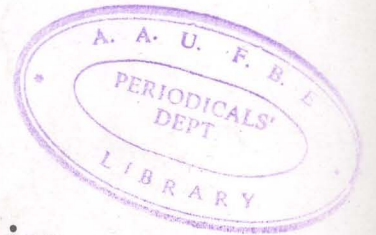


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**ORGANIZATIONAL LEARNING
IN
EXPORT DECISION PROCESSES:
The Case of
Adei Abeba Yarn S.C.**

*Research Report Submitted to:
Addis Ababa University,*



*Faculty of Business and Economics,
MBA Program.*

**In partial fulfillment for the requirements of
Master of Business Administration**

Advisor:

Dr. Tilahun Teklu.



Prepared by:

Yirga Tesfaye,

Id. No. GSR/0991/96.

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*July, 2005.
Addis Ababa.
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*This research paper is dedicated
with love and devotion
to my mother Abu,
who sacrificed her good times in life
to see her children where they are now.*

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Life has a strange way of intruding while one makes far-reaching plans. So, it is with heart-felt gratitude that I acknowledge all who have been extremely supportive during this learning journey. Thank you all!!

Abstract

Studies on the Ethiopian economy show that the relative contribution made by the manufacturing sector is too low. The sector is characterized by old and outdated technologies, poor management practices and above all not being export oriented. Despite the rich endowments of abundant labor, arable land, livestock and agro-ecological climate, Ethiopia is not in a position to benefit from natural resource based manufacturing activities like sugar, textile, garment and leather products.

In this research work conducted on a public owned garment manufacturing company, it was found out that the could not manage its international marketing mix in order to be competitive in global markets. Its orientation towards becoming a learning organization has been found as being not strong, as observed in its strategic decision making processes in export manufacturing and marketing activities. The two decision processes that are controllable and determine the case company's global competitiveness are the manufacturing process layout and procurement process, both affecting the product cost structure and hence its price.

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I. INTRODUCTION

This research report covers strategic decision making processes at Adei Abeba Yarn S.C. in relation to manufacturing and marketing activities for the export market. Organizational learning, as revealed in the various decision-making processes, is the main theme of the entire work. The company manufactures different types of yarn, blankets and garment. Yarn and blankets are manufactured for local market while garment products are for both local market and for exporting to foreign markets.

Regardless of its long years of experience in both local and foreign markets, the company did not build competencies that enable it become competitive mainly in the export market where there is high degree of competition in product price and quality. Out of the controllable variables in its export marketing mix, the company can manage (though partly) only the price of the products it manufactures for export marketing. Yet, those activities that determine product price level are not appropriately managed due to lack of operational and strategic systems that promote organizational learning with in the company.

In this study, attempt is made to identify the core activities in the export manufacturing and marketing processes that determine its performance. Potentials for organizational learning in these processes are revealed and mechanisms to capitalize on these possibilities are recommended based on the analysis made.

The research report is organized in six sections. The first section provides the background information about the industry in which the case company operates. In addition, the research problem, objectives of the study, research scope and limitations encountered in the study are presented in this section.

The second section covers the literature reviewed on the conceptual areas of export marketing, organizational learning and strategic decision making processes. Appropriate models from these domains are briefly introduced to give some highlight as required to make analysis of the findings. The research methods wherein the methods of data acquisition and analysis are presented in the third section.

The research findings are summarized in the fourth section that is followed by the analysis and interpretation section of these findings. Analysis and interpretation is made based on the theoretical basis discussed in the literature review section. Finally, conclusion is made and recommendations are forewarned in the sixth section.

1.1 Background

The Ethiopian Industrial/manufacturing sector, in most cases contributes 10 to 13% to the national economy¹. Most manufacturing firms are established before decades to substitute imports for the local consumption. Firms manufacturing consumable items like sugar, brewery, textile, etc dominate the

¹ According to the Ethiopian Economic Association Report on The Ethiopian Economy, Vol. III (2003/04).

structure of the industrial sector. The industries are technically backward, poorly managed and above all not export oriented.

The recent market opportunities provided by developed countries that allow importation of products from selected developing countries free of tax and quota has made manufacturing exports in Ethiopia to be the current economic agenda. The Ministry of Trade and Industry, Investment Commission and other government agencies are encouraging existing manufacturing firms to engage in exporting as well as promote new establishments mainly for manufacturing exportable products. The boom in garment and leather processing industries, mainly by private investors, is a clear indication of these phenomena. Financial facilities and policy measures to encourage investment and strengthen these activities also demonstrate the interest government is showing in the manufacturing for export sector.

The nature of manufactured export products from developing countries like Ethiopia is based on the expected comparative advantages derived from a natural resource based processing industries. The industries in turn rely on the available and relatively low priced raw material stock including cheap labor. However, the manufacturing sector is not able to capitalize on this advantage or develop technology capabilities in order to exploit such advantages, say for increased export performance and foreign exchange earnings.

The companies found in developing countries lack managerial capabilities to learn from their experiences through the years. Their production functions are

not competitive in terms of manufacturing cost, product quality, quantity or both. Most use old technologies and facilities that fall short of competitiveness global markets.

This research attempts to analyze firm level export marketing decision processes at Adei Abeba Yarn S.C. The company manufactures various types of yarn, blanket, and garment products. Garments are produced for both local and export markets while other products are for the local market.

1.2 The Research Problem

Despite the rich endowments of abundant labor, arable land, livestock and agro-ecological climate, Ethiopia is not in a position to benefit from natural resource based manufacturing activities like sugar, textile, garment and leather products. The potential to produce, process, manufacture and export products related to garment and leather is high. But, notwithstanding recent attempts, achievements mainly in the state owned industries in these sectors is unsatisfactorily low.

The performance of public owned garment-manufacturing sector, in terms of volumes of production and sales, profitability, exploitation of facilities or capacities is low compared to the private owned ones. Marketing, specially exporting has been considered as a minor concern for long. However, due to the fact that the local market is open to foreign producers, local garment industries are, these days, forced to open their eyes and search wider markets for their products in and outside the country.

In addition, because of the comparative advantages (of either resource or policy) of domestic manufacturers, foreign traders are bringing their production jobs (mainly the sewing service) to these industries. In some cases the newly established and privately owned garment factories self select into the export market. However, quality requirements are very strict and prices are highly competitive and not attractive for the domestic firms including the case company. In most garment factories, the level of product/service price received from manufacturing for the export market is lower than the amount for domestic market, though the first demands higher degree of quality.

The case company for this research faces similar problems in terms of:

- Poor product quality (appearance, style and finishing workmanship, accessories used, and the like) acceptable in international markets,
- Too low export market prices to cover its cost of production and generate profit margins,
- Outdated technological and limited managerial capabilities to competitively exist in global markets, and
- Low level of human resource skills and efficiency to meet the requirements of the export market and benefit out of it.

1.3 Objectives of the Research

Based on the problems stated above that are faced by the garment sector in general and Adei Abeba Yarn S. C. in particular, this research attempts to:

- Assess the potentials for organizational learning in the export marketing decision processes of the company,

- Study organizational procedures that facilitate (or restrict) organizational learning in the case company, and
- Recommend mechanisms by which a learning organizational system can be established not only in export marketing decisions but also in other activities of the company in order to improve over all firm competitiveness.
- Encourage interested researchers in studies that identify constraints of the manufacturing industry and devise remedial solutions.

1.4 Scope and Limitations

Major conceptual areas to be touched up on in this research (Organizational Learning, Strategic Decision Making, and Marketing) are wide and have variety of developments within themselves. However, each field is taken as appropriate to the objectives of specific tasks in the study. Selected models of organizational learning (Huber 1991) and strategic decision process (Mintzberg, *et.al.*1976) are used to analyze the production and marketing processes for export activities at the Adei Abeba S. C.

The following limitations were encountered in this study.

- i. The case company undertakes manufacturing and marketing activities both for export and domestic markets in an intricately related mode that it is difficult to separate them for analysis.
- ii. Research on decision processes relies mainly on qualitative data through interviews and questionnaire. However, information collected in these methods are not certain to clearly reveal real situations due

to personal biases and problems related to memorizing of the situations.

- iii. Conceptually, both organizational learning and decision-making processes are longitudinal phenomena. Their analysis based on a snapshot of data forced this study to depend on historical information recorded or unrecorded.
- iv. The period of data collection through the questionnaire coincided with the public unrest in Addis Ababa (June 2005). Thus, respondents were not able to concentrate on the research, as they were preoccupied in political and social issues. This specifically delayed the completion of the study by about three weeks.

To overcome these limitations related to data accuracy, attempt was made to obtain clear pictures of representative and key strategic decision process in export activities carried out in the near past. Repeated interviews and detailed discussions were made with persons who directly participated in export related decision activities. Crosschecking of the data collected from discussions, personal interviews and questionnaire was made for clarity, consistency and correctness. In times when conflicts arise between information from different sources, discussions were revised with the person(s) concerned to get the necessary clarifications.

II. LITERATURE REVIEW

2.1 *Export Oriented Marketing*

In a modern world economy, marketing is a social process by way of which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others, (P. Kotler: 2003). From the perspectives of a manufacturer, marketing function has three aspects: identifying market needs, satisfying these needs and making profit to sustain in competition.

Manufacturing firms engaged in export marketing face strong competition from exporters worldwide. Thus, it need to have wider environmental scanning capabilities in order to timely identify market needs and make the necessary adjustments to be able to satisfy these needs and gain profit. The success (or failure) of companies to adjust themselves with respect to global trends depends on their ability to properly manipulate the variables that affect their international marketing mix. Katz (1987) categorizes these variables into two groups, these are:

- i. *Controllable or internal variables:* These include the following.

Product: Design and quality attributes of the product with respect to its lifecycle in the overseas market, manufacturing technology and capabilities of the firm determine features of the product that the company offers to the market. The ability to redesign product attributes

to match taste and preferences of potential consumers contributes to company's export success.

Price: Appropriate product pricing considers, among other things, manufacturing cost structures, the market price level and expected profits. In addition to the above, how customers value a product with respect to status, the profit margins left to the distribution networks, and marketing strategies determine the price level for a product.

Place: Place parameters include the patterns and mechanisms of distributing the product from the manufacturers through intermediaries and finally to the consumer. The appropriate determination of different distribution channels determines where and how the product is made available to the customer at varying price structures.

Promotion: Refers to the mechanisms used by the firm to make the customers buy the product. Advertising is an essential component of promotion for consumer goods, but depends on product nature and market characteristics.

