Competitiveness of Ethiopian Shoe Industry: Response to Export Market

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A project paper submitted to the school of Economics presented in the partial fulfillment of the requirements for the Degree of Masters of Arts in Economics (MA in Competition Policy and Regulatory Economics).

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This is to certify that the project prepared by Birkinesh Gonfa, entitled: Competiveness of Ethiopian shoe Industry: Response of Export Market and submitted in partial fulfillment of the requirements for the degree of Degree of Masters of Arts in Economics (Competition policy and Regulatory Economics) complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

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Ethiopian Leather development strategy has put the shoe industry on the forefront position to accelerate the development of the sector. The study focuses on Ethiopian shoe industry competitiveness and its export market performance. The main purpose is to find the factors that are impediments for competitiveness of shoe industry at firm level and to find out the peculiar problems of shoe manufacturing in the export activities. Concepts of competitiveness and measures have been discussed. The Porter diamond model has been chosen to analyze firm level competitiveness.

The result depicts the very low status of competitiveness of the Ethiopian shoe industry. At the firm level, all the determinants of competitiveness (Factor conditions, related and support industries, firm structure, strategy and rivalry, Demand conditions) are found to be insignificant. Among the factors, related and supporting industries and factor conditions mainly limit the firms from utilizing their cost advantage to sustained market share on the domestic as well as on the international market.

The study foreword some recommendation or policy implication based on the analysis. Some of the major recommendations are: on the importance of import substitution strategy in complement with the export-oriented strategy is highly magnified in the study for the sector long run development. Promoting Investment on supporting Industries are crucial in solving problems in the whole value chain of the industry. Government involvement to create access to reliable and low cost of inputs and access to finance is crucial for shoe industry competitiveness. The other important area that needs an improvement is the quality of shoe products and utilization of PMA, here the importance of firms, government and other institutions collaborate with each other to tackle the problems is very crucial to improve the competitiveness of Ethiopian shoe industry.

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Acronyms

ADLI	Agricultural Development Led Industrialization
AGOA	African Growth and Opportunity Act
CSA	Central Statistics Authority
CAD ,CAM	Computer Aided design, Computer aided manufacturing
COMESA	Common Market for East and Southern Africa
DBE	Development Bank of Ethiopia
EBA	Everything But Arms
ECBP	Engineering Capacity Building programme
ECF	Ethiopian competitiveness Facility
EIA	Ethiopian Investment Agency
EU	European Union
IDSE	Industrial Development Strategy of Ethiopia
MOTI	Ministry of trade and industry
PM	Preferential market
SSA	Sub Saharan Africa
UNIDO	United National Industrial Development Organization
USAID	United States Aid and International Development
WTO	World Trade Organization

Chapter I

Introduction

1.1. Background of the Study

Ethiopia is endowed with abundance of livestock resources and possesses one of the largest populations of livestock in Africa and even 7th-9th in the world, i.e. 41 million cattle, 25 million sheep and 24.4 million goats. However, the resource is not fully utilized and only 2.7million hides, 8.1million sheep skins and 7.5million goat skins are sold on the market (MOTI).

The country has a comparative advantage in producing leather and leather products because of its large supply of livestock readily available at competitive rate. The leather industry has been one of the major traditional industries together with the Textile and garment industries, but it is now at a turning point to change itself from a traditional industry to a modern industry to penetrate the international high value-added leather market, under the strong initiative of the Government.

The government of Ethiopia followed the strategy to support high value added product from tanneries. It promotes also the specialization of products so as to alleviate the competition over raw hides and skins. Since the pickle, wet blue and crust exportation is well taxed there is a room of supply linkage between tanneries so as to use one as a raw material for others. The main leather-related export item of Ethiopia is, however, low value-added hides and skins for the long time.

The leather footwear industry is considered as important sub-sector that leads the whole sector's modernization. Although the export of leather footwear started in around 2005

(Ministry of Trade and Industry Data base), the export value has been growing steadily since then and is expected to make a big impact on the Ethiopian economy. Not only is the economic impact resulting from the trade important but also the job opportunities the industry may create could make a significant impact on poverty reduction.

The importance of the leather footwear industry as a part of the leather industry has been emphasized by the government at various levels. In the PASDEP (Plan for Accelerated and Sustained Development to End Poverty), the leather industry is mentioned as an important sector for trade and industry development.

1.2. Statement of the Problem

Ethiopia's Industrial Development Strategy has given top priority to textile and garment, meat, leather and leather products industry, agro-processing industry, the construction industry, and to micro and small scale enterprises. These sectors get top priority due to their nature which gears towards use of natural resources and their being labor intensive. The government specifically identifies leather and leather products industry as a priority since it is assumed that they meet the basic principles that are put in the industrial development strategies: - saving capital, employing large labour force, using agricultural outputs as an input and creating the opportunity to be internationally competitive (IDSE, 2003)

The leather industry in Ethiopia mainly encompasses the tanning industry which produces hides and skins in different types of products ranging from pickle to finished leather, the footwear industry which also produces different ranges of shoe types including shoe upper, complete shoe for men, ladies and kids, and the leather garments

and goods industry which produces leather garment, bags and different kinds of leather articles.

The nation's large resource base for the raw material needs of the industry, the labor intensive nature of the industry in line with its need of less complicated machinery and technological requirements make the leather sector one of the sub sectors that Ethiopia has a comparative advantage in the manufacturing industry.

To promote the growth and competitiveness of leather industries government undertaken major structural changes because of structural adjustment program and in effect there are changes in ownership (privatization), and high competition from foreign products (reduction of import duties and tariffs). During this period the industrial sector faced severe problems and most food processing, textile and leather industries were forced ceased production (EEA, 2005). After the capacity building programme undertaken by the government (ministry of Trade and Industry), the industry has tried to expand its product in type and volume and this in turn creates a few increase in export market activities. However, the performance in the export market is very limited in any scale of economic performance measurements.

The country's comparative advantage the Leather sector, such as availability of livestock population, cheap labour force, availability of big tanneries (soaking capacity), open access to Europe and U.S, has the potential to make the industry one of the most competitive industries if the existing local and international market opportunities are exploited and utilized in an efficient and effective manner, however the reality gives a different picture.

The practice of the country in shoe export activities is insignificant and is in low standard as compared with other African countries. According to performance of Shoe export to USA, EU, most shoe producers are not in a position to respond to foreign wholesalers and retailers requests due to their limited capacity to fulfill the foreign importer's order in the required quantity, quality and time. (Shoe export performance report to US, USAID/Fintrac report)

Hence, we should have to assess the competitiveness of Ethiopian shoe sub sector at international and local market at firm level and give policy implications for the competitiveness advantage of the industry.

1.3. Objectives of the Study

The general objective of the study is that to assess the competitiveness of Ethiopian shoe sub sector in the international and domestic markets at the firm level.

The specific objectives of the study are the following:-

1. Review theoretical literatures.
2. Review empirical literatures.
3. Overview the trends and performance of Ethiopian shoe sub sector.
4. Identify firm level determinants of competitiveness of Ethiopian shoe sub sector.
5. Draw conclusion and suggest policy implication for the policy makers in the industry.

