AN ASSESMENT OF FACTORS AFFECTING THE PERFORMANCE OF GARMENT EXPORTING INDUSTRIES IN ETHIOPIA: THE CASE OF ADDIS ABABA

BY
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A RESEARCH PROJECT SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS, DEPARTMENT OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE

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DECLARATION

I, the undersigned, declare that this research project is my original work. All sources of materials used for the research project have been duly acknowledged. I further confirm that the research project has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

_____ _____

Name Signature

Addis Ababa University June, 2016

ENDORSEMENT

This research project has been submitted to Addis Ababa University, College of Business and Economics Department of Management for examination with my approval as a university advisor.

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This is to certify that the project prepared by Daniel Tewodros, entitled: *An assessment of factors affecting the performance of Garment exporting industries in Ethiopia, The case of Addis Ababa* and submitted in partial fulfillment of the requirements for the Degree of Executive Master of Business Administration in Management complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

An assessment of factors affecting the performance of Garment exporting industries in Ethiopia: the case of Addis Ababa

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This research project seeks to investigate factors affecting the performance of garment exporting industries in Ethiopia particularly the case of Addis Ababa. For the sake of achieving the objectives of this study, interview and questionnaires were analyzed using statistical analysis such as descriptive analyses. The information obtained through self-administered questionnaire from a sample of 16 operators and face-to-face interviews with respondents in the sector was conducted on industries under investigation. The respondent operators were selected using Purposive or judgmental sampling techniques. *Besides, the interview questions were analyzed using descriptive narrations through concurrent triangulation strategy. The empirical study extracted major factors which seem to affect export performance of garment industries which include: unavailability of raw material, lack of capital, availability of skilled labor force, marketing problems, inadequate infrastructures, incapability of management, technological, poor institution and between industry relation and lacking government regulation and incentives. The findings further indicate that, the availability of raw material, skilled labor force, shortage of capital, absence of marketing personal and infrastructure being the most critical factors impeding garment industries engaged in export. Based on findings, recommendations to government bodies, to operators of garment industry sector and suggestions for other researchers are forwarded.*

Key words: garment, performance factors

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May God bless you All!

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List of Acronyms

AGOA	Ministry of Works and Urban Development
COMESA	Common Market for eastern and Southern Africa
ETB	Ethiopian birr
ETGAMA	Ethiopian Textile and Garment Manufacturers Association
ETIDI	Ethiopian Textile Industry Development Institute
GDP	Gross Domestic Product
GTP1	Growth and Transformation Plan Phase 1
IT	Information Technology
MoA	Ministry of Agriculture
MoI	Ministry of Industry
OECD	Organization for Economic Co- Operation and Development
R and D	Research and development
SSA	Sub- Saharan Africa
UNIDO	United Nations Industrial Development Organizations
USD	United States Dollar
USITC	United States International Trade Commission
WTO	World Trade Organization

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CHAPTER: ONE INTRODUCTION

1.1 Background of the project

Garment industries have been contributing to the provision of basic and economic needs of the society. While the promoters of the industry drive economic wealth, the society is benefiting from the industry in the short run by obtaining its basic needs of clothing, employment especially women and foreign currency receipt and in the long run provides countries the opportunity to sustained economic development. Several studies have analyzed the importance of the textiles and clothing industry in terms of macroeconomic indicators such as exports, investment and employment (Rahman et al., 2008; Kowalski and Molnar, 2009; and Beresford, 2009). The development of garment industry has long history in Ethiopia. Moreover, Ethiopia has fine development opportunity and huge potential in domestic as well as international prospects in regards to garment sector. These can be seen from the fact that availability of global opportunities like market entry access such as (AGOA, COMESA and similar bilateral trade agreements) which brings about the government to considers garment sector as a priority sector by providing direct support. Regardless of these facts, the industry could not achieve the optimum level of development and performance to the country in general and to the promoters in particular. Various factors were playing against the proper development and performance in the industry.

According to Tamiru (2002), the major impeding factors for the underdevelopment and performance of the garment and textile industry in general are mainly: mismanagement, financial constraints, illegal trade (contraband) and scarcities of spare parts. In addition, Nigist (2002) stressed that the problems hindering the proper development of the textile and garment industries attribute to shortage of raw materials, problem of land, obsolescence of machineries, lack of loan, market problem and the flourishing import of Chinese cheap products.

Promoters of garment industries are complaining of diverse issues revolving around their operation. For instance, one promoter said “Producing textile and garment products with a high cost of inputs and weak infrastructure is a challenge for my company” (Yoseph Mekonnen, 2013). Others are still explaining different set of complex problems that have been restraining

their movement in light of the current dynamics of the garment industries. Developing countries are where the most industrial inputs are abundantly found. In general terms, labor as one of the major input mix should have a profound effect in the production process of the industries in this part of the world. Moreover, cotton can be mentioned as a raw material for these factories which is also a direct output of the agricultural sector, and can significantly contribute to the minimization of the cost of production. However, as it has been practically observed, the promoters of the garment industry were not aligned with their competitive advantage of cheap labor and availability of raw materials namely cotton. Also other researches done indicate that direct costs (labor and material cost) are not the only costs indicator to garment suppliers. The following factors should also be comprehensively considered suppliers' capability (Eusebio, Andreu, & Belbeze, 2007), productivity (Gibbon & Thomsen, 2005), innovation ability (Gibbon & Thomsen, 2005; Jin, 2004; Kang & Jin, 2007), product's quality (Handfield, 1994) and relationship between suppliers and buyers (Kang & Jin, 2007).

The basic tenets of this paper is to observe, study and recommend ways to alleviate the critical impeding factors that have been working against the performance of garment industries engaged in export business in Ethiopia particularly in the vicinity of Addis Ababa.

1.2 Statement of the Problem

Different scholars have indicated that the production of garment materials have a long historical root in Ethiopia. We have diverse indigenous clothing production techniques in different place under different cultures. Nevertheless, the domestic production system itself is not in the interest of the long history of the production system prevailed in Ethiopia. It was since very recently that relatively better improvement have been observed in changing the quality that fits the current market demand of the local, though not as intended, and little of the foreign in the distribution of home-grown clothing.

Moreover, the existence of modern garment industries in Ethiopia has been there for over significant years, though not centuries. For instance, according to John Sutton and Nebil Kellow (2010) Dire Dawa Textile Mills is one of the modern textile factories that were established in Ethiopia in 1939. According to the authors, Addis Garment was established in the 1960s as one of the first garment industry in the country. It is highly crucial that the proper development of this industry could contribute a great deal to the general economy, as well plays

a pivotal role in the employment generation and creation of an agricultural and industrial linkage.

Owing to various factors to be revealed by this study, the industry that could have been flourishing to the best interest of the economy is now operating at about 50% of its capacity. Moreover, the industries are operating very much below the production capacity and hence their contribution to the GDP is insignificant in light of efforts made by the government and different stakeholder's concerned (Mekonnen, 2013).

Hence, as productivity reflects on the performance of a firm especially a garment sector which is known for the intake of large number of labor force, investigating the impediments is of a paramount importance as a developing nation with a huge number of young work forces and abundant natural resources. Hence, the low development and export performance of garment industries in comparison to Growth and transformation plan of Ethiopia (GTP 1) motivated the researcher to look in to the currently existing factors affecting the sector in order to come up with suggestions with a way of alleviating the major issues raised.

1.3 Research Question

In line with the above problem statements regarding garment industries engaged in export the following research questions are raised.

1. What is the performance of garment industries engaged in export?

2. What are the major factors affecting the export performance of garment industries engaged in export?

3. What corrective measures should be taken to address some of the major factors affecting the performance of garment exporting industries?

1.4 Objective of the study

1.4.1 General objective:

The general objective of this study is to investigate about the major impeding factors that hindered the export performance of garment exporter industries; which could have contributed highly in providing employment, gain of foreign currency and overall development of sustained economic wealth of the society.

1.4.2 The specific objective of the study is:

1. To investigate the export performance of garment exporting industries.
2. To assess the major factors affecting the performance of garment exporting industries engaged in export.
3. To suggest corrective measures that should be taken to address some of the major factors affecting the performance of garment exporting industries.

1.5 Significance of the Study

The study is believed to provide an insight to the areas of intervention required to curb the current root problems that have been hindering the flourishing garment industries in Ethiopia. It also serves as a reference in the areas of knowledge required to plan current sustainable garment industry development. The recommendation to be drawn from this study will be a vital input for policy makers, promoters and any other stakeholders concerned. It also serves as a springboard for taking further investigation by other researchers.