Services: Those activities designed to enhance the customers' expectations and enjoyment of the product benefits make up the services a company provides to its customers.

ii. *External variables:* These also include the following:

Competition: Strategies and techniques used by competitors worldwide both at factor and product markets. Competition is usually on an aspect of product attributes, sales effort, price level and the like. Companies need to conduct marketing research to analyze and predict prevailing strength of competitors and accordingly redesign their strategies.

Cultural environment: These are related to behavioral patterns of the customers. The environments reflect different types of customer lifestyles that shape their tastes and preferences. Efforts need to be made to identify what lifestyle parameters exist in foreign potential markets that determine how customers make purchase decisions. Accordingly, a company can gear its product attributes and manufacturing efforts towards the acceptable formats in the market environment.

Legal constraints: Local laws relating to health, safety, packaging, labeling, transport, payment, import control, documentation, etc. must be observed and complied with by export marketers.

Institutions: These are commercial and public organizations that reflect awareness and support of the rights of consumers. The institutions protect the interests of consumers from profit-oriented marketers.

Therefore, a manufacturer for the export market is expected to analyze its controllable variables and devise appropriate strategies in terms of its international marketing mix that allow itself to remain competitive globally. In addition, external variables are to be observed in order to make necessary internal adjustments so that the company can align itself with the opportunities out there.

2.2. *Organizational Learning*

Most research literature are concerned with the outcomes of the organizational learning, in terms of performance measures such as the relationship between exporting and an aspect of firm level efficiency (Bleaney, et. al. 2000; Cadogan, et. al. 2002; Clerides, et. al, 1998). The focus in this research, however, is on the process of learning in decision-making processes of garment manufacturing and exporting activities at Adei Abeba Yarn S. C.

As a result of advancements in science and technology, mainly due to the advent of information and communication technology, the world has always been changing and markets are becoming more competitive. Thus, companies are in the process of continuously learning about new technologies, new products and new ways of organizing their operation. This enables them to globally compete and win markets. An important way in which firms manage to be one step ahead of the competition is that they are quicker to learn from their environment (Bleaney, et. al. 2000). This involves environment scanning and making appropriate measures to align the company activities with market requirements.

According to Dodgson (1993) organizational learning is the way firms build, supplement and organize knowledge and routines around their activities, and within their cultures to gain organizational efficiency. This definition is based on the assumptions that learning has positive consequences, organizations can learn as well as learning occurs throughout all the activities of the firm at different levels and speeds.

Organizations need to learn in order to remain competitive in an ever-changing environment. Learning is a requirement for adaptation and improved efficiency in times of change. Organizational Learning enables to retain and improve competitiveness, productivity and innovativeness in uncertain technological and market circumstances (Dodgson, 1993).

The competitiveness of firms in dynamic market circumstances depends not only on whether they learn or not, but also on the speed of their learning activity with respect to the rate of environmental changes. According to Senge² (1990) the rate at which organizations learn may become the only sustainable source of competitive advantage.

Argyris and Schon³ (1978) describe three types of organizational learning.

Single-loop learning: This type of learning occurs when organizations detect and correct errors while carrying on with their existing policies and goals. These activities add to firm's the knowledge base, firm-specific competencies

² as cited in Malhotra.

³ as cited in Balasubramanian.

or routines without altering fundamental nature of the organization's activities.

Double-loop learning: When in detection and correction of errors, the organization is involved in the questioning and modification of existing norms, procedures, policies and objectives. This involves changing the organization's knowledge base, firm specific competencies or routines.

Smith (2001) represented the above two types of organizational learning processes by the following diagram.

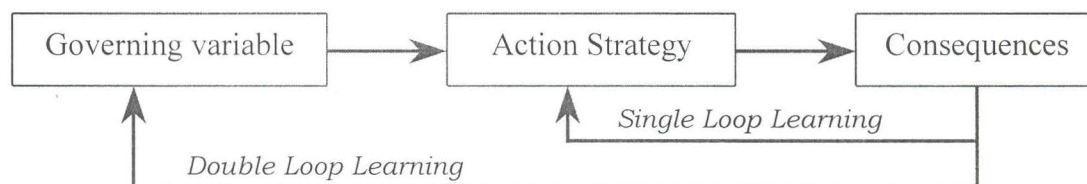


Fig. 1: Single-loop and double-loop learning structures.

Deutero learning: occurs when organizations learn how to carryout single-loop and double-loop learning.

In addition to the above categories of learning processes, there are organizations that are not prepared to promote learning. Their organizational setups do not create favorable atmosphere for learning to take place. Such firms can be termed non-learning organizations. They do not have systems to acquire and store knowledge or such knowledge is entirely in the individual

personnel. When such personnel leave the firm, new entrants are supposed to start from nothing or bring their own experiences and skills.

In this research, the four-construct process of organizational learning, described by Huber (1991), is used as a model to test if the case company undertakes the learning process. These four constructs are knowledge acquisition, information distribution, information interpretation and organizational memory. According to the model, learning takes place in an organization through these four processes.

- i.* Knowledge acquisition occurs when an organization recognizes internal and external environments and takes facts and data using its own systems to store, manage, and retrieve information to be used in relevant decision-making processes.
- ii.* Information distribution refers to the process by which an organization shares information among its work units and members to promote learning and produce new knowledge or understanding.
- iii.* Information interpretation is the process by which distributed information is given one or more commonly understood meanings.
- iv.* Finally, organization memory refers to the repository where knowledge is stored for future use in decision-making. The major challenges of organizations are interpreting information and creating organizational memory that is easily accessible.

2.3. Strategic Decision Process

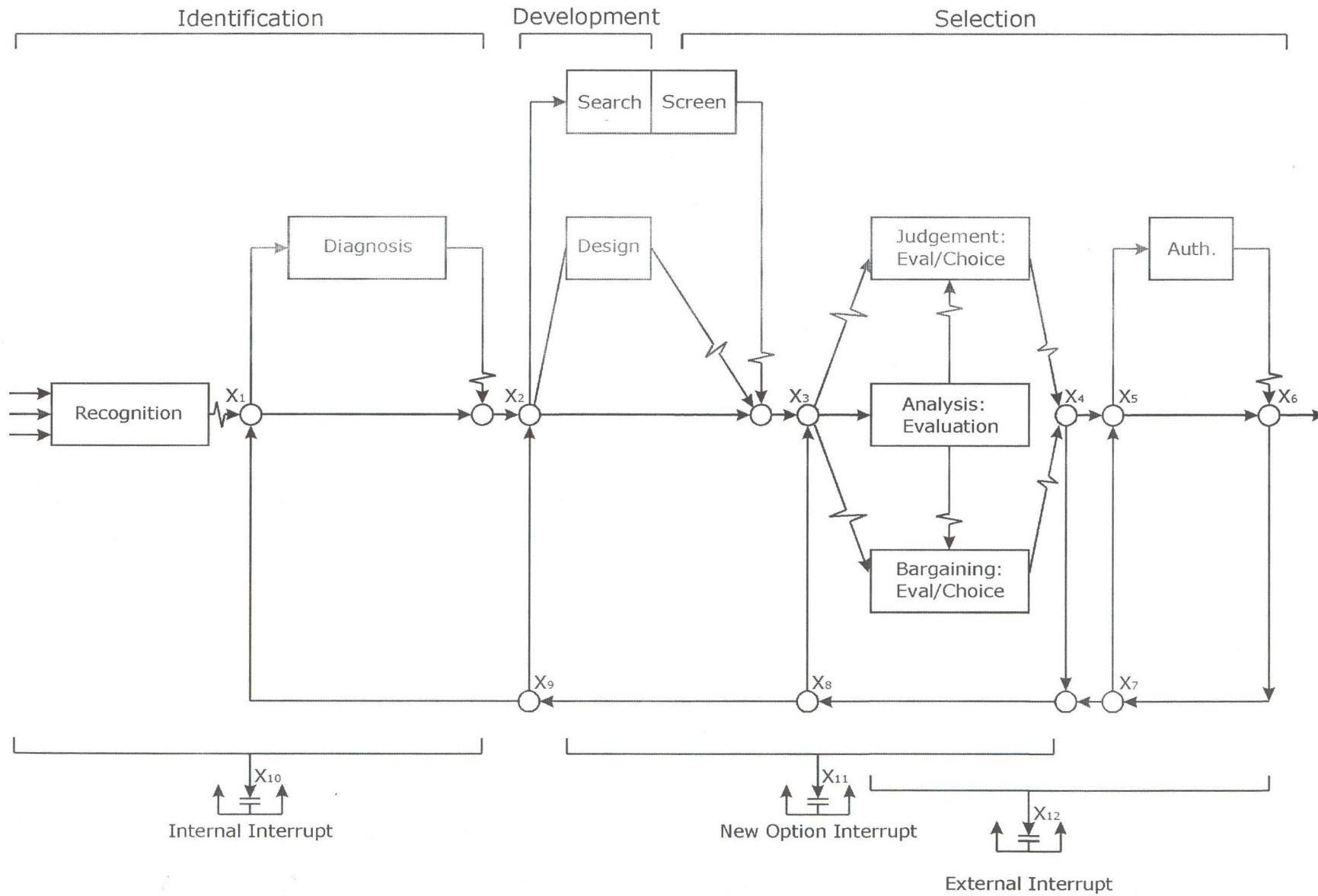
Learning is a set of continuous processes that produce change. It has the potential to improve an organization's capability to anticipate and appropriately respond to future environmental changes and opportunities in a way that either maximizes its benefits or minimizes negative impacts.

Due to increased globalization, these days, companies operate in competitive global markets as well as confront with environments that are dynamic, unpredictable and complex. Hence they can be considered as open systems interacting with other agents in the wider environment – the competition to survive and grow in a global market.

Companies need to devise mechanisms and build efficiency by which they can scan relevant parameters of the environment, analyze the type and degree of impacts they could bring into them. This requires companies to make strategic decisions based on accurate and timely market information.

This research makes use of the general model of strategic decision process developed by Mintzberg, *et. al.* (1976) to assess export decision making processes in the case company. This model has been influential for decades in explaining unstructured decision processes (Pinfield, 1986; Mayo and Lank, 1996) and even serve as a basis for further research then after (Rajagopalan, 1993).

Fig. 2: The General Model of Strategic Decision Process (H. Mintzberg, et. al, 1976).



The model consists of three central phases made up of seven central routines, and also uses three additional routines that support these central phases. The relationship between the central and supporting routines is explained by six additional dynamic factors. The schematic representation of the model is shown in Figure 2, on the previous page. The diagram shows the three central phases with the seven central routines within them.

In practical strategic decision processes, the phases and routines do not happen in any foreseeable order. Routines can be repeated over and over again until a final decision alternative is selected and authorized for further action.

The three central phases, three supportive routines and six dynamic factors collectively makeup the twelve elements of the Mintzberg, *et. al.* (1976) general strategic decision model. These elements are briefly explained hereunder.

