



Underlying Causes of Business Failure of Floriculture Investment in Ethiopia

**A Research thesis for Partial Fulfillment Requirement of
Masters of Business Administration in Finance**

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Certification

This is to certify that GEBRE SORSA has done the study on the topic of “Underlying Causes of Business Failure of Floriculture Investment in Ethiopia.” Therefore; the study is original and has not been done before by any other researcher at the same topic.

Advisor name _____

Signature _____

Declaration

I, GEBRE SORSA, declare that the thesis entitled “Underlying Causes of Business Failure of Floriculture Investment in Ethiopia” is my original work under the guidance and suggestion of the Research Advisor. It is offered for the partial fulfillment of the degree of Masters of Business Administration in Finance. This project has not been done before and all sources of material used for the study have been appropriately acknowledged.

GEBRE SORSA

Signature_____

Date_____

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ACRONYMS

AGOA	African Growth and Opportunity Act
CBE	Commercial Bank of Ethiopia
CGAD	Clients' Guidance and Advisory Desks
DBE	Development Bank of Ethiopia
EAL	Ethiopian Airlines
EHDA	Ethiopian Horticulture Development Agency
EHPEA	Ethiopian Horticulture Produces Exporters Association
EIA	Ethiopia Investment Agency
FLP	Flower Label Program in Germany
HACCP	Hazard Analysis and Critical Control Points
OHSS	Occupational Health and Safety Standards
EBA	Everything but Arms
EU	European Union
GSP	Generalized System of Preference
MIGA	Multilateral Investment Guarantee Agency
WIPO	World Intellectual Property Organization

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Abstract

Floriculture is the newest of Ethiopia's export industries, having grown very rapidly over the past years to become the country's fourth largest export industry. The Ethiopian floriculture industry began in the 1980s when state-owned farms started exporting cut flowers to Europe. An investors and managers which dealing with several problems resulting in failures of this investment; this study was carried out to identify and understand the underlying causes of floriculture investment failure. The main instrument of the study was interview and questionnaire which is supported with secondary source of data.

It is concluded that the main cause for failure of floriculture investment in Ethiopia is poor management i.e. poor business planning, poor marketing management, poor financial management and poor human resource management followed by economic related and other causes like disaster, change, land fertility, joint ventures relation ship lack of quality packing industries, lack of efficient cargo freight and high transportation cost. Considerable suggestion and recommendation was given to overcome the failure causes floriculture investment in Ethiopia.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The Government of Ethiopia gives high priority to the development of the horticulture sector. In that context, the Ethiopian Horticultural Development Agency was established in 2008 with the specific focus to promote and support the further development of the sector. Also, over the past years, the Ethiopian Government has created a very conducive environment for investors in the floricultural sector such as customs duty exemption, income tax exemption, and land availability for investment on leasehold basis, interest rates and available airfreight space with Ethiopian airlines. In addition, general investments in electricity, communication and road infrastructure have stimulated foreign and local investments in the sector.

A floriculture sector organization exists as Ethiopian Horticulture Produces Exporters Association (EHPEA), but needs further strengthening to effectively deal with the many issues related to a fast growing industry. Dialogue between government and private sector is taking place but is open to further intensification and increased efficiency. Ethiopian export horticulture is developing at a unique and unexpected high speed. In 2000, only nine (9) ha of land were under flowers, and this has increased to over 1,200 ha in 2008, with more than 80 flower growers. More than 90,000 jobs have been created in and around these flower farms. Some 70 percent of the country's flower products are exported to the Netherlands while 10-15 percent is exported to Germany. Russia, Japan and the Near East are other relevant markets. The rapidly growing flower sector in Ethiopia has now become the fourth foreign-currency generator of the

country next to the top three: coffee, oilseeds and cereals. In addition to the positive impacts in terms of foreign exchange, economic development and creating employment, the floriculture sector provides an inspiring example of a successful introduction of advanced labor-intensive production technology. Ethiopian exports of fruits, vegetables and herbs have been limited but, with new investors coming in, these are now growing strongly. Both in Europe and the Middle East a growing interest exists for products from Ethiopia.

Ethiopia's flower industry is a current example for how much potential the country has in agricultural production. Floriculture was identified as one of the target industries to be developed to generate agriculture-led employment in downstream processing industries. Government officials from various departments and a host of private initiatives have cooperated closely to establish a base for flower production.

The value of better understanding of failure probably lies in learning from it and eventually preventing future failure or pursuing improved recovery strategies. Learning from the failure experience is therefore critical for it to serve as a positive feedback mechanism (Shepherd, 2003: 318) or as an anticipatory mechanism (Shepherd et al. , 2007: 318) Fortunately, more and more research explores the learning associated with failure as a benefit to the firm for use in future decision making. Individuals do not freely and openly share knowledge about the mistakes they have made (Baumard & Starbuck, 2005: 283). Some members of organizations do not discuss failure and hence do not learn from failures. One reason for this lack of "de-briefing" is fear that colleagues might blame those who participated in failed ventures, and another is managerial hierarchy that reacts to failure by seeking and punishing culprits. Cannon and Edmondson's (2005: 299) earlier proposition states that to learn from failure intelligently requires identifying failure, analyzing failure and experimenting with failure. What set out as an analysis of business

failure as a phenomenon ended in the heart of the business management domain, covering more than failure and as such interfacing with subjects such as culture, change, cognition, leadership, finance, strategy and many more variables of the business and non-business environments. This confirms the interrelatedness of entrepreneurship with these issues and shows that the origins and reach of decline and failure are extensive.

This study tried to identify the underlying causes of failure of floriculture investment in Ethiopian i.e. why more than thirty floriculture investments fails and sick in Ethiopia since it is recent development in agricultural sector and stands as fourth foreign-currency generator.

1.2 Statement of the Problem

The floriculture sector has become very promising and attractive business in many countries globally and in countries like Kenya, Zimbabwe and Zambia in east Africa. Later Ethiopia has entered into the global floriculture market. The rapidly growing flower sector in Ethiopia has now become the fourth foreign-currency generator of the country next to the top three: coffee, oilseeds and cereals. In addition to the positive impacts in terms of foreign exchange, economic development and creating employment, the floriculture sector provides an inspiring example of a successful introduction of advanced labor-intensive production technology; Even if the Ethiopian government has created a very conducive environment for investors in the floricultural sector, more than thirty floriculture investments have failed and sick or rehabilitation process. The following investments are stucked or failed. These are DYR business group, Eden roses, Garad , Groeneveld, Hadya flowers, Hasan Abuslam, Jerecho flowers, Kings Ethio flowers, Lucy Ethiopia, Mam trading, Menagesha flowers, Meskel flowers, Metrolux flowers, Noa flora, Queen flower, Seit agro, Silverline flowers, SMR Agriculture, Star business and Summit agro

industry.(Source: Ethiopian Horticulture Development Agency, Business Planning and Development Department, 2011). And also the following investments are sick that means they are under rehabilitation treatment. These are Kaf rose, Sheba flowers, flowerama, Fiyori Ethiopia, Ethio magical farm, Euro flora, Abdulhamid Jamal, Rainbow colors, Agri flora, Sprit and Omni Blossom Flowers.(source: Development Bank of Ethiopia, Investment rehabilitation department,2011).

But there is no research done on the topic of underlying failure causes of floriculture business failure in Ethiopia. That is why the researcher is intended to carry out this study in order to identify the underlying causes of failure of the above mentioned (failed and sick) floriculture investments because it will be serious problem for the existing active firms in their progress. It is also urgent thing to the government and other necessary bodies to take corrective action if the underlying causes are clearly identified.

1.3 Research Questions

The following questions are answered by the study after carrying out the study. These are

What are the economic related factors that are causes for failure of the floriculture investment in Ethiopia?

What are the management related factors that are causes for failure of floriculture investment in Ethiopia?

What are the financial related factors that are causes for failure of floriculture investment in Ethiopia?

What are the other factors that are causes for failure of floriculture investment in Ethiopia?

1.4 Research Hypothesis

Null Hypothesis (A0): shortage of capital is critical causes of floriculture investment failure in Ethiopia.

Alternative Hypothesis (A1): shortage of capital is not the critical causes of floriculture investment failure in Ethiopia.

Null Hypothesis (A0): lack of encouragements and incentives from government is the main causes of floriculture investment failure in Ethiopia.

Alternative Hypothesis (A1): lack of encouragements and incentives from government is not the main causes of floriculture investment failure in Ethiopia.

Null Hypothesis (A0): management related factors cannot necessarily be the major failure causes of floriculture investment in Ethiopia.

A1 Alternative Hypothesis (A1): management related factors can necessarily be the major failure causes of floriculture investment in Ethiopia.

1.5 Objectives of the Study

The study deals with both general and specific objectives.

1.5.1 General Objective

The general objective of the study is to identify the underlying causes of business failure of floriculture investment in Ethiopia.

1.5.2 Specific Objectives

The specific objectives of the study will be aimed to

- ◆To identify the economic related failure causes of floriculture investment in Ethiopia
- ◆To identify the financial failure causes of floriculture investment in Ethiopia
- ◆To see the management related cause of floriculture investment failure in Ethiopia
- ◆To identify other factors like technological, transportation, fraud, and disasters as a failure factor for floriculture investment in Ethiopia.
- ◆To identify the main causes of floriculture investment failure
- ◆To forward necessary recommendations to investors and other necessary bodies

1.6 Significance of the Study

The study is significant for the following areas.

- ◇ It is significant to the investors who are engaged in this sector and also those who are going to join this investment.
- ◇ It helps different lending institutions like Development Bank of Ethiopia, and others to provide advises and consultancies based on the identified causes floriculture investment failure
- ◇ It will help as a base for further research work.
- ◇ It will help different management bodies to give great considerations to these failure causes.
- ◇ Furthermore it will help different policy making bodies to consider the identified problems.

1.7 Scope of the Study

The area of the study is limited to the topic of underlying causes of business failure of floriculture investments in Ethiopia. The study covered failure causes of floriculture investment for the last eight years beginning from the period [2004-2011]. Within this period floriculture investments selected are those already in fully operation. The study is not included firms that are at pre-implementation and implementation stage.

1.8 Limitations of the Study

The target respondents are not found and resulted proxy of data and also some of the respondents may not give clue attention to the questions and willing to give relevant information. The research is limited to seven fully operational floriculture investments from a sample of forty five (45) between the periods [2004-2011].

1.9 Methodology

In order to achieve the intended objectives the study used the following data collection instruments, data collection methods, data sources and analysis. The study use both qualitative and quantitative approaches. It is qualitative because typical data collection method used semi structured interview and semi structured questionnaire.

1.9.1 Sources of Data

The source of data based on both primary sources and secondary source. The questionnaire and interview are used as data collection instruments to collect primary data. Secondary sources of data is collected from annual reports, books, the internet, manuals and seminars report on floriculture investments directly from development bank of Ethiopia, Ethiopian investment agencies, Ethiopia Horticulture Producers Exporters Associations (EHPEA) and Ethiopian horticulture development agencies.

1.9.2 Data collection procedures

The research questionnaire was distributed to active floriculture firms, Ethiopia Investment Agency (EIA), Ethiopian Horticulture Development Agencies (EHDA), Ethiopia Horticulture Producers Exporters Associations (EHPEA) and Development Bank of Ethiopia (DBE). One questionnaire paper is distributed for each of the department of active floriculture farm (like marketing, financial, farming/production, human resources). And Interviews are conducted with important people based on the researcher's judgment.

1.9.3 Sampling techniques

The sample of the study is taken from forty five (45) floriculture investments which are fully operational from the period (2004-2011). From these seven fully operational investments which are found around Addis Ababa, taken equals around sixteen percent (16%) of the total population. These are Selam flowers, Zagwe flora plc, ET-highland flora plc, Dire Highlands flowers plc, Sheba flowers plc, Yassin Legesse flowers plc, and Roshanara Roses. These sample is taken and the questionnaire is distributed by random sampling, judgmental, and partly

purposive decisions. Forty eight questionnaire was distributed and thirty nine was collected which is 81.25%.