1.4. Significance and Rationale of the Study

Even though, the tanning, the footwear and the leather garment and article sub sectors of the manufacturing industry are found to be in infant stages of development the country has a comparative advantage in these sub-sector as a result the government of Ethiopia has gave top priority for the development of the leather and leather products industry, in its export oriented and agricultural lead industry development strategy adopted a decade before and in Growth and Transformation Plan recently developed. Therefore it is important to explain the progress of the development of each specific field in the industry especially the shoe sub sector to have a clear view of improvements brought about by the conducive investment environment of the country to the leather sector as per our objective. But there are few studies are undertaken in relation to performances of shoe sub sector of Ethiopia, therefore it is important to investigate competitiveness of the shoe sub sector and make some contribution to the limited literature in the area.

And also the findings of the paper provide some economic policy implication for the shoe sub sector by investigating the competitiveness of this sub sector.

1.5. Scope and Limitation of the Study

As we have seen in the above section the leather industry is normally assumed to include production of hides and skins, processing of hides and skins, shoe, leather garment and articles. However, due to time and financial limitation, this study only focuses on competitiveness of shoe sub sector of Ethiopia located in Addis Ababa and the time constraint limit us to only concentrate on the Porter's Diamond Model.

1.6. Organization of the Paper

The paper will comprise five chapters. The first chapter will be the Introduction part and it consists of background of the study, statement of the problem, objective of the study, significance and rational of the study, scope and limitation of the study, budget and schedule and organizing of the paper. The second chapter addresses definitions and theoretical and empirical review of related literature of the study. The third chapter provides data and methodology of the study. Data presentation and analysis are discussed in the fourth chapter. Finally we close the paper by making a conclusion and forwarding policy implication for the policy makers of the sector.

CHAPTER II

2. LITERATURE REVIEW

2.1. Definition of Competitiveness

Competitiveness is one of the most powerful concepts in modern economic thinking. It can be defined at national level, industry and firm level. Even if there are different definitions of competitiveness it is better to have a clear understanding of the concept of competitiveness.

At the macro-economy level, "competitiveness is identified with a steady upward trend measured by GDP growth, productivity of resources and factors of production growing in macro –terms, and economic expansion onto the international market (enlargement of existing markets as well as entry into new market), that is, with the capacity of offering new, better and cheaper goods and services in a competitive environment" (Porter, 1990).

At the level of individual firms, competitiveness is the ability of a firm to survive and prosper, given the competition of other firms for the same profits. The competitiveness of a firm is the result of a comparative advantage relative to other firms. Porter defines competitive advantage as the ability of a company to make products that provide more value to customers than rival products, leading to higher sales and higher profit for the company. (Porter 1985, p-2, Porter 1996, p-62)

Firm level competitiveness can also be defined as "the ability of a firm to design, produce and/or market products superior to those offered by competitors, considering the price and non-price qualities" (D'Cruz, 1992). "Competitiveness" is primarily a firm-level concept and refers to the ability of affirm to produce output of superior quality and lower

costs than its domestic and international competitors. It is reached by improving product quality and through processes of product development (Beyene, 2009).

2.2. Theoretical Literatures

Over the last decades the term competitiveness has been widely used. For the last decades, Policy makers and economic theories have been trying to address the hearts of the concept of competitiveness for better understanding the issue that are center to improving economic well-being and the distribution of wealth. In this regard generally there are two schools of thought on the country competitiveness: economic school of thought and management school of thought.

2.2.1. Economic School of Thought

2.2.1.1. Classical Economic School of Thought

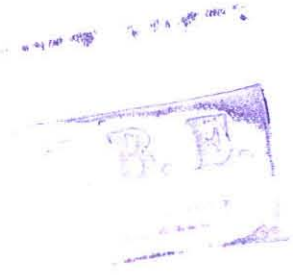
Absolute Advantage of Adam smith (1876): A country can enhance its prosperity if it specializes in producing goods and services in which it has an absolute cost advantage over other countries and produce and export those goods and services in which it has absolute cost advantage and imports those goods and services in which it has an absolute cost disadvantage. This theory explains why countries, through exports and imports, can increase their welfare by simultaneously selling goods and services at international markets.

According to Adam Smith's hypothesis, some countries will be excluded from importing and thus from the gains from trade. This paradox that absolute cost advantage leads to specialization, but that such specialization may not necessarily lead to gains from trade; this gave rise to Ricardo's theory of comparative advantage.

Comparative advantage: This theory says a country must specialize in those products that it can produce relatively more efficiently than other countries (Krugman & Obstfeld 2003). This implies that despite absolute cost disadvantages in the production of goods and services, there is a room for a country to trade, a country can export those goods and services in which its absolute disadvantages are the smallest and import products with the largest absolute disadvantage. It also implies that a country with absolute cost advantages in all its products will specialize and export those products where the absolute advantage is the largest, and will import products with the smallest absolute advantages. Comparative advantage thus also leads to specialization, but differs from specializations based on absolute advantage, in that a country will always import, whether or not it is more or less efficient overall in the production of all goods and services relative to other countries.

2.2.1.2. Neo-Classical

Heckscher-Ohlin (H-O) theory: According to this theory, countries differ with respect to their factor endowment, namely the labour and capital that are used in the production of goods and services. This theory isolates factor abundance or endowments as the basic determinant of trade between countries. Although the H-O theory is based on a set of simplifying assumptions, relaxing these assumptions modifies but does not invalidate the theory (Salvatore 2002). There are also an extension for this theory like product cycle theory (Vernon 1966) and the technology gap theories (Gurber, Metha & Vernon 1967).



2.2.1.3. New trade theory

Traditional trade theories (Classical and Neo-Classical) implies that trade will occur between countries with different technology/ or factor endowment. Two of the basic underlying assumptions of comparative advantage are perfect competition and constant returns to scale. In terms of these assumptions, monopoly profits are competed away as firms strive to improve their strategic positions in markets.

Since World War II, however, a large and growing part of trade has come from massive two-way trade in similar industries (Grubel & Lloyd 1975; Linder 1961; Vernon 1966; Krugman 1990) classical and neo-classical theories unable to explain and was principally driven by advantages resulting from economies of scale. This changing pattern of world trade has made the traditional assumption of constant returns to scale unworkable to explain intra-industry trade. A new approach was needed to explain the advantages of trade due to large-scale production, cumulative experience and transitory advantages resulting from innovation. Furthermore, to explain economies of scale (internal and external), a new market structure was needed that was altogether different from perfect competition (Krugman 1986).

According to this theory trade between countries is due to imperfect competition i.e. firms produced differentiated goods and also benefited from economies of scale (IRS) i.e. there is an intra-industry trade between countries. Countries specialize in different varieties of the same types of products and trade them (Fenstra and Taylor, 2008). Therefore firms can compete through product differentiation and economies of scale.

