

Why do well-meant government reforms keep hurting the family firms they aim to help?

Three reforms in Ethiopia's leather industry show how good intentions backfire without trust and pacing.

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Governments like a bold reform. A new tax here, an investment incentive there, a flagship eco-park to signal progress. What happens to the firms on the receiving end when those reforms arrive faster than anyone can adapt to them?

In Ethiopia's leather and leather products industry, the answer is sobering. Over roughly a decade the government launched three major interventions to push the sector toward the UN Sustainable Development Goals. Every one was well meant. Every one misfired. By the end, long-established local firms, most of them family businesses, were facing bankruptcy, bank foreclosure, and, in the words of one manager, lives lost to the financial strain.

Ethiopia L. Segaro and Kajsa Haag set out to understand why. Their study in the *Journal of Business Ethics* is not really about leather. It is about what happens when ambitious policy meets a fragile institutional setting, and why the firms best suited to deliver long-term, sustainable value are so often the ones reform damages most.

WHAT WE STUDIED

The leather sector is one of Ethiopia's oldest manufacturing industries, built on the country's vast livestock resources and dominated by family firms. It is also a sector the government singled out as a priority for export-led growth and for the SDGs: decent work, industry and innovation, clean energy, sustainable communities, and partnerships.

Segaro and Haag ran an in-depth qualitative case study between 2018 and 2020. They drew on twenty-three interviews across five stakeholder groups: nine case

firms (mostly family-owned, with one non-family and one foreign-owned firm included for contrast), two government bodies (the Ministry of Trade and Industry and the Leather Industry Development Institute), the national leather association, and development partners including UNIDO and Japan's JICA. The interviews were triangulated against eighty-six secondary documents.

The design is deliberately embedded. The authors trace each intervention through four lenses: its intention, the process of implementation, the actual outcome, and the lessons. The first author's fluency in the local language and culture supplied an insider's read; the second author brought an outsider's critical distance.

KEY INSIGHTS

Reform one: force firms up the value chain, then stand still

The first intervention tried to move firms up the value chain. Rather than export raw hides, they would be made to export finished leather and capture more value at home. The instrument was blunt: export bans and punishing taxes, including a 150% levy on raw skins, later extended to semi-processed wet blue and crust.

It was, in the authors' phrase, fast and furious, and then static. Firms were ordered up the value chain faster than they could rebuild factories or find buyers, and once the rules were set, little support followed. The market the government assumed would appear never did. Italian and Japanese buyers wanted Ethiopian raw and semi-processed leather, not the finished product, and rejected the chemicals local tanneries used. Exports fell. One firm watched its earnings drop from US\$9 million exporting crust to US\$1.5 million once it was forced to sell only finished leather. Tanneries that

had supplied one another became direct competitors overnight.

Reform two: invite foreign capital, then lose control of it

When value addition faltered, the government courted foreign direct investment, hoping capital-rich firms would lift the sector through technology transfer and demand for local leather. This time the problem was the mirror image of the first. Where intervention one over-regulated, intervention two barely regulated at all.

Foreign firms were invited with no requirement to work with local tanneries. Free to source raw hides directly and run their own processing, they integrated backward, competed with local firms for raw materials, and triggered a price war instead of the intended collaboration. Knowledge transfer never happened, partly because the competence gap was too wide for local firms to absorb anything, partly because the parties were rivals rather than partners. The government's own inspectors, underpaid and under-skilled, could not monitor the firms they had invited. One owner-manager, watching idle machinery worth hundreds of millions, offered three words: follow the money.

Reform three: demand clean production overnight

The third intervention targeted the environment: international-standard effluent treatment, approved chemicals, and a flagship eco-industrial park, Mojo Leather City, with a shared treatment plant. The goal had near-universal support among the people interviewed. Cleaner production is good for communities and, eventually, for exports.