1.9.4 Data analysis procedures

After collecting the data, sorting and arranging of the data into different types depending on the sources of information has been taken and reading the data to get the general sense of information and to reflect the overall meaning. The researcher used tables, percentages and ratios to analyze the collected data. The critical analysis, interpretation and the meanings of data is analyzed for the variables

1.10 Organization of the Paper

Generally the paper is organized into five chapters. The first chapter starts with a general information followed by statement of the problem and continued with the research hypothesis, objective of the study, the research question, significance of the study, the research methodology, the scope and limitation of the study. The second chapter is looking into some previously conducted related researches and literatures on the subject. The third chapter shows an overview about floriculture investment in Ethiopia. The fourth chapter deals with analysis and interpretation of the data collected. The last and the fifth chapter surfaces the conclusions, findings reached; and the recommendations forwarded.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definitions of Related Terms to the Topic

FAILURE:

- ◆ Bruno & Leidecker (1988:51-52) Failure is a process that occurs over time; it is not a sudden death,
- ◆ Jonsson (1991: 7) approach failure as a downward spiral of decline
- ◆ Lack of success: a lack of success in or at something
- ◆ Something less than that required: something that falls short of what is required or expected
- ◆ Somebody or something that fails: somebody or something that is unsuccessful
- ◆ Breakdown of something: a breakdown or decline in the performance of something, or an occasion when something stops working or stops working adequately
- ◆ Lack of development or production: inadequate growth, development, or production of something.
- ◆ Business bankruptcy: a financial collapse, usually leading to bankruptcy
- ◆ Business Failure: Business failure, Altman (1993:4-5), which is characterized by cessation of operation following assignment or bankruptcy, execution, foreclosure, or attachment; and those voluntary withdraw leaving unpaid obligations, or have been involved in court actions, and those voluntarily compromise with creditors and result in losses to the creditors;

Unprofitable business causing loss to creditor: a business venture's lack of profitability, resulting in a loss to a creditor.

Floriculture: is cultivation of flowers; the growing of flowers as a crop. Floriculture, cultivation of ornamental flowering plants for aesthetic purposes, whether grown in window boxes, greenhouses, or gardens. In floriculture, plants are grown for individual effect; in landscape gardening, for total effect. Although flowers have been cultivated since the rise of civilizations, commercial cultivation in greenhouses of plants and flowers native to other countries was not established until the 19th century.

INVESTMENT: Use of money for future profit: the outlay of money, e.g. by depositing it in a bank or by buying stock in a company, with the object of making a profit

- ◆ Money invested: an amount of money invested in something for the purpose of making a profit
- ◆ Something in which money is invested: something, e.g. a company, endeavor, or property, that money is invested in with the goal of making a profit
- ◆ Contribution to activity: a contribution of something such as time, energy, or effort to an activity, project, or undertaking, in the expectation of a benefit
- ◆ purchase: a purchase, especially something that somebody should be able to use for a relatively long time (informal)

2.2 Causes of Business Failure

Most business failures seem to be due to economic factors, financial causes, and lack of experience on the part of the owners of the business. Business problems lead to inadequate sales and heavy operation expenses, hence cash flow problems and inability to meet obligations (Moyer, McGuigan & Kretlow, 2001, p.801)

Underlying Causes	Percentage
Economic factors (e.g. industry weakness, insufficient profits)	41.0%
Finance factors (e.g., heavy operating expenses, insufficient capital)	32.5%
Experience factors (e.g., lack of business knowledge, lack of line experience, lack of management experience)	20.6%
Neglect (e.g., poor work habits, business conflicts)	2.5%
Fraud	1.2%
Disaster	1.1%
Strategy factors (e.g., receivables difficulties, over expansion)	1.1%
Total	100%

(Source: The Dun and Bradstreet Corporation, Economic Analysis Department, March 1991.

Results are based on primary reason for failure)

Economic recession, businesses can be under stress and the chance of failure may be increased due to a general recession or more localized declines in the economic environment.

Change in technology, new technology is another environmental factor, which destroys the demand for old products or services; also the demographic and cultural trends may reduce demand. Governmental regulation may affect competition. However, in the same circumstances, some businesses survive while others fail (Norton, 1989:10)

Management related factors of business failures are failures because of poor financial management, poor marketing management, poor leadership and human resources related factors.

Financial factors such as inadequate cash flow, excessive debt, or loss of creditor confidence are attributed to business failure. According to Brigham & Gapenski (1996:892) studies show that financial difficulties are usually the result of a series of errors, misjudgments, and interrelated weaknesses that can be attributed directly or indirectly to management, and signs of potential financial distress are generally evident before the firm actually fails.

He also stated that the biggest cause of bankruptcy is too high payroll, and advised the benchmark should not be more than 45% of gross profit.

The factors leading to business failures vary (Charitou, Neophytou & Charalambous, 2004: 465).

They report that economists attribute the phenomenon to high interest rates, recession- squeezed profits and heavy debt burdens. Reasons vary depending on the researcher's focus. Longenecker, Simonetti & Sharkey (1999: 503) suggest four schools of thought about the causes of business failure, namely:

- ◇ Failure at the top;
- ◇ Customer and marketing failures;
- ◇ Financial management failures; and

◇ System and structural failures

Human causes, in this text, relate to factors such as leadership, management, individual skills and behavior (or lack thereof) and link closely to the cognition and learning sub-domain discussed later. Lorange and Nelson (1987: 42) introduced five specific categories of human failure **causes**.

These are briefly listed as:

◇ Decline, entrapment and self-deception;

◇ Hierarchy orientation;

◇ Cultural rigidity;

◇ Desire for acceptance and conformity; and

◇ Too much consensus and compromise

Clearly their perspective was leadership and management focused and related to larger ventures.

There are also specific human attributions of "dysfunctions" associated with decline that include:

◇ Internal conflict (competition infighting and blaming leadership)

◇ Resistance to change;

◇ Turnover as competent staff start to leave;

◇ Low morale;

◇ Fragmented pluralism (special interest groups that become more vocal);

◇ Loss of leadership credibility; and

(Cameron, Whetten & Kim, 1987: 128). Interestingly, though, they conclude that there are no statistical differences between declining and stable organizations in their sample for the different factors, but posit that declining and stable organizations differ from growing organizations for these factors (p135). D'Aveni (1989: 577) concludes that managerial and strategic problems cause decline, while decline in turn causes managerial and strategic problems in a "vicious cycle

pattern". This he describes as strategic paralysis that disables the firm from finding and pursuing new directions. He suggests that managerial imbalances are causal to this paralysis. Weitzel and Jonsson (1991: 7) approach failure as a downward spiral of decline. They report five stages associated with decline that describes increasing levels of problems that are harder to reverse the further the slide progresses. According to them, the stages are: The blinded stage; the inaction stage; The faulty action and faulty implementation stage; The crisis stage; and The dissolution stage. These findings point towards the importance of leadership and management's ability to recognize change and react properly and in time as these factors are crucial to reversing decline (Cressy, 2006: 104; Longenecker, Neubert & Fink, 2007: 146; Allio, 2007: 12; Okpara & Wynn, 2007: 24).

Boyle and Desai (1991: 35) postulated a list of 24 apparent factors (causes) of business failure in firms that they group into four categories based on their environmental (internal or external) origin and whether they are administrative or strategic in nature. It seems that contrary to conventional wisdom, the majority of businesses fail because of internal factors affected by managerial action (or non-action) and discipline.

Theng and Boon (1996: 47) confirmed that endogenous factors were viewed as significantly more important than exogenous factors when ranking causes of business failure as rated by entrepreneurs of small and medium enterprises in Singapore. Their findings indicate

- ◇ High operating expenses;
- ◇ Lack of capital;
- ◇ Short-sighted view of the future;
- ◇ Lack of control over cash;
- ◇ Lack of knowledge of the company's product; and

◇ Inappropriate marketing strategy

External environmental change is a growing reality for all firms (large and small) and requires ventures to be more alert to external causes of business failure.

Structural causes associated with business failure. There are various structural causes associated with decline including:

◇ Increased centralization;

◇ Lack of long-term planning;

◇ Curtailed innovation;

◇ Departure of competent staff;

◇ Loss of resource slack;

◇ Fragmented pluralism; and

◇ Non-prioritized cutbacks

It has been suggested that the ultimate reason for business failure is poor leadership. According to business guru, Brian Tracy, „Leadership is the most important single factor in determining business success or failure in our competitive, turbulent, fast-moving economy.“ Based on a study by the US Bank, the main reasons why businesses fail are:

◆ Poor business planning

◆ Poor financial planning

◆ Poor marketing

◆ Poor management

Proper application of these key factors is a function of good leadership. According to the study, in the business planning category, 78% of businesses fail due to the lack of a well-developed business plan. Remember the old saying: „If you fail to plan, you plan to fail.“

Leadership is about planning for success before it happens. Sun Tzu, the 6th century Chinese philosopher, in his epic work *The Art of War*, gave some sound advice that still applies to business today: „When your strategy is deep and far-reaching, then what you gain by your calculations is much, so you can win before you even fight. When your strategic thinking is shallow and near-sighted, then what you gain by your calculations is little, so you lose before you do battle.“

In the financial planning category, 82% of businesses failed due to poor cash flow management skills, followed closely by starting out with too little money. Business leadership is about taking financial responsibility, conducting sound financial planning and research, and understanding the unique financial dynamics of one’s business. Half of the UK’s small businesses fail within the first three years because of cash flow problems. They either run out of money or run out of time. Consumer debt, personal bankruptcies, and company insolvencies are all now on the increase.

The third business failure factor profiled in the study, and a critical one, was marketing. Over 64% of the businesses surveyed in the marketing category failed because their owners ignored the importance of properly promoting their business, and then ignored their competition. Again, as a business leader, you must be able to effectively communicate your idea to the right people and understand their unique needs and wants. Leadership is all about taking initiative, taking action, getting things done, and making decisions. If you are not doing anything of significance to market and promote your business, you are most likely headed for business failure.

You must also know your competition. Leadership is about providing value to customers; if your main competitors are all providing a better quality and lower priced product, how can you possibly create any value? Either you harness your strengths to provide different benefits (such

as speed, convenience, or better service), lower your price and improve quality, create a different product for an unmet demand, or get out of the game.

Finally, one of the most important reasons why businesses fail is due to poor management. In the management category, 70% of businesses failed due to owners not recognising their failings and not seeking help, followed by insufficient relevant business experience. Not delegating properly and hiring the wrong people were additional major contributing factors to business failure in this category.

Bruno, McQuarrie and Torgrimson (1992: 294) report reasons for entrepreneurial (business failure early in the venture life cycle) from interviews with founders to include:

- ◇ Product/ market factors (timing, design, distribution/ selling and business definition);
- ◇ Too great a reliance on one customer;
- ◇ Financial factors (initial undercapitalization, assuming debt too early,
- ◇ Venture capital relationship); and
- ◇ Managerial/key employee factors (ineffective team and personal problems).

Finance is often cited as the ultimate cause of business failure. Most works, however, use finance as a predictor of potential business failure (bankruptcy) and it is suggested that weak cash flow is due to business-related causes rather than being the cause of business failure itself (Ooghe & de Prijcker, 2008: 223). Topping the list is venture debt (leverage) (Bollen, Mertens, Meuwissen, Van Roak & Schelleman, 2005: 8; Scherrer, 2003: 57), whether being too much or incorrectly structured. Financial conditions follow, being due to working capital deficiencies or cash- flow influencers such as stock levels, credit days and others (Hofer, 1980: 21).

2.3 Types of Business Failures

A bottom line loss in any of the last three years before bankruptcy Hopwood et al. (1994:412) discussed three types of corporate failures,

- The first type includes companies whose failure occurs before they become established,
- The second type includes companies whose failure is precipitated by a slide into insolvency and portended by signs of financial stress in the financial ratios
- The third includes companies whose failure is sudden and with no apparent signs of financial distress.

Although, more frequently failure takes the form of slow decline and then disappearance, it can be in the form of a merger or sale of assets. But the most drastic financial failure is bankruptcy.