Phase I: Identification: The phase whereby the topic for decision is first recognized in an organization. This phase comprises of two central routines

Decision recognition: Stimulus for decision-making activity recognized as the difference between information on some actual situation and an expected standard. The stimulus can result from opportunities, problems or crises originating inside or outside the organization.

Diagnosis: The routine whereby assessment on the decision situation is made. A decision process is initiated and resources are mobilized to deal with it once cumulating of stimulus reaches a certain threshold level. This

routine involves tapping of existing information channels and the opening of new ones to clarify and define the issues.

Phase II: Development: This phase involves search for relevant information and development of alternative decision measures. Greater amount of decision-making resources are used in this phase and it is the heart of the whole process. The phase involves two basic routines.

Search: A hierarchical, step-wise process evoked to find ready-made solutions. There are four types of search behaviors: *memory search, passive search, trap search and active search.*

Design: This involves a complex and iterative procedure of designing custom-made or modified solutions.

Phase III: Selection: This is the phase where choice among the alternative measures is narrowed down and made. Three sequential routines are involved in this phase.

Screen: A process of determining criteria for choice, concerned with eliminating infeasible alternatives.

Evaluation-choice: Evaluation of consequences of alternatives based on judgment, bargaining or analysis and arriving at a final choice of the best alternative decision measure.

Authorization: Once a choice is made among the alternatives, authorization leads towards committing the organization to a course of action. This is a binary process of either acceptance or rejection of the decision by a higher authority in the organization.

In addition to the three central phases, the general model of strategic decision process involves three routines that support the three phases.

- i. Decision control routines:* are routines that guide the decision process itself. These involve planning the approaches and allocating organizational resources for the decision process.
- ii. Decision communication routines:* Communication through the decision process such as environment scanning, information about alternatives and consequences, information transmission and monitoring the process of the decision itself.
- iii. Political routines:* these routines reflect the influence of individuals who seek to satisfy their personal and institutional needs by the decisions made. Individuals can be inside or outside the organization in concern.

Finally, the six dynamic factors, perhaps the most characteristic and distinguishing features of decision processes, explain the relationship between the central and supporting routines. These factors influence the decision process in a number of ways such as by delaying it, stopping it, restart it, etc.

These factors are: Interrupts, Scheduling delays, Feedback delays, Timing delays and speedups, Comprehension cycles, and Failure recycles.

2.4. Decision Processes in Export Marketing

In this section, attempt is made to explain the general framework of strategic decision process in garment manufacturing for export market. The seven central routines (included in the three central phases) are used to demonstrate the activities and factors considered in the process. In addition to the case company, another garment-manufacturing company was visited to establish this framework.

Recognition of decision to export: The stimulus to export products by garment manufacturers emanates from various possible sources like:

- Opportunities sought in foreign markets in different occasions such as the AGOA in the US market.
- Enquiries received from overseas customers, existing or new ones.
- Loss of market share in the local market, for different reasons including low priced imports.
- Government incentives for a company to get into exporting activities.

Diagnosis of the stimuli to export: The activities in assessing the stimuli to export based on existing and new information. These include:

- Studying the attributes of the product required in the market.

- Product price and payment terms with respect to the cost structure in the company.
- Delivery requirements against the factory schedules, capacity and flexibility.
- Availability of factor inputs and other resources from internal and external sources to be used for the specific order.
- The need for foreign currency by government from garment exporting.
- If exporting performance (volume) is tied to capital grants by government and foreign donors.

Search: Search is made within the organization's product lines so that the enquiry at hand or the identified market can directly be supplied from existing product line. This is mainly made with respect to the required product attributes, which the organization tries to match the demand with its existing production systems including product design and features, production facilities and layout, human resource and its links with up and down stream partners.

Design: Custom made product is designed as per the requirements of specific customer needs. This happens when the organization cannot meet demand expectations from its current product line in one or another formats. In these cases, it either designs new ones or modifies existing product features and/or production systems to satisfy the demand.

In most cases, when existing products are not as per the foreign market requirement, few sample products are made and demonstrated to the customer and confirmation of acceptance is sought before mass production.

Screening: Set of criteria to screen the alternative product offerings made in the design routine is made based on the benefits the organization seeks from the export activities. These criteria include cost levels and profitability, government interest and incentives, volume of transaction and scale advantages, continuity of the business, time constraints, and the like.

Evaluation: Evaluation of each product offering based on the criteria set is made by the organization to choose from among the identified alternatives. The customer also makes evaluation in a similar fashion, but to its own benefits. Once the organization and the buyer(s) reach acceptance, it is communicated between them for confirmation.

Authorization: After an alternative is chosen as agreeable between the organization and the buyer(s), authorization is made by a higher authority to commit the organization's resources and engage in the production activities. In the case company, the general makes this authorization.

In the first three subsections of this chapter, the major conceptual bases (export marketing, organizational learning and strategic decision process) for the research are briefly discussed. The models in these concepts are used to analyze the activities of the case company, as appropriate.

The general model of strategic decision process is used to examine the decision-making processes in relation to the critical factors that determine the company's competitiveness in the export market. The variables in the international marketing mix of the case company are also analyzed as per the

Katz's classification to determine which ones play critical roles for the success of the company in export markets. Huber's four-construct organizational learning model is used to identify how the organization acquires, distributes and interprets knowledge and develops its memory base.

Finally, the methodology developed by Mayo and Lank to establish indices for the various components of an ideal learning organization is used to empirically measure the extent that each component contributes for the entire company to be a learning organization.

III. RESEARCH METHODS

The research was undertaken by thorough analysis of how export decision processes are made at Adei Abeba Yarn S.C. with respect to the general model of strategic decision process. In addition, organizational procedures and activities were analyzed to find out if they facilitate organizational learning in the company.

Successive and structured interviews were administered with the persons who participated in most decision processes of manufacturing and marketing activities for export. Interviews were conducted with department and service heads that actively take part in the processes of decision making on manufacturing for the export market. The guiding framework for conducting the interview is attached in Appendix 1.

In addition to the interview, the research data collection includes structured questionnaire to assess if the strategic activities related to export marketing in the case company promote organizational learning. This covers both the decision makers as well as employees in various departments who implement these decisions. Fifteen persons comprising members of the management team, and other qualified and experienced experts responded the questionnaire. The respondents are those who participate, one way or another, in the export manufacturing or marketing processes.

The questionnaire structure and methodology of data gathering and analysis have been adapted from Mayo and Lank (1996). They recommended the model

to help managers diagnose where in the organization to take most useful action to drive their company become a learning organization and achieve maximum impact.

There are two parts in the questionnaire. The first contains four aspects identified in the study to determine the company's potential of becoming a learning organization. The responses to this section enable to establish indices to measure the relative significance of the four aspects in an ideal learning organization as perceived by the respondents.

The second section, by driving operational components of the four aspects, seek respondents to rate how each activity is being undertaken at Adei Abeba Yarn S.C. The findings of this section are averaged and compared to the ideal values of each aspect found in the first section of the interview. This procedure enables to identify the magnitude and location of the gaps that may exist in the categories of activities considered in the study.

The measurement procedures to calculate the indices of an organization are attached to the questionnaire, Appendix 2, Page 72.

IV. RESEARCH FINDINGS

The research findings comprise two category of information. The first category includes the company profile and the marketing environment. Information in the company profile is derived from the company's strategic plan draft document and observations of the author during the visits made in the study. The marketing environment is framed by closely studying the value – chain system of the company and also developed during the interviews conducted.

The second category of this chapter, production processes for the export market, at Adei Abeba Yarn S.C., is totally the outcome of detailed and successive interviews conducted with the help of the guide framework. Elements of this framework are used as and when appropriate when conducting the interview with the persons in charge of different departments or service units. The report in this second category is presented in a manner that follows the work procedures in the company.

Analysis and interpretation of these findings, with respect to the major concepts in the literature review is done in the fifth chapter.

4.1 Company Profile

Background

The current Adei Abeba Yarn S.C. was established in 1961 with 1.2 million Birr capital by a foreign, private investor named "lazaradis". The factory had 8638 spinning spindles with a production capacity of 6000kg of different types of

yarn a day, and these products were targeted for local market consumption. The factory was expanded through time and included blanket production (1968) cotton ginnery (1970), additional Yarn factory (1971) and knitting factory (1972).

The company was nationalized by the then government into a public property in 1975 and managed under the national textile corporation until 1993 when it was re-established as an independent business unit with a capital of Birr 7.82 million. In 1999, major components of the company were privatized to a foreign investor, but without success.

Currently, the Yarn, knitted fabric, blanket and two garment factories, which are located in three adjacent compounds, are collectively organized as Adei Abeba Yarn S.C. There are two yarn factories with a total of 21,460 spindles to produce various count yarn in cones and hanks. Most of the yarn manufacturing machines are as old as the company and have considerable down time due to break down and shortage of spare parts supply.

The blanket factory produces four types of blankets for the local market, differing both in quality and sizes. The machineries in this section are very old that their manufacturers are not in market to supply the company with spare parts. Attempts are made in the company workshop to make modified replacement parts to keep these machines in operation.

The third section of the company comprises two garment factories with a total of 686 machineries. The garment factories produce variety of clothes from

woven and knitted fabrics. These clothes are sold both at the local and foreign markets. In addition, these factories provide sewing services mainly to foreign customers.

Major Products

The following table summarizes the major products of the company.

i. Yarn products: Gray cotton carded yarn

Yarn No. 6.5 in cone

Yarn No. 8.5, 10, 18.5, 21 and 40 in hank

Yarn No. 20 and 28 in cone

The first two are for local market and are used as werp in making traditional “shemma” clothes, whereas the third one is used as input to the company’s knitting section.

ii. Blanket products

There are four different types of blanket products that are made for the local market. These are as follows:

Nazrawi : 160cmx220cm

Zemenay : 190cmx220cm

Yerer : 160cmx220cm

Adei Meskerem: 160cmx220cm

iii. Garment products.

The garment factories make apparel from woven and knitted fabrics. Woven fabrics are sourced from external suppliers while the knitted ones are made with in the company.

The following are the major garment products from woven fabrics:

- Overall
- Overcoat
- School uniforms
- Apron
- Trousers
- Shorts
- Army clothes, etc

The following are the major garment products from knitted fabrics:

- T-shirts
- Polo shirts
- Lady's dresses
- Under wears, etc.

These products are made for local and foreign markets. Export products are usually made as per customers' specific orders. The company also offers sewing services in which the customer provides all or part of the fabric and other accessories required to manufacture the required product.