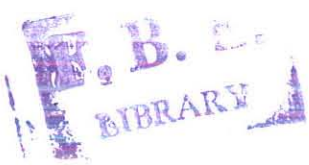
2.2.2. Management theory

2.3.2.1. Porter's Diamond – Determining Factors of National Advantage

Increasingly, corporate strategies have to be seen in a global context. Even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants of providers of substitutes may influence the domestic market. Information technology is reinforcing this trend.

Michael Porter introduced a model that allows analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are, in his book The Competitive Advantage of Nations. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition. He identifies four classes of country attributes (which he calls the National Diamond) that provide the underlying conditions or platform for the determination the national competitive advantage of a nation that are Factor Conditions, Home Demand Conditions, Related and Supporting Industries and Firm Strategy, Structure, and Rivalry and two exogenous factors; Government and Chance:

Factor Conditions: The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. Factor conditions include those factors that can be exploited by companies in a given nation. These factors can be grouped into human resources (qualification level, cost of



labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets.

Factor conditions can be seen as advantageous factors found within a country that are subsequently build upon by companies to more advanced factors of competition. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal. This explains the existence of so-called low-cost-countries (low costs of labor), agricultural countries (large countries with fertile soil), or the start-up culture in the United States (well developed venture capital market).

Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change. Political initiatives, technological progress or socio-cultural changes, for instance, may shape national factor conditions. A good example is the discussion on the ethics of genetic engineering and cloning that will influence knowledge capital in this field in North America and Europe.

Home Demand Conditions: It describes the state of home demand for products and services produced in a country. Home demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope

and growth rate, and the mechanisms that transmit domestic preferences to foreign markets.

Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization's ability to recognize customers' needs than foreign markets do.

Porter, however, focuses more on demand differences than on similarities to explain the international competitiveness of countries. According to him, it is not only the size of the home demand that matters, but also the sophistication of home country buyers. It is the composition of home demand that shapes how firms perceive, interpret and respond to buyers' needs. This forces home country firms to continually innovate and upgrade their competitive positions to meet the high standards in terms of product quality, features and service demands. More specifically, Porter (1990a, 1998a) regards the essential conditions of demand as: a home demand that anticipates and leads international demand, industry segments with a significant share of home demand, and sophisticated and demanding buyers.

Related and Supporting Industries: Related and supporting industries explain the existence or non-existence of internationally competitive supplying industries and supporting industries. One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system.

Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

When local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms

Firm Strategy, Structure, and Rivalry: The conditions in a country that determine how companies are established are organized and are managed, and that determine the characteristics of domestic competition. Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries.

Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies.

Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

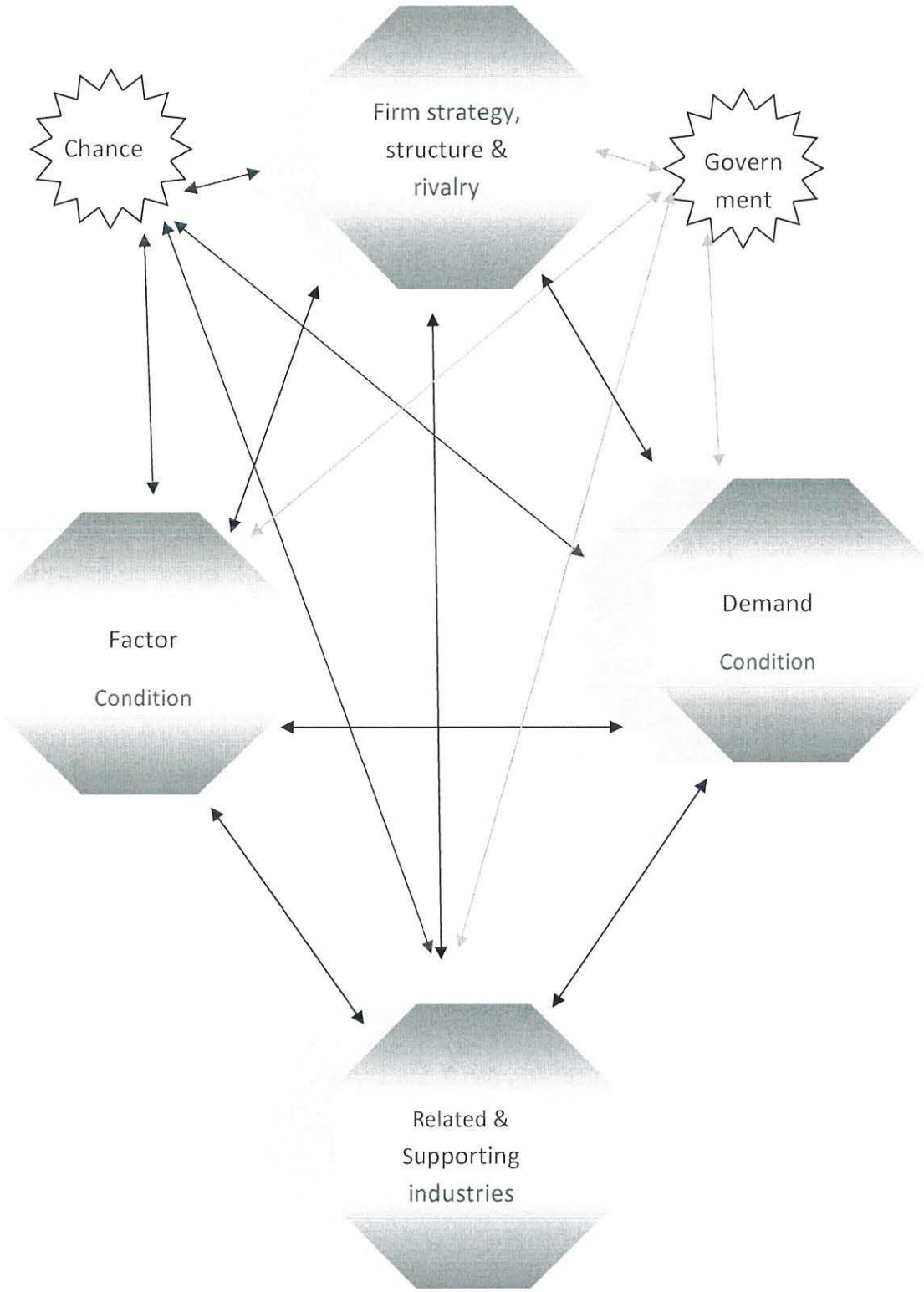


Figure 1 Porter Diamond Model
Source: Porter, 1990

Government: The government may have an influence on the four aspects mentioned above by affecting conditions for the supply of key production factors, demand conditions and competition patterns among enterprises. Its intervention can also have an impact at local, national and supranational levels. On national level, governments can (and should) consider the policies that they should follow to establish national advantage, which enable local industries to develop strong competitive positions globally. According to Porter, governments can foster such advantages by ensuring high expectation of product performance, safety or environmental standards, or by encouraging vertical co-operation between suppliers and buyers at the domestic level.