1.6. Delimitation or scope of the study

The study tries to investigate major impeding factors that hinder export performance of garment industries engaged in export activity operating in Addis Ababa. This study is limited in scope in that description of facts on garments industries that are currently operational but do not export or inactive is beyond the scope of this study. The study is further limited in addressing companies operating beyond the vicinity of Addis Ababa. Time and resource is a limiting factor not to include the above accounts in my study.

1.9 OPERATIONAL DEFINITIONS OF TERMS

Enterprise: It refers to a unit of economic organization or activity whether public or private engaged into the manufacturing of goods.

Factors: A factor is a contributory aspect such as politico-legal, working premises, technologies, infrastructures, marketing, financial, management and entrepreneurial influences that affect performance of micro and small enterprises.

***Manufacture of garment*:** is an enterprise sector engaged in preparation and spinning of textile fibers, manufacture of carpets and rugs; manufacture of wearing apparel, dressing and dyeing of fur

Performance: in this paper performance defined in terms of Export proceed.

Respondent: respondents are those individuals who are owner managers or operators of an enterprise.

CHAPTER TWO: LITREATURE REVIEW

2.1. Introduction

This chapter reviews works on Garment industries involved in export in the world, Sub- Sahara Africa and Ethiopia in general. Works done on export performance and factors affecting export performance is also reviewed. This is of help to understand the current state of global as well as Sub-Sahara Africa and Ethiopian garment exporter industries export performance.

This chapter comprises of the following sections. The role of garment sector in Global, Sub-Saharan and Ethiopian economy, the concept of export business performance and factors affecting export performance is discussed.

2.2. Background of the Study Area

The clothing industry is labor-intensive and it offers entry-level jobs for unskilled labor in developed as well as developing countries. Considering the increasing domestic labor and material costs, most apparel companies in developed countries tend to cooperate with the textile and apparel manufacturers from developing countries for the purpose of reducing production costs by sourcing. Global sourcing has become a growing trend in the textile and apparel industry, and products are often produced in developing countries, sometimes thousands of miles away from the point of consumption (Allen, 2008). Moreover, it is a sector where relatively modern technology can be adopted even in poor countries at relatively low investment costs. These technological features of the industry have made it suitable as the first step on the industrialization ladder in poor countries, some of which have experienced a very high output growth rate in the sector (e.g. Bangladesh, Sri Lanka, Viet Nam and Mauritius).

2.3. Garment Sector Export Performance In Global Trend

Total global textile and garment export has reached a staggering US 708 Billion in the year 2012 according to WTO 2013 Annual Report. The three largest global exporters of apparel are China, Turkey, and Hong Kong, together they account for one-half of global apparel exports in 2005 (USITC, 2007). China continues to be the leading exporter of textiles and clothing. Its share in world exports increased to 33 per cent for textiles (up from 32 per cent in 2011) and to 38 per cent for clothing (up from 37 per cent). WTO 2013 Annual Report states that the European Union and the United States remain the major markets for clothing, accounting for 38 per cent and 20 per cent respectively of world imports in 2012 moreover its reported that the clothing industry export growth rate has averaged 6 percent from 2005-2012 and will continue in the similar trend.

2.4. Garment Sector Export Performance In Sub-Saharan Africa

According to a study report by (USITC 2007) from the SSA, the major exporting countries are Kenya, Lesotho, Madagascar, and Botswana; other recently emerging export countries such as Ethiopia, Ghana, Tanzania, and Swaziland are increasing activity in the sector, owing to factors such as SSA government initiatives, increased foreign investment, intra-SSA country partnerships, and trade preferences such as AGOA Trade agreements and preference programs. Moreover, AGOA's third-country fabric provision has served as strong catalysts for increased apparel exports from SSA. More recently, Botswana and Ethiopia also have increased exports of textiles and apparel due, in part, to strong government incentives and comparatively low wages (USITC 2007).

The AGOA program has stimulated numerous foreign investment projects in several SSA textile-producing countries. Most of the investment has come from Asian sources and a few from Africa. This act the African Growth and Opportunity (AGOA) Act of the early 2000s gave many exporters in Africa duty-free access to the US market. Between 1999 and 2004,

clothing exports grew from virtually nothing to US$ 495 million in Lesotho, US$ 333 million in Kenya, and US$ 205 million in Swaziland. The value of sub-Saharan African clothing exports to the US dropped by 26 percent during 2004–2006, including 26 percent from Madagascar, 24 percent from Swaziland, 53 percent from South Africa, and 48 percent from Mauritius (Kaplinsky & Morris, 2008). According to the recent (USITC, 2014) report US import under AGOA reached USD 907million in 2013 while US global import stood at USD 19 billion, that of Africa stands at only 0.08 percent. This apparel sector offer potential for further export growth and utilization of the program to its maximum.

The growth of the garment industries in SSA countries continues to be constrained by widespread shortages of raw materials and textile inputs, high production costs relative to Asian suppliers, obsolete equipment, and capacity underutilization. The entry of used clothing and inexpensive smuggled goods that compete with local production is also a factor in the numerous countries. In addition, the export competitiveness of SSA countries in the global textile and apparel market has been hampered by high taxes, utility and input costs according to the recent (USITC, 2014) report.

2.5. Garment Sector Export Performance In Ethiopia

Ethiopia is endowed with favorable geographical and weather conditions and abundant water resources to grow cotton. The expansion of cotton planting and rise of yield will guarantee a sufficient supply of raw material for textile. Furthermore, Ethiopia is endowed with a cheap labour force. By means of the processing of raw materials, it is possible to upgrade the industrialization level, and promote the development of the whole economy.

Agriculture and Rural Development report quoted by Rahel Abebe (2007), “Ethiopia has 2,575,810ha of land suitable for cotton production, which is equivalent to that of Pakistan, the fourth largest producer of cotton in the world”. This shows that Ethiopia has a huge potential to develop cotton farms for domestic input as well as export as raw material and semi processed product.

As per the report of Ethiopian Ministry of Industry of 2013 report the structure of the Ethiopian economy has been evolving considering the record portion held by agriculture sector as dominant. In 2012/13 agriculture accounted for 42.9 percent of GDP compared to 46.5 percent in 2009/10. The share of the industrial sector in GDP increased to 12.4 percent in 2012/13 from 10.3 percent in 2009/10, while the service sector accounted for 45.2 percent in 2012/13 compared to 44.1 percent in 2009/10. This shows the composition of the economy has changed in favor of industry and service sectors over the last three years even if it's below the planned target for the industry sector.

The Ethiopian textile and Garment sector is the third largest manufacturing industry, only after the food processing and beverage industry, and leather industry. As a result of the governmental export incentives and opportunity of international trading environment, in the past few years, the export of textile and garment product has shown an increase. According to ETIDI in 2012, the manufacturing industry contributed 13% to the country's GDP. The textile and apparel industry's share of the GDP is 1.6% while it accounts only for 12.4% of the industrial output. The manufacturing Industry as a whole has been growing on average by 10.2% annually for the last seven years while the textile industry has shown a tremendous average growth rate of 52%. The Ethiopian government has ranked the textile and apparel sector as the first and core sub sector of priority. It has designed different incentive mechanisms to expand investment and promote export in the textile and apparel industry. The share of the industrial sector in GDP increased to 12.4 percent in 2012/13 from 10.3 percent in 2009/10 according to the report by ministry of industry of Ethiopia 2014 report. Export earnings of the manufacturing industry total at USD 207.7 million in 2010/11, USD 255.5 million in 2011/12 and USD 281.1 million in 2012/13. Further disaggregation of the manufacturing export earnings shows an increase in export earnings by all sub-sectors compared to the preceding years' performances, but below the planned targets. Close to USD 2 billion is expected in export earnings from manufacturing by the end of the GTP period as clearly indicated in the following table.

Table: 2.5.1 Manufacturing sector export earnings (in million dollar)

Product type	2010/11	2011/12	2012/13			2014/15	
			Plan	Actual	Performance (%)	Plan	Target
Textile& apparel	62.2	84.6	211.7	99	46.8	16.9	1000
Leather& leather products	104.3	112.1	233.3	123.4	52.9	10.2	496.9
Agro-processing	34.45	51.8	82.2	50.8	61.8	-1.8	300
Pharmaceuticals & chemicals	6.9	7	15.2	7.9	52.1	13	20
Total	207.9	255.45	542.4	281.1	51.8	10.1	1816.9

Source: Annual report of Ministry of Industry 2015.