At the end both personal and business bankruptcies have the tendency to carry bad reputation.

According to Bruno & Leidecker (1988:51-52) research findings indicate that business failure results from definable causes and that an understanding of these causes can help prevent failure.

When they discussed the general conclusions emerging from the literature regarding firm failure, causes of failure, and prevention, they mentioned: Failure is a process that occurs over time; it is not a sudden death, Within failing companies, specific identifiable factors are present that cause the failure, Once identified, these factors can be used to predict the propensity for failure ,Knowledge of the presence of these factors can lead to steps intended to avoid or prevent failure,

There are both external and internal factors that influence failure,

◇ The external factors are those attributable to general economic effects,

◇ The internal factors can be linked to the various functional areas,

◇ The single most pervasive factor is poor management, which may manifest itself in a variety of ways, and General failure factors may influence many businesses across a number of industries, while specific failure factors affect firms in specific industries.

2.4 Stages of Business Development and Failures

(Cameron et al., 1987:128) elements of this category include the age, size and life cycle stage of the venture. In their investigation and analysis of bankrupt firms, Thornhill and Amit (2003) compared industry change, general management, financial management and market development variables associated with different stages of business development. Using the resource-based view, Thornhill and Amit (2003: 500) suggest that young firms are more likely to suffer from resource and capability deficiencies than older firms, which is the essence of the "liability of newness" (Shepherd, 2005: 124. Zacharakis, Meyer & De Castro, 1999: 2 ;)

Liability of newness has a lot to do with a firm's seeking legitimacy with its suppliers, clients, creditors and other organizations in the industry. This legitimacy increases as the firm learns to cope with the challenges of the industry. Liability of newness is dissimilar, although closely related to "liability of smallness", which refers to size limitation that may exclude a venture from competing in an industry. Kale and Ardit (1998: 459) connect liability of smallness to a firm's inability to create processes such as learning and inventing roles, and to develop trust and cooperation between members in the organization. Newness therefore implies lack of organization learning and legitimacy, coupled with smallness, and appears to be the primary factor underlying the high probability of business failure.

A newly established firm has an initial stock of assets, goodwill, trust and financial resources that provide the firm with a buffer for the initial period to establish exchange relations with clients and creditors and other organizations to channel resources to the firm (Kale & Ardit,

1998: 459). The initial resources and endowments reduce the risk of business failure even if the performance is not quite satisfactory. After this period, when the buffer is depleted, the firm faces the "liability of adolescence". The probability of business failure during this period rises sharply.

Older firms, having presumably developed valuable resources and capabilities in their evolution from being young to being older, will be more prone to the hazards of environmental change and therefore suffer from "liability of obsolescence" under the resource-based view. Stanworth, Purdy, Price and Zafaris (1998: 56) confirm the broad pattern that young firms are more likely to fail than old firms and that very small firms are more likely to fail than large firms.

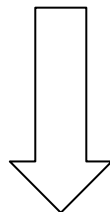
Thornhill and Amit (2003: 505) conclude that failure while young is more likely to be due to deficiencies in general management and financial management. Failure when older is more likely a function of external market forces. Industry effects were also evident as contributors.

The study of Kale and Arditi (1998: 463) confirms that an age-dependent pattern of business failure exists in which the risk of business failure increases in the first few years of a company's life, reaches a peak point, and decreases thereafter as the company ages.

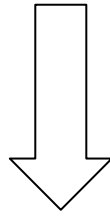
2.5 Process of Business Failure

Argenti (1976), which suggests that the failure process follows a predictable sequence:

Defects



Mistakes made



Symptoms of failure

Defects can be divided into management weaknesses and accounting deficiencies as follows:

◆ Management weaknesses:

Autocratic chief executive

Failure to separate role of chairman and chief executive

Passive board of directors

Lack of balance of skills in management team- financial, legal, marketing, etc

Weak finance director

Lack of „management in depth“

Poor response to change

◆ Accounting deficiencies:

No budgetary control (3)

No cash flow plans (3)

No costing system

◆ Mistakes

If a company's management is weak, then Argenti suggests that it will inevitably make mistakes which may not become evident in the form of symptoms for a long period of time. The failure

sequence is assumed to take many years, possibly five or more. The three main mistakes likely to occur (and attached scores) are:

1 high gearing – a company allows gearing to rise to such a level that one unfortunate event can have disastrous consequences

2 overtrading – this occurs when a company expands faster than its financing is capable of supporting. The capital base can become too small and unbalanced

3 the big project – any external/internal project, the failure of which would bring the company down

The final stage of the process occurs when the symptoms of failure become visible. Argenti classifies such symptoms of failure using the following categories

Creative accounting – optimistic statements are made to the public and figures are altered (inventory valued higher, depreciation lower, etc). Because of this, the outsider may not recognise any change, and failure, when it arrives, is therefore very rapid.

The Financial signs

Non-financial signs – various signs include frozen management salaries, delayed capital expenditure, falling market share, rising staff turnover

Terminal signs – at the end of the failure process, the financial and non-financial signs become so obvious that even the casual observer recognises them.

Other signs like company-specific variables – such as management experience, customer concentration, dependence on one or a few suppliers, level of diversification, qualified audit opinions, etc general characteristics – such as industry type factors in the external environment – such as the macroeconomic situation, including interest rates, the business cycle, and the availability of credit.

Initial under capitalization and assuming debt too early are the two important exceptions from the factors cited as reasons for failure of firms in the 1960's to the 1980's such as product timing, product design, inappropriate distribution or selling strategy, unclear business definition, over reliance on one customer, problems with the venture capital relationship, ineffective team, personal problems, one-track thinking, and cultural/social factors (Bruno & Leidecker, 1988:54-56).

Many other lists of symptoms of failure exist. For example, there is a list of 65 reasons on the UK Insolvency website which include:

- Failure to focus on a specific market because of poor research
- Failure to control cash by carrying too much stock, paying suppliers too promptly, and allowing customers too long to pay
- Failure to control costs ruthlessly
- Failure to adapt your product to meet customer needs
- Failure to carry out decent market research
- Failure to build a team that is compatible and has the skills to finance, produce, sell, and market
- Failure to pay taxes (insurances and VAT)
- Failure of businesses“ need to grow merely attempting stability or having even less ambitious objectives, businesses which did not try to grow didn't survive
- Failure to gain new markets
- Under-capitalisations
- Cash flow problems
- Tougher market conditions

- Poor management
- Companies diversifying into new, unknown areas without a clue about costs
- Company directors spending too much money on frivolous purposes thus using up all available capital

2.6 Classifying Reasons for Failure

An interesting, alternative method of classifying reasons for failure is provided by Richardson et al (1994), who use the analogy of frogs and tadpoles:

1 Boiled frog failures

These are long-established organisations which exhibit the often observed organisational characteristics of introversion and inertia in the presence of organisational change.

2 Drowned frog failures

Less to do with management complacency and more to do with managerial ambition and hyperactivity, in the smaller company context, this is the failed ambitious entrepreneur, whereas in the bigger context this is the failed conglomerate kingmaker, perhaps typified by Robert Maxwell.

3 Bullfrogs

Expensive show-offs who need to adorn themselves with the trappings of success. The bullfrog exists on a continuum from the „small firm flash“ to the „money messing megalomaniac“. The behaviour of bullfrogs often raises ethical issues due to a failure to separate business expenditure from personal expenditure (for example, Conrad Black).

4 Tadpoles

Tadpoles never develop into frogs and represent the failed business start-up in the small business setting. In the large business context, the tadpole is typified by the business which is dragged

down by a big new project which turns out to be such an expensive failure that it destroys its parent. New products and services often fail, such as the Sinclair home computer. Small tadpoles usually fail to become frogs because of over-optimism, a failure to make contingency plans and a lack of interest in overall success as a result of too much focus on the product.

2.7 Avoiding Failure

Perhaps the best way to avoid failure is to examine the myriad explanations for business failure. Many books and articles have focused on identifying reasons for failure as a remedy for prevention. One of the more significant earlier works was by Ross and Kami (1973); they gave „Ten Commandments“ which, if broken, could lead to failure: You must have a strategy. You must have controls. The Board must participate. You must avoid one-man-rule.

There must be management in depth. Keep informed of, and react to change, the customer is king, Do not misuse computers. Do not manipulate your account and Organise to meet employees“ needs.

2.8 General Reasons of Increase in Business Failure

Altman (1983:42-44) states that small and young firms are more vulnerable to ill economic conditions in combination to the deterioration in firm liquidity, increased leverage, and dramatically reduced coverage of financial payments of interest and principal. This is because of financing new loan at higher rate; access to long -term loan and equity markets is not easy to small firms.

Another cause of the increase in bankruptcy can be actions that companies deliberately elect for bankruptcy as a corporate strategy to limit the liability obligations or to get relief from life threatening obligations to employees

(Altman, 1993:7). Therefore, early filing for bankruptcy is also an important decision for management. White (1996:470) stated, the earlier the firms enter bankruptcy the less financially distressed they are, as the firm liquidation minimizes losses to creditors and reorganization maximizes the likelihood of saving the firm. Sometimes, bankruptcy codes brought about by the Bankruptcy Acts motivate companies to file early and protect themselves from forced bankruptcy caused by debtors. Some causes of the increase in bankruptcy are directly attributed to the decisions made by management in relation to the dynamic changing of the world business environment. As discussed in America's network (available on-line at <http://www.americasnetwork.com>), the causes of the company's under that discussion are change in technology, expensive investment in disparate locations, investment in not well-known highly ambitious projects, low margin business, and high write out costs. Timmons & Spinelli (2004:580-581) stated that external forces not under the control of management could increase the occurrence of financial distress.

Among the most frequently mentioned are recession, interest rate changes, changes in government policy, inflation, the entry of new competition, and industry or product obsolescence. Most causes of failure could be found within company management. Although there are many causes of trouble, the most frequently cited fall into three broad areas:

Inattention to strategic issues such as misunderstood market niche, mismanaged relationships with suppliers and customers, diversification into an unrelated business area, mousetrap myopia, the big project, and lack of contingency planning,

General management problems are lack of management skills, experience, and know-how, weak finance function, turnover in key management personnel, big-company influence in accounting, and poor financial/accounting systems and practices are like poor pricing, overextension of

credit, and excessive leverage, lack of cash budgets/projections, poor management reporting, lack of standard costing, and poorly understood cost behavior.

2.9 Importance of Understanding about cause of Business Failure

The value of better understanding of failure probably lies in learning from it and eventually preventing future failure or pursuing improved recovery strategies. Learning from the failure experience is therefore critical for it to serve as a positive feedback mechanism (Shepherd, 2003: 318) or as an anticipatory mechanism (Shepherd et al. , 2007: 318) Fortunately, more and more research explores the learning associated with failure as a benefit to the firm for use in future decision making. Individuals do not freely and openly share knowledge about the mistakes they have made (Baumard & Starbuck, 2005: 283). Some members of organizations do not discuss failure and hence do not learn from failures. One reason for this lack of "de-briefing" is fear that colleagues might blame those who participated in failed ventures, and another is managerial hierarchy that reacts to failure by seeking and punishing culprits. Cannon and Edmondson (2005: 299) suggest that to learn from failure intelligently requires identifying failure, analyzing failure and experimenting with failure. They identify technical and social barriers as the main blockages to the process of identification, analysis and experimentation. Shepherd (2003) approaches the failure (closing) of a venture from the perspective of the self-employed person and how he/she learns from the grief recovery process, thereby adding the "affective" angle. The emotions related with the loss and grief and their associated impact on learning and decision making is explored. Based on the emotion literature, Shepherd (2003: 324) proposes that the negative emotional response (grief) to the loss of a business interferes with the ability to learn from the experience. A dual process of grief recovery can minimize this emotional interference, and recovery from grief removes it completely. The "affective" element therefore is an important

contributor to the decision making of leaders and managers. Critical reflection (Cope, 2003: 429), which takes place often long after the failure occurred, is part and parcel of this learning process. Failure is therefore due to not learning rather than learning. Two findings are relevant: • A venture's leaders' thinking inertia is a frequently reported trigger event for decline. • A venture's leaders' ability to overcome their thinking inertia is the trigger event for successful recovery (turnaround).