Chance: Chance means things that have little to do with particular circumstance in a nation and lie beyond the power of the firm. Fortuitous events, such as interventions, political decisions by foreign governments or wars, which are beyond the firm's control, can generate discontinuities that will influence gaining or losing a competitive position.

2.2.2.2. Grounding-Enterprise-Markets (GEM) Model

This model was developed by Tim Padmore and Hervey Gibson by improving the Porter Diamond model. Tim Padmore and Hervey Gibson classify factors that determine competitiveness in to six groups, which is resource, infrastructures, supplies and related industries, enterprise structure, strategy and rivalry, local market and external market. Such categories compose three parts that is factor pair I (or grounding), factor pair II (or enterprise) and factor pair III (or market) which includes local markets and external markets.

Factor pair I, (grounding) -includes resource and infrastructure, consists of the supply determinants which are inputs to the enterprises in the cluster in their productive process.

Resources: resources are natural, inherited or developed endowments available within the region. These include natural resources such as forests, mineral deposits and land, labor supply that is skilled, flexible and reasonably priced, strategic geographical location, financial capital, technology and patent.

Infrastructure: Infrastructure consists of physical structure and institutional arrangements that facilitate access to resources and support other business functions. The physical infrastructure includes roads, ports, pipelines and communication as well as intangible infrastructure such as business associations, research laboratories, training system, tax and regulatory regime, national monetary policy, financial markets, business and labor climate, and quality of life (housing, crime etc.)

Factor pair II, (or enterprise) -includes suppliers and related industries and firm structure, strategy and rivalry, refers to the structural factors of clustered enterprises which determine the productivity of a cluster.

Supplier and related industries: The cluster uses the goods and services with other enterprises within the region i.e. suppliers. Success factors include diversity, quality, cost and proficiency, as well as the quality of buyer supplier relationships. The other aspect of clustering is related with firms that use similar technology, transferable human resources, similar specialized infrastructure, or that serve common markets. Success factors include the number and quality of these related firms, and the existence of formal and informal linkages among the cluster firms.

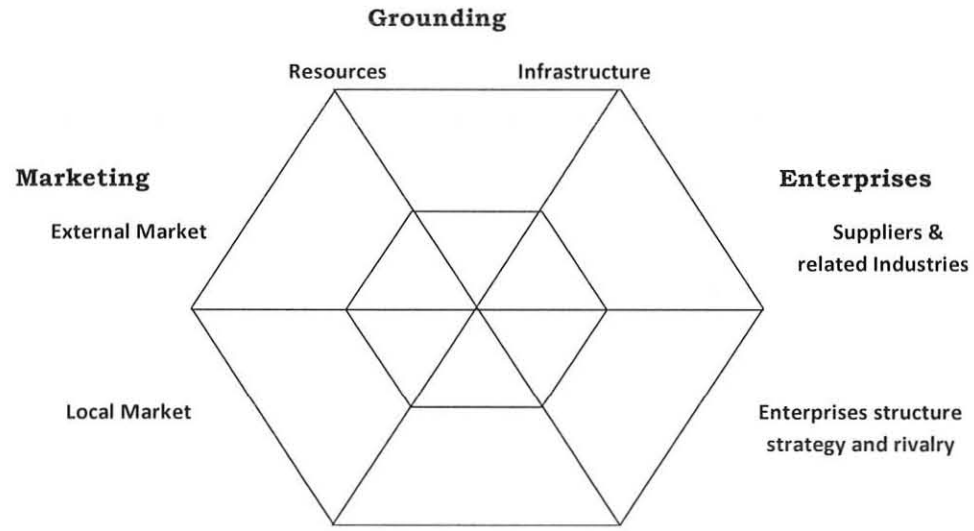
Firm structure, strategy and rivalry: these refer to the number and scale of enterprises in a cluster, the manner of arrangement of goods production among firms, the mode of management of enterprises and the structure type of firm property right. These influence the strategy direction and the competition tactic of the whole cluster. The reasonable size of a firm and effective arrangement manner of production make the value-chain in the cluster secure and nimble, thus assuring production process to realize not only the convergence effect of cluster but also the scale effect of production. Meanwhile, the overall management level and the property right structure of enterprises in the cluster will have an impact on whether the firms succeed with an advantage of cost differentiation. It then determines the growth and competitive strategies of the cluster in markets.

Factor pair III, (market) means the demand conditions, including the end market demands, medium demands and the demands (local markets and external markets) of enterprises in a cluster.

Local market: - It refers to a regional market. The notion "local" can be defined as province, a region or a nation. Our preferences have been restricted to the notion of "local market" or to the domestic market itself. This is largely because of small size compared to the whole nation and the essential differences between the domestic market and the international market. Important issues in this regard are the size of the market, market share, growth and prospects, extent of local sourcing by purchasers, standards and quality expected of firms, distinctiveness of local demand, and willingness of buyers to work with the local cluster.

External markets: In principle, regions face a more or less common set of external markets except the local market. What differentiates between regions, therefore, is the accessibility of external markets, including issues such as closeness of markets, their size and growth rate, global market share for the cluster, characteristics of end users, existing market relationships, barrier to entry, trade and export barriers.

Figure 2 the GEM model



2.2.2.3. Cube Theory

A similar reflection on how competitiveness works occurred when making the difference between "aggressiveness" and attractiveness" as a management emphasis for nations. The objective was to integrate all these ideas into one model that would describe how nations manage the various dimensions of their competitiveness. This was achieved using the "Cube" theory.

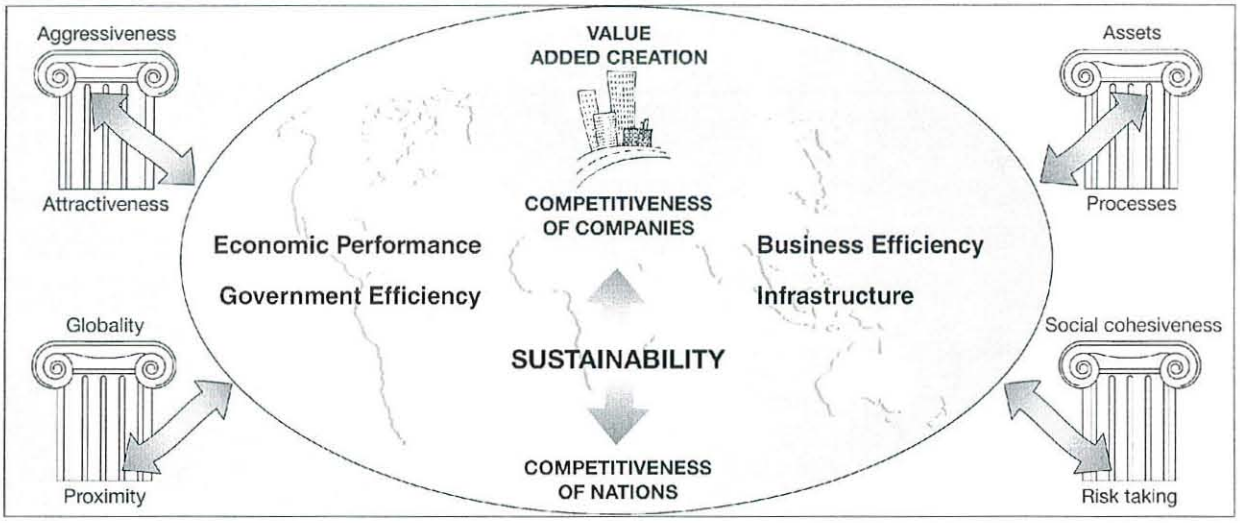


Figure 3: Cube Theory

The Cube theory defines four competitiveness forces: aggressiveness vs. attractiveness, assets vs. processes, globality vs. proximity, and social responsibility vs. risk taking. The frontal face of the cube describes how competitiveness is generated within one given year. The depth of the cube introduces the time dimension and illustrates competitiveness accumulated over time, and thus the wealth of a nation.