Major Inputs and Suppliers

The company being in the textile industry, raw cotton and fabrics are the major inputs to its production processes. In addition, acrylic waste, polyester yarn and acrylic weft yarn are used for its blanket factories. The factories also use various types of chemicals, dyestuff, accessories and other items. Apart from inputs sourced from outside suppliers, the knitting section uses the carded cotton yarn (No. 20 and 28) in cones from the yarn factories of the company. Spare parts and lubricants are also inputs in to the production system and are purchased from domestic and foreign markets.

The company sources its inputs from different suppliers. Raw cotton is purchased from government or private owned cotton growing farms in the country, while government owned local textile factories supply woven fabrics. There are also instances where the company uses imported fabric. Other inputs such as chemicals, dyestuff, accessories, etc are purchased from the market (mainly importers) in an open tender basis as per the government procurement guidelines.

Management Structure

The functional units (departments or services) in the company that most commonly participate in production for export marketing are finance department, commercial department, sales and marketing department, plan and program service, and production and technique department. These departments undertake the day-to-day activities of the company. The

department heads report to the general manager and collectively they make-up the management team of the company.

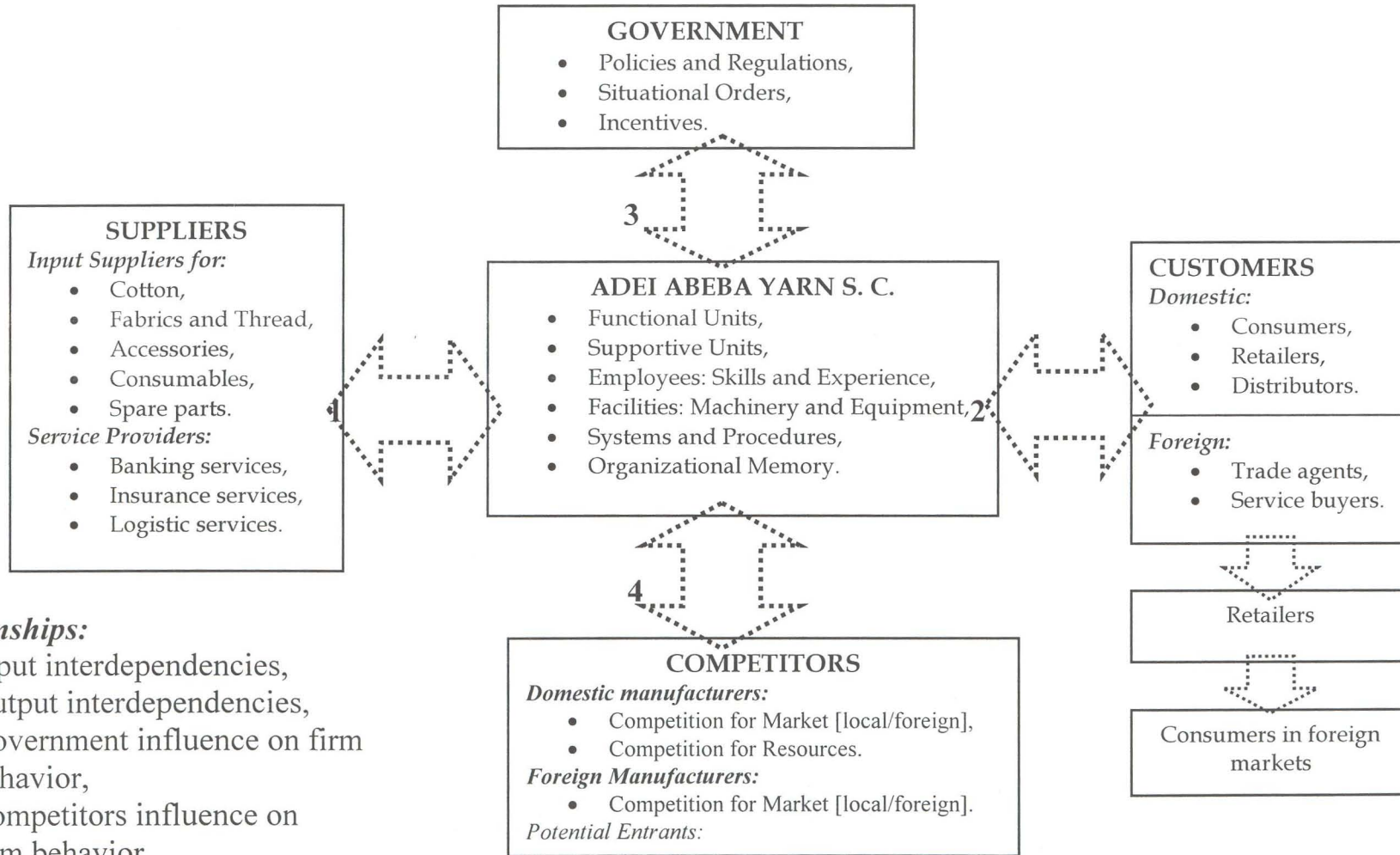
There is a management board that approves and controls budget, policies and programs of the company. On top of these, the public enterprises supervisory authority supervises the overall activities of the company in line with national policies and regulations. The organization structure of Adei Abeba Yarn S.C. has been modified through time to suit the prevailing work situations, mainly following the return of privatized components back to the Adei Abeba management umbrella. Now, a new organization structure is under study by an external consultant.

4.2 Marketing Environment

The scope of marketing activities of Adei Abeba Yarn S.C. encompasses domestic and foreign markets for the supply of its inputs requirements as well as sales of the outputs. In this section, attempt is made to assess the interdependencies the company has with other organizations in its environment. In addition, the relationships with the government and competitors will be discussed as they affect the decisions made in the company.

The structure of the marketing environment for Adei Abeba Yarn S.C., which comprises internal and external environments, is shown in the following page, Figure 3.

Fig. 3: Marketing Environment based on interdependencies and influence on organizational behavior.



Internal environment includes but not limited to the functional interdependencies between the various departments, service sections and work units in the company. The external environment, on the other hand, is made up of four groups in two categories: the inputs/services suppliers and customers on the one hand, have transactional interdependencies with the company while government and competitors, on the other hand, influence the way it behaves in the market.

Transactional Interdependencies: Suppliers and Customers

The input transactional interdependencies are made up of the interactions that Adei Abeba makes with the suppliers of various inputs and different types of services to undertake its operations. Agents in this category include farms supplying raw cotton, textile factories and traders that provide different types of fabric, threads and accessories to be used directly in the production process. In addition, the company buys dyestuff, chemicals, spare parts, consumables, etc. as well as hires financial and logistic services from enterprises that are in this category.

The output transactional interdependencies, on the other hand, comprises of customers who buy the products of Adei Abeba Yarn S.C. Agents in this group include:

Domestic markets

- Consumers: those who directly purchase products for their own consumption.

- Retailers: those who buy products for the purpose of selling to the end users
- Whole sellers/distributors: these are regional distributors of the products based on agency agreement with the company.

Foreign Markets

- Foreign trade agents: those who facilitate export sales of the company and are usually foreign trade agents.
- Service buyers: these are commonly foreign buyers who provide part or all of the necessary materials and specifications to the company and purchase the sewing service.

Government

The Ethiopian Government, in an attempt to realize the agricultural development led industrialization policy, expand employment opportunities and enhance foreign currency earning capabilities, has focused on certain critical industries. The textile and garment industries are among those sectors that are given priority for the achievement of the above goals. In this perspective, and being a public property, Adei Abeba Yarn S.C. is receiving support from the government in terms of:

- Capital budgets to replace aged and outdated machinery and facilities.
- Foreign buyers contacts through government missions and delegates.
- Preferential benefits on purchases from and sales to other public organizations.

- Technical and managerial support at the expense of the government including hiring of consultants.

In addition, government authorities (Ministry of Trade and Industry, Investment Commission and Public Enterprises Supervisory Authority) formulate the policies, directives and regulations under which the company frames its activities. At times, specific operations are influenced by government interest, such as the preference of export production for small or no benefits over high return products for domestic markets.

Competitors

The fourth group of agents in the marketing environment that influence the activities of Adei Abeba Yarn S.C. are competitors. Even though this group can be considered as competitors for either resource/factors or market focus on this paper is given to those that compete for the available and potential markets against the company.

Domestic enterprises manufacturing products that serve same or at least related purposes with that of the company's products compete both for resources and market. If these firms participate in exporting their products, the competition for market crosses the national boundary.

Foreign manufacturers and traders (mainly from China, India and South East Asian countries) or their local agents are also considered in this category since

their products are commonly available in the local markets and/or are expected to be available in foreign markets where Adei Abeba is present.

4.3 Production Processes for Export Market

Adei Abeba Yarn S.C has the experience of exporting its products or services to foreign markets. In recent years, following the market opportunities through the AGOA act in the United States of America, the company's export sales is on the rise. In this section, attempt is made to asses the procedures and decision making processes on how the company undertakes production activities for the export market. In addition, major decision making points are identified for further investigation.

In almost all of the export activities performed in the recent years, the foreign buyers contacting the company in person or through mail have stimulated production. The diplomatic missionaries, visits made by government delegates to foreign countries, bilateral agreements between Ethiopia and other countries, and the like play significant roles in bringing potential customers to the country in general and to Adei Abeba Yarn S.C. in particular. These buyers bring their own product specifications regarding details of the attributes of the product they need to be manufactured or they provide sample of the product(s) to the company and request for offer.

The marketing and sales department, upon receiving customers' request, transmits the same enquiry to production and technique, commerce and finance departments and plan and program, and quality control services. The

production and technique department manufactures the sample product(s) while the quality control service monitors the sample quality as per customer's demand. At the same time, the plan and program service personnel take all the necessary information on material inputs used and their quantity, man and machine-hours used in manufacturing the sample product. The commercial department (through its warehouse and procurement units) provides with the necessary materials in the production process.

The complete list of materials, man and machine hours used in the process will be prepared by the plan and program service and the information is passed to finance department (cost and budget section) to establish product cost and selling price proposal in monetary units.

Finally, the proposal is presented to the general manager for approval, after which the same will be communicated to the customer by the sales and marketing department.

The customer may accept, reject or negotiate on the price level offered by the company. Usually, comments are made on sample product attributes and negotiations on price levels. Once the negotiations⁴ are over to the satisfaction of the two parties, contract agreements are signed between the company and the buyer stating financial, technical, commercial and related details.

The contract agreement needs to be approved by the management board in order to implement it. After the contract agreement is approved, the marketing

⁴ At times, the Public Enterprises Supervisory Authority involves in the negotiations to enable the parties reach agreement.

and sales service places production order using order launching form (Appendix 4) with the production and technique department. Parallely, the same will be communicated to commercial department, finance department, plan and program service, and quality control service.

