p>Following Amendments were approved</p> <p>DCM. 193, dated 02.04.2014 'On Amendments and Additions to the Decision of Council of Ministers No.47, dated 16.01.2008 of the , ' On employment promotion program, through job training", amended</p> <p>DCM. 192, dated 02.04.2014 "On Amendments and Additions to the Decision of the Council of Ministers No 48 dated 16.01.2008, ' the incentive program for the employment of the unemployed in trouble", amended</p> <p>DCM. 188, dated 02.04.2014 "On Amendments and Additions to Decision of the Council of Ministers no.199 dated 11.01.2012 ' On the extent of funding, criteria and procedures for implementing the program to promote employment of</p>	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• 100 million ALL or 3-fold increase compared with 2013 programs to promote employment</li> <li>• 1 year social security</li> <li>• 4 salaries covered by the state for the categories provided in relevant DCM</li> <li>• To promote employment through job training the state finances <ul style="list-style-type: none"> <li>- 70% of training costs for SMEs</li> <li>- 50% for large enterprises</li> </ul> </li> </ul>

		the unemployed workers who enter for the first time at work ' CMD Nr.189, dated 02.04.2014 "On some additions and amendments to the Decision of the Council of Ministers No.27, dated 11.01.2012 "On the incentive program for employing women from special groups'	
11.	Simplification of procedures in the Employment Offices	Ministry of Social Welfare and Youth has simplified procedures in the Employment Offices	Effect on industry <ul style="list-style-type: none"> <li>• Online application <a href="http://www.puna.gov.al">www.puna.gov.al</a> from the subjects</li> <li>• Reduction of the terms of approval of projects from 30 and 20 days to 10 days</li> <li>• Performance Evaluation based on points for the approval of projects</li> <li>• Fast access to data through the online database for employers and job-seekers</li> </ul>
12.	Creating a show room to increase access to international markets. Promoting this sector in domestic and international market	A show room will set be up with donor funding as GIZ (Program for the Development of Enterprises and Employment), Italian Cooperation and USAID, etc.	Effect on industry <ul style="list-style-type: none"> <li>• Support with technical and logistical assistance for the creation of the show room model</li> </ul>
13.	Lack of commercial attachés with the aim of aggressive marketing at the international market	The process to strengthen the role of economic diplomacy has started through establishing the structure of Commercial Attaché, in collaboration with the Ministry of Foreign Affairs	Effect on industry <ul style="list-style-type: none"> <li>• Promotion of the brand MADE IN ALBANIA</li> <li>• Promoting the image of the country</li> <li>• Increased participation in the wide network of European enterprises.</li> </ul> <p>Process to strengthen the role of economic diplomacy through establishing the structure of Commercial Attaché, in collaboration with the Ministry of Foreign Affairs</p>
14.	Promoting a pilot industrial zone and promotion of clusters as a new way of attracting foreign investment and increase productivity	Legislation on the function of economic zones and problems for each area declared by the relevant decisions is being revised	Effect on industry <ul style="list-style-type: none"> <li>• Increase of opportunities for access</li> </ul>
15.	Financial support for participation in international fairs and exhibitions	DCM No. 419, dated 05.15.2013, "On the creation of Albanian Fund of competitiveness" is being revised	Effect on industry <ul style="list-style-type: none"> <li>• Increase by 40% of the project value, with a total of 1,400.000 ALL</li> <li>• More than 1 application opportunity for this Fund</li> <li>• Increasing participation of companies in international fairs and exhibitions</li> </ul>
16.	Financial/technical assistance for technology development	It is being negotiated about fundraising	Effect on industry

	(information on market, technology and competitiveness of the sector)	- Arrangements for financial programs by donors as Italian Cooperation & KfW (with a value of 39 million EUR)	<ul style="list-style-type: none"> <li>• Increase of investments for the import of technological lines, through soft loans</li> </ul>
17.	Expanding the list of machinery and equipment that are exempt from VAT	In the review process is DCM no. 180, dated 02.13.2013 "On the definition of list of machinery and equipment that are directly related to the investment and exception procedures of the relevant criteria", as amended	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• 150 million ALL of business remain exempt from VAT on machinery and equipment</li> </ul>
18.	Review the income tax which is considered very high	Income tax return of the Façon industry will be achieved through reallocation in a special fund for Employment and Training in MMSR	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Employment and Training Fund is estimated at 5 million dollar value for the first year, which will be gradual</li> <li>• Encouraging employment and workforce training</li> </ul>
19.	Eliminating transportation fee for Albanian vehicles towards Italy and Italian plated vehicles that transport on behalf of Façon entities to Albania	It is being consult the signing of an Agreement with the Italian Government for removal of the fixed transport fee	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduction of the actual costs € 6.2 / t, for 100 km</li> </ul>
20.	Increase of efficiency for health care (medical reports for the employed will be once in two years, from currently being once in 6 months)	Regulations are reviewed pursuant to DCM No.100, dated 03.02.2008 "On determination of hazardous substances"	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduce time and costs for industries that are classified as low risk to the health of employees</li> </ul>
21.	Subcontractors will have the same treatment as the main contractor concerning repayment of VAT (VAT discharge to subcontractors)	It is designed the Draft Law "On VAT" which is envisaged to come into force on 1 January 2015	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduction of the VAT costs for subcontractors in the amount of about 760 million ALL</li> </ul>
22.	Creating special funds for sharing risk and financial resources with donors for the development of exports	Participation in various regional programs funded by the European Commission like COSME, EDIF, etc.	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Stimulation of the Façon Industry by providing technical or financial assistance</li> </ul>
23.	On line connection of the database of the Tax Directorate with the database of the Social Security Contributions	Project is launched for online connectivity system (single window) of the General Directorate of Taxation with Social Security	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduction of time to get from one office to another</li> <li>• Reduction in costs for documentation</li> </ul>
24.	Creation of qualified training centers and curricula to serve this industry	<p>In the framework of qualification and vocational training the following have been drafted</p> <ul style="list-style-type: none"> <li>• ADA Project "Dual System Development in Albania" in cooperation with 'Naber Damen Mode' at a cost of 390,000 Euros for the establishment of three schools in three cities</li> <li>• Opening a post-secondary course at the Faculty of Mechanical Engineering (textile branch)</li> </ul>	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Improving the skills of employees</li> <li>• Opening a vocational training course in the field of textile</li> <li>• Certification of knowledge gained outside school (textile industry is chosen as a pilot)</li> </ul>