Attractiveness vs. Aggressiveness: Nations vary in the way they manage their relationship with the world business community. Traditionally, competitiveness was linked to the international aggressiveness of countries, that is, exports and foreign direct investment (FDI). On the other hand, and more recently, some nations manage their competitiveness by being attractive. For example, Ireland and Singapore have increased, through incentives, direct investment.

Aggressiveness generates income in the home country, but not necessarily jobs. Attractiveness creates jobs in the FDI host countries, but can be short on income because

of the incentives. This means that even wealthy nations cannot ignore the importance of attractiveness, especially because of its impact on employment. Therefore, countries must consider both attractiveness and aggressiveness in order to compete today.

Proximity vs. Globality: The economic system of a country is generally not homogeneous. In most cases, nations must deal with two types of coexisting economies: the economy of proximity and that of globality.

The economy of proximity comprises traditional activities: crafts; social and personal services, such as doctors and teachers; administrative activities, such as government and justice; and finally, consumer-support activities, such as after-sales service and customization. The economy of proximity provides value-added close to the end user. It is generally protectionist and expensive.

The economy of globality is composed of companies with international operations. It assumes that production need not necessarily be close to the end-user, and it benefits from the comparative advantages of markets world-wide, especially with regard to operational costs. It is generally competitive and price effective.

The proportion between these two economies in national prosperity varies with the size and the economic development of a country.

Assets vs. Processes: Nations also manage their competitive environment by relying more heavily on assets or on processes. Some nations can be rich in assets-land, people, and natural resources-but are not necessarily competitive. This may be the case of Brazil, India and Russia. Other nations such as Singapore, Japan and Switzerland are poor in

resources and have relied essentially on transformation processes. In general, the latter nations are more competitive than the former.

Sometimes economists refer to "the spell of natural resources" to describe the fate of asset-rich nations that have become complacent. It is probably a factor of central importance for "economic value added" in the notion of competitiveness. It should be added that inherited assets are not necessarily only natural resources. It could be considered that infrastructure, industrial power, and even education and skills are assets that have been accumulated by past generations. They can also generate complacency in "old" nations, which confuse wealth and competitiveness.

Individual Risk Taking vs. Social Cohesiveness: The fourth force shaping the competitive environment of a country is the distinction between a system that promotes individual risk and one that preserves social cohesiveness. The so-called Anglo-Saxon model is characterized by emphasis on risk, deregulation, privatization and the responsibility of the individual through a minimalist approach to the welfare system. In contrast, the Continental European Model relies heavily on social consensus, a more egalitarian approach to responsibilities and an extensive welfare system.

2.2.2.4. The Resource-Based Approach

Theoretically, the central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. However, the founding idea of viewing a firm as a bundle of resources was pioneered by Penrose in 1959. Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give

each firm its unique character. The notion of firm's resources heterogeneity is the basis of the RBV. Then broadly recognized by numerous RBV authors (Peteraf and Barney, 2003; Amit and Schoemaker, 1993; Peteraf, 1993, Mahoney and Pandian, 1992; Conner, 1991; Barney, 1991; Wernerfelt, 1984) recognize that the resource-based perspective and industrial organization tools complement each other in explaining the sources of firm performance. These authors write about the fact that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare.

The fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal (Wernerfelt, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 1991, Peteraf, 1993). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991).

This approach emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Barney, 1991 and Peteraf and Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be

traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes "If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool, Almeida Costa and Dierickx, 2002,).

According to Barney (1991), a firm resource must, in addition, be valuable, rare, and imperfectly imitable by competitors and substitutable in order to be source of a sustained competitive advantage. Peteraf (1993) presents four conditions underlying sustained competitive advantage: superior resources (heterogeneity within an industry), ex post limit to competition, imperfect resource mobility and ex ante limits to competition. The RBV has developed very interesting contributions, among others, with regard to imitation with the concepts of isolating mechanisms (Rumelt, 1984), time compression diseconomies, asset mass efficiencies, and causal ambiguity (Dierickx and Cool, 1989). Recently, much resource-based research has focused on intangible assets, which include information (Sampler, 1998), knowledge (e.g. Spender, 1996), and dynamic capabilities (Teece, Pisano and Shuen, 1997).

2.3. Empirical Literature

Cockburn and Siegel (1998) compare the competitiveness of Mali's and Ivorian manufacturing sectors in terms of unit cost in their studies of measuring competitiveness and its source the case of Mali's manufacturing sector. They found that relatively Malian manufacturing firms less competitive than that of Ivorian but sheet metal industry of Malian competitive. Unit costs of vegetable oil, Wheat flour, plastic bags, plastic shoes, textile, carton and printing manufacturing in Mali is substantially higher.

Lee and Tang (2000) conduct an econometric regression to assess competitiveness and productivity levels in Canadian and US manufacturing industries using. They found that Canadian manufacturing sectors as competitive as that of United State manufacturing sector in 1979; however, the Canadian manufacturing sectors relative competitive position worsened between 1979 and 1995 while its relative output increased by about 4 percent.

Leo Wang et. Al. (2005) tries to analyses competitiveness of the Ningob garment industry at industry level using Porter's Diamond model and GEM model of Tim Padmorre and Hervey Gibson's model and they arrive at a conclusion of that competitiveness of the Ningbo garment industry is above the national average level and possessing a nationwide competitive advantage.

Ahmadou Aly Mbaye and Stephen Golub (2007) using Panel date, examines competitiveness of Senegalese manufacturing sector at industry level covering a time period of 1974-1998. First, they calculate two indices of competitiveness i.e. relative unit of labor costs (exchange rates, relative wage and relative productivity) for and relative

producer prices Senegal and they compare these two indices with other developing and transitional countries then they proceed to analyze other structural barrier that they may not be fully captured by these competitiveness indicators such as infrastructure, training, financing, institutional problems, access to foreign markets and labour relations. Their findings was that both indicators have a significant impact on sectoral exports, and with relative unit labour cost having a greater and more robust effects than relative producer prices.