Contribution to business management: Cannon and Edmondson's (2005: 299) earlier proposition states that to learn from failure intelligently requires identifying failure, analyzing failure and experimenting with failure. What set out as an analysis of business failure as a phenomenon ended in the heart of the business management domain, covering more than failure and as such interfacing with subjects such as culture, change, cognition, leadership, finance, strategy and many more variables of the business and non-business environments. This confirms the interrelatedness of entrepreneurship with these issues and shows that the origins and reach of decline and failure are extensive.

2.10 Some of Perceived Floriculture Investment Failure Causes in Ethiopia

The Ethiopian economy is a primarily a traditional as well as agriculture-led economy having higher dependence on rain-fed agriculture. Despite being the agrarian economy, the country is not self-sufficient in food production till now. Since, Ethiopia has just started out in floriculture industry; some barriers are implied to be there at this stage. The major barriers witnessed are the absence of appropriate infrastructure, shortage of water at hand, and agricultural inputs.

2.10.1 Infrastructural Bottlenecks

Even though the government is making efforts to develop infrastructure throughout the country, still there are problems in acquiring such services in slightly remote areas. In some farms access to telephone lines is limited to wireless phones, which impose severe restrictions in communication. The roads connecting the farms to the main hubs are also not well. Some of the growers also stated that the repeated outage of electricity in farm sites affects the cost of production, for they need to use generators. In general, the availability of infrastructure around the capital city forces investments to be cluttered in close proximity, which is not a good sign for the long-term growth.

2.10.2 Shortage of Agricultural Inputs and Green House Equipments

Most planting materials, fertilizers mixers and green house equipments are mainly imported from abroad and are quite expensive. Though the government allows producers to import the necessary fertilizers and chemicals individually and free of taxes, the producers find it difficult to import individually because of purchase costs, inventory, and transportation reasons. The fact that Ethiopia is landlocked further aggravates the problem from an import perspective, though it does not have any major effect on the export of flowers. The producers also suffer from a shortage of chemicals and fertilizers and find it difficult to obtain these from local markets during stock outs. Borrowing from other farm owners becomes the only resort.

2.10.3 Inaccessibility and Shortage of Water

Ethiopia is endowed with enormous and unexploited natural water resources. The country has nine major rivers and 12 major lakes. The amount of annual surface water flowing over the country is 123 billion m³ and the underground water is estimated to be 2.6 billion m³ (Ministry of

Information, 2005-2006). Despite this, most producers suffer from a shortage of water. Since, flower production requires large amount of accessible water, fetching water from far off places and the import of drip irrigation equipment makes the cost of production higher.

2.10.3 Small product range

The product range that producers export is very narrow. The dominant flower type produced in the floriculture industry is rose. This makes the possibility of risk diversification bleak and makes the industry highly vulnerable.

2.10. 4 Absence of strong domestic market for flowers

The domestic market is too small and negligible, as significant Ethiopian population is living at subsistent level with undeveloped flower consumption culture. However, this market has certain potential to be developed as a parallel market that could safeguard the risks arising out of export fluctuations and offloads.

2.10.5 International codes of practices

There exist several codes of practices, e.g. Milieu Programma Sierteelt (MPS) in The Netherlands, Flower Label Programme (FLP) in Germany, and others. Although producers in Africa also took the initiative to produce their own codes of practices, the independent African codes of practice could lead to confusion among buyers and needs consistency and accreditation from the major ones. -

The other general weaknesses cited are the time consuming import releases, lack of sufficient freight space in airlines, lengthy processes in banking services, infrastructure problems, particularly telecommunications, problems related to provision of plots of land, absence of quality-packaging materials, and other logistics problems such as cooling facilities at the airport and better road network.

2.10.6 Seasonality

The seasonality affecting the production of flowers and the demand arising in importing countries needs careful analysis, as seasonal factors make the floriculture industry problematic in matching demand. Some flowers are not significantly influenced by seasonal changes, e.g. roses, marigold, chrysanthemum, heliconia, etc. and there are those that are greatly influenced by seasonal changes, e.g. jasmine, dendrobium, orchids, etc. (www.syngentaprofessionalproducts.com, accessed March 21, 2006). Flower forcing, however, has the potential to cover such mismatches.

2.10.7 Airfreight Cost and Capacity

Cost of airfreight for the producers takes up major portion of the cost of producing and exporting flowers. The producers use mainly Ethiopian Airlines (EAL) as a carrier of the flower exported to the world market. Other airlines such as Emirates, KLM and Lufthansa are offering small-scale transportation services. Ethio-Horti Share Company charters a plane for its members to ship flowers abroad to the world flower market. According to EAL the price to charter a plane varies from season to season..

The members are expected to estimate the amount of flowers they intend to export and book a place. They have to confirm the reservation 24 hours before shipment. Some producers find it difficult to predict the exact cartons of flowers for export. There arise situations when flowers for export become more than anticipated but, with the booking already made, it becomes difficult to export the excess. The producers explained that off-load occasionally occurs due to continuous growth of floriculture industry and increasing number of flower exporters.

2.10.8 Competition

The floriculture industry is very dynamic and seasonal in terms of variety and production. Demands are high during Valentine's Day followed by Christmas when every single stem of roses produced is exported and sold in foreign markets. But there are slow seasons where the competition is fierce. Moreover, there will be intra-industry competition, as experienced foreign companies from The Netherlands and Israel aim to set up their farms soon in Ethiopia.

2.10.9 Access to Finance and Foreign Currency

Even though the government considers access to finance and foreign currency as one of the opportunities the country has to offer, most of the participants cite many problems. Among these problems, one is that the loan takes long time to be processed since the process involves certain steps. The steps involve contacting Clients' Guidance and Advisory Desks (CGAD); detailed discussions on loan application; the project idea, background, equity contribution, etc; scrutiny on policy or technical grounds; and final approval. In addition, the availability of finance is subjected to submission of certain documents, namely. work permits; title deed certificates of the land; duly approved construction permits and bills of quantity; investment certificates for

projects with estimated capital of over birr 250,000; pro forma invoices for machines, equipment, furniture, etc; certificates of the commercial register; and details of project implementation program.

Moreover, producers find it difficult to supply collaterals for availing loans, as the Development Bank of Ethiopia requires first-degree mortgage on fixed assets. In case of projects located in rural areas (out side of municipality), the Bank requires 100 percent collateral outside of the project. However, for projects located in urban areas, 125 percent of the loan including fixed assets of the project is required. All fixed assets of a project as well as collateral are required to be covered by appropriate insurance policy with DBE as a co-beneficiary until the loan is fully settled.

The producers also explained that there is shortage of foreign currency. But according to the Ministry of Investment, in an effort to encourage exports, the government has allowed exporters to retain the self earned foreign exchange in two types of foreign exchange accounts. In account “A” exporters are allowed to retain 10 percent of the proceed from their exporting for an indefinite period of time and the remaining 90 percent in an account “B” for about 28 days to transact business related to current payment for import of goods and related services; export promotion payment of advertising and marketing expenses; and training fee and educational expenses, etc.

2.10.10 International regulatory environment and standards

Factors pertaining to international regulatory environment for export can also be categorized under barriers at this infant stage. Failure in their compliance may adversely effect trade relations

and future market opportunities. There are different market requirements that are related to social and environmental aspects of production, or quality of products and processes (www.cbi.nl/accessguide). Product legislation requires that the focus on environmental and consumer health and safety issues is compulsory in the European market. Compliance to these is very important since Europe is the major flower market (www.cbi.nl/accessguide). Hazard Analysis and Critical Control Points (HACCP) expects certain compliance in the local conditions in which plants and flowers are being cultivated and Occupational Health and Safety Standards (OHSS), detailing employees' security, are gaining concern in importing countries. Moreover, adherence to environmentally sound production processes is further important. Also, there is Breeders' Right that is must to be adhered to for any multiplication. Ethiopia is not party to the convention which protects the breeders. It is important to fulfill all such requirements to survive in the international market ([Sisay, 2004](#)).

There are certain social and environmental concerns that somehow threaten investment in floriculture. These pertain to working rights and decent working conditions for labor and the environmental issues. Child labor or any other negative social impact of labor are given due considerations. Environmentalists are concerned that growers are using chemicals, particularly pesticides, which are damaging the environment and making workers ill. This has forced government to introduce a new law for controlling pollution.

CHAPTER THREE

AN OVERVIEW OF ETHIOPIAN FLORICULTURE INDUSTRY

3.1 Background of Ethiopia

Ethiopia is found in the north eastern of Africa known as Horn of Africa. It enjoys a unique location at cross roads between Africa, the Middle East, and Asia. Ethiopia is bordered by Djibouti and Somalia to the east, Eritrea to the north, the Suddan to the west and Kenya to the south. Its total area 1.14 millions square km having total population over 80 million, It found the elevation of lowest extremes at Dallol Depressions 148 m below sea level and the highest point of Mount Ras Dashen which is 4620 km above sea level. The climate conditions ranges temperate in the high land and hot in the low land. Temperature ranges from 0⁰c to 45⁰c. Rainfall ranges from 100mm to 2800mm per year. Ethiopia receives big rains in June, July and August; and small rains in February and March. It found time zone GMT+3

Ethiopia has excellent climate and fertile soils, abundant and trainable labor force, lowest crime in Africa, simple and transport investment approval procedures, macro economic stability and rapidly growing economy, wide range of tax treaties and investment

Ethiopia's Gross Domestic Product (GDP) is likely to grow by 10.9 percent in 2010-2011, putting the horn Africa's nation in the lead across continent, the African Development Bank (AFDB) said. The Bank in its 2011 report forecast indicated that, Ethiopia will be in a leading development position by 10.9 percent, followed by Angola and Uganda with expected 7.9 and 7.9 percent growth respectively. Ethiopia is one of the fast growing non-oil economies and forerunners that achieved double digit growth in the period 2003/2004, it said. The report said Ethiopia is expected to fulfill the Millennium Development Goals (MDGs) in 2015. Accordingly,. It said the Ethiopia has given priority to education, health, agriculture roads for decade and has achieved impressive results

Ethiopian inflation accelerated to 14.5 percent in December 2010, after the government devalued the birr, boosting the cost of imported products. The inflation rate increased from 10.2 percent in November, the Addis Ababa-based Central Statistical Agency said in a statement. The cost of non-food items jumped 22.9 percent, while food prices rose 8.9 percent from a year earlier. Ethiopia's central bank on Sept. 1 devalued the birr by 17 percent against the dollar to boost exports and domestic manufacturing. At present, CBE collects a 7.5% interest rate per annum on credit facilities it extends. The CBE may vary the interest rate based on the Directive of the National Bank of Ethiopia

3.2 Floriculture Investment in Ethiopia

Floriculture is the newest of Ethiopia's export industries, having grown very rapidly over the past years to become the country's fourth largest export industry.

The Ethiopian floriculture industry began in the 1980s when state-owned farms started exporting cut flowers to Europe. Up to 1991, there were only two active enterprises, Horticultural Development Enterprise and Upper Awash Agro-Industry Enterprise, both state-owned. The modern Ethiopian flower industry took off in 2005 when a number of foreign firms (mostly flower producers from Kenya) and local businesses began production, encouraged by the government's aggressive promotion of the industry.

The flower types produced in Ethiopia comprise roses, field flowers and flower cuttings. Roses are the major flower type, and are produced by more than 80% of the firms, accounting for 60% of the total cultivated land.

Most of the firms are either fully foreign owned or are joint ventures with foreigners. The industry now employs more than 90,000 people, on a permanent or temporary basis. The main market for Ethiopian flowers is the Netherlands (which accounts for 80% of revenue), followed by Germany (8%) and the United States (3%). Export earnings from the sector reached \$131 million in FY2008/09.