According to Ethiopian Textile Industry development Institute (ETIDI)'s data of 2013, there are 50 standalone garment manufacturers in Ethiopia. It is expected that this number will increase to 80 at the end of the GTP 2015/16. The annual production capacity of the apparel sub sector is 22 million pieces of woven apparel and 57 million pieces of knitted apparel (ETIDI 2013). The standalone apparel manufacturers working for the export market are mostly engaged in cut make (CM) activities mainly due to lack of financial capacity to engage in full package deals.

Garment factories can manage to source only small quantity of fabrics from local mills as a result they depend on imported fabrics largely from China, Turkey, India, Pakistan and United Arab Emirates. USITC (Dec. 2004) In addition to the inadequacy of supply of fabrics from local mills in relation to the demand and underutilization of installed capacity, there is huge mismatch between the supply of fabrics and the type demanded by garment factories for domestic and export market.

Another gap to fill for the garment industry is the noticeable absence of a supporting industry feeding trims, accessories and packaging. Logistical and financial commitments overseas to secure the required trims in advance increase not only the inventory cost but also the risk to take orders. Finance instruments to procure fabric and accessories are also strictly controlled, slowing down the speed with which the market need is met.

2.6. Performance and its measurements

Enterprises considered a vital component of the socio-economic development of both developed and developing countries, usually some of these enterprises collapse within the first few years of their start-up. Of those operating, some grow rapidly, while others grow slowly. So, it is important to identify the cause factors of success because it helps new entrants of the sector to consider the factors and use for their future in the business (Alasadi and Abdelrahim, 2007).

This kind of investigation of the success factor is very important for developing countries like Ethiopia because the research recommendations could be useful for the economic development planners as well as to individual entrepreneurs and business owners. A better understanding of export performance is important as it allows for the accumulation of foreign exchange reserves, increased employment levels, improved productivity, and enhanced prosperity (Czinkota 1994). In addition it can be said that research done on export performance is of interest to managers because it is considered as a tool to boost corporate growth, strengthen competitive edge, and ensure company survival in a highly competitive marketplace (Terpstra and Sarathy 2000)

Performance can be defined as "the degree to which an achievement is being or has been accomplished" (Metcalf, R. W. and P. L. Titard, 1976). A business enterprise could measure its performance using financial (objective) or non-financial (Subjective) measures and a combination of both. Indicators that are based mainly on absolute values such as export intensity, export sales volume, and export market share are called objective measures. Both types of export performance measures will be discussed in brief hereunder.

2.6.1 Objective Measures

Sales related measures are widely used to assess export performance. Three performance measures are identified in this subcategory: export intensity, the ratio of export sales to a country's total sales (Katsikeas, Leonidou, & Morgan, 2000), export sales the size of export earnings in dollar value for a country (Shoham, 1996), and export growth increase of exports over a certain time period (Aaby & Slater, 1989). Export sales growth measure could be used which may be criticized for overstating performance because of price escalation and market growth, or understating performance because of experience curve effects and deteriorating demand (Kirpalani and Balcome 1987). As with sales related measures, these measures are open to criticism in that export-related profit may not be known with any degree of certainty and that it might raise comparability problems because of different accounting practices across firms (Lages and Lages 2004).

Among objective measures, market related measures are seldom used. Three performance indicators were identified under this category: export market share, export market share growth and market diversification (number of markets entered). Market related measures have been promoted as a good indicator for success, the reason being that high market share leads to scale and experience advantages on the cost side as well as more power in approaching customers (Madsen 1998). However, due to the difficulty in measuring actual market share, these measures have been criticized and rarely employed.

2.6.2 Subjective Measures

The use of subjective measures has been suggested in cases where managers may be unwilling or unable to provide objective financial data or because of the difficulty in reconciling cross national or cross industrial differences in accounting practices, variations in exchange rates, and financial reporting between countries (Woodcock, Beamish, and Makino 1994).

These subjective export performance measures include managers' degree of satisfaction with overall export performance, overall export performance compared to competitors, export success, meeting expectations. The argument for using these kinds of measures is that the general perception of export performance probably best captures the essence of the construct, and it shows the perceived degree of economic success also including the managers' opinions of strategic elements of success, such as market expansion, competitive response, market penetration, and so forth (Solberg 2002). Firms that meet or exceed their objectives are more satisfied than firms which have not met their objectives.

Overall, given the advantages and the complementary nature of objective and subjective measures, it's advisable to employ both types of measures. This approach of using several measures to grasp the construct appears to indicate that it would lead to more accurate results and, therefore, that it is preferable to use multiple items to operationalize export performance (Shoham 1998).

This research project work employ export sales volume as measurement of export performance as data is found adequately and accurately.

2.7. Internal and external determinant factors of export performance

According to (UNCAD 2004), export performance determinants can generally be divided into external and internal factors. External factors are related to market access conditions, a country's location vis-à-vis international markets and other factors affecting import condition of foreign countries. Internal factors refer supply-side limitations. Supply conditions are fundamental in defining the export potential of an economy. Countries with better supply conditions are expected to export more. Supply capacity is affected by access to raw materials and factor related to costs such as: labour, capital and other resources. Besides resource endowment, economic policy and the institutional environment also affect the supply capacity of the country.

The internal/external divide corresponds to the two theoretical approaches underpinning most of the empirical research of export performance the resource based view of the firm (RBV) and the contingency theory. Studies examining the internal factors which are grounded in the RBV approach, and assume that the firm's export performance is under the control of the firm and its management. The resource-based view (RBV) proponents suggest that exploitation of distinctive, immobile strategic resources owned or controlled by a firm are its source of superior performance (Zou and Stan, 1998; Katsikeas et al, 2000; Sousa et al., 2008).

External determinants are supported by the industrial organization theory. In contrast, the industrial organization (IO) theory argues that the external factors determine the firm's strategy, which in turn determines economic performance (Scherer and Ross, 1990). The logic is that the external environment imposes pressures to which a firm must adapt in order to survive and prosper (Collis, 1991). Following the IO theory, the external factors and firm's export strategy are the primary determinants of export performance.

Internal Factors/Determinants of Export performance

2.7. 1. Labor

The term "Human Capital" has been defined by Schultz (2003) as a key element in improving a firm assets and employees in order to increase productivity as well as sustain competitive advantage. Furthermore Human capital is defined as "The knowledge, skills, competence and attributes embedded in individuals that facilitate the creation of personal, social and economic well being" by (Organization for Economic Co- Operation and Development or OECD, 2001:18).

The garment industry is a labor intensive industry (Isam and Shazali 2011). In most studies carried out on human capital and their implication on performance of a firm human capital enhancement will result in greater competitiveness and performance of a firm (Agrawala, 2003). In empirical lireture; Pfaffermayr (1996) justifies the positive impact of labor force on export. Factors such as experience, training which can be on job or off job training has an effect on performance of a firm. Skilled labor force is the source of competitiveness in production. In another study done by (Kumar and Siddhartha, 1993) on Indian exporting firms it's found that Skills have a positive influence in export performance. In a similar study carried out in Pakistan garment firms by (Nebil and Hamd, 2013) reveals two vital categories of workers affecting their performance growth: stichers and middle management; i.e. supervisors, technicians and engineers in the area of production, quality control.

Many developing countries including Ethiopia are trying to exploit this advantage of skilled as well as unskilled labor force which is found to be the competitive advantage in the garment manufacturing and export sector. According to United Nations projections reported by Mackenzy Sub-Saharan Africa will have the highest growth in working age population over the next 20-30 years. It's further more reported that the working population in the region is expected to be as large as Chinas today i.e. with 900million people who will serve as a competitive advantage in the manufacturing sector specially the garment sector which is known as a labor intensive sector.

2.7.2. Capital

Capital is one of the factors of productivity hence performance which indicates an industries capacity to combine inputs to generate value added. Financial resource deals with the ability to access cash and capital (Ling- Yee, L., & Ogunmokun, G.O. 2001). The resource based theory suggests that export financing plays a vital role for exporting firms to perform well and compete in international market. The availability of of working capital in order to meet costs related to purchase and produces of exportable goods as well as cover pre-shipment costs and unexpected difficulties. Better industrial export activities require high liquidity and working capital (Yaprak, 1985). In world banks (2007), enterprises survey only 17.7 percent of Pakistani firm's surveyed responded access to finance as major constraint, compared to 33.4 percent in other South Asian countries and 29.7 percent across 135 countries. More over in another study on Bangladesh confirms that firms were concerned about high level of interest rates even for loans backed up by sound collateral (Khar, 2008). In other studies the ability of financial resources presents little organizational activities and an overall weak positive relationship with financial performance (Anna Kaleka, 2012; Levinthal, 1997). Capital intensity that gives competitive advantage to a firm through the production of technology or better quality products, however gives a negative relationship with export performance of Indian firms (Kumar and Sidhratha, 1993). But to the contrary (Bernard and Wagner, 1996) have found that firms in Germany exhibit positive influence of capital intensity on export performance.