Mbaye and Golub (2007) tries to understand the effects of international competitiveness on export performance in Senegal at the industry level over 1974-1998. They have calculated two indices of competitiveness in manufacturing, namely: relative unit labor costs (RULC) and relative producer prices (RELPR). For these indices, they compare the Senegalese experience to those of developing and transition countries in four other regions: Africa, Asia, South America, and Eastern/Central Europe. The econometric results reveal that both indicators have a significant effect on sectoral exports, with RULC having a greater and more robust effect than RELPR. And they conclude that Raising productivity growth relative to wages would appear to be the best and most sustainable way of improving Senegalese international competitiveness which would contribute to the raising of the national living standards.

Federico and Barbe analysis the competitiveness of the Uruguayan broiler industry (evidence from one industry case study) and test Porter's (1990) theory of competitive advantage in Uruguay. Its finding indicates that Mercosur represents a potential threat for Uruguayan broiler companies, notably when the members of this trade block are able to access the Uruguayan market. It also found that the unique characteristics of the

Uruguayan broiler industry are successfully accommodated within Porter's framework to explain the success of the broiler industry against other meat substitutes. "Factor conditions" like infrastructure and resource which include water , electricity and transportation network and local human resource (technicians) play a critical role for the success of Uruguay Broiler firm. In relation to demand condition price play a key role for the customer's choice because Uruguay is a developing country. "Firms strategy, structure and rivalry" were contributing factors to success in this industry and "related and supporting" industries were partially supported by the finds of the study. However there is a weak association between Uruguayan broiler industry and government policy but chance was an important factor that contributes for the success of the Industry.

Kahyarara analyses the impact of competition on firm level productivity in Tanzania Manufacturing to answer the question 'Why competition has not boosted firm level performance in Tanzania?' using panel data to estimate productivity effects of competition controlling for firm fixed effects and other determinants of productivity. The specific estimation strategy involved estimates of a Cobb Douglas production function and competition is measured using the Hirschman-Herfindahl Index (HH). His finding shows that there is positive correlation between competition and productivity. In particular it is indicated that 1 percent increase in competition results into 0.4 percent increase in productivity. But when the panel estimates are introduced the correlation between competition and productivity disappear. In particular, the fixed effects estimates and GMM estimates show that competition has no productivity effect among the manufacturing firms.

Furthermore, the results indicate robust correlation between exports and competition hence strongly support the hypothesis of export led growth as a way forward to strengthen performance of manufacturing sector of Tanzania. And also the results indicate a positive correlation between firm specific characteristics with competition which influence profitability. Major conclusion of the paper is that there are broad ranges of micro level characteristics that influence firm performance that are not entirely addressed by macro level reforms including competition.

Birhanu and Kibret (2002) in their studies of declining productivity and competitiveness in the Ethiopian leather sector try to compare labor productivity of Ethiopian tanning sub sector with different countries. They found that Ethiopian's labour productivity is better than that of China and lower labor productivity than Taiwan. This entails that Ethiopian's tanning sub sector competitive than China but less competitive than that of Taiwan. Further they compare labour productivity of Ethiopian footwear subsector with Tunisia. The result indicates that Ethiopian labour productivity was lagging behind with that of Tunisia this implies Ethiopian's footwear sub sector less competitive than that of Tunisia.

Chapter III

3.1. Methodology and Data

3.1.1. Sample Design

The study is designed to entail Shoe producers in Ethiopia specifically located in Addis Ababa. Data gathered primarily from Shoe industries is supplemented by information from stake holder of the sector, based on their involvement in the shoe sub sector. The sampling frame of the study comprised of large and medium shoe producer factories in Ethiopia at large (particularly in Addis Ababa).

The sampling frame of the study comprised of shoe factories in Ethiopia in general. To simplify the process of the study, we choose Addis Ababa as a sampling unit of analysis because most of shoe producers and shoe exporters are located in the capital city (Addis Ababa) of the country.

3.1.2. Sampling Procedure

The study used simple random sampling technique in selection of samples and key informants, who were chosen on the basis of their engagements with shoe sector.

According to CSA report of 2011 there are 83 footwear establishment in the country of which our sample size consists of 10 shoe producers and exporters of their products mainly to Europe, U.S and different countries.

Due to time limitation and limited financial resources the whole shoe producer firms found in the different parts of the country cannot be covered in the study. Thus the sample includes only the firms located in Addis Ababa. We choose export focused firms

and for comparisons purposes we include some firms that produce their products only for local market.

3.1.3. Data: Sources and Collection Methods

In order to undertake the research we use primary data which is obtained through our structured questionnaires given to experts, specialists, government officials and entrepreneurs, etc. and also we undertake a face to face interview to obtain deeper information with selected stake holders in the sector. The interview guide was designed to allow flexibility and to generate responses and issues for further probing and clarification. And also we use secondary data from CSA's annual large and medium manufacturing industry survey and the statistical abstract documents, Ministry of Finance and Economic Development (MOFaED), Ministry of industry and Ministry of Trade to analyze capacity and performances of the sub-sector.

3.2. Theoretical framework

There are different theories developed and elaborated by different scholars to explain competitiveness in economic school of thought and management school of thought but for our study we choose Porter's diamond theories as a main framework of reference and analysis. The main reasons for applying the Porter's Diamond in this study are:

The early classic economists mainly weigh or compare the competitiveness at national level on the basis of the quality of the resources that a country possesses. Their approaches lack a micro-foundation. They cannot interpret the entire issue of competitiveness where as porter's diamond model can fully understood on a microeconomic level and on the level of firms and industries. Porter's diamond model

has been widely used as a tool of competitiveness analysis in the world because this model is consistent model that can explain why and how a completely different nation setting and give directly applicable recommendation and what to change in order to improve the competitiveness of an industry, what to do to improve the attributes of a region or a sector (Leo et al. 2005, p.20-21).

The Diamond Framework draws heavily on different theories of economics, but uses a conversational style that is distinctly different from that used by many economists. Porter uses verbal descriptions of the different trade theories based on logical reasoning instead of the mathematical models that dominate the economic profession (Ketels 2006). This is easier for policy-makers to understand and thus creates the impression that the Diamond Framework can be utilized to enhance the international competitiveness of countries.

Chapter IV

4. Findings and Analysis

The Ethiopian shoe sub sector is analyzed using the Porter's Diamond model in qualitative method. First we start by briefly introducing the profile of the sector.

4.1. Overview of Ethiopian Shoe Sub Sector

The footwear industry is part of a production chain that begins with cattle rearing and leather production and then moves on to the industrial phase, which comprises three stages: the cold-storage plant and slaughterhouse stage, then the tannery stage and, lastly, the manufacture of leather goods, including footwear. If the footwear produced is not made wholly from leather, the manufacturers concerned are also linked with the rubber and plastics production chain. In addition, footwear manufacturing links back to a range of supporting industrial activities, among them the production and importation of footwear parts and components, cardboard boxes and machinery and equipment for the industry. The output of the sector is not homogeneous. Not only is the product range highly varied (sports, formal or special shoes, shoes for men, women or children, shoes made entirely of leather, plastic or rubber or a combination of these, etc.), but within a single category of footwear products are differentiated by quality, brand, etc. This variety has led to considerable segmentation of the footwear market, which determines the characteristics of competition in the sector. Price competition is very important, particularly where lower-quality footwear is concerned. With higher-quality footwear, product differentiation is the key factor. In the sports footwear category, brand image plays a fundamental role and advertising and marketing costs are consequently a central feature.