As per the Ethiopian Horticulture Producers and Exporters Association (EHPEA), rose, geranium, gypsophila, static, hypericum, chrysanthemum, limonium, carnation, and pot plants are the main flower types produced in Ethiopia; albeit the production in flower farms is dominated by roses. Variety of roses, namely, Circus, Renee, Red Champ, Orange Unique, Hollywood, Golden Gate, Sun Beam, Black Baccara, Grand Prix and Tropical Amazon are

currently being produced for export. In 1992, Meskel Flowers was the first private company to specialize in the production of roses in Ethiopia and exported its first batch to Europe in 1998 (UNCTAD/ICC, 2004). Addis Ababa, having an altitude of about 2,000 meters, is the most suitable place for the production of high quality roses. Besides, its suitable climate, the necessary infrastructures such as roads, power, telecommunication and water are congenial here for the investors in the floriculture sector. The cultivation competes in quality with those from Holland as well as Colombia (Sisay, 2004). Ethiopia's number one market for floriculture is The Netherlands, followed by Germany, Italy, the Scandinavian countries, and the Middle East. Ethiopia with a population base of over 80 million is also a potential domestic market for flowers, though it is not yet thriving. Despite the enormous potential of the country, foreign currency earning from the horticultural sub-sector is abysmal. However, the amount of exportable horticultural products is increasing and so are the investors having motivated by various incentives and supports offered by the government.

Ethiopia is doing well in cut flower export. However, it needs to realize its competitive advantage in floriculture export. Kenya, Uganda, Tanzania, Zambia Zimbabwe, Malawi, Namibia and South Africa are the major African countries with whom Ethiopia has to compete with. An analysis in this regard can help the floriculture industry in export marketing of flower products. It would help not only the floriculture industry in Ethiopia but also those countries which aspire to boost their floriculture sector.

Ethiopia offers great opportunity to the floriculture industry. Mainly this has to do with the geographic and natural setting of the country.

Easy availability of land: The total land area of Ethiopia is 111.5 million hectares. While 66 percent (73.6 million hectares) is suitable for agriculture, only 22 percent (16.5 million) has been utilized for crop production (Ministry of Information, 2005-2006). Different sites for the development of floriculture and horticulture have been identified and made ready by the government for local and foreign investors around major cities (Ministry of Investment, 2005-2006). Abundant land and an easy access to it – once the investor fulfilled the pre-requisites – can be looked at as the major opportunities the country offers to foreign investors. Pre-requisites for land acquisition are simple and include project profile, bank letter, investment certificate (for foreigners or joint ventures), Memorandum of Association and Articles of Association (if PLC). In certain regions, particularly Oromia, the acquisition of land encompasses various options, e.g. selection by lottery method followed by geological survey and agreement; investors' initiatives to find potential sites followed by agreement; or investors' initiatives to take land on rent from the farmers. However, there are certain drawbacks too. For example, the lottery system is very unpredictable and the land may turn out to be unsuitable. Second, acquiring land from the farmers directly is sometimes risky; third, after investing millions of birr on the land, it is not economical to consider any possibility of giving up after 15 years the lease period, which is not very investor friendly; and fourth, if the investors on their part did not develop at least one hectare of the land within six months, the land and the initial deposit of 100,000 birr would be forfeited. More or less, some of the facts act more as deterrence than drawbacks.

Suitable agro-ecology: Ethiopia, endowed with diversified agro-ecology, offers an opportunity to produce different varieties of flowers in different ecological zones. It has various climatic zones, having a temperature range of 0°C in the highlands to 45°C in the lowlands; rainfall distribution of 100 mm to 2,800 mm and altitudes of 1,500-2,300 m above sea level (Export

Promotion Agency). The environment is ideal for the growth of different crops, fruits, vegetables and flowers (Ministry of Information, 2005-2006). Most growers agree that the climate is suitable for producing high quality roses with less effort and cost than other countries. The growers unanimously admit that the Ethiopian rose has a quality constituting larger stem, longer vase life and larger bud sizes. However, associated with this advantage, there lies a threat of flower diseases in certain humid regions that are uncommon in certain competing countries having cold climatic conditions.

Civilized population and labor force: Ethiopia is one of the top three countries in Africa with the greatest population size. The floricultural industry is labor intensive and this offers a comparative advantage to Ethiopia which has a population of more than 80 million. This offers a great source of manpower and a potentially high domestic market for flowers in the future. Ethiopia has an abundant, hard working, inexpensive, disciplined and easily trainable workforce. Contrary to Kenya where increasing racial violence is affecting floriculture investment, Ethiopia offers a peaceful civic life where investors gain lots of support. The cost of labor in Ethiopia is not only lower than some Asian nations but also African countries such as Tunisia, Mauritius, Kenya, etc. Wages and salaries in the private sector, however, are determined by the market but range not more than US\$1 a day for unskilled labor. Availability of unskilled labor at relatively cheaper prices offers a competitive advantage to the producers. However, a comparatively large number of unskilled labors add to a short-term weakness too.

Proximity to major flower markets: Flowers are a fragile commodity and need to reach the market in good condition and at the right time. Ethiopia's proximity to Europe and the Middle East offers this basic assurance. The products can reach these markets in a relatively shorter

period of time, having cheaper transportation costs than most other flower producing African and Latin American countries. Ethiopian flowers are gaining access to faraway destinations like the USA. The Netherlands, Germany, the USA, and the UK are markets for more than 85 percent of exported products.

Flight coverage to major flower markets: The geographical location of the country along with its proximity and fair transport cost to the Middle East and Europe gives Ethiopia a good marketing opportunity (Export Products of Ethiopia, 2005, p. 15). This is because low freight cost leads to low cost of production which in return affects the price of the stem. Most of the major flower markets can be reached directly from Addis Ababa. The leading national airlines – Ethiopian – offers cargo air transport services linking 45 cities in four continents: 26 in Africa, 12 in Asia, five in Europe and two in America. Currently, Ethiopian operates an all-cargo service to Brussels, Rome, Dubai, Jeddah, Mumbai, Nairobi, Johannesburg, Entebbe and Djibouti using Boeing 757-200PF – an aircraft obtained on an operating lease basis. Other destinations are served using the belly hold of wide and narrow-bodied passenger aircrafts. Presently Ethiopian has over 40 cargo destinations spread across Africa, Europe, Asia and the Middle East via Addis Ababa (Ethiopian Airlines, 2005). With the presence of rival airline, Emirates, air transport prices are expected to become competitive soon.

Potential domestic market: Although the absence of a strong domestic market can be considered as a barrier, the potential of realizing a good domestic market can be seen as an opportunity, particularly when the domestic flower market in Ethiopia is on the rise. Roses, Gypsophila and Nursery Stock are the major flowers having emerged in the domestic market. There are farms that are solely producing nursery stocks, while others produce those in

combination with other flowers to cater merely to the domestic market. The growing culture of presenting flowers during occasions like wedding, child birth, and visits to sick; festivals like Christmas and Easter; and the influence of western culture like Valentine's Days are the primary reasons for their increased domestic consumption. Moreover, the demands from hotels and business sector are also on the rise.

Financial support: Ethiopia's industrial development strategy highly encourages investors engaged in the production and export of agricultural products. The government has allocated a substantial amount of finance for investors intending to export flowers. They can apply for loans up to 70 percent of their investment. However, to start with, a minimum initial capital of USD 100,000 or USD 60,000 is required from a foreign investor for individual or joint projects (that have local investors as partner), respectively. For further support, the special loan is provided through the Development Bank of Ethiopia (DBE) at a favorable interest rate with a maximum repayment period of ten years supplemented by a grace period of three years.

Incentives: The Ethiopian Investment Agency has fixed a package of incentives to investors (both domestic and foreign) engaged in either new enterprises or expansion thereof. The incentive comprises 100 percent exemption in customs duties on floriculture related imports, transfer of such imports to another investor enjoying similar privileges, profit on tax holidays, with a provision of carrying forward the loss, tax free remittances for a foreign investor, and an investment guarantee.

Catalysts supporting floriculture industry in Ethiopia: The floriculture industry is progressively gaining strength in Ethiopia. Particularly, there has been a remarkable growth in registration of floriculture projects since the year 2001. In addition to the above cited factors,

government support and the association formed by the Ethiopian horticulture producers and exporters are the major catalysts that provide initial protection and impetus to the industry.

Government support: Floriculture is one of the emerging sub sectors of agriculture in Ethiopia.

The major incentives offered by the government of Ethiopia in support of this industry are:

- Duty free imports of inputs with provisional permission to import nationally unregistered inputs.
- Exemptions from import customs duties and other taxes on import of investment capital goods as well as on raw material necessary for the production of export goods.
- Exemption from export tax and all other taxes levied on export products and services.

Ethiopia has an investment friendly government, with favorable investment and export policies. The provisions attract foreigners to set up their business in the country. Political and micro-economic stability along with a non-hostile environment makes it a much sought-after place for foreign direct investments. The overall policy environment focuses on liberalization of prices and markets, removal of subsidies, reduction of tariffs and current account convertibility.

Ethiopian Horticulture Producers and Exporters Association: The formation of the Association of Flower Producers in September 2002 is yet catalyst in the floriculture industry. The association strives to unite all horticulture producers and exporters; secure cooperation among members; assist promotion of horticulture exports to international markets; represent and promote the interest of its members; collect and circulate statistics and other information; and arbitrate and settle disputes that might arise between its members. EHPEA (2005) has launched the Ethio Horti Share Company that helps members in freight forwarding and carriage

arrangement. It has been facilitated the exports of flowers collected from 35 different companies by leasing aircrafts that can carry up to 62 tons a day. However, owing to low flower output for export, vegetables are mixed to cover up costs during transportation.

Privileged access and memberships: Ethiopia's privileged access to the European Union (EU), the USA and other markets is a major strength in itself. Ethiopia is a member of the Common Market for Eastern and Southern Africa, embracing 20 countries in Eastern and Southern Africa with a population of approximately 380 million. Exports and imports with member countries enjoy preferential tariff rates. Ethiopia is also a beneficiary of Everything but Arms (EBA) of the European Union. Hence, all Ethiopian export products, except arms, can enter the EU market free of duty and quota restrictions (Export Products of Ethiopia, 2005). Under the African Growth and Opportunity Act (AGOA) program, Ethiopia is entitled to duty-free and quota-free US market access. Ethiopia has already been eligible for duty and quota free treatment for its wide range of manufactured products in many countries including the USA, Canada, Japan, Australia and most EU countries under the Generalized System of Preference (GSP) program. However, the AGOA scheme for encouraging exports appears to be largely ineffective in practice as far as horticulture exports from Ethiopia to USA are concerned. Ethiopia is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency (MIGA), which issues guarantees against non-commercial risks to enterprises that invest in signatory countries. Ethiopia is a member of the World Intellectual Property Organization (WIPO) and has signed the World Bank treaty on the International Convention on Settlement of Investment Disputes between States and Nationals of other states (ICSID) to the benefit of the investors. Ethiopia is also a party to the Convention of International trade on Endangered Species (CITES).

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

In this chapter, the data gathered and collected from questionnaire, interview and secondary sources are analyzed, interpreted and presented

4.1) Data Collected From Questionnaire

4.1.1) General background information of respondents

Table 4.1.1 shows that around 51% and 36% of respondents are under the age distribution of 25-35 years and 20-25 years old respectively; the remaining found above 35 years old, 87% of respondents are males and 13% are females. All of the respondents are educated by formal education. 85% of the respondents have higher level of achievement of university degree and above. The remaining 15% are diploma holders. Around 35% and 28% of respondents have educational back ground of management and horticulture respectively. 12% of respondents were experts in statistics and also 5% of agro-economists; others posses around 15% of total respondents. 23% of respondents have less than 2 years experience, 36% of respondents have 2-3 years work experience, and 20% of respondents have 3-5 years of experience and the remaining have above 5 years experience. 15% of the respondents are working at functional areas of financial and marketing departments, 7% and 5% are working at technical and farm or production areas respectively. The others are working at training and others areas.