The production and technique department will then schedule the production plan and request the commercial department (warehouse) for the supply of materials and inputs necessary for the production of the secured orders. The warehouse section, in turn, reserves all items available in stock as per the request and pass the enquiry to the purchasing section for procurement of out of stock items.

Upon receiving the necessary raw materials and manufacturing of the products, the production and technique department delivers its output to the warehouse section using finished product transfer voucher (Appendix 5). The quality control department makes quality checks and issues acceptance seals on the activities of pattern cutting, sewing and packaging of manufacturing the product.

The warehouse section, after receiving the finished products facilitate the delivery of the same to the buyers for ex-factory sales or arranges transport and forwarding services up to the port of loading as per the contract agreement.

In the mean time, finance section follows up expenses for the inputs used as well as the payments to be received for the products being delivered that are

made through the bank systems. After the products are delivered or shipped, all necessary documents are presented to the negotiating bank for collecting the payments.

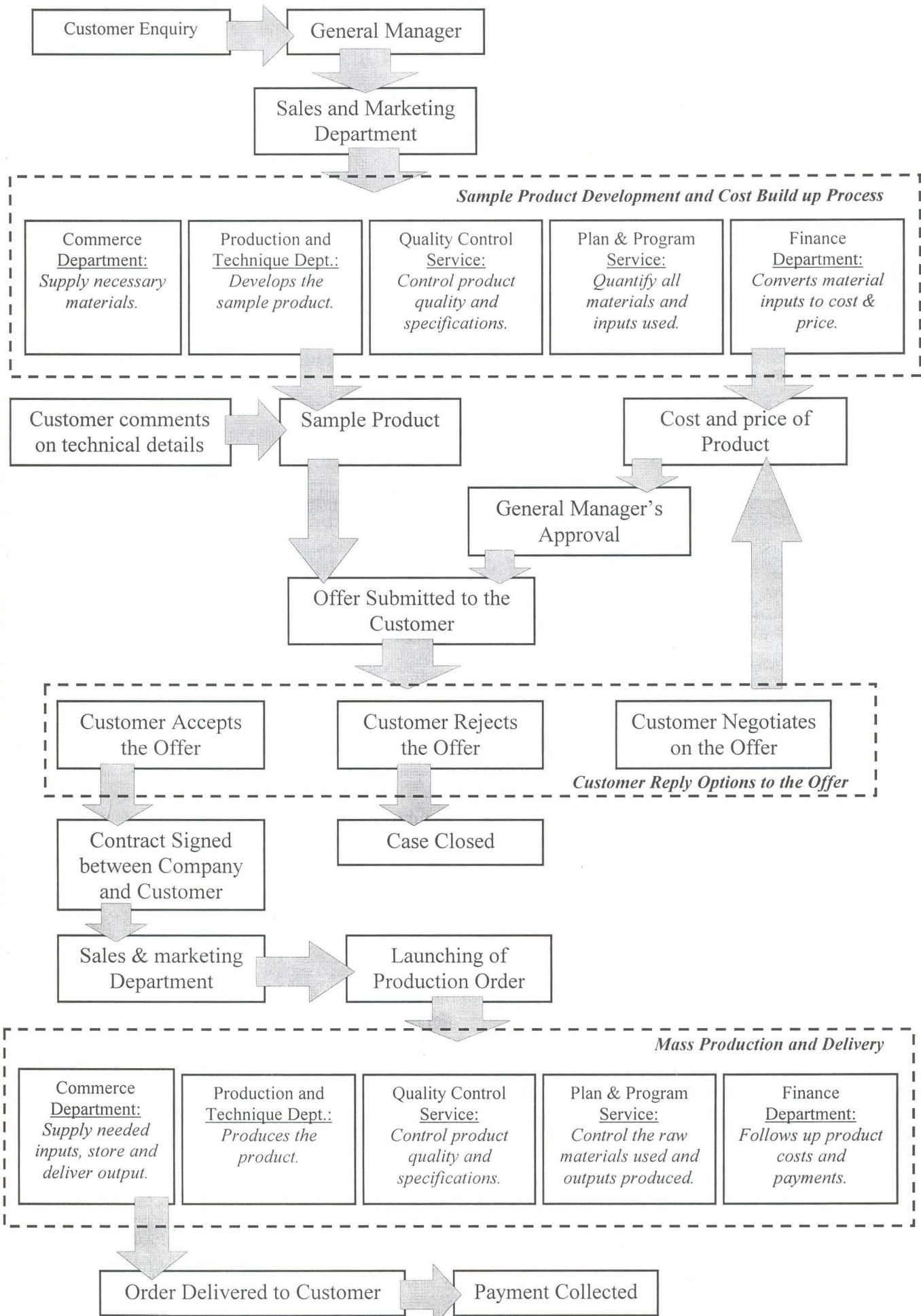
In cases where the company provides only sewing service, the buyer delivers all the necessary raw materials to the warehouse section before the commencement of production.

Buyers usually make follow up inspections and monitor product quality during the production process. This is done by appointing quality controlling technicians in the company who check the production processes and product attributes as per the contract agreement.

Sample product making and pricing activities encompass the technical arrangements in the production processes. The efficiency in designing, pattern layout, cutting and sewing activities as well as machinery arrangements and the like determine product quality and its cost level. In addition, the capability to source good quality inputs at fairly least possible costs greatly contribute towards the company's ability to set competitive product price levels.

A schematic diagram showing the flow of process for export order processing at Adei Abeba Yarn S.C. is shown next page, in Figure 4.

Fig. 4: Export Order Processes at Adei Abeba Yarn S.C..



According to Katz (1987), product, price, place, promotion and services are the controllable variables that affect the international marketing mix of a manufacturing firm.

However, at Adei Abeba Yarn S.C, the customers have better knowledge of consumers' taste and preferences determine the design, quality and detailed attributes of the product to be manufactured for export. The company only complies with these parameters and thus product parameters are not controllable to it.

Similarly, place parameters such as the mechanism and point of product delivery are set in the contract agreement, usually per buyer's preference. In addition, promotion activities as well as services to augment the main product are not strong enough to influence the company's successful performance in export activities.

Therefore, assuming that the company can manufacture the required product to the buyer's satisfaction in terms of design, quality and other attributes, the only variable left under the control of the company is the product price.

Price of the product, in this case, is considered as the function of product cost structure that in turn depends on the efficiency in production processes and cost level of the raw materials. Therefore, the decisions made by the respective work units that affect the structure of product cost and the effectiveness in procurement processes play vital role in the success of activities carried out for export market.

In the process of production for the export market, two points are identified as critical decision making points; these are product cost structure and price setting; and inputs purchasing activities. The following section discusses on the processes of decision making in product costs and price setting as well as inputs purchasing activities. In addition, ways of cost saving in each activity considered for the study are discussed as appropriate.

Procurement Decision Processes

The commercial department, procurement section undertakes all purchasing and supply of outsourced goods and services for the company's use.

The section makes purchases in accordance with government rules and regulations⁵. Regular purchases are made for commonly used items like oil and lubricants for the various machineries. These items are sourced from local companies, having long-term relationships with the company and known price levels; hence purchases are made direct without going in to any procedures. Most purchases, however, are made based on specific enquiries of respective departments, mainly the production and technique department for specific production order, about which the department is notified earlier.

Purchase requisition (Appendix 6) received from concerned departments state the types, quantity, quality, detailed specifications of the items required and the time frame they are needed. Based on these requisitions, first, items availability is checked in store. Out of stock items are passed to the

⁵ Public Enterprises General Procurement Regulation No. 001/96, issued by the Public Enterprises Supervisory Authority, Oct. 2003.

purchasing unit for procurement processing. As the general manager approves the purchase, the commercial department announces open tenders to prospective bidders from within the country or abroad, as deemed appropriate.

Under certain circumstances, direct purchases are made from government owned enterprises such as textile factories or cotton farms without the need to float open tenders. This is because these enterprises (suppliers) are government owned and transactions between such enterprises are procedurally permitted. In addition, these suppliers have fixed price structures for a given period of time and this avoids the need for undergoing formal purchasing procedures, which is time taking.

In purchasing processes through open tenders, where most cost saving is expected, prospective bidders submit their offers, and at times sufficient amount of samples for the items to be supplied are required. Bidders submit their offer in separate envelopes as technical and financial proposals, containing the necessary and relevant information. The company will evaluate the received offers from technical, financial and commercial perspectives by teams of experts on each aspect.

Technical evaluation of the proposals is undertaken primarily to identify those bidders who submitted technically acceptable offers. Then the technically qualified bidders will be evaluated based on their financial proposals. Finally, the bidder who proposed a technically acceptable offer at minimum price and better commercial terms will be awarded the supply contract.

Technical appraisal (by a technical team) is made on the details of specifications and sample items presented by the bidders. A team of technical experts examines the suitability of the offered product for the intended purposes. Chemicals and dyestuff are inspected in the company's laboratory. In this process, only those offers that satisfy the minimum acceptable technical requirement (as initially set in the bid document) qualify for further financial evaluation.

Financial evaluation (by a financial team) is made on those offers that fulfill the minimum technical requirements. In this step, the evaluation criteria mainly focus at minimizing the total cost of purchasing.

A dyestuff, for example, can have different chemical strengths. Thus, different offers are evaluated based on the dyestuff strength, which determine the amount needed for one unit of operation, and the unit cost. A small amount of strong dyestuff may be enough for coloring a given volume of cloth, but its unit price can be high as compared to a weak concentration dyestuff, a larger amount of which may be needed to perform the same task. Therefore, an offer that has the least cost combination of chemical strength and unit price is considered as the most preferable for the purchase.

The commercial evaluation (by managerial and/or commercial team), on the other hand, is concerned about terms and conditions like delivery time, packaging, warranty, payment structure and methods, availability of technical support and spare parts supply in the country (mainly for machinery purchases), training, etc. Accordingly, prospective bidders' offers are evaluated

based on weighted ratings with respect to their suitability for the over all benefit of the company.

The above three phases of evaluation on offers submitted by prospective suppliers result in a recommendation of the best alternative that utmost fulfils the requirements over all other bidders. The decision recommendation, compiled by the commerce department, is presented to the general manager supported by a set of minutes of meetings made by respective evaluating teams, for approval.

Once the general manager approves the winner of the bidding process, the same is announced to the bidders and contract agreement is signed between the company and the selected supplier.

In certain cases, there are possibilities for the company to select few best suppliers from among the bidders and make negotiations on financial and commercial terms. In this process, these prospective suppliers (usually two or three) are officially requested to revise their price, delivery period and other commercial terms in order to best satisfy the interest of Adei Abeba Yarn S. C.