		<ul style="list-style-type: none"> <li>• Project EU and ILO on the Development of Human Resources (IPA-ILO 2010, HRD)</li> </ul>	
25.	Establishment of vocational centers		
26.	Review of local taxes and fees for the grounds and buildings, where the Façon activity is performed in order to be categorized with the lowest fee or the floor price	In the process of being reviewed is the Law no. 181/2013 'On local tax system', amended	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Establishing good management instruments of this tax, change the model of taxation, from leke / m2 into % of market value</li> </ul>
27.	Forgiveness of interest on arrears for non-payment of social security for the period 1 January 2008 to 31 March 2014	The Ministry of Finance will draft the Law on forgiveness of interest on arrears for social insurance in Façon industry	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Financial impact estimated at about 100 million ALL</li> </ul>
28.	Margins should be set for the coefficients applied in the stuff used as raw material, based on the code of the EU customs	Article 140 of the Customs Code specifies the applied coefficient. The new draft Customs Code fully harmonized provisions concerning this regime	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Facilitation of customs procedures</li> </ul>
29.	As a reference criterion will be used the amount of ordered final product, as it turns out from customs documentation	Fining business because of the difference in weight is being considered by General Directorate of Customs to address through Customs new draft- Code	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Facilitation of customs procedures</li> </ul>
30.	Silent Automatic renewal of authorization for active processing of goods	General Directorate of Customs is working to reflect this issue in the Customs new Draft-Code	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Reduction of financial costs and time for business</li> </ul>
31.	Procedures for import / export of goods carried out in selected point by commercial entities	<p>Based on customs legislation, any goods declared at economic customs regimes is excluded from the rule of territorial jurisdiction. The right to establish the mode is enabled at any customs office</p> <p>Customs Authority is in a process of preparation for the establishment of legal infrastructure, IT and staff qualification to implement simplified procedures</p>	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Facilitating administrative procedures</li> <li>• Reduce the time for businesses</li> </ul>
32.	Authorizations for machines that are temporarily under active processing should not be 1+1 year, but be given at Customs Houses for 5 years	General Directorate of Customs is reviewing procedures to find solutions for 5-year authorization	<p>Effect on industry</p> <ul style="list-style-type: none"> <li>• Facilitating administrative procedures</li> <li>• Reduce the time for businesses</li> </ul>

## A.2. LIST OF PEOPLE INTERVIEWED

### List of people met

Shqiperia Trikot sh.p.k		
No.	Name	Position
1.	Gjergj Leqejza	Administrator
2.	Ema Thani	Director of Production
3.	Kujtim Shkalla	Responsible for the cutting
4.	Adrian Mirashi	Responsible for raw materials
5.	Dorian Sala	Responsible of inventories
6.	Mierla Gordeci	Responsible in quality control
7.	Luljeta Resuli	Financing Department
8.	Fifteen employees	In various departments
Subcontractors of Shqiperia Trikot sh.p.k		
No.	Name	Position
1.	Jona Leqejza	Management of Madish sh.p.k
2.	Emiljano Gorezi	Management of Laurus sh.p.k
3.	Isida Peku	Management of Melkans sh.p.k
4.	Mimoza Coba	Management of Silvana sh.p.k
5.	Samuel Mazi	Management of Andrea sh.p.k
Naber Konfeksion sh.p.k		
No.	Name	Position
1.	Bern Naber	Onwer of Naber Moden and General Manager of the subsidiaries in Albania
2.	Nazmi Grora	Administrator of Naber Moden subsidiaries in Albania
3.	Ornela Koxhaj	Production Manager of Naber Moden subsidiaries in Albania
4.	Mimoza Xihani	Manager of the Finance Department of Naber Moden subsidiaries in Albania
5.	Elvira Goxhaj	Department Manager of production of Naber Moden subsidiaries in Albania
6.	Haxhire Alikaj	Textile Engineer, Department Manager of Preparation of Models
7.	Alda Hoxha	Responsible of Line sewing
8.	Ariola Omeri	Responsible of Line embroidery
9.	Ervehe Taga	Responsible of Line labeling and packing
10.	Olsin Bito	Responsible of Line Cutting
11.	Adi Cepani	Technician
12.	Fifteen Employees	Shop floor workers on various departments while visiting the operating facilities
Naber Konfeksion sh.p.k - Subcontractors		
No.	Name	Position
1.	Julian Berxulli	Administrator of Ambra sh.p.k