Table 4.1.1 General background information of respondents

		No. of respondents	Percentage
1) Age	Below 20	0	0%
	20-25	14	36%
	25-35	20	51%
	Above 35	5	13%
Total		39	100%
2) Sex	Female	5	13%
	Male	34	87%
Total		39	100%
3) Do you have any formal education	Yes	39	100%
	No	0	0%
Total		39	100%
4) Highest level of education	Secondary level	0	0%
	Diploma	6	15 %
	University degree and above	33	85%
Total		39	100%
5) Fields of study	Management	14	35%
	Horticulture	10	28%
	Statistics	2	5%
	Agro-economics	5	12%
	Others	6	15%
Total		39	100%
6) Experience	0-2 years	9	23%
	2-3 years	14	36%
	3-5 years	8	20%
	5 years and above	8	20%
Total		39	100%
7) Functional area	Financial	6	15%
	Marketing	6	15%
	Technical	3	7%
	Leadership	-	-
	Production	2	5%
Total		17	42%

(Source: from respondents' response for the questionnaire)

4.1.2 Economic related floriculture investment failure factors

	Responses	No. of respondents	Percentage of respondents
1) To what extent do economic conditions affect	Highly	11	28%
	Moderately	23	59%
	Lowly	5	13%
Total		39	100%
2) Which economic factor affect your business negatively	Industry weakness	14	36%
	Insufficient profits	11	28%
	Interest rates	1	2%
	Exchange rate	12	30%
	Inflation	17	43%
	Heavy debt burdens	3	7%

(Source: from respondents' response for the questionnaire)

Table 4.1.2 shows about economic related factors influence on floriculture investment failure. 28%, 59%, and 13% of respondents responded that economic conditions of Ethiopia affects the floriculture investment highly, moderately and lowly respectively. 36%, 28%, 2%, 30%, 43%, and 7% of respondents responded industry weakness, insufficient profit, interest rate, exchange rates, inflation, and heavy debt burdens as negatively influencing floriculture investment in Ethiopia.

4.1.3 Management related floriculture investment failure factors

		No. of respondents	Percentage
1) Do you think that your business is negatively affected by poor leadership	Yes	33	85%
	No.	6	15%
Total		39	100%
2) Which one of the following is the main cause of floriculture investment in Ethiopia	Poor business planning	24	61%
	Poor financial planning	15	38%
	Poor marketing	24	61%
	Poor management	37	95%

(Source: from respondents' response for the questionnaire)

Table 4.1.3 shows that 85% of respondents responded that poor leadership as main causes of failure of floriculture investment in Ethiopia and 15% respondents responded that leadership is not the main cause of floriculture investment in Ethiopia, 61%, 38%, 61% and 95% of respondents responded that poor business planning, poor financial planning, poor marketing and poor management as management related floriculture investment failure causes in Ethiopia respectively.

3. To what extent did the following factors influence your business negatively?

Table 4.1.4 Management related floriculture investment failure factors

Failure causes	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Lack of management skills and experience	27	69.3%	4	10%	6	15%
System and structural failure	30	77%	5	13%	0	0%
Big project lover expansion	28	71%	7	18%	1	2%
Failure at top managers	24	61%	8	20%	3	7%
Week finance management	16	41%	17	43.5%	2	5%
Increased centralization	26	66%	11	28%	0	0%
Department of competent staff	26	66%	8	20%	5	12%
Poor management reporting	27	69%	10	25%	2	5%
Poorly understand cost behavior	18	46%	12	30%	3	7%
Loss of leadership creditability	31	79%	5	12.8%	2	5%

(Source: from respondents' response for the questionnaire)

Table 4.1.4 shows that 69%, 10% and 15% of the respondents responded that floriculture investments fails b/c of lack of management skills and experience as major, minor and no problem respectively. 77% and 13% of respondents responded that system and structural failure as major and minor causes of failure respectively. 71%, 18% and 2% respondents responded over expansion as major, minor and no problem for floriculture investment respectively. 61%, 20%

and 7% of respondents responded that failure at top managers as major, minor and no problem respectively. 41%, 43.5% and 5% respondents responded that weak finance management as major, minor and no problem respectively. 66%, 28% and 0% of respondents responded that increased centralization as major, minor and no problem respectively. 66%, 20 and 12% of respondents responded that department of competent employees as major, minor and no problem of failure respectively. 69%, 25% and 5% of respondents responded that poor management reporting as major, minor and no problem respectively. 46%, 30 and 7% of respondents responded that poor understanding of cost behaviors as major, minor and no problems of failure respectively. 79%, 12% and 5% of respondents responded that loss leadership credibility as major, minor and no problem.

4. To what extent did the following factors influencing your corporate policies in favor of investing in Ethiopia?

Table 4.1.5 Management related floriculture investment failure factors

	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Return on investment expected to be higher than could be obtained	9	23	21	53	4	10
Defenses market from other exporter	8	20	19	48	11	28
Attractive growth prospects	3	7	5	12	31	81
Threat of total blockage exports	1	2	16	41	20	51
Desire for growth	0	0	15	38	24	61
Availability of credit facilities and efficient banking system your domestic competitors	6	15	12	30	23	58
Wage rate	0	0	23	58	17	43
Grant or support	0	0	21	53	18	46
Proximity to the market	2	5	25	64	12	30

(Source: from respondents' response for the questionnaire)

The above table shows that 23%, 53% and 10% of respondents responded that high expected return than obtained return as major, minor and no problem of failure respectively. 20%, 48%

and 28% of respondents responded that defense of market from other exporter as major, minor and no problem of failure respectively. 7%, 12% and 81% of respondents responded that attractive growth prospects as major, minor and no problem of failure respectively. 0%, 58% and 43% of respondents responded that wage rate as major, minor and no problem of failure respectively. 5%, 64% and 30% of respondents responded that proximity to the market as major, minor and no problem of failure respectively.

4.1.4 Finance related failure causes of floriculture investment in Ethiopia

Table 4.1.6 Finance related failure causes of floriculture investment in Ethiopia

		No. of respondents	Percentage
1) Does Ethiopian government provide enough loan to start your business?	Yes	34	87%
	No	5	13%
1) Do you think that shortage of capital as floriculture investment failure cause?	Yes	7	13%
	No.	32	82%

(Source: from respondents' response for the questionnaire)

Table 4.1.6 shows that 87% and 13% of respondents responded that government provides enough loans and does not provide enough loan to the floriculture investment 13% of

respondents responded that shortage of capital as main cause of failure and 82% of respondents responded that shortage of initial capital is not the main cause of floriculture investment. Most of the respondents responded that government provides up to 70% of loans required to start floriculture business.

4. To extent do the following financial factors affect floriculture business?

Table 4.1.7 Finance related failure causes of floriculture investment in Ethiopia

Business failure factors	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
High operating expenses						
Lack of capital	9	23	21	53	4	10
Over financing	8	20	19	48	11	28
Lack of control over cash	3	7	5	12	31	81
Poor case flow management	1	2	16	41	20	51
No costing and butterfly control system	0	0	15	38	24	61
Assuming debt too early	6	15	12	30	23	58
Venture capital relationship	0	0	23	58	17	43
Working capital deficiencies too high payroll	0	0	21	53	18	46
Inadequate cash flow	2	5	25	64	12	30

(Source: from respondents' response for the questionnaire)

Table 4.1.7 shows different financial factors as the main causes of floriculture investment failure. 84%, 10 % and 2% of respondents responded as high operating expenses being major, minor and no problem. 25%, 61% and 7% of respondents responded that lack of capital as major, minor and no problem of floriculture investment failure in Ethiopia. 20%, 53% and 18% of respondents responded that over financing as major, minor and no problem of floriculture investment failure in Ethiopia respectively. 23%, 53% and 2% of respondents responded that lack of control over cash as major, minor and no problem of floriculture investment failure in Ethiopia respectively. 35%, 34% and 20% of respondents responded that poor cash flow management as major, minor and no problem of floriculture investment failure in Ethiopia respectively. 5%, 77% and 10 % of respondents responded that venture capital relationship as major, minor and no problem of floriculture investment failure in Ethiopia respectively. 30%, 53% and 2% of respondents responded that inadequate cash flow as major, minor and no problem of floriculture investment failure in Ethiopia respectively.

4.1.5 Marketing related cause for floriculture investment

Table 4.1.8 marketing related factors of floriculture investment failure in Ethiopia

		No. of respondents	Percentage of respondents
Do you think poor marketing is main cause of failure of floriculture investment	Yes	27	69%
	No	12	30%
Which market related factors can be cause for floriculture investment failure in Ethiopia?	Lack of knowledge about the product	5	12
	Inappropriate marketing	12	30
	Lack of good communication with the customer	15	38
	Poor pricing	21	51
	Poor quality of product	24	61
	Too great reliance on one customer	26	66
	Failure to focus on specific market	13	33
	Failure to gain new market	23	59
	Product timing, design and definitions	12	30
	Product distribution	1	2
	Lack of identifying customer wants and needs	17	47
	Entry of new competitor	8	20

(Source: from respondents' response for the questionnaire)

Table 4.1.8 shows that marketing related factors of floriculture investment failure in Ethiopia. 69% of respondents responded that floriculture investment fails because of poor marketing while 30% of respondents responded that it fails not because of poor marketing. 12%, 30%, 38%, 51% and 61 % of respondents responded that lack of knowledge about the products, inappropriate marketing , lack of good communication with customers, poor pricing and poor quality of products as a cause of failure of floriculture business. 66%, 33%, 59%, 30%, 2%, 47% and 20% of respondents responded that too great reliance on one customer, failure to specific market focus, failure to gain new market, product timing, design and definition, product distribution, lack of identifying customer wants and needs, and entry of new competitors as a failure causes of floriculture investment in Ethiopia. In addition the respondents said that lack of knowledge about different market channel as a marketing related failure cause of floriculture investment I n Ethiopia.

4.1.6 The other general floriculture investment Failure factors

1. To what extent does the following factor affect floriculture investment in Ethiopia?

Table 4.1.9 the other general floriculture investment Failure factors

Business failure causes	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Economic factors like insufficient profits, industry weakness, etc	18	46	21	54	0	0
Finance factors like heavy operating expenses, insufficient capital	21	51	14	36	0	0
Experience factors like lack of business knowledge, lack of management experience	24	61.5	12	30	0	0
Neglect like poor work habits, business conflicts	14	35	12	30	8	20
Fraud	8	20	15	38	11	28
Disaster	3	7	15	38	7	17
Strategy factors like over expansion	6	15	9	23	20	51

(Source: from respondents' response for the questionnaire)

Table 4.1.9 depicts that 46% and 54% of the respondents responded that economic factor as major and minor problem of the floriculture investment failures factors respectively. It also shows 51% and 36% of respondents responded that finance factors as major and minor cause of business failures respectively. 61% and 30% of respondents of responded that experience factors as major and minor problem of the floriculture investment failures factors respectively. Neglect as failure factor responded as follows, 35%, 30% and 20% as major minor and no problem respectively. 20%, 38% and 28% of respondents responded that fraud as major, minor and no problem for floriculture investment. Disaster as business failure responded as 7%, 53% and 17% of major, minor and no problem respectively. 15%, 23% and 51% of respondents respond that strategic problem as major, minor and no problem respectively.

2. Major problems of floriculture business

Table 4.1.10 the other general floriculture investment Failure factors

Problem	No of respondents	Percentage of respondents (%)
Economic factors	11	28%
Financial factors	15	38%
Management factors	25	64%
Human (employee) factors	21	51%

(Source: from respondents' response for the questionnaire)

Table 4.1.10 shows that 11% respondents responded that economic related factor as major problem, 38 % responded that financial factors as major problem, 64% as management related factor as major failure causes and 51% responded that it is b/c of employee related factors of floriculture investment failure.

3) To what extent did the following policies and conditions influence your business decision?