Product Cost Decision Process

Product cost depends on the cost of materials, labor, machinery depreciation, utilities and overhead costs used or assumed during the sample product making activities. The process of sample product making involves different

work units of the company. The roles and influences of these work units on product costing process are discussed as follows.

i. Production and Technique Department

This department comprises divisions and units that are responsible for product design, sample development, and mass production. The department closely works with the plan and program, quality control and warehouses service.

Through the process of mass production, some adjustments of line balancing are made depending on personal variations in speed of workers and machinery performance at each step in the line.

In the case of mass production, the production and technique department receives the order from marketing and sales department among other units. Then the production order is passed to its knitting, dyeing and garment sections for appropriate actions.

If the product is to be made up of knitted fabric, it will be either made from already knitted standard size gray fabric or new fabric is manufactured in the knitting section per specification.

The production and technique department pays attention to the points at which cost effectiveness is maintained. Machineries in the knitting division run continuously, even when no export production orders are at hand to avoid idle times. It makes standard size knitted fabrics, which are to be used for

future anticipated orders. The dyeing division works on batch basis. The gray fabric is collected until the optimum weight of a batch (about 125kg) is reached. Running the bleaching and dyeing plants for a gray fabric less than this size increases the unit cost of production and hence competitiveness or profitability of the company.

Cost effectiveness in the garment division is achieved through appropriate production line balancing of the machinery used. This is worked out based on data collected by the plan and program staff on the average time required to perform a specific task at a workbench. In addition, experienced sewing workers who are known to have better performance are put at critical points to speed up the whole sewing process.

Recent attempts by government to replace old aged machinery of the company mainly target at improving the manufacturing units of exportable products; knitting and garment divisions. This is expected to reduce production costs and improve product quality, which contributes to overall competitiveness of the company. These machines are purchased by funds from Italian Government and the IMF.

ii. Plan and Program Services

The role of the plan and program services is to prepare the bill of quantity for all material items required and quantify all other necessary inputs like electric consumption labor inputs, etc. used to make up one unit of the product. Staff

of this section also measures the proportion of waste material, as a percentage to the materials (mainly cloth) used to make up the product.

The list of all items, the quantity required as well as percentage of waste materials are submitted to the finance department, cost and budget section for estimation of cost in monetary units.

The plan and program section, in addition to the above, performs continuous follow-up and checking of the mass production process to ensure that production is being undertaken as per the product specifications, quality and time schedules. The staffs from this section collect data on inputs used, type and quantity of outputs produced, packaging of the products and delivery of final output to the warehouses.

iii. Finance Department

The cost and budget division of the finance department is responsible for setting the product cost and its selling price in monetary units.

As the bill of quantity of materials and inputs required for the manufacture of the product in process is received from plan and program service, the items will be converted to cost based on the current market price rates. Most of the material inputs used are supplied by known sources (local textile, yarn and thread factories, own yarn factory, etc). Other chemicals and dyestuff are purchased in bulk from foreign suppliers or their local agents. Hence price levels for the inputs are relatively known for a certain range of time.

Accessories specifically required by customers, but not locally available are mostly supplied by the customers themselves. Such items are not considered in cost build up processes.

Other cost components of the production process, such as overhead costs and indirect costs are considered for each product. Dividing the annual total estimated indirect costs to the total number of items in the production plan makes unit overhead cost rates to be used for each output.

Once the production cost is derived out and appropriate price level is determined, this information is submitted to the company general manager for approval. The general manager may discuss on the cost and price levels with finance department or the management team before approving the decision to pass the price to the customer.

V. ANALYSIS AND INTERPRETATION OF FINDINGS

In this chapter, the analysis of the findings of the study is presented in two sub sections. The first deals with the decision-making processes on product costing and raw materials procurement activities. The procedures followed in these activities will be analyzed based on the general model of strategic decision-making. Second, the data collected by questionnaire are analyzed and interpreted with respect to the ideal learning organization model of Mayo and Lank.

5.1 Decision Making on Product Cost

The critical factors influencing product cost at Adei Abeba Yarn S.C., as identified in the research findings, are related to the performances in production and procurement processes. Efficiency of the production processes, in this context, depends on how significant cost saving is achieved in the various activities performed. Similarly, procurement effectiveness is considered as the ability to source good quality raw materials at minimum costs and at the right time.

When a complete and authorized order launching form is received from the sales and marketing department, the production and technique department recognizes the need to mobilize resources to undertake the production of the required product order. It studies product features, component items, design patterns and materials to be used in terms of quality and quantity. Input requirements are requested from the warehouse section of the commerce

department. Individual work assignments are passed to its knitting, dyeing and garment sections for appropriate actions. These activities make up the identification phase in the general model of strategic decision process.

The knitting and dyeing sections work in routine procedures. There is no much specific process adjustment that can be made to develop unique work procedures to suit specific requirements of individual orders. They follow standard work formats in such a way that the knitting section produces knitted fabric that are predetermined in size. These gray knitted fabric products are transferred to the dyeing section where they are bleached and colored to the required specification in fixed volume of batches. These activities are subject to technological constraints that hinder them from manipulating working variables to suit specific needs of particular orders.

On the other hand, the garment section has better flexibility to optimally match its operations to the individual production requirements.

Sample products are developed, modified and refined up to customer's satisfaction by qualified and experienced staff. From an acceptable sample of the product, patterns for each piece that make up the product are developed on hardboard. These pattern pieces are used to transfer the required shapes onto the cloth to be cut.

Cutting is done in an unlimited number of possibilities. But, an option that minimizes waste is adopted by arranging the patterns on the hardboard pieces as close to each other as possible. Considerable amount of waste minimization

is possible at this point of the process. However, this depends on the capability of the person doing the job and skills developed through experience.

The cut material is then passed to the sewing unit, where separate pieces are joined together and the final product is made. Workbenches in the sewing unit are arranged in lines according to the logical sequence of operations to make the product. The material flows across the workbenches and only a single activity is done to all the material moving through the points. Since tasks at different points take different lengths of time, working lines are balanced to minimize time waste and ensure smooth flow of work piece.

The choice of appropriate and balanced sewing line (set of lines) depends on the volume of production, length of time taken to accomplish the task at the critical pint. In addition, employee's efficiency as well as the status of the machine at that point determines activity time. The final, best and balanced line is achieved by iterative process of trial and error until a satisfactory one is achieved. The production manager approves the selected working line set up.

The second category of decision-making process that contributes to product cost structure is the procurement of raw materials. The performance is purchase of the major inputs, woven fabric and cotton (other than those directly purchased from public textile factories and cotton farms), chemicals and dyestuff play significant role since these materials constitute the major portions of product cost. Procurement of machinery is another critical decision-making process and usually involves outside expertise.

When purchase requisition is received for an item (raw material) that is not available in stock or could not be sourced from public owned factories, the need for issuing open tenders to prospective suppliers arises. Thus, necessary procedural preconditions are undertaken to initiate the purchase process.

The commerce department determines whether the item(s) required can be directly purchased from state owned factories and enterprises (ready-make solutions) or there is a need to issue open tenders and invite prospective bidders (custom-made solutions).

The criteria to choose the best offer from the prospective bidders (decision alternatives) are established before hand by experts of the concerned departments. Technical specifications are determined by the user section of the material to be purchased. Financial criteria always favor the least cost principle.

The evaluation of each offer submitted by prospective bidders with respect to technical, financial and commercial aspects enables to select the most appropriate decision alternative.

Authorization is sought (approval by the general manager) before resources are committed by entering into contractual agreements with the chosen supplier.

The whole process of procurement, if performed promptly, enables considerable cost saving by purchasing the best raw materials at competitive prices and commercial terms.

The two critical processes (procurement and production – as related to product cost) and the activities within them are analyzed below in a table matrix with respect to the seven routines of the general model of strategic decision process.

Table 1: Matrix of critical activities versus the routines of strategic decision process model.

<i>Description of Activities</i>	<i>Recognition</i>	<i>Diagnosis</i>	<i>Search</i>	<i>Design</i>	<i>Screen</i>	<i>Evaluation</i>	<i>Authorization</i>
<i>DECISION PROCESS ON PURCHASING OF RAW MATERIALS</i>							
1. Purchase requisition received	X	X					
2. Requested item provided from existing stock			X		X	X	X
3. Requested item not available in stock							
• Purchase made from government enterprises		X	X		X	X	X
• Purchase to be made by open tender		X		X			
4. Determining the specifications of the item to be purchased				X	X		
5. Setting the commercial terms of purchase		X			X		
6. Evaluation of alternative offers by respective teams						X	
7. Presentation of decision recommendation to the general manager						X	
8. Approval of the decision recommendation							X
<i>DECISION PROCESS ON PRODUCTION (AS RELATED TO PRODUCT COST)</i>							
1. Receiving order launching form from Sales and Marketing dept.	X						
2. Studying product features (like style, pattern design, materials)		X					
3. Product is similar to one of existing standard formats.			X		X	X	
4. Product has new features and requires unique work procedures							
• Workout patterns for individual pieces and cut cloth in a way that minimizes waste.				X		X	X
• Workout the optimum machinery layout that minimizes process time for a unit product.				X		X	X

5.2 The Status of Organizational Learning

The situations at Adei Abeba Yarn S.C. that promote (or hinder) organizational learning are assessed in different ways. During the personal interviews, respondent's replies were analyzed with respect to Huber's four constructs organizational learning model. In addition, the questionnaire aimed at measuring the perception of employees who, by any means, participated in the formulation of alternative decision making recommendations.

Interview findings on the two critical activities (product cost building and purchasing processes) revealed that concerns towards a learning organization are not strong. In product price setting process, decision proposals are made based entirely on internal information sources. No track of data has been found that the company scans external environment before setting prices for its export products. In addition, no effort is exerted so far to learn about the tastes and preferences of consumers as well as end prices they pay for the products manufactured by Adei Abeba Yarn S.C.

The fact that there exists poor system of knowledge acquisition (from the external environment) in the company contributes for subsequent stages in the learning model. Thus, information distribution and sharing are similarly weak. The lack of shared meanings on basic activities of the company is revealed in high value of standard deviation figures on the responses to the questionnaire (see Table 2, Page 58).

The organization's memory is occupied with administrative procedures and its weakness is reflected in the absence of data storage mechanisms for all product specifications and corresponding raw material sources, production procedures and manufacturing facility layouts.

The hardboard used to transfer the shapes of individual pieces of the sample product to the cutting unit are piled as unnecessary trash in the design room. They are not properly documented in such a way that facilitated easy retrieval and referencing as and when needed. Similarly, machinery layout patterns are not documented accordingly and hence the company in these regard gains no cumulative knowledge.