2.7.3. Information Technology

The technological development in the world affects the export oriented firms adversely. Most recent development in technology is considered to be pervasive to all types of firms engaged in the manufacturing and service sector of developed and developing nations as (James, 1994; Domes et.al, 1997) states. Many developing countries have been able to strengthen their comparative advantage by focusing on the building of technological capability, on adoption of new technologies, and on the development of skills to use these new technologies effectively and efficiently (Noland, 1997). A study conducted by Aw Bee Yan et.al (2008) on Taiwanese electronics exporters, illustrates casualty between R&D and productivity.

In order to remain competitive in the global market garment exporting firms are forced to adopt up to date technology. Most garment manufacturing firms worldwide use IT mainly in the Design and Pre-assembly stages of manufacturing process. These IT tools are (1) Integrated Management Information Systems (IMIS). (2) Computer- Aided- Design (CAD). (3) CAD Integrated with high resolution scanner used for embroidery work on fashion clothes. Information management system is used for office automation and other managerial activities. CAD and MMS are used in the design, grading, and pattern-making stages whereas the computerized embroidery system is used at the assembly stage.

2.7.4 Managerial Capability/Talent

Firm's decision makers play a vital role in the firms performance. Managers deal with the cost, profit and risk of a firm. Education, training and exposure provide the skill set and knowledge that equip them with tools like technology literacy which helps to increase productivity and hence success in performance. "Education cultivates comprehensive literacy, this would help owners/managers to interpret relevant information to do effective planning and make well-informed decisions which would ultimately enhance the organizations success" (Mohan-Niell, 2009). In similar study its stated that the crucial element of a firm characteristic is leadership since organization leader is the decider of all corporate roles, directions and strategies affecting production innovation (Matzler et.al, (2008) accordingly leaders bring success to the firm with attainable overall operations through sales turnover, increase the firm's success, profit and growth of the enterprises (Siriwoharn, 2008). Kammath, Rom, et.al., (1987), in their research they found that the skill managers are a key factor in term of export performance.

Also in another study suggested that the training of managers, knowledge of foreign languages and their export experience influence the export performance (Luis Filipe Lages, 2008). The management capabilities provide superior support to export distribution and to develop a better relationship with customer (kaleka, 2002). Specifically, the establishment and development of close relationship with the foreign customers require a skilled management team (Stavroula Spyropoulou, et.al, 2010).

External Factors/Determinants of Export performance

2.7.5 Raw Material

If a manufacturer has effective control over the supply of raw materials and components needed to produce exportable products, then we can say the production and performance is uninterrupted and sustained. Moreover the important contributor to the final cost of most of the products is the raw material cost. The firms usually face the dilemma of cost or quality. It is well known that the cost and quality has direct relationship but inverse relationship to value addition. The value of products can be enhanced by either reducing the price or increasing the cost. Sometimes the cost and availability of raw material (Lal, 1999) is very much affected by the price and availability of substitutes.

According to the Ethiopian Ministry of Agriculture (MoA), a total of 3 million hectares of land is suitable for cotton farming. This will put Ethiopia at Par with Pakistan with the same size of 3 million hectares for cotton farms. Currently, this potential remains largely untapped with only 78,000 hectares cultivated in 2012/2013 growing period (Ethiopian Cotton development and Marketing Strategy Performance report 2012/1013) which constitute only 2.6% of the available land.

2.7.6. Marketing strategy

As the firms in a developing country like Ethiopia are likely to be smaller in export experience than those in developed countries, these firms are likely to use a number of intermediaries to reduce their cost and risk to sell their products in the external market. Through export intermediaries, the exporting firms can gain access to international markets without having to incur the costs associated with measures such as searching for new markets, establishing in house marketing channels for external markets, developing knowledge base of foreign market, costs associated with developing trust and credibility with customers in external markets, negotiating and monitoring contracts to ensure performance (Rosson and Ford 1982; Cavusgil 1983).

Earlier research done by (Aaby and Slater 1989; Cavusgil and Zou 1994; Francis and Collins-Dodd 2000) has found that distribution strategies, including the use of intermediaries and strategic partnerships, are related to export commitment. Moreover, committed exporting is dependent on ongoing distribution arrangements and frequent visits to foreign representatives as per the research done by (Beamish, Craig and McLellan 1993).

2.7.7 Government regulations and incentives

Government policy and regulation needs to support the garment industry so as to reduce or even eliminate the loss of both manufacturing base and labor force. Financial aid mainly provision of easy access to fund (John, 2005) or investment incentive tax aid (Chen and Cheng, 2007) education and training assistance in both product quality and labor skill development and public business operations(Mataraarachchi and heenkenda, 2012). Government policies have a formidable positive influence on the export performance of Indian firms (Patibandala, 1988). (Togan, 1993) investigated structure of export incentives in Turkey from 1983 to 1990, and found out that the export incentives are export credits, tax rebate scheme, premium from the "Support and Price Stabilization Fund", duty free imports of intermediates and raw materials, and exemption from the value added tax, foreign exchange allocations, exemption from the corporate income tax and other subsidies.

One of the primary responsibilities of the government clearly pointed out in the Industrial Policy and Strategy of Ethiopia is creating conducive environment for industrialization. That includes: Stable macro-economic environment, Development of conducive financial system; Reliable infrastructure provision; Trained manpower; Effective & efficient administrative/governance structure and Efficient judicial system. In line with this, the Industrial Policy and Strategy identified subsectors for Promotion: Textiles and garment industries; Meat, leather and leather products industries; Agro-processing industries; Construction industries; and Small and Micro Enterprises. The Textiles and Garments

subsector is one of the best demonstrations of the industrialization stride and the success of the policy as it became to receive substantial interest from key global textile companies.

2.7.8 Institutional and between industries relation and support

In a study (Salam, 2005) it was suggested that business should combine their resources into business alliance through their supply chain in order to meet customers needs and generate competitive advantages. It is not essential for firms to compete with each other but instead form alliances to help support each other and create network for business growth expansion which leads to increased sales. The alliance maid by specific groups within international garment industry includes domestic and foreign agents retail and wholesale shops with internal commerce capabilities that have clear contact terms and conditions as well as formation of networks with customers (Rujithamrongkul, 2005).

In addition (Watchravesringkan et. al, 2010) considered firm level strategies as an executive networking system or business alliance still supports business operations in order to decrease production costs, enhance productivity and create continuous innovation. Those firms that reform and embrace these factors will be in a better position from their competitor and continue their business successfully (Suttle and Medea, 2012).

The main organ of the government that was established on June, 2010 following the implementation of the Industrial Development Strategy is Ethiopian Textile Industry Development Institute (ETIDI). ETIDI is established with the objective of supporting investors by enabling the Ethiopian textile industry to be competitive in the global market by promoting and supporting investment, providing consultancy services and training, conducting research and development activities and giving laboratory inspection and marketing support services (ETIDI 2013). The other institution formed representing the interests of its 80 member factories is Ethiopian Textile and Apparel Manufacturers' Association (ETGAMA) which is a national association of the Ethiopian textile and apparel industry, established in 2003 . The basic objective of ETGAMA is representation of member's interest predominantly with capacity building in technical, marketing and policy environment (ETGAMA 2014).

The study presented to the African economic conference by (Ms Rahel Abebe,2007) on the topic, AGOA: The Case of Ethiopia textile sub-sector, has extensively addressed the problems faced by the Ethiopian textile and apparel industries in utilizing this privilege as lack of coordination and trust on the textile and apparel producers to work together and lack of coordination between industries and relevant trade bodies.

2.7.9 Infrastructure

Firms' operating from a developing country like Ethiopia would also be required to take into account the uncertainties on account of rather poor infrastructure in the system. To be competitive in the present liberalised business environment, a domestic enterprise needs world class and cost-effective infrastructure. Better roads, better connectivity, modern airports and railways, efficient ports and affordable and reliable power are all the basic requirements for a competitive economy. Non-availability of the same could result in costs to a firm because of needs such as maintaining inventories at various stages of the work-in progress and the need of excess liquidity to meet such unavoidable transaction costs on account of an underdeveloped system.