In Ethiopia the production of leather shoes dates from the late 1930s when Armenian merchants founded two shoe factories in Addis Ababa. These factories nurtured a number of shoemakers, who opened their own factories in Addis Ababa and trained their workers.

4.1.1. Number of establishments and number of employees

From table1, in 2007/08 there are 1,930 manufacturing establishments of which 68 establishments are in the footwear sub sectors of the industry and in 2009/10 it reached to 2,172 establishments of which 83 establishments are engaged in the footwear sub sectors. On average the share of footwear sub sector was 3.54 percent of the manufacturing sector.

Table 1 Number of establishments and number of employees

Year	Number of Establishment				Number of Employees			
	Manufacturing except foot wear	Foot wear	Total	Percentage share of foot wear to manufacturing sector	Manufacturing except foot wear	Foot wear	Total	Percentage share of foot wear to manufacturing sector
2007/08	1,862	68	1,930	3.52	126,920	4,883	131,803	3.71
2008/09	2,131	72	2,203	3.27	143,702	5,115	148,817	3.44
2009/10	2,089	83	2,172	3.82	181,101	5,698	186,799	3.05
Average	**2,027**	**74**	**2,102**	**3.54**	**150,574**	**5,232**	**155,806**	**3.40**

Source: Computation from CSA, Large and Medium Scale Manufacturing and Electricity industry survey

The number of labor force engaged in this sector shows an increasing trend from year to year for instance in 2007/08 there are about 131,803 persons employed in the sector, of which 4,883 were in the foot wear sub sector this figure increased to 148,817 of which

5,115 in foot wear sub sector in 2008/09 and reached to 186,799 of which 5,698 in foot wear sub sector of the industry in 2009/10. On average the percentage share of foot wear to manufacturing sector is 3.40 percent.

4.1.2. Gross Value of production and Value added

Table2 Gross Value of production and Value added

Year	**Gross value of production** (in 000 Birr)				**Value added** (in 000 Birr)			
	Manufacturing except foot wear	Foot wear	Total	Percentage share of foot wear to manufacturing sector	Manufacturing except foot wear	Foot wear	Total	Percentage share of foot wear to manufacturing sector
2007/08	2,545,414	440,937	22,986,351	1.92	5,830,783	101,058	5,931,841	1.70
2008/09	28,315,417	513,762	28,829,179	1.78	7,674,991	103,516	7,778,507	1.33
2009/10	41,265,396	742,660	42,008,056	1.77	8,983,629	141,935	9,125,564	1.56
Total	**92,126,227**	**1,697,359**	**93,823,586**	**1.82**	**22,489,403**	**346,509**	**22,835,912**	**1.53**

Source: CSA, Large and Medium Scale Manufacturing and Electricity Industry survey

As we have seen from table 2, in 2009/10 the total gross value of production in the manufacturing sector was about ETB 42,008 million. Of this, the foot wear sub sector shared ETB 743 million which is higher than the previous two consecutive years. And on average the percentage share of footwear sub sector were 1.82 percent of the manufacturing industry.

Value added for the year 2009/10 was 9,126 million birr of which 142 million birr is shared by the foot wear sub sector of the industry which is higher than the previous two consecutive years. And on average foot wear sub sector contributes 1.53 percent of the value added in the sector.

Even if the country have a potential in foot wear sub sector in spite of comparative advantage the country have the table 1 and table 2 shows that the contribution of the sub sector is as such not significant in the national economy.

4.1.3. Export performance

Table3 Export performance of leather industry from 1997-2003 E.C

In thousands USD

No.	Product Category	Year						
		1997	1998	1999	2000	2001	2002	2003
1	Pickle	28,202	28,478	30,470	32,088	19,131	-	-
2	Wet blue	21,935	28,718	27,073	29,288	14,867	-	-
3	Crust	9,401	10,490	19,508	17,719	23,128	37,755	70,140
4	Finished	3,134	5,740	6,951	12,259	11,152	12,878	25,335
5	Shoe	3,446	1,600	5,541	9,872	7,195	5,737	8,642
6	Glove	-	-	-	-	-	-	-
7	Leather Garments and Articles	34	302	-	29	146	138	213
Total		66,150	75,328	89,543	101,255	75,618	56,507	101.34
Growth of Leather industry export		-	14	19	13	-25	-25	99.82
Growth of Shoe export		-	-53.57	246.31	78.16	-27.12	-20.26	50.64
The share of shoe export		5.21	2.12	6.19	9.75	9.52	10.15	-

Source: Computation from Ministry of Industry

Table 3 shows that growth rates of exports of leather sector (particularly shoe sub sector) are characterized by an extreme fluctuation. This pattern is one of the factors behind export earning instability in the country. This in turn has implication for exchange rate and capital formation instability as investment in Ethiopia is fundamentally constrained by foreign exchange shortage.

The share of shoe exports (when compared to leather processing industry) constituted nearly 5.21% in 1997 it declined to about 2.12 % in 1998, this is due to the increased in the export share of other leather industry products, and then increased to 9.75 in 2000 and reached to 10.15 % in 2002 due capacity building activities.

Even if the share of shoe export reached to 10.15 % in 2002 still it is not satisfactory this is due to different factors like poor quality and shortage of raw material, supply and marketing problems as well as the financial crisis in the world market and the like.

4.2. Analysis of Ethiopian Shoe Sub Sector with Porter's Diamond Model

Porter identifies four classes of country attributes that provide the underlying conditions or platform for the determination the national competitive advantage of a nation which influence the industry. These are factor conditions, demand conditions, related and support industries, and company strategy, structure and rivalry. He also proposes two other factors, namely government policy and chance (exogenous shocks), that support and complement the system of national competitiveness.

4.2.1. Factor Condition

Factor conditions subdivided into basic and advanced factors. Basic factors include natural resources, infrastructure and energy supply, labour force resources (both skilled and unskilled labour), local financial market, raw materials, geographical and climatic conditions and the like which are used in the production process.

The advanced factor consists of technical equipments, talents, education, innovation activities and capital operation and the like which are created and upgraded through reinvestment and innovation to specialized factors and according to Porter advanced factor form the basis for the sustainable competitive advantage of a country.

i Basic factors

Natural resource

Ethiopia possesses one of the largest populations of livestock in Africa and even 7th-9th in the world, i.e. 41miilion cattle, 25million sheep and 73million goats. However, the resource is not fully utilized and only 2.7million hides, 8.1million sheep skins and 7.5million goat skins are sold on the market (MOTI, 2005). Therefore, the leather industry still has room to be developed further; optimizing the abundance of the resource and the country can consider the leather and footwear industry important sub-sector that leads the whole sector's modernization.