Table 4.1.11 the other general floriculture investment Failure factors

Business failure causes	Strongly Positive		No effect		Strongly negative	
	No.	%	No.	%	No.	%
Fears of political instability	0	0	32	82	3	8
Restriction on foreign ownership	14	36	23	59	2	5
Tariff free entry of components	34	87	3	8	0	0
Tariff free entry equipment	33	85	2	5	4	10
Tax holiday allowance	30	77	1	2	0	0
Incentives to export	37	95	2	5	0	0
Availability of land	33	85	1	2	6	15
Adequate infrastructure	34	87	0	0	1	2
Availability of labor (skilled/unskilled)	18	46	20	5	1	2
Low wage costs	30	77	3	8	0	0
Absences of capital markets	17	44	8	20.5	12	31
Current size of flower industry	16	41	15	38	4	10

(Source: from respondents' response for the questionnaire)

Table 4.1.11 shows the general country policies existing conditions floriculture business. 82% and 8% respondents responded fears political instability has no effect and strongly negative effect. 36%, 59% and 5% respectively responded that restriction on foreign ownership as strongly positive, no effect and negative effect on floriculture investment. 87% and 8% of

respondents responded that tariff free entry of components as strongly positive and no effect on floriculture investments. Tax holiday allowance has 77% positive effect and 2% of negative effect. 95% and 5% of respondents responds incentives to exports as positive influence. 85%, 2% and 15% of respondents responded that availability of land as positive, no effect and negative effect on investment of floriculture. 87% and 2% of respondents responded that adequate infrastructure as positive and negative influence. 46%, 51% and 2% respond that availability of labor influence positive, no influence and negative influence on floriculture investment. Low wage cost is responded as positive and no influence by 77% and 8% of respondents respectively. 44%, 20% and 31% of respondents responded that absence of capital markets as positive, no effect and negative effect on floriculture investment. Current size of flower industry influences 41%, 38% and 10% positive effect, no effect and negative effect respectively on floriculture investment.

4. To what extent did the following objective conditional influence floriculture business activity in Ethiopia?

Table 4.1.12 the other general floriculture investment Failure factors

Business failure causes	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Availability of quality packaging industry	20	51	14	36	7	18
Accessibility adequate road and transportation	11	28	23	59	5	13
Efficiency of cargo freight	30	77	5	13	1	2
Access to adequate means of communication	8	20	30	77	1	2
Availability of good government	0	0	18	46	17	45
Availability of credit facilities and efficient banking system	4	10	5	13	26	66
Prevailing climate and natural resources	1	2	11	28	27	69

(Source: from respondents' response for the questionnaire)

The above table shows that 51%, 36% and 18% of respondents responded that floriculture business activity b/c of quality of packaging industry as major, minor and no problem respectively. 28%, 59% and 13% of respondents responded that accessibility of adequate road and

transportation as major, minor and no problem respectively. Respondents responded Efficiency of cargo freight as 77%, 13% and 2% of major, minor and no problem respectively. 30%, 77% and 2% percent respondents responded that means of communication as major, minor and no problem for floriculture investment while 46% and 45% responded that availability of good governance as minor and no problem.

10%, 13% and 66% respondents responded that credit facilities and banking system as major minor and no problem respectively. 2%, 28% and 69% of respondents responded that prevailing climate and natural resources as major, minor and no problem respectively.

4.2 Data Analysis from Secondary Sources

The followings are production problems of floriculture investment in Ethiopia are

- The level of technology of the country: cut flowers production requires high level of technology and facilities.
- The nature of crop: the crops are very sensitive and require close attention and strict follow up, starting production site up to marketing.
- High prices of planting materials: the existing conditions do not allow producing planting materials locally.
- Transport the high cost of cargo and linear.
- No attention is given by research to generate technologies, in order to promote cut flowers production.(Dr. Bateno Kabeto ,Tadesse Debebe ,1999)

Major constraints in floriculture investment of Ethiopia are

1. Absence of development for floriculture industry and agricultural policy.
2. Lack of modern technology in production and marketing system low level of productivity

3. Limited infrastructural; and communication facilities supply.
4. Lack of update and effective marketing research and information.
5. Shortage of skilled and competent manpower and training
6. Absence of institution responsible to development of floriculture
7. Low level of research and development.
8. Some policy law, regulatory and implementation procedure impediment
9. Financial difficulties of investors in the sector
10. In adequate air cargo space.
11. Unavailability of inputs, green house structure and high quality packaging materials in domestic marketing as composed to other competing countries.
12. Management and supervision problems.
13. Unsatisfactory promotional activities both in supply and demand sides.
14. Absence of professional association. (By Sisay Habte, 2001)

4.3 Data Gathered From Conducted Interview

As the interview made with different people who has good background to the study, they have given the following causes as the reason why floriculture investment fails in Ethiopia.

Development Bank of Ethiopia gives loans when the investors want to invest in this sector. But the investors are not paying their debt properly because of many reasons like management, economic, finance and other related factors; the bank sells and foreclose their property that they have taken as collateral.

Economic related failure factors such as inflation, exchange rate, labor, land and others has affecting this investment negatively. Floriculture investment is highly sensitive with inflation

of a given countries since the investment is deals with importing and exporting process. Purchasing power of local currencies when it is needed to import necessary inputs for production is being very weak. And when the product is exported, it is needed to change from dollar to euro then to local currencies. The base payment of land is very expensive especially when the land is contracted from farmers.

Most of the interviewee said that the government provides around seventy percent of loan for this sector; therefore it is not failing because of the lack of enough initial capital even if some investors are not fulfilling the necessary requirements like proposal, pro-forma, personal information and others. Lack of good marketing is also causes of floriculture investment in Ethiopia. Most of the flowers producers focused on the one customer centered i.e. Holland Auction market. There is high standardized supply of product which is not meeting the customer's preferences. Transportation and promotion cost makes the price of the product high. Timing, quality and lacking of domestic market are also the cause this investment failure.

All interviewee looks management problem as the major cause of failure of floriculture investment in Ethiopia. That is those who are the owner of the farm becomes general manager but they have no management qualification as well as experience and skill about the inputs, the production process. There is also no good labor management so that there is high employee turnover. There is high training and capacity management problem.

CHAPTER FIVE

CONCLUSION, FINDINGS AND RECOMMENDATIONS

The following conclusions, findings and recommendation are given from the data analyzed and information forwarded.

5.1 Conclusion

- Most of the respondents are between the age of 20-35 years
 - Around 87% of the respondents are males
 - All of the respondents have taken formal education
 - Most of the respondents have university degree and above and the remaining are college diploma holders, this indicates that the respondents can read questionnaire and give effective feedback.
 - Most of the respondents have management, horticulture and accounting educational background.
 - Most of respondents i.e. about 36% have work experience of 2-3 years. This shows that they have good know how of failure causes of the investment.
 - More than half of the respondents working in financial and marketing departments. Others are giving training for the employees.
- Economic related failure factors of floriculture investment
- Most of the respondents responded economic conditions of Ethiopia affecting floriculture investment moderately.

- Most of the respondents responded that inflation, industry weakness exchange rate as main economic related causes of floriculture investment in Ethiopia.

Management related failure factors of floriculture investment

- Around 85% of the respondents responded that floriculture investment fails because of poor leadership.
- Poor management, poor business planning and poor marketing are responded as main causes of floriculture investment failure in Ethiopia.
- More than half of the respondents responded that loss of leadership creditability; system and structural failure, over expansion, lack of management skills and experience and experience, department of competent staff, poor management reporting, increased centralization and failure at top managers are the main management related failure causes of floriculture business in Ethiopia.

Finance related failure factors of floriculture investment

- 87% of the respondents responded that Ethiopian government provides enough loans to start floriculture investment by providing up to 70% loan.
- More than 80% of respondents and most of interviewees said that floriculture investment is not failing because of shortage of capital.
- Most of the respondents responded that high operating expenses as major problem and also poor cash flow management, capital deficiency, no costing and budgetary control system as a factor for floriculture investment failure in Ethiopia.

Marketing related failure factors of floriculture investment

- Most of respondents responded that marketing related problem as main cause of floriculture business failure in Ethiopia.

- Most of respondents responded that too great reliance on one customer, poor quality of product, failure to get new market as major floriculture investment failure causes preceding lack of identifying customer wants and needs, lack of good communication with customer and product timing, design and definitions.

Other failure factors of floriculture investment

- Most of the respondents, about 62%, responded that lack of management experience like business knowledge, lack of management experience as major problem following financial and economic related problems.
- Management related factors are the major problem as most interviewee and respondents of questionnaire responded by proceeding employee and financial related failure factors.
- The existing policies and conditions of the country of the country is not as much influencing negatively floriculture investment in Ethiopia.
- Most of the respondents responded that efficiency cargo freight and quality of packing industry as a major problem of floriculture investment following road and transportation.
- Most of the interviewee responded that lacking knowledge about different channels, high standardized supply without differentiating the product according to customer's preference and timing, lack domestic market transportation and advertising cost as some of reasons for the failure of floriculture investment in Ethiopia.

5.2 Findings

- ✚ Management related problems are the main causes of floriculture business failure in Ethiopia.
- ✚ Poor business planning, poor financial planning, poor marketing, lack of leadership creditability, increased centralization, system and structural failure, over expansion, failure at top managers, poor reporting, lack of management experience, knowledge and skills, lack of hiring competent employees and poor employee management relation are the management related floriculture investment failure factors in Ethiopia.
- ✚ Heavy operating expense, poor cash flow management, lack of control over budget and cost, venture capital relation ship, working capital deficiencies, too high payroll, assuming debt too early, fraud and neglecting behavior of investors when payment deadline reaches and absence of capital market are some of finance related floriculture investment failure causes in Ethiopia.
- ✚ Industry weakness, insufficient profits, inflation, exchange rate, labor wage rate and land contract cost are some of economic related failure factors of floriculture business in Ethiopia.
- ✚ Too great reliance on one customer, failure to get new market, lack of identifying customer wants and needs, lack of good communication with customer, poor product timing, lack of knowledge about different market channels, poor pricing and free entry of new competitors are marketing related factors of floriculture investment failure in Ethiopia.

✚ Disaster, climatic change, land fertility, joint ventures relationship, lack of quality packing industries, lack of efficient cargo freight, high transportation cost, lack of efficient credit facilities and banking system, country policy conditions infrastructure related causes are some of other floriculture investment failure factors in Ethiopia.

5.3 Recommendation

- ❖ As management problem is the main cause of floriculture investment failure causes in Ethiopia, those who are managing their investment currently and who are going to be manager and investor of floriculture business should:
 - ✓ Develop effective business plan
 - ✓ Develop good financial plan and management in order to avoid heavy operating expenses and poor cash flow, control costing and budget, reduce high payroll expenses and working capital deficiencies.
 - ✓ Use good marketing systems and strategies by searching for new market and customers, by identifying customer wants and needs, using right pricing strategies, by providing and distributing to their right customer channels by following right market timing in order to satisfy customer preferences, by using market research and development and other necessary marketing actions.
 - ✓ Leader should give credit and should be committed to their jobs and responsibilities.
 - ✓ There should be participatory and decentralized way of solving problems making decisions and setting objectives.
 - ✓ Investors and managers should avoid frauding and neglecting behaviors
 - ✓ Effective follow up reporting and appraisal of their employees and performance should be kept.
 - ✓ Employees should get necessary motivation, incentives safety, health protection and other services.
 - ✓ Necessary training should be given to managers and workers

- ❖ Consideration for economic related factors like inflation exchange rate, bond, labor and other resources should be given.
- ❖ Looking for the demand of the market and supplying necessary product according to the market demand is very important thing,
- ❖ Ethiopian government should encourage different institutes which will strive for floriculture investment success in addition to Ethiopian horticulture development agency and Ethiopian Horticulture Producers and Exporters Association.
- ❖ They should follow appropriate climatic condition for the production.
- ❖ They should develop quality packaging industry and efficient cargo freight services
- ❖ Ethiopian government should provide necessary infrastructure like electricity, transportation and road etc.
- ❖ To compete and sustain in the international market, the flower industry needs to contemplate on its competitive advantage for better performance.
- ❖ Even though Ethiopia has the potential to expand the floriculture industry, the government needs to strengthen and extend infrastructure facilities beyond the capital.
- ❖ Major work in areas of marketing strategy and human resource development has to be carried out by the sector in order to be competent in the international flower market.
- ❖ The product range needs to be widened in order to minimize risk.
- ❖ The government needs to look at the root of the problem concerning financial institutions and come up with some concrete solution.