Most African countries, many of which are LDCs, are characterized by poor transport infrastructure, and are found in all periods to be poor export performers (UNCTAD 2002). This appears to indicate that African countries could do much to raise their supply capacity by investing in transport infrastructure. This conclusion is supported by other studies. (Limao and Venables, 2001) present some empirical analysis indicating that levels of trade flows observed for African countries are relatively low, essentially because of poor transport infrastructures. This could be more acute in the case of landlocked countries because of their geographical landscape and location. Which Ethiopia is also in the same position as it's a land locked nation using neighboring country to export.

2.8 The Conceptual Framework

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since business performance is influenced by both internal and external factors, operators need to understand what influences businesses to reach peak performance. The external factors include Government regulations and incentives, infrastructure, Marketing competition and Instititutional and between industries relation and support. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them (Wanjiku, 2009:81-82). Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. The internal factors that influence the firm's performance can be classified as quality and availability of Raw material, labor skilled and semi skilled, Capital, Information technology and R&D and Management/talent and entrepreneurial factors.

To align the conceptual framework with the research objectives, export performance is the dependent variable whereas all independent variables are Raw material, labor (skilled and semi skilled), Capital, Information technology and R&D, Management/talent Government regulations and incentives, infrastructure, Marketing competition, Instititutional and between industries relation and support factors. The relationship can be expressed and shown below.

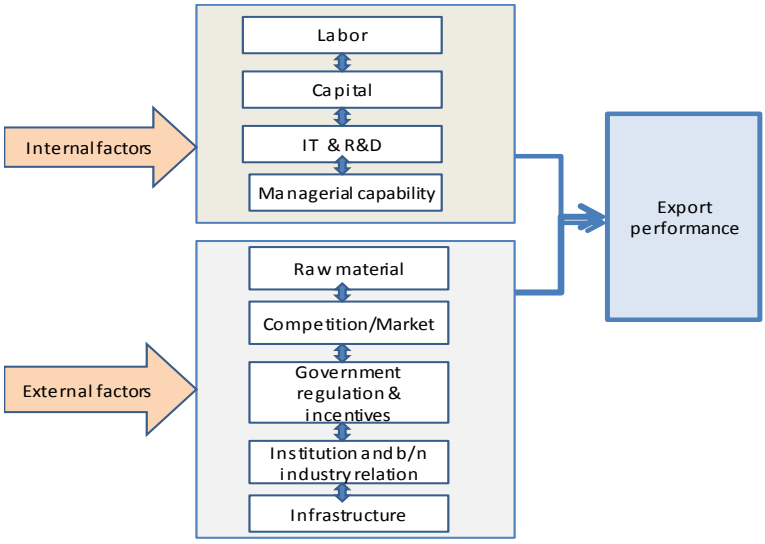

Table 2.8.1Conceptual frame work: Developed for this project

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1. Research Methods, Materials and Procedures

The analysis and discussion in this project are based on data collected from two complementary sources. The first one is field work - primary data which is collecting data from firms in the sector. The second one is documentary or secondary sources. These two sources together generate both qualitative and quantitative data, which would be used to explore the essence of this project. This is essentially descriptive and also explanatory research type. The approach is chosen for this project because it will help to capture the details of firm level as well as the sectors export performance determinant factors. The procedures that are followed in data processing and analysis are described in the sections that follow.

3.2. Research Design

In view of the fact that the overall objective of the project is to identify and describe the current impeding factors working against the export performance of the garment sector. The research design used is mixed approach of both descriptive and explanatory. It's partly descriptive because it describes and interprets findings from primary and secondary data. It's partly explanatory as it tries to investigate and explain current factors affecting the export performance of the garment sector.

3.3. Sampling and Target population of the project.

The project population covers garment exporting industries located in Ethiopia particularly within the vicinity of Addis Ababa. According to the discussion made with Director General of Ethiopian Textile and Garment Manufacturers Association (ETGAMA), out of the total 50 garment manufacturers in Ethiopia, there are 38 garment manufacturers located within the vicinity of Addis Ababa. However, from the aforementioned manufacturers which are located in Addis Ababa, the researcher has taken 19 of them as a sample for the research as these only are engaged in export.

The list of target population selected for the purpose of the project is as follows.

1	Addis garment S.C.
2	Ayka Addis textile & Investment group
3	Bekimar Industry plc
4	BM Ethiopia Garment & Textile S.C.
5	Concept International Ethiopia plc
6	Else Addis Textile plc
7	Feleke Garment plc
8	GG Super Garment plc
9	GMM Garment plc
10	Knit to Finish plc
11	Lucy Garment Industry plc
12	MNS Manufacturing plc
13	Muya Ethiopia plc
14	Nova Star garment plc
15	Saygin Dima textile S.C.
16	Sebhar plc
17	Trio Craft Factory
18	Village Industrial plc
19	Wossi Garment Design Factory

3.4. Methods of Data Collection

3.4.1. Documentary sources

As expected of a study, an important starting point is the review of literature. The search for literature and documents for this study is therefore, conducted using libraries, personal collections and the internet to get both qualitative and quantitative data. The search has also generated useful documents and information that provide insights into the theme of the project by analyzing the former works.

3.4.2. Fieldwork and primary Data Collection Techniques

To achieve its objective, both qualitative and quantitative data were obtained through the use of interview and self administered questionnaires. Questionnaire was prepared and administered to contacted key informants who are senior executives (General Manager, Marketing Manager or Public relations) from the industries contacted and supportive government institutions to obtain first-hand fresh information on factors affecting the efforts of the promoters not to pursue the goal of optimized their export performance. The total numbers of garment firms selected to fill the questionnaire are predetermined to be 19 garment sector operators engaged in export.

3.4.3. Questionnaire Design

The layout of the questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The reason for the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent (John A. et al., 2007). The literature in the study was used as a guideline for the development of the questions in the questionnaire. Besides, some questions in the

questionnaire were adopted from other sources (Selam Samuel, 2012). The questions that were used in the questionnaire are multiple-choice questions and five-point likert scale type questions. The type of scales used to measure the items on the instrument is continuous scales (strongly agree to strongly disagree).

3.5. Methods of data Presentation and Analysis

To achieve the stated objectives and come up with reliable results, in its presentation and analysis, the paper used frequency table and percentage data presentation and analysis. The main reason to make use of these methods is the very nature of the study, i.e., descriptive study. Secondary data have also been used either in original form as given in the source or in modified form. Overall, there is blending of the different kinds of information that have been collected to explain the theme of the project.

3.7. Validation

Regarding validity, self administered questioner was administered in addition to the use of secondary data and previous similar works were used to crosscheck findings by triangulation. Triangulate different data sources of information by examining evidence from the sources and using it to build a coherent justification for the project.

3.7 Ethical Consideration

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of administering of questionnaire and asking interview questions. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like ‘respondents’ were used

3.6. Organization of the Paper

The paper is organized in to five chapters. Chapter one deals mainly with the introduction to the paper. Under this subsection, background of the study, statement of the problem, research question, and objectives of the study, limitation and delimitation of the study were made. In the next part, under chapter two, intensive literature review was made. Under chapter three, research issues regarding research design and methodology were discussed. In the last sections, chapter four and five, data presentation, analysis, interpretation and summary, conclusion and recommendations were made respectively.

CHAPTER FOUR: PRESENTATION, ANAYSIS AND INTERPETATION OF DATA

4.1 INTRODUCTION

The purpose of this project is to critically assess the factors affecting the export performance of Garment exporting firms in Addis Ababa. Data were collected from operators of the sector through structured questioner. Generally, this section is organized in the following manner: First, the general information about Garment Exporting Firms in the sector is presented and analyzed. Second, data collected through questionnaires is analyzed accordingly.

4.1.1 Data presentation, Analysis and Interpretations

Under this section, presentation, analysis as well as interpretation of the data that are collected from the respondent firms presented. Accordingly, a total of 19 structured questionnaires were administered to contacted 19 organizations identified as prominent exporters from the sectors. Except three firms in the sector 16 respondents were willing to participate. The response from the 19 organizations contacted and questionnaire administered accounts for 84 percent of the total respondents which are available for analysis.

4.2 Export performance Data Presentation, Analysis and Interpretations

According to ETGAMA 2015 report as shown on table 4.2.1 below, though the absolute export performance of textile and garment sector showed a slight and inconsistent increase compared to the target set in GTP1, it is decreasing and seems to be very remote from year to year over the years 2010 up to 2015. Moreover, the portion of garment export increased from USD 26.8 million USD in 2010 to USD 72 in 2015 that is the GTP 1 period. Whereas, comparing export performance against the plan in the GTP1 period which was USD 1,593 million, Garment has earned a total of USD 295.1 million (i.e. 18.5 percent of the target).