But the firms asked to pay for it were the survivors of the first two reforms, many already classified as non-performing borrowers, their machinery loans stacked up. Requiring them to finance a major environmental overhaul immediately, while competing with deeper-pocketed foreign firms, pushed several over the edge. Six tanneries were shut down in 2017. The Mojo site had not even secured its land.

The thread running through all three: trust

The deeper finding is that none of these failures was really about leather, taxes, or treatment plants. They were about trust. Government and firms were locked in a blame game, officials faulting firms for malpractice, firms faulting officials for being regulatory rather than supportive. One respondent described a pervasive preventive mindset: authority that asks what it can stop rather than how it can help. High turnover among officials meant hard-won lessons evaporated. And no single actor owned the collaboration. Everyone was engaged; nobody was steering.

This is the most portable part of the paper. The mechanics differ by industry, but the pattern, aligned goals, misaligned execution, eroding trust, travels almost anywhere.

TAKEAWAYS FOR FAMILY BUSINESS LEADERS AND ADVISORS

The study's quiet protagonist is the local family firm. Where formal institutions are weak, family structures often stand in for what the state cannot provide: patient capital, long horizons, deep community ties. The authors argue these firms carry a stewardship orientation, thinking about the generations to come, not only this quarter. One family-firm manager set his own outlook against foreign investors who leave at any time they sense danger. That orientation is exactly what sustainable development needs, and exactly what the interventions put at risk.

Several lessons carry well beyond Ethiopia:

- When a regulator announces a transformation, the binding constraint is rarely the goal. It is the financing, the timing, and whether a market actually exists on the other side. Map those before committing capital, and document the gap so it can be raised with policymakers.
- A family firm's long-term, community-rooted vision is an asset in policy dialogue, not a weakness. Argue for staged, supported transitions over overnight mandates, and frame the case around continuity and community, outcomes that governments pursuing the SDGs are obliged to value.
- Power asymmetry with larger or foreign partners is real. Insist on explicit rules of engagement, who sources what, who teaches whom, before any collaboration begins, not after the price war starts.
- Collective voice matters. Fragmented complaints get dismissed as special pleading; a coordinated sector position, channelled through an association, is far harder to ignore.

IMPACT

The paper lands on a pointed conclusion: well-implemented SDG policy is not merely compatible with preserving local family businesses, it depends on them. Where the stewardship inclination is widespread, governments have a ready-made partner for long-term, community-rooted development. Crush those firms in the rush to modernise and the very capacity to deliver sustainable prosperity disappears with them.

For policymakers and development agencies, the warning is uncomfortable. Frontier markets sit at a

crossroads, pushed toward breaking point by international competition and by well-intended reforms that go awry. The instinct to do something bold can itself be the problem. What these settings need is less drama and more patience: feasible requirements, enduring support, and someone genuinely steering the collaboration.

And there is a lesson for anyone who has watched a sensible strategy collapse in execution. Shared goals are not enough. Without trust, sequencing, and a clear owner, even a coalition that wants the same thing can tear itself apart on the way there.

RECOMMENDATIONS

Segaro and Haag distil seven conditions for making multistakeholder reform work in fragile settings. Condensed for practitioners:

1. Shift from top-down mandates toward genuine collaboration, with a stewardship mindset shared

across government, firms, and partners.

2. Ground requirements in how the industry actually works by bringing practitioners into policy design so the rules are feasible.
3. Build implementation that endures beyond any single official's tenure, with feedback loops that survive staff turnover.
4. Orchestrate value-chain integration so economic, social, and environmental upgrading advance together rather than one at the expense of another.
5. Put in place a value-based system to control the controller, guarding against corruption and ensuring agreements are honoured.
6. Invest in education and capability-building so the knowledge gap between local and foreign firms is narrow enough to actually cross.
7. Pace the interventions. Incremental, sequenced steps that get somewhere beat radical leaps that risk ending nowhere.

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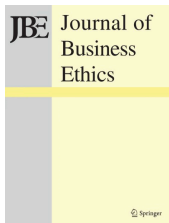
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