2.	Nertila Lame	Administrator of Nels sh.p.k
3.	Shqipe Dani	Administrator of Ones sh.p.k
4.	Imirjon Dani	Manager of Ones sh.p.k
5.	Liljana Llubani	Head of Production in Ones sh.p.k
6.	Engjellushe Shiroka	Administrator of Shiroka sh.p.k
7.	Shpresa Prodani	Administrator of Dyrrah Sped sh.p.k
<b>Valcuvia Alba sh.p.k</b>		
<b>No.</b>	<b>Name</b>	<b>Position</b>
1.	Dario Albeni	In charge of the operations of the head office
2.	Antonio Albeni	In charge of the operations of the subsidiary
3.	Selim Dyrmishi	In charge for production
4.	Niko Teta	In charge of sewing lines
5.	Arbi Osmanaj	Responsible of quality control
6.	Elina Bida	Responsible of Line labeling and packing
7.	Agim Hoxha	Responsible of Line Cutting
8.	Hysen Hasa	Technician
9.	Fifteen employees	In various departments
<b>Industria Ballkanike</b>		
<b>No.</b>	<b>Name</b>	<b>Position</b>
1.	Christos Diamantidis	President and owner of Industria Ballkanike
2.	Argyros Diamantidis	In charge of the operations of the head office
3.	Edmond Haxhi	In charge of the operations of the subsidiary
4.	Marina Raidhi	In charge for production
5.	Ardit Leka	In charge of sewing lines
6.	Anila Cunoti	Responsible of quality control
7.	Maria Bito	Responsible of Line labeling and packing
8.	Geni Koci	Responsible of Line Cutting
9.	Lek Gjini	Technician
10.	Fifteen employees	In various departments
<b>Institutions from which we receive quantitative information</b>		
<b>No.</b>	<b>Name</b>	<b>Position</b>
1.	Elsa Dhuli	Director at INSTAT on Enterprise Statistics
2.	Alma Mara	Head of Sector at INSTAT on Enterprise Statistics
3.	Pranvera Elezi	Head of Sector at INSTAT on Employment
4.	Valbona Petoshati	Head of Sector at Statistical Approximation with EU legislation
5.	Etugert Llazi	Head of Sector at National Accounts
6.	Lila Dafina	Consultant on national statistics at INSTAT
7.	Diana Shtylla	Director at Bank of Albania of Macroeconomic Statistics



8.	Iris Mele	Head of Sector at Bank of Albania on FDI
9.	Endrit Lami	Director at the Ministry of Finance
10.	Mimoza Loli	Head of Sector at the Ministry of Finance
Other relevant stakeholders		
No.	Name	Position
1.	Gjergji Gjika	President of the Chamber of Façon in Albania
2.	Ricardo Hausman	Director of Center of International Development, Harvard University
3.	Tian He	Development Economists, Harvard University
4.	Hanieh Mohammedi	Development Economists, Harvard University
5.	Brunilda Paskali	Deputy Mayor of Tirana, Former Deputy Minister of Economic Development
6.	Ledia Karaj	Head of Sector of FDI at AIDA
7.	Ergest Lekdushi	Head of Sector of SMEs at AIDA
8.	Ada Elezi	Specialist of Façon Industry at AIDA
9.	Dorela Ceka	Specialist of Façon Industry at AIDA
10.	Elidona Dyrmishi	Budget Specialist at the Ministry of Finance
11.	Ina Avllaj	Director at the Ministry of Youth and Social Affairs
12.	Irena Mitro	Specialist at the Ministry of Youth and Social Affairs
13.	Aferdita Bato	Specialist at the Ministry of Youth and Social Affairs
14.	Maksim Caslli	Country Director at Deloitte Albania
15.	Sonila Muskaj	Specialist at the Ministry of European Integration
16.	Orfea Dhuci	Distinguished National Economist
17.	Genci Gaxo	Head of Textile Department, Polytechnic University of Tirana
18.	Eralda Xhafka	Industry Expert, Polytechnic University of Tirana
19.	Hilda Shijaku	World Bank Country Economist
20.	Artan Guxha	World Bank Expert
21.	Hilarian Coddipily	World Bank Expert
22.	Cesar Cordova	Distinguished International Expert on Business Environment