Moreover, export performance for the years 2011/12 and 2012/13 show that the foreign currency earned decreased from 63.1million USD to 61 million USD. Similarly, the foreign currency earned decreased from 72.2 million USD for the year 2012/14 to 72 million USD in the year 2014/15 as shown on the table above showing a decrease in export performance in addition to the fact that the export performance is far behind the planned target set in GTP1 period which is 2010 up to 2015.

Table 4.2.1 Textile and Garment Foreign currency earning in USD '000

Product Description	2003 (2010/2011 G.C)		2004 (2011/2012 G.C)		2005 (2012/2013 G.C)		2006 (2013/2014 G.C)		2007 (2014/2015 G.C)	
	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved
Garment	65	26.8	130	63.1	293	61	455	72.2	650	72
Textile	35	35.4	70	21.5	157	38	245	39.2	350	26.1
Total	100	62.2	200	84.6	450	99	700	111.4	1000	98.1

Source: ETGAMA 2015

In addition to the export performance report presented by ETGAMA in 2015 regarding GTP 1 depicted below textile and garment sector capacity utilization rate has increased from 54 percent in 2010 to only 64 percent in 2015 while the plan was to increase capacity utilization rate from 60 percent in 2010 to 90 percent in 2015. Particularly the garment sector capacity utilization rate has only increased from 51 percent to 60 percent whereas the planned target was 55 percent to 85 percent in the same GTP 1 period 2010-2015. Planned capacity utilization growth rate progressively increased while the actual or achieved capacity utilization growth rate almost remained the same from year to year in the years 2010 up to 2015.

Table4.2.2: Textile and Garment industries capacity utilization rate

Product Description	2003 (2010/2011 G.C)		2004 (2011/2012 G.C)		2005 (2012/2013 G.C)		2006 (2013/2014 G.C)		2007 (2014/2015 G.C)	
	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved
Garment	55	51	60	52	70	54	75	57	85	60
Textile	65	56	70	58	80	59	85	62	95	67
Total	60	54	65	55	75	57	80	60	90	64

Source: ETGAMA 2015

Textile and garment sector is known for taking up large number of skilled as well as semiskilled and trainable workforce. According to GTP 1 document it was planned to create 40,000 employment opportunity in the textile and garment sector totally within the five years, however only 27,806 jobs were created accounting for 69.5 percent of the target. In the same manner garment sector took in 16,684 workers compared to 24,000 plans which is similar to 69.5 percentage of the targeted employment opportunity created within the five year of GTP 1 i.e. 2010-2015 G.C. as shown in detail on the above table 4.2.3.

Table 4.2.3 Textile and Garment sector employment opportunity performance

Product Description	2003 (2010/2011 G.C)		2004 (2011/2012 G.C)		2005 (2012/2013 G.C)		2006 (2013/2014 G.C)		2007 (20114/2015 G.C)		Total	
	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved
Garment	4,402	3,524	1,608	1,020	3,524	3,359	6,719	1,581	7,730	3,239	24,000	16,684
Textile	2,935	2,349	1,072	680	2,361	2,239	4,479	1,054	5,153	1,184	16,000	11,122
Total	7,337	5,873	2,680	1,700	5,885	5,598	11,198	2,635	12,883	4,423	40,000	27,806

Source: ETGAMA 2015

Overall in the GTP1 period 2010-2015 G.C. as depicted and discussed above the textile and garment sector specially in the garment sector export performance regarding planned against achieved sector Foreign currency earning, Capacity utilization rate and job opportunity created the sector is quite at the rear. Considering these facts this project tries to assess the underlying factors impeding export performance of garment exporting firms.

4.3 General characteristics of the firms

4.3.1 Year of establishment of the respondent firms

From the respondents 16 firms response on the questioner as to the question their respective year of establishments only two firms were established 1996 and one in 2003, while 4 new firms added to the market in 2005. From the year 2006 to 2009 four, one and two firms were established. We can observe from the summery that most of the firms engaged in the garment export sector have a minimum of six year and a maximum of 20 years experience in the sector. Moreover 13 firms have a minimum of 6 year experience accounting for 81 percent of the assessed firms.

Table: 4.3.2 Respondent Garment Exporting firms by year of establishment.

Firms Year of Establishment In G.C.	No of firms
1996	2
2003	1
2005	4
2006	2
2007	4
2008	1
2009	2
Total	16

4.3.2 Capital structure of the respondent firms

Regarding their respective capital of the respondent firms is concerned 38 percent of the firms have above 21 million birr capital while 25 percent of the firms have the capital in the range 11-20 million birr. The remaining 13 and 25 percent of firms have a capital that ranges between 6-10 and 1-5 million birr respectively. Most of the firm's that is 63 percent have a capital more than 21 million while the remaining firms capital is below 20 million mark that accounts the remaining 37 percent as shown below on table: 4.3.3.

Total number of Firms classification by Capital In ETB	No of firms	%
1-5 million	**4**	**25**
6-10 million	**2**	**13**
11-20million	**4**	**25**
21 &above	**6**	**38**
total	**16**	**100**

Table: 4.3.3 Respondent Garment Exporting firms by capital structure.

4.4. Export Performance Vs Target and Previous years of garment exporting firms.

In order to assess the export performance trend the following two questions were administered. The questions are the export performance of the firms compared to their previous years export performance has been increasing over the past 5 years at an increasing rate and the export performance of respective firms has been increasing compared to their firm's target over the past 5 years. Accordingly 80% of the respondents disagree to the fact that their export performance increased over the years at increasing rate compared to the previous year's performance while 10 percent of the respondents responded by agreeing and being neutral similarly.

The respondents response for the question whether their export performance is in align with their export targets set or not, 95% of the respondents disagree which means their export performance is much far below their export targets while 5% only meet their export performance target as indicated in the following table.

Table 4.4.1 Export Performance of respondent firms Vs Target/Previous years.

Export Performance Vs Target/Previous years		Agree (%)	Neutral (%)	Disagree (%)	Total (%)
I.	The export performance of my firm has been increasing over the past 5 years at an increasing rate?	10	10	80	100
II.	The export performance of my firm has been increasing compared to my firm's target over the past 5 years.	5		95	100

4.5 Internal factors affecting export performance of garment exporting firms.

In the questioners developed based on the literature review and administered respondents were asked different questions regarding the internal and external factors affecting their export performance. Their responses are organized in the following manner.

Table:4.5.1 Labor as a Factors

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is Good supply of unskilled and trainable work force for the sector.	31	44	25	100
There is adequate supply of skilled labor force in the market for the sector.		94	6	100
The wages of labor force is cheap.	31	38	31	100

In a study done on Pakistan garment firms which uncovered two vital categories of workers affecting their performance growth: stichers and middle management; i.e. supervisors, technicians and engineers in the area of production, quality control (Nebil and Hamd, 2013). As mentioned in the literature part, (Pfaffermayr, 1996) justifies the positive impact of labor force on export.

As shown in the table above regarding labor factor there are four items under consideration. From these factors the adequate supply of skilled labor force in the market for the sector is depicted by almost all as a critical factor as most respondents 95 percent disagree with the fact that there is ample supply of skilled labor force in the market while as to good supply of unskilled and trainable work force for the sector all respondents neither 'agree' nor 'disagree' with 31 percentage, 44 percent disagree and 25 percent neutral, in the same manner pertinent to the case that low-priced wages of the labor force 31 percent agree, 38 percent disagree and 31 percent neutral respectively.

Table:4.5.2 Finance as a Factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is difficulty in timely obtaining working capital from financial institutions	94	6		100
The collateral requirement from lending institutions is a serious constraint for the industry.	94	6		100
The interest rate charged by the financing institutions is very high.	88	6	6	100
Loan processing procedures of banks and other lending institutions are too complicated and time consuming.	94		6	100

In the four sections under finance as a factor of export performance in the garment sector, all most all firms agree to the criticality of the fact by 94 percent equally that there is difficultly in timely obtaining working capital, stringent collateral requirement, and complicated and time consuming loan processing procedures by financial institutions, while high interest rate charged by financial institutions accounted critical factor by 88 percent of the firms.

Table: 4.5.3 Technology as a Factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
The existing technology is outdated	38	6	56	100
There is lack of finance to acquire new technology because it requires huge investment.	94	6		100
There is a lack of skills and capability to handle new technology.	56	38	6	100

The other factor of export performance with three issues is the IT or Technological factor. Here 56 percent of the firms disagree to the obsoleteness of the existing technology, and 38 percent agree to the fact that the existing technology is outdated, while 56 percent are neutral. As to lack of finance to acquire new technology because of huge investment requirement majority or 94 percent agree while only 6 percent disagree and regarding lack of skills and capability to handle new technology 56 percent agree, in the meantime 38 percent disagree and 6 percent fell neutral.