The trend at Adei Abeba Yarn S.C. is to build samples for every new order (unless individuals remember a product has been manufactured) and re-work its production system configurations. This has negative impact on the capability of the organization because sample designs and machinery layouts could have been refined through repeated use, if they were properly documented after each use.

The procurement process also suffers from being a learning system, but partly due to government regulations⁶. However, there is no accumulation of organizational knowledge with regard to establishing long lasting supply agreements with loyal and dedicated enterprises. More over, the evaluation of bidders' offers every time take longer times than expected. Such bureaucratic

⁶ General Procurement Regulation for Public Enterprises No. 001/96 requires that public enterprises shall collect at least three valid offers from prospective supplier organizations for purchases with value over Birr 250.00. In addition, no direct purchases are allowed except from public owned enterprises. The regulation focuses on the procedures of procurement than cost and other benefits to the purchasing company.

procedures increase cost of bidding that either discourages potential suppliers or increases inputs costs. This procedure, in addition, contributes to delay of order delivery to the customer.

Procurement of supplies through open tenders is always undertaken by similar set of activities. Such repetitive activities, year-after-year indicate that there is no systematic learning by the organization from this activity.

In addition to the interview conducted, questionnaire was administered to collect data on how the respondents perceive an ideal learning organization. The following pre-identified four aspects were used to characterize an ideal learning organization.

- Internal variables that are within the managerial capacity of the company and their appropriate mix determine its competitiveness in the global market.
- External factors that are beyond the control of the management of the company and company's success depend on its ability to monitor, analyze and comply with the circumstances.
- The capability of the company to learn from its environment.
- The commitment of company management to base its strategic decisions on information from internal and external sources.

Respondents were asked to allocate 100 points among these four aspects based on the relative significance to the company's strategic success. These responses were averaged for each aspect to obtain representative weightings of the ideal learning company based on which the performance of the case

company is evaluated. Column 2 of Table 4 (page 60) shows the average values of the four aspects for an ideal learning company as perceived by the respondents. The results of the data collected in the questionnaire survey are summarized in the following tables. Other tables for scores of the case company are shown in Appendix 3.

Table 2: Score values of the four aspects of *an ideal learning organization*

Response	Scores for Aspect Number:			
	1	2	3	4
1	30	25	15	30
2	26	18	28	28
3	30	20	10	40
4	30	35	20	15
5	30	25	20	25
6	15	50	10	25
7	20	55	0	25
8	20	25	30	25
9	30	40	10	20
10	35	15	20	30
11	25	28	22	25
12	25	20	20	35
13	20	60	10	10
14	20	40	10	30
15	50	5	10	35
MEAN	27.07	30.73	15.67	26.53
STD. DEV.	8.40	15.62	8.07	7.67

Table 3: Summary of the *performance measures for Adei Abeba Yarn S.C*

Aspect No.	Average Score Value On a 10 point scale	Average score Value in percentage
1	4.84	48.4
2	5.59	55.9
3	4.79	47.9
4	4.92	49.2

Based on the relative weighting of the four aspects (mean values of Table 2), an export manufacturing company's success in becoming learning organization and achievement of the strategic objectives depend on its ability to monitor and analyze external factors, and ability to align itself to the circumstances (30.73%). Internal factors and informed decision-making process received 27.07% and 26.53% average relative significance, respectively. Learning ability of a company received the least average significance weight (15.67%) as per the responses collected. The responses for a given item vary significantly, as measured by the corresponding standard deviation values. This might be due to the broadness of the descriptions used for each aspect.

In the second part of the questionnaire, the four aspects were divided into further detailed descriptions. Respondents rated the practical activities conducted at Adei Abeba Yarn S.C. for each component of an aspect. Scoring values between zero and ten made ratings. These responses were averaged to get representative figures for each aspect.

In general the company is not performing well in terms of the four aspects, Table 3 in the previous page. It scored 5.59 out of 10 (55.9%) in activities related to scanning external environment and complying with factors related to it. In the other three aspects the company scored below 5, (less than 50%). The minimum being the learning aspect with score of 47.9% (4.79 out of 10)

According to the procedure by Mayo and Lank, a learning organization index table is worked out (by multiplying average values for each aspect by the corresponding values for the ideal learning organization as coefficients) to

identify the magnitude and location of gaps between an ideal learning organization and practices of Adei Abeba Yarn S.C.

Table 4: Learning organization index for Adei Abeba Yarn S.C.

Aspect No. (1)	Average score of ideal learning organization, (2)	Average score Value in percentage (3)	Weighted score of Adei Abeba Yarn S.C. (4 = 2* × 3)	Gap (5 = 2 - 4)	
				Absolute (5')	%** (5'')
1	27.07	48.4	13.10	13.97	51.61
2	30.73	55.9	17.18	13.55	44.09
3	15.67	47.9	7.51	8.16	52.07
4	26.53	49.2	13.05	13.48	50.81

* The values in column 2 are used as coefficients.

** Percentage gap is calculated as $(5' \div 2) \times 100\%$.

According to the learning organization index table above, in the three aspects, except learning from external environment, Adei Abeba Yarn S.C. scores below average on measures of an ideal learning organization. In general, the statistic shows that activities at Adei Abeba Yarn S.C. are not learning oriented with respect to the four aspects.

Even though the learning aspect seemed to have smaller gap in absolute figures, its relative significance as shown in percentage values (5'') is even more than the other aspects and needs due consideration by the company.

The company in general and manufacturing and export decision processes in particular, face problems related to one or more of the following:

- i. Purchase processes normally take longer time and result in longer or delayed delivery time of products, which usually result in customer dissatisfaction. Purchase process delays are related to:

- Lack of technically qualified personnel to quickly undertake technical evaluation of prospective bidders.
 - Committee procedures in the processes of evaluation and selection.
 - Most of the chemicals, dyestuff and spare parts are purchased from foreign suppliers and this requires lengthy procedures of bank, customs and related activities.
- ii. The machinery and equipments used in the production process are very old and some of them are so old that spare parts could not be found in the market.
- iii. Lack of clearly defined organizational systems and procedures and the tendency of employees to avoid or delay decision making to get rid of accountability.
- iv. Most of the employees who work in the production operations are not trained to the requirements of the task they handle.

VI. CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

Global competitiveness of the Adei Abeba Yarn S.C., which entirely depends on price parameters of the products, is in turn determined by cost structures and production efficiency.

These are the two critical success factors, identified in this study, that the company can concentrate its effort. Purchasing decisions affecting the cost structure, however, are partially constrained by strict government regulations. In addition, purchasing decision is made from among the alternatives made by interested prospective suppliers. Best decisions could not be realized if such alternatives are not available in the bidding process.

Price is one of the major determinant factors of market competitiveness and company's profitability. Hence attempts must be made to keep it as optimum as possible by reducing cost levels. Reduction of waste material, improving efficiency and competitiveness of procurement procedures, use of optimized production system layouts, reduction of idle man and machinery hours are some of the mechanisms used to reduce costs. Major components of the cost structure are made up of the items like chemicals and dyestuff as well as fuel used for steam generation, which are all imported from abroad, directly or indirectly.

The cost of such inputs is continuously rising mainly because of the relative strength of local currency against the US dollar. The situation is causing serious problem/threat to the company. Hence, profitability of the company depends both on internal efficiency improvements and overall price level of its product range in the global market.

Purchasing decisions are subject to interrupts and delays caused by either or combination of factors related to the company, the supplier or the environment in which the transactions are conducted. In most of the times these delays and interrupts cause cost implications and failure of the company from fulfilling its delivery obligations.

The competence of technical evaluation team and quality control in the purchasing decisions has significant impact on the cost and quality of output. The diligence of team members in evaluating and approving purchasing decisions is also another factor contributing towards product costs as well as their quality.

Production efficiency at Adei Abeba Yarn S.C. is constrained due to old machinery, poor manufacturing system and organization, and unskilled workers engaged in most of operation activities. These all contribute to the product cost structure. Government efforts to replace and expand the production facilities may solve only one side of the problem.

It seems that productivity advantages related to economies of scale, in cases of mass production, are either unknown or ignored at Adei Abeba Yarn S.C. This concept is not considered in product costing and price setting procedures.

The production system lacks mechanisms to store detailed work procedures and specifications (product details, machinery layouts, time data, manpower, etc.) for individual orders in a manner that can be referred to for future operations.

Training of staff is also not a major issue in the company in general and in production operations in particular. Most of workers in the garment section, for example, are unskilled entirely depending on their experience. New systems of work speed up and concepts of quality of work need to be introduced among the employees.

In this study, attempt has been made to assess strategic decision-making processes as related to export marketing at Adei Abeba Yarn S.C. The objective is to identify the potentials for organizational learning in the decision processes made in the critical activities that determine the company's competitiveness in global markets.

Information and data were collected through observation of various activities, occasional discussions with workers, structured interviews with the members of the management team and use of questionnaire. The results in general show the case company, despite its long years of experience, did not build itself

as a learning organization in the production and marketing of products for the export market.

The company does not have control on most of its marketing mix. Product attributes are dictated by customers to which it can only comply with. Place parameters are defined to the requirements of the customer. Promotional activities are almost non-existent for the export marketing activities. No significant product augmenting services are provided by the company to increase customer satisfaction. Thus, the company can only control the price level of its products.

Marketing competitiveness of Adei Abeba Yarn S.C entirely depends on the price of its products/service as well as the ability to meet technical specifications in manufacturing the products required.

6.2 Recommendations

It has been discussed in first chapter of the paper that manufacturing industries in developing countries shall focus on export marketing if they are to competitively exist in the market. Domestic markets are usually limited in capacity, and on top of that, they are opened for foreign suppliers. It can be said that local markets are getting globalized, so that there is no strategic advantage for domestic manufactures to refrain from searching foreign markets for their output.

However, export marketing is not as simple as domestic marketing of goods and services. Global markets are highly competitive where manufacturers intending to export must develop the capacity to provide higher value products/services at competitive price levels. This looks for companies formulate their marketing mix so efficiently that enables them become competitive and profitable.

In the above context and based on the observations made on the decision making processes for the export marketing at Adei Abeba Yarn S.C, the following recommendations are forwarded.

- i. The company shall undertake capacity building measures to enhance its organizational capability in terms of:
 - Conducting marketing intelligence, targeting at getting closer to global consumers, learn their taste and preferences.
 - Employing modern systems of marketing data collection (beyond the one dialup internet connection the company currently uses), analysis and make the best use of information derived out of it in its decision processes.
 - Update its old machinery and equipments by negotiating with government, donor agencies and financing institutions based on realistic, profitable and strategic marketing projects.
 - Train extensively its working forces on the concepts of quality of work and productivity.