- ❖ Most of all, code of conduct should be developed by the government concerning social and environmental aspects of production, methods being used, impact of production processes on local environments, or any other negative social impact and employees' health and safety issues.
- ❖ Finally, further research is required in the concerned areas so that a strong foundation can be laid for the sector to grow

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Appendix I: Questionnaire

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND PUBLIC ADMINISTRATION, AND INFORMATICS
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

Masters of Business Administration

Questionnaire:

I am a final year Masters of Business Administration in Finance (*MBA in Finance*) student at the Addis Ababa University. As a partial fulfillment of the program, I am conducting a study on the topic of Underlying Causes of Business Failure of Floriculture Investment in Ethiopia. The results will be used to assist investors in floriculture sector, policy makers, academicians and other interested parties develop a good understanding about the underlying causes of business failure. The questions are designed in a manner that can be dealt with easily and the corresponding answers will be kept strictly confidential. People with access to the answers are those related with the study and answers will be combined anonymously with all the other information collected to form a study report. Use a “ ” sign for your response

Thank you in advance!!

Part one:

General Information

1. Age:

Below 20 years

25-35 years

20-25 years

above 35 years

2. Sex:

Female

male:

3. Do you have any formal education?

Yes

No

4. If „Yes“ to 1.3 what is your highest level?

Secondary

Collage diploma

University degree and above

If other, specify _____

5 If you have college diploma or degree, what is your department or field of study?

6. How many years of work experience you have this organizations?

Less than 2 years

3-5 years

2-3 years

More than 5 years

7. If yes, in which functional areas?

Financial area

Leadership area

Marketing area

Production manager

Technical area

If other please specify _____

PART TWO

A. Economic related business failure factors

1. To what extent do economic conditions of Ethiopia affect floriculture investment?

Highly moderately lowly

2. Which economic factors is influencing your business negatively (more than one answer is possible)

Industry weakness

Exchange rate

Insufficient profits

Inflation

Interest rates

Heavy debt burdens

B. Management or leadership related business failure factors

1. Do you think that your business is mostly affected negatively by poor leadership?

Yes

No

2. If yes, in which one is the main cause? (More than one answer is possible)

Having poor business planning

Having poor financial planning

Having poor marketing

Having poor management

3. To what extent did the following factors influence your business negatively?

Business failure causes	Major Problem	Minor Problem	No problem
Lack of management skills and experience			
System and structural failure			
Big project/over expansion			
Failure at top managers			
Weak finance management			
Increased centralization			
Department of competent staff			
Poor management reporting			
Poorly understand cost behavior			
Loss of leadership credibility			

4. To what extent did the following factors influencing your corporate policies in favor of investing in Ethiopia?

b	Major Problem	Minor Problem	No problem
Return on investment expected to be higher than could be obtained			
Defenses market from other exporter			
Attractive growth prospects			
Threat of total blockage exports			
Desire for growth			
Availability of credit facilities and efficient banking system your domestic competitors			
Wage rate			
Grant or support			
Proximity to the market			

If you have other management related factors please specify _____

C. Finance related cause of business failure

1. Does Ethiopian government provide enough loans to start your business?

Yes

No

2. If yes what percent of total capital does Ethiopian government provide as loan?

3. Do you think that most of floriculture business in Ethiopia fails because of shortage of capital?

Yes

No

4. To extent do the following financial factors affect floriculture business?

Business failure factors	Major Problem	Minor Problem	No problem
High operating expenses			
Lack of capital			
Over financing			
Lack of control over cash			
Poor case flow management			
No costing and budgetary control system			
Assuming debt too early			
Venture capital relationship			
Working capital deficiencies too high payroll			
Inadequate cash flow			

D. Marketing related Causes of Business Failure

1. Do you think poor marketing as the main cause of floriculture business failure in Ethiopia?

Yes

No

2. Which market related factors can be a cause for floriculture interment failure? (More than one answer is possible)

Lack of knowledge of company's product

In appropriate marketing

Lack of good communication with custom

Poor pricing

Poor quality of the product

Too great reliance on one customer

Failure to focus on specific market

Failure to gain new market

Product timing, design and definitions

Product distribution

Lack of identify customer wants and needs

Entry of new competitor

If you have any thing to add

E. General Business Failure factors

1. To what extent does the following factor affect floriculture investment in Ethiopia?

Business failure causes	Major Problem	Minor Problem	No problem
Economic factors like insufficient profits, industry weakness, etc			
Finance factors like heavy operating expenses, insufficient capital			
Experience factors like lack of business knowledge, lack of management experience			
Neglect like poor work habits, business conflicts			
Fraud			
Disaster			
Strategy factors like over expansion			

2. From the following factors which one is the major problem for your business? (More than one answer is possible)

Economic related factors Human/Employee related factors

Financial factors Management related factors

3) To what extent did the following policies and conditions influence your business decision?

Business failure causes	Strongly effect	Positive	No effect	Strongly negative
Fears of political instability				
Restriction on foreign ownership				
Tariff free entry of components				
Tariff free entry equipment				
Tax holiday allowance				
Incentives to export				
Availability of land				
Adequate infrastructure				
Availability of labor (skilled/unskilled)				
Low wage costs				
Absences of capital markets				
Current size of flower industry				

4. To what extent did the following objective conditional influence floriculture business activity in Ethiopia?

Business failure causes	Major Problem	Minor Problem	No problem
Availability of quality packaging industry			
Accessibility adequate road and transportation			
Efficiency of cargo freight			
Access to adequate means of communication			
Availability of good government			
Availability of credit facilities and efficient banking system			
Prevailing climate and natural resources			

Appendix II: Interview question

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND PUBLIC ADMINISTRATION, AND INFORMATICS
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
Masters of Business Administration

An Interview Questions on the underlying failure causes of floriculture investment in Ethiopia

1. How many years have you been in this organization? _____

2. What is your area of responsibilities in this organization?

3. Around twenty floriculture investments were failed/stucked and sick. What do you think that the failure causes for floriculture investment in Ethiopia?

4. Why is this causes occurring?

5. Do you think that its failure is because of lack of initial capital loan from the government?

6. How do economic related factors affect floriculture investment in Ethiopia?

7. How do financial related factors affect floriculture investment in Ethiopia?

8. How do marketing related factors affect floriculture investment in Ethiopia?

9. How do leadership related factors affect floriculture investment in Ethiopia?

10. From economic, financial, marketing and human related factors which one is a serious cause for floriculture investment in Ethiopia? _____

Why? _____

11. Do you think that lack of encouragements and incentives from government is the main causes of floriculture investment failure in Ethiopia?

_____ Why?

12. What are the other problems for floriculture investment in Ethiopia?

Appendix III: list of flower investment in Ethiopia

No	Farm Name	Cluster	Status
1	A Flower	Holeta	Active
2	Abdulhamid jamal	Sebeta	Active
3	Abyssinia Flower	Sendafa	Active
4	Addis floracom	Holeta	Active
5	Agri Flora	Holeta	Active
6	Alliance flowers	Holeta	Active
7	AQ Roses	Ziway	Active
8	Blen flowers	Ziway	Active
9	Braam Flowers	Ziway	Active
10	Bukito Agro Industry	Debrezeit	Active
11	Derba Flower	Sululta	Active
12	Desa Plants	Koka	Active
13	Dire Highland	Holeta, Sebeta	Active
14	Dream flowers	Holeta	Active
15	Dugda Floriculture	Debrezeit	Active
16	DYR business group	Sebeta	Stucked
17	Eden roses	Sebeta	Stucked
18	Enyi Ethio rose (Addis)	Addis Ababa	Active
19	Enyi Ethio Rose (Awash)	Awash	Active
20	ET Highland Flora	Sebeta	Active

21	Ethio Agri Ceft	Holeta	Active
22	Ethio Dream	Holeta	Active
23	Ethio Plants	Sebeta	Active
24	Ethiopassion Agro	Sebeta	Active
25	Ethiopia Cuttings	Koka	Active
26	Ethiopia Meadows	Holeta	Active
27	Ethiopian Magical Farm	Sendafa	Active
28	Euro Flora	Holeta	Active
29	Evergreen Farm	Debrezeit	Active
30	EWf Flowers	Sebeta	Active
31	Experience incorporated	Ziway	Active
32	Fiyori Ethiopia	Holeta	Active
33	Florensis Ethiopia	Koka	Active
34	Flower ama	Menagesha	Active
35	Fressia Ethiopia	Sululta	Active
36	Friendship Flowers	Debrezeit	Active
37	Galica Flowers	Holeta	Active
38	Garad PLC	Holeta	Stucked
39	Golden roses	Sebeta	Active
40	Groeneveld	Ziway	Stucked
41	Hadiya Flowers	Sebeta	Stucked
42	Hasan Abuselam	Debre Zeit	Stucked
43	Herburg roses	Ziway	Active

44	Holeta Roses	Holeta	Active
45	J J Kothari	Sululta	Active
46	Jerecho flowers	Menagesha	Stucked
47	Joe flowers	Holeta	Active
48	Joshua Flowers	Holeta	Active
49	Joy Tech	Debrezeit	Active
50	Kaf Rose	Holeta	Active
51	Kebir Hussein (Arsi Flower)	Holeta	Active
52	Kermelos Flower	Holeta	not started
53	Kings Ethio Flowers	Debrezeit	Stucked
54	Lafto Roses	Sebeta	Active
55	Larca Investment	Holeta	not started
56	Linssen Rose	Holeta	Active
57	Lucy Ethiopia	Holeta	Stucked
58	Mam Trading	Sendafa	Stucked
59	Maranque Plants	Upper Awash	Active
60	Marginpar Ethiopia	Holeta	Active
61	Menagesha flowers	Menagesha	Stucked
62	Menahem Tizazu Abraham	Debrezeit	Transferred to Eyasu Sirak
63	Meskel Flower	Ziway	Stucked
64	Metrolux Flowers	Holeta	Stucked
65	Minaye Flowers	Debrezeit	Active

66	Noa Flora	Tulu Bolo	Stucked
67	Olij Roses	Debrezeit	Active
68	Omni Blossom Flowers	Debrezeit	Active
69	Oromia Wonders	Holeta	Active
70	Queen flower	Ziway	Stucked
71	Rainbow Colors	Debrezeit	Active
72	Red Fox	Koka	Active
73	Rich Land Ethiopia	Weliso	not started
74	Rose Ethiopia	Holeta	Active
75	Roshanara Roses	Debrezeit	Active
76	Royal Rose Flower Business	Holeta	not started
77	S and U Trading PLC	Ziway	not started
78	Saron Rose	Sebeta	Active
79	Schecter Yosef	Sebeta	Active
80	Selam Flowers	Sebeta	Active
81	Sheba Flowers	Awash Melka	Active
82	Sher Ethiopia	Ziway	Active
83	Shewa Rose	Sebeta	not started
84	Shitu Flowers	Debre Zeit	not started
85	Siet Agro	Holeta	Stucked
86	Silverline Flowers	Holeta	Stucked
87	SMR Agriculture	Debrezeit	Stucked
88	Spirit	Debrezeit	Active

89	Star Business	Ziway	Stucked
90	Summit agro industry	Ziway	Stucked
91	Super Arsitey	Awash Melkasa	Active
92	Supra Floritech	Holeta	Active
93	Surya Blossoms	Woliso	Active
94	Tal Flowers	Sebeta	Active
95	Top Flower	Holeta	Active
96	Yalkoneh flowers	Sebeta	Active
97	Yassin Legesse	Debrezeit	Active
98	Zagwe Flora	Sebeta	Active
99	Ziway Roses	Ziway	Active
100	ZK Flowers	Debrezeit	Active
101	Awassa Green Wood	Awassa	Active
102	Ethio Agri Ceft (Amhara)	Bahir Dar	not started
103	Giovani Alfano	Bahir Dar	Active
104	Langano Lilly	Awassa	Active
105	Tana Flora	Bahir Dar	new
106	Tinaw Business	Wolqite	Active
107	Zefinowl Flowers	Bahir Dar	new

Source: Ethiopian horticulture development agency, 2011