Table: 4.5.4 Management Capability as a Factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
Educational readiness and capability of managers to help them in planning and making effective decisions for the success of the firm.	6	63	31	100
Skilled and well experienced managers are available in the market.	13	56	31	100
The Management has foreign trade exposure	25	19	56	100

The next issue presented on the table above under Management/ Talent shows three points. As to educational readiness and capability of managers in helping them in planning and making effective decisions for the firm's success 63 percent disagree, 6 percent agree and 31 percent neutral. In the meantime 25 percent agree to the availability of skilled well experienced

managers in the market while 13 percent disagree and 31 percent neutral showing no severity in both cases. 25 percent agree to the case that the management has foreign trade exposure, 19 percent disagree and 56 percent respond as neutral.

Table:4.5.5 Raw Material as a Factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is adequate supply of locally produced raw materials.		94	6	100
Locally produced raw materials are of the required quality.		94	6	100
The cost of locally produced raw material is reasonable.		88	13	100
There is high dependency on imported raw materials.	94		6	100

Responses by garment exporting firms depicted above regarding raw material as a factor having four categories indicate that almost all respondents agree by 94 percent to the fact that there is a high dependency of the sector on imported raw material. Moreover, 94 percent of the firms disagree to both the fact of locally produced raw material are of required quantity and of quality by the same vote rate. In addition to that respondents express by disagreeing to the reasonable cost of locally produced raw materials by 88 percent. All the above findings show the criticality of raw material as a factor of export performance in the garment sector promoters.

Table:4.5.6 Marketing as a Factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is pool of well experienced and export exposed marketing personnel's in the country.		81	19	100
My firm depends solely on intermediaries and outsourcing agents for export marketing.	6	69	25	100
There is frequent communication with suppliers and customers, foreign visit and participation in trade fair and promotion activities to reach and maintain market.	13	38	50	100

Regarding marketing, most firms have a choice between developing own marketing strategy by acquiring adequate marketing personnel or are likely to use a number of intermediaries to reduce their cost and risk to sell their products in the external market. Through export intermediaries, the exporting firms can gain access to international markets without having to incur the costs associated with measures such as searching for new markets, establishing in-

house marketing channels for external markets, developing knowledge base of foreign market, costs associated with developing trust and credibility with customers in external markets, negotiating and monitoring contracts to ensure performance.

Developed on the above facts three questions were raised and respondents replied by disagreeing to the fact that there is a pool of well experienced and export exposed marketing personnel's in the country by 81 percent and 19 percent neutral. In the mean time only 6 percent agree, 69 percent disagree, and 25 percent respond neutral to their firm's dependency solely on intermediaries and outsourcing agents for export marketing. Regarding the existence of frequent communication with suppliers and customers, foreign visit and participation in trade fair and promotion activities to reach and maintain market only 13 percent agree, 38 percent disagree and 50 percent replied neutral.

Table 4.5.7 Government Regulations and Incentives as a factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is strong government support for export, such as duty free privileges for importation of machinery and equipment, tax holidays, reduced import tax on raw materials and accessories.	94		6	100
There is efficient and effective government administrative/ governance structure in addressing issues adequately and timely	31	31	38	100
There is lack of accessibility of information on current government regulations that are relevant to the sector.	19	56	25	100

The three topics under Government regulation and incentives start with, there is strong government support for export, such as duty free privileges for importation of machinery and equipment, tax holidays, reduced import tax on raw materials and accessories which, almost all respondents agreed by 94 percent followed by only 6 percent neutral response. 38 percent were neutral while 31 percent agreed and disagreed in similar rate regarding the issue there is efficient and effective government administrative/ governance structure in addressing issues adequately and timely. In the same way only 19 percent agreed to there is lack of accessibility of information on current government regulations that are relevant to the sector, while 56 percent disagree and 25 percent responded neutral as per the above table 4.4.7 shown in detail.

Table:4.4.8 Institution and Industry relation factors

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There are enough supporting institutions and associations that represent my sector.		31	69	100
There is a stiff competition among the firms instead of forming an alliance to help support each other to create network to foster business growth in the sector.	88	13		100
There is lack of supportive coordination between institution and associations in my sector.	94		6	100

On top of considering firm level strategies an executive networking system or business alliance supports business operations in order to decrease production costs, enhance productivity and create continuous innovation (Watchravesringkan et. al, 2010). So to see the role institution and between industry relation factors the question there are enough supporting institutions and associations that represent my sector, 31 percent disagree while 69 percent were indifferent. In the contrary 88 percent agree to the existence of a stiff competition among the firms instead of forming an alliance to help support each other to create network to foster business growth in the sector, while 13 percent disagree. All most all that is 94 percent agreed to the lack of supportive coordination between institution and associations in the sector to only 6 percent disagree.

Table:4.5.9 Infrastructure as a factor

	Agree (%)	Disagree (%)	Neutral (%)	Total (%)
There is adequate availability of electricity, water and communication network for my business operation.		94	6	100
There is sufficient transport to/and from port.		100		100
There is Efficient port handling and customs processes for raw material import and export of export product.		100		100

In the present competitive liberalized business environment, a domestic enterprise needs world class and cost-effective infrastructure. Better roads, better connectivity, modern airports and railways, efficient ports and affordable and reliable power are all the basic requirements for a competitive economy.

Pursuant to these the criticality of infrastructure is further highlighted by the fact that 94 percent of the respondents disagree to the adequate availability of electricity, water and

communication network for their business operation, while only 6 percent were neutral. In addition, 100 percent of the respondents disagree both to the fact that there is sufficient transport to/and from port and the availability of efficient port handling and customs processes for raw material import and export of export product making the infrastructure critical factor to export performance. This also highlighted as one of the respondent has stressed the issue with the current shortage of electric power which made it very difficult for his firm to operate as planned.

4.5.10. Severity ranking of Factors affecting export performance.

In order to critically analyze and forward sort of way out for combating the factors affecting export performance of garment industries, the researcher has included in the questionnaire a table of factors to be ranked in their order of severity (from 1-most severe to 9 – the least severe) by all the respondents. The respondents' individual ranks has been added up and summarized in the following table 4.5.10.

Table 4.5.10 Internal and External Factors ranked according to the level of severity in affecting export performance, from (1) being the most severe to (9) the least severe.

Rank	Factors of export Performance	Number of Firms Responded (16)																Total
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1	Raw Material	1	4	1	1	1	1	3	2	1	1	1	1	2	2	1	1	24
2	Capital	2	1	2	3	2	2	1	1	3	2	2	2	1	1	5	3	33
3	Labor	3	3	3	2	3	3	2	3	2	3	3	3	3	3	2	2	43
4	Marketing	5	2	4	4	5	4	4	4	4	4	4	5	5	4	4	4	66
5	Infrastructure	4	5	8	6	6	5	3	5	5	5	5	5	7	5	3	5	82
6	Managerial Capability	7	7	5	5	4	7	6	6	7	6	8	6	4	7	7	6	98
7	Information Technology and R&D	6	6	6	7	7	6	7	7	8	8	9	4	6	6	6	7	106
8	Institution and b/n industry relation	9	9	9	8	8	8	8	8	6	9	6	7	8	9	9	9	130
9	Government regulation and Incentives	8	8	7	9	9	9	9	9	9	7	7	9	9	8	8	8	133

Based on the table of ranks by the respondents for Internal and External Factors affecting export performance, Raw material has scored 24 which is the most severe one from the other factors. Since Raw material, as an external factor is out of the control of the industries, it would harm

even the overall performance of the sector as a whole and the garment industry especially as it is the main input.

Nonetheless, the severity of other factors, capital and labor (scored 33 and 43) is not as simple and undamaging as the government regulation and incentives. This indicates that the external factors are more severe than the internal ones since it is a fact that one has no or little control over them as opposed to the internal factors. Whereas, factors such as Marketing, Infrastructure and Managerial Capability have scored 66, 82 and 98 points respectively. Information Technology, Institution and industry relation, and Government regulation and Incentives score, 106,130 and 133 showing less severity respectively.

As a point, the low performance of export in the garment sector is clearly indicated by responses from firms under consideration especially considering their respective yearly target. This is also stressed by the fact that the export performance of the country overall has shown a little or no progress as opposed to GTP1 target set for the sector as described in the secondary data analysis part.