- Develop and employ modern and dynamic working systems that can learn through the accumulation of knowledge and experiences not only within individual employees but also in the organizational memory.
- Employ computerized systems of production and marketing scheduling, machinery layout optimizing, product design, product cost and price setting, and alternative decision evaluation processes.

ii. Further and detailed research is recommended in the company's value chain [Yarn - knitted fabric - dyeing - garment] process to identify:

- Marginal value addition at each step of the production process.
- Cost-benefit analysis between marketing gray knitted fabric, colored fabric or finished product to global markets.
- Identification of waste level at each step of the production process and concentrate effort to minimize it to acceptable industry standards.
- The company needs to take initiatives to strategically think of integration possibilities with its marketing agents (forward) and suppliers of major raw materials (backward).
- There is strong need to introduce modern business management skills and experiences through intensive training of the management team and/or leasing the company under contract management.

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APPENDIX 1: Interview Guide Framework.

The interviews to be conducted aim at identifying if the export decision processes are structured as well as promote learning, and will focus on the following points:

1. Identification of the causes of selected typical export decision processes.
 - Who initiated it?
 - What situations stimulate it?
2. What type of information is sought to clarify the need to export manufactured products?
 - Sources of information: Internal, External.
 - Level of analysis made,
 - Methods of analysis used,
3. What possible actions are likely to be taken by the organization to proceed with the export decision?
 - Managerial actions
 - Technical actions,
 - Financial actions,
 - Commercial actions.
4. How is the choice of the best action in each unit made?
 - Criteria of selection,
 - Who makes the choices of the courses of action?
 - Individual/group decision making processes.
5. Who approves the decisions to engage in export activities? In terms of:
 - Resource mobilization,
 - Facility layouts,
 - Outsourcing.
6. Documentation of the organization's experiences.
 - Retrieval of data and information: mechanisms and authority.
7. Structural links and information communication in decision-making.
8. The practice of planning of activities.
9. The major constraints, the organization assumes to affect the export decision-making activities.

Appendix 2:

ADDIS ABABA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MBA PROGRAMME

QUESTIONNAIRE

This questionnaire is prepared to collect data on the status of organizational learning as related to strategic decision-making processes of garment manufacturing for the export market at Adei Abeba Yarn S. C. The information is to be used for academic purposes from which valuable recommendations will be derived. Hence, respondents are kindly requested to reply to the questions that follow in conformity to the reality experienced during actual decision making processes related to garment manufacturing for the export market.

Instruction 1: In the following table, you are requested to assign 100 points among the four major aspects (as identified by the researcher) that determine the company's potential towards learning from its environment as well as achievement of the strategic objectives. The amount of points you assign should reflect the relative importance of each aspect to the company. The following two questions may help you to attribute the weightings:

- i. How crucial is this aspect to moving the company towards achieving the strategic objectives in a competitive global market?
- ii. What is the relative competitive advantage of the company over others if it excelled in this particular aspect?

	<i>Description of the major aspect</i>	<i>Points</i>
1.	Internal variables that are within the managerial capacity of the company and determine its competitiveness in the global market.	
2.	External factors that are beyond the control of the management of the company and company's success depend on its ability to monitor, analyze and comply with the circumstances.	
3.	The capability of the company to learn from its environment.	
4.	The commitment of company management to base its strategic decisions on information from internal and external sources.	
	Total sum of the points assigned:	100

Note: After completing this step, the total sum of points assigned to the four aspects should be 100 points.

Instruction 2: The next step requests you to score your opinion about the real practices in the company, as appropriate, on how each question or activity is performed as related to garment manufacturing for the export market. The score points range between 0 (minimum) and 10 (maximum). In order to give you more flexibility, you can use decimals of up to one digit, (for example a value of 3.9 or 7.1)

<i>Component description of aspects</i>		<i>Score (0 to 10)</i>
<i>I. The company's ability to manipulate its internal variables that determine its competitiveness in the market.</i>		
1.	The company appropriately revises and adjusts its marketing mix (product, price, place, promotion and services) in order to create additional value that attract and satisfy more customers as well as achieve its long-term objectives.	
2.	The company facilitates the development of employees' skills and experience (through job related trainings, seminars, etc) so that they become loyal and critical success factors in a competitive product and labor markets.	
3.	The company employs dynamic (that can be modified as and when required), formal and structured work systems and procedures that facilitate the undertaking of activities in a most efficient and cost effective way.	
4.	The resources, facilities and machinery in the company are properly managed (in terms of selection, acquisition, maintenance and use) towards the realization of long-term benefits of the company.	
5.	The functional units of the company (departments, services and other work units) are structured in such a way that promotes communication between them and they work in harmony towards the achievement of company objectives.	
<i>II. The company's ability to monitor, analyze and comply with the circumstances of the external factors.</i>		
1.	The company has developed a supply system for all the inputs required and suppliers are committed in meeting the company's expectation in terms of quality of inputs, delivery timing, price levels, credit facilities and the like.	
2.	Major customers of garment products (export market) are satisfied with the quality of the product, price levels, delivery timing and other terms and conditions of sale. They are loyal to the company.	
3.	Government policies, regulations and incentives regarding garment manufacturing for the export market enable the company to be competitive in global market within the coming few (say 3 to 5) years.	

4.	The company makes the utmost effort to identify existing and potential competitors (for both product market and factor inputs) and designs appropriate mechanisms to overcome competition challenges.	
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III. The level and significance of organizational learning in the company

1.	The company regularly scans the environment searching for new information on technology, product attributes, customers' tastes and preferences, competition, etc. that affect its interest in the garment export market.	
2.	Information obtained in any way is formally analyzed and distributed among the functional units of the company, as appropriate, for use in respective decision-making processes.	
3.	Effort is made in the company to develop shared meanings of the values of information acquired and distributed to the functional units (groups and individuals) such as through joint discussions and team works across these units.	
4.	There exists a structured organizational database for recording and accumulation of the company's work processes, systems, procedures, experiences, designs, data and statistics, etc. and systematic retrieval or access of information from the database is possible for future decision-making processes.	

IV. The significance of internal or external sourced information in strategic decision making processes of the company.

1.	The company uses information communication technology (such as computerized networks, Internet, etc.) for acquisition, processing, storage and analysis of data and information for appropriate decision-making process.	
2.	The company and its management has the authority to make market oriented strategic decisions based on its own information database.	
3.	The company relies on market information (from internal and external sources) to make strategic decisions on garment export activities.	

Your working unit: _____

Your work experience in Adei Abeba Yarn S.C.: _____

Your educational qualification (*tick as appropriate*):

- High School
 12+2
 12+3
 12+4
 above 12+4

Measurement Procedures:

- i. The respondents' responses for the first question will be averaged to establish indices for an ideal learning organization as perceived by them.
- ii. The replies to the second category of questions will be again averaged to reflect how the respondents, in general, view the performance of Adei Abeba Yarn S.C. with respect to each aspect.
- iii. The results obtained in ii above will then be compared to see the magnitude of the gap (how close or far) between the company's actual performances (as perceived by the respondents) with respect to the ideal learning organization established earlier.
- iv. Standard deviations for each set of responses to a question, by the respondents, will be calculated and used to measure the level of variation in the replies made. This also tells closeness of the level of understanding of the activities of the company by its members.

APPENDIX 3: Summary tables of the questionnaire survey results.

PART ONE: *An Ideal Learning Organization.*

Response	Scores for Aspect Number:			
	1	2	3	4
1	30	25	15	30
2	26	18	28	28
3	30	20	10	40
4	30	35	20	15
5	30	25	20	25
6	15	50	10	25
7	20	55	0	25
8	20	25	30	25
9	30	40	10	20
10	35	15	20	30
11	25	28	22	25
12	25	20	20	35
13	20	60	10	10
14	20	40	10	30
15	50	5	10	35
MEAN	27.07	30.73	15.67	26.53
STD. DEV.	8.40	15.62	8.07	7.67

PART TWO: *Performance measures for Adei Abeba Yarn S.C.*

ASPECT No. 1: *Internal Variables that are with in the managerial capacity of the company.*

Response	Scores for Aspect Description:				
	1	2	3	4	5
1	5	5	6	5	6
2	4	5	3	4	3
3	8	6	7	4	8
4	2.5	1	4	3	1.5
5	5	5	4	7	6
6	7	5	5	6	6
7	5	4	5	6	5
8	7	8	6	6	6
9	1	2	2	3	5
10	7.5	4	7.5	8	8
11	7	4	7	6	8
12	4	3	5	5	4
13	1	3	2	1	3
14	5	3	4	9	9
15	3	3	3	3	5
MEAN	4.80	4.07	4.70	5.07	5.57
STD. DEV.	2.25	1.71	1.77	2.12	2.13

OVERALL AVERAGE FOR THIS ASPECT: **4.84**

ASPECT No. 2: External Variables that are beyond the control of the company

Response	Scores for Aspect Description:			
	1	2	3	4
1	5	6	7	6
2	6	7	8	2
3	5	6	8	8
4	5	7.5	2	2
5	4	5.6	8.5	4
6	5	8	8	7
7	4	5	5	4
8	7	7	8	6
9	2	1	5	2
10	6	8	9	7.5
11	5	5.5	5	5.5
12	4	5	6	5
13	2	3	5	0
14	6	7	8	7
15	7	6	8	8
MEAN	4.87	5.84	6.70	4.93
STD. DEV.	1.51	1.88	1.94	2.51

OVERALL AVERAGE FOR THIS ASPECT: 5.59

ASPECT No. 3: Capabilities for Organizational Learning

Response	Scores for Aspect Description:			
	1	2	3	4
1	5	6	6	4
2	2	9	5	1
3	7	8	9	2
4	9	2	3	5
5	5	6	6	3
6	6	6	5	5
7	4	3	3	1
8	6	7	7	7
9	1	4	4	0.5
10	6	7	7	8
11	4	5	7	6
12	3	4	4	3
13	0	3	4	3
14	3	4	5	4
15	7	8	7	3
MEAN	4.53	5.47	5.47	3.70
STD. DEV.	2.45	2.10	1.73	2.20

OVERALL AVERAGE FOR THIS ASPECT: 4.79

ASPECT No. 4: Organizational commitment towards informed Strategic Decision Making

Response	Scores for Aspect Description:		
	1	2	3
1	6	6	6
2	2	3	3
3	5	8	9
4	6	3	4
5	6	5	5
6	4	7	6
7	2	2	1
8	8	7	7
9	1	1	1
10	4	8	8
11	5.5	6	6
12	4	5	4
13	3	5	2
14	6	5	7
15	4	7	8
MEAN	4.43	5.20	5.13
STD. DEV.	1.90	2.14	2.56

OVERALL AVERAGE FOR THIS ASPECT: 4.92