In addition to responses above, the result from the self administered questioner and the secondary data used has shown similar severity rank to raw material as it is mainly explained by inadequate supply and low quality of locally produced raw materials which in turn made the industry to heavily dependent on imported raw materials with high cost and lengthy import time. As a result, the export performance of the industries within the sample investigated is lower against their own year to year plan and the target set in GTP1 in respective years.

CHAPTER FIVE: SUMMARY OF FINDINGS AND SUGGESTIONS

5.1. FINDINGS OF THE STUDY

This research was conducted in Addis Ababa with the prime intent of assessing factors affecting the export performance of garment exporting industries. Both internal and external factors were assessed. Based on the objectives and findings of the study, the following findings are drawn and listed in the order of more severe to less severe.

- Raw material is found to be the most critical factor as there is inadequate supply of locally produced raw materials associated with poor quality and high cost. Making the garment sector highly dependent on imported raw materials.

- Capital is the second most severe critical factor since firms in the sector faced difficulty in obtaining working capital. This is explained by the requirement of high interest rate and huge collateral along with the lengthy process of financial institutions which made it difficult to garment industries to perform well in export.

- Labor is the third severe critical factor as there is no adequate supply of skilled labor force in the market as clearly supported by the finding.

- Marketing is the forth severe critical factor as clearly supported by the lack of frequent communication with suppliers and customers, foreign visit and participation in trade fair and promotion activities to reach and maintain market. In addition, there is lack of well experienced personnel with export expertise in the sector.

- Infrastructure is found to be the fifth severe critical factor identified from the factors affecting export performance of garment industries. The lack of adequate transportation to/from port makes it very difficult for operators in the sector to perform well in export.

- Management factor is the sixth severe critical factors as there is lack of educational readiness and capability of managers in making sound decisions and the shortage of well experienced managers in the sector.

- Technology is the seventh critical factor affecting export performance. This is reveled by lack of finance to acquire new technology and shortage of capable talent in the field.

- Institution and industry relations is the least severe critical impediment as shown by the fact that, the stiff competition between firms instead of making alliance and the lack of coordination between institutions and associations made it easier said than done to promote the sector.

- Finally, as to Government regulation and incentives it's the less critical factor as there is adequate support and accessibility to regulations and incentives by the firms as indicated by the finding.

As a final point, the most critical and severe factor among all factors mentioned above is found to be the external factor. This is depicted by raw material as a factor. Since it is out of control by the sector in such a way that there is lack of adequate supply and quality of locally produced raw materials, it would be unthinkable to take corrective measures in the near future. Hence, this factor would aggravate the severity of the export performance of garment industry by affecting the other factors to remain as impeding factors of the sector.

However, the least severe ones such as Government regulation and incentives, Institution and industry relations and technology becomes less attention seekers in the industry though the industry should leverage and optimally utilize them for enhancing the export performance of the sector through complementing the most severe factors.

5.2. SUGGESTIONS

Suggestion is a part under which possible resolutions are provided for the major factors identified or investigated by the study. Based on the findings of the study, the following suggestions are forwarded.

In order to secure raw material which is the most critical factor, supply from domestic sources must be strengthened by either forming alliance with local farmers to get adequate supply with required quality or even consider backward integration which is engaging in cotton production or working closely with those industries in the primary stage i.e. textile sector.

Capital is the second most severe critical factor since firms in the sector faced difficulty in obtaining working capital. This is explained by the requirement of high interest rate and huge collateral along with the lengthy process of financial institutions which made it difficult to garment industries to perform well in export.

Collaboration with local as well as foreign institution for the transfer of knowledge in the areas required in developing skilled labor force through short courses, trainings and exposure visits.

The operators of the garment industry must exert effort to share knowledge and experience of best practices among the industry actors through their private sector national association and make use of pooled negotiating power for borrowing purposes, purchase raw materials and setting up an information hub in order to facilitate communication to foster the alliance and support among firms in the sector.

Regarding external factor which is infrastructure the Government needs to support the garment industry by Setting up special windows in major service providing institutions such as Banks to facilitate operations, provision of working capital and advance against export and in transport and logistics areas with responsibility to organizations concerned to provide efficient service for the sector.

Finally, the student researcher recommends conducting a related study in the future with the application of robust econometric model to provide in-depth sector specific recommendations for policy measures.

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APPENDIX A

QUESTIONNAIRE

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

EMBA PROGRAM

SECTION A: INTRODUCTION

Dear respondent,I am a graduate student in the department of management, Addis Ababa University. Currently, I am undertaking a research entitled **'An Assessment Of factors Affecting The Performance Of Garment Exporting Industries In Ethiopia: The Case Of Addis Ababa'.** You are one of the respondents in the industry selected to participate on this study. Please assist me in giving the correct and complete information to present a representative finding on the current status of the impeding factors affecting the performance of garment exporting industries in Ethiopia the case of Addis Ababa.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. Thank you in advance for your kind cooperation by allocating sufficient time.

Thank you in advance for your kind cooperation by allocating sufficient time.

B. Year of Establishment _____

C. Capital of your firm

D	**Legal Formation Of your Firm (√)**	Sole Propritorship	P.L.C	Joint Venture	Share Company	Government/ Public

E	Current Export Performance Vs Target/Previous year	**Strongly Agree** (5)	**Agree** (4)	**Neutral** (3)	**Disagree** (2)	**Strongly Disagree** (1)
I.	The export performance of my firm has been increasing over the past 5 years at an increasing rate?					
II.	The export performance of my firm has been increasing compared to my firm's target over the past 5 years.					

	Factors Affecting Export Performance	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1	**Labor as a Factor**					
1.1	There is Good supply of unskilled and trainable work force for the sector.					
1.2	There is adequate supply of skilled labor force in the market for the sector.					
1.3	The wages of labour force is cheap.					
2	**Financing as a Factor**					
2.1	There is difficulty in timely obtaining working capital from financial institutions					
2.2	The collateral requirement from lending institutions is a serious constraint for the industry.					
	The interest rate charged by the financing institutions is very high.					
2.3	Loan processing procedures of banks and other lending institutions are too complicated and time					
3	**Technology as a Factor**					
3.1	The existing technology is outdated					
3.2	There is lack of finance to acquire new technology because it requires huge investment.					
3.3	There is a lack of skills and capability to handle new technology.					
4	**Management as a Factor**					
4.1	Educational readiness and capability of managers					
4.2	Skilled and well experienced managers are available in the market.					
4.3	The Management has foreign trade exposure					
5	**Raw Material as a Factor**					
5.1	There is adequate supply of locally produced raw materials.					
5.2	Locally produced raw material are of the required quality.					
5.3	The cost of locally produced raw material is reasonable.					
5.4	There is high dependency on imported raw materials.					

	Factors Affecting Export Performance	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		(5)	(4)	(3)	(2)	(1)
6	**Marketing as a Factor**					
6.1	There is pool of well experianced and export exposed marketing personnels in the country.					
6.2	My firm depends solely on intermediaries and outsourcing agents for export marketing.					
6.3	There is frequent communication with suppliers and customers, foreign visit and participation in trade fair and promotion activities to reach and maintain market.					
7	**Government Regulation and Incentive as a factor**					
7.1	There is strong government support for export, such as duty free privilages for importation of machinery and equipment,tax holidays, reduced import tax on raw materials and accessories.					
7.2	There is efficient and effective government administrative/ governance structure in addressing issues adequately and timely					
7.3	There is lack of accesebility of information on current government regulations that are relevant to the sector.					
8	**Institution and b/n Industry relation as a factor**					
8.1	There are enough supporting institutions and associations that represent my sector.					
8.2	There is a stiff competition among the firms instead of forming an alliance to help support each other to create network to foster business growth in the sector.					
8.3	There is lack of supportive coordination between institution and associations in my sector.					
9	**Infrastructure as a factor**					
9.1	There is adequate availability of electricity, water and communication network for my business operation.					
9.2	There is sufficent transport to/and from port.					
9.3	There is Efficient port handling and customs processes for raw material import and export of export product.					

10	**Internal and External Factors to be ranked according to the following instruction.**	
	From the following factors listed below, please indicate the level of severity in affecting your operations, (**1**) being the most severe and (9) the least severe.	
10.1	Labor	
10.2	Capital	
10.3	Information Technology and R&D	
10.4	Managerial Capability	
10.5	Rawmaterial	
10.6	Marketing	
10.7	Government regulation and Incentives	
10.8	Institution and b/n industry relation	
10.9	Infrastructural	

11 What other problem(s) did you face regarding the overall functioning of your activity?

_____
_____
_____
_____
_____
_____
_____.