Raw Materials

All the surveyed firms in the study import inputs (all components and accessories of shoes) this indicates the shoe sector highly dependent on imported raw materials in their production activities. This is due to unavailability of raw materials locally, inferior quality of local raw materials, lack of sufficient local supply are the major reason for relying on imported raw materials.

Table4 below depicts the fact that most firms do not have serious problems on duty exemption, licensing and authorization of imports. Under the table, labeled "to an important degree" the respondent firms put High cost of inputs, delay in clearing goods on the part of the customs authority and Minimum order size as the most severe problems in importing inputs

From the table, all of the respondent establishments respond that high cost of import was the major factor that influences the imported inputs; this creates a challenge for the firm competitiveness in the international market since all of the shoe firms highly dependent

on imported inputs. Hence, this implies that there is a need of establishing vertically integrated shoe and accessories plants which can help to source the inputs locally with reasonable prices.

The other problem that is related with imported inputs is delay in cleaning goods through custom. From table4 below 7 respondents reported that delay in cleaning goods through custom is another problem of imported input.

Minimum order size was mentioned as the other severe problem next to cost of input and delay in clearing goods through customs was reported by 4 respondents.

Table4 Problems with importing inputs

Problems	Number			
	1 Not at all	2 Some what	3 To an important degree	4 Do not applied
Delay in cleaning goods through customs	2	1	7	-
Duty exemption is not recognized	5	4	1	-
Reliability in foreign suppliers is problematic	1	1	4	-
Problem with licensing/authorization of import	1	7	-	2
High cost of inputs	-	-	10	-
Minimum order size	2	4	4	-
Other	-			-

Local inputs

One factor that determines international competitiveness of the firm in the country is the availability of raw material in the local market that reduces cost of production of the firm.

The study identified problems that the shoe firms face that include inferior quality and lack of local inputs, absence and problem with inferior quality inputs and high cost of input relative to imported inputs. As a result to many firms the cost of production affects their capacity utilization, which is already very low.

Table5 the problems with local inputs

Problems with local inputs	Number			
	1 Not at all	2 Some what	3 To an important degree	4 Do not applied
Absence of inputs	2	4	4	-
Lack of inputs	-	4	6	-
Inferior quality	1	3	6	-
High cost of inputs relative to imported	3	4	3	-
Other	-	-	-	-

We can observe from table5 that inferior quality and lack of local inputs were mention as barrier that affects firms to an important degree as a result it limits the firm's competitiveness in the local as well as the international market. High cost of local input relative to imported one was mentioned as a reason for relaying on imported inputs by four firms to an important degree.

Infrastructure and energy supply

The major infrastructural related problems for manufacturing firm operation include costs of transport, ports facility, electricity, and telephone connections and poor quality of services (Maunda, 2005).

Table 6 problems related to infrastructures

Problems	Number			
	1 Not at all	2 Some what	3 To an important degree	4 Do not applied
Power supply	1	3	6	-
Tele communication	3	4	3	-
Roads from factory to port	7	3	-	-
Domestic source of quality package	-	4	6	-
Sea freight	-	4	6	-
Air freight	1	2	6	1
Port facility	1	1	8	-
Other				

The most severe infrastructural constraint to firms in Ethiopia was, according to the survey result, port facility. Eight respondents out of the total respondents reported that port facility was to an important degree the main problem to their operation. It is because the country is landlocked, it uses the port of another country and this leads to incurring additional costs for loading and unloading and for rent. This limits the firms' competitiveness in the international market as compared to other competitors.

Out of the total respondent six respondents responds that power supply, sea and air freight and domestic sources of quality packages were the other major problems. Problem of Power supply has a binding constraint on business operations. This severe shortage of electricity supply causes the firms to operate below their potentials. Government tries to provide long term solution for the problems by constructing massive electricity projects like the current renascence dam.

Basic labour force

Price is a crucial feature of competition in manufacturing industry, so cost reduction is a key element in firms' competition strategies. Labour is a particularly important cost since the production process is labour-intensive. Consequently, the availability of low wage labour has been a key factor in competitiveness for this industry.

According to the CSA data (see table 7 below) the average wage per worker of leather and foot wear industry is 10,345 ETB per year where as the manufacturing sector on average it pays 12,380 ETB per year, this figure indicates the wage level in the leather and foot wear sub sector is lower than the average wage of the manufacturing industry this low wage will cause volatility in the labor force.

Table7 wage and salary, no. of employees and wage and salary per worker (EFY)

	Year				
	1999	2000	2001	2002	Average
Wage and salary in the manufacturing industry (in '000)	1,319,527	1,677,906	2,016,855	2,491,086	1,876,344
Wage and salary in the leather and foot wear industry (in '000)	72,348	88,308	98,521	119,614	94,697
Number of employees in the manufacturing industry	134,963	131,803	148,815	185,086	150,167
Number of employees in the leather sector	8,351	8,586	8,750	10,707	9,099
Wage and Salary per worker in the manufacturing industry	9,780	12,730	13,550	13,460	12,380
Wage and Salary per worker in the leather and foot wear sector	8,660	10,290	11,260	11,170	10,345

Source: Computation from CSA

From the survey result lack of managerial skilled labour and lack of talented designers which is reported by 8 firms are the major constraints in the sector. Seven establishments reported that lack of skilled labours is the other constraint in the labour market for the shoe sub sector of the country (see table8).

Table 8 the main constraints in the labour market

Constraints	Number	Percentage
Lack of skilled labour	7	70
Lack of unskilled labour	1	10
Lack of talented designers	8	80
Lack of managerial skilled labour	8	80
Other	1	10

The main reasons of difficulty in obtaining skilled labour, talented designers and skilled managers were lower wage rate (seven firms reported), scarcity of labour (four firms reported), nature of the job (implement job) (reported by three firms), inconvenient working place (reported by two firms) and lack of training institutions (reported by one firm).

Table 9 the main reasons of difficulty in obtaining skilled, talented designers and skilled manager

Reasons	Number	percentage
Low wage	7	70
Inconvenient working place	2	20
Scarcity of labour	4	40
Implement job/nature of the job	3	30
Other	1	10

Financial market (Access to finance)

Private-owned firms and medium enterprises can't obtain enough loans from commercial banks because of different reasons like the commercial banks and the development bank have their own procedures to give loan that is not in line with the special nature of the industry, Cost of finance, lack of acceptable collateral, banks appraisal of the profitability and debt to equity ratio of the borrower, the nature of the loan granted by commercial banks are by its nature a short term and medium terms but the shoe sector need a long term nature. Absence of specialized banks for industry development is also a bottle neck for the sectors development. Hence firms to large extent depend on own sources of finance especially during initial investment.

Table10 Sources of finance for working capital and fixed capital

Sources of finance	Number	
	Working capital	Fixed capital
Own fund	10	10
Foreign loan	-	-
Domestic loan	9	9
Credit from supplier	6	-
Advance payment guarantee	4	-
Government fund (export credit guarantee scheme)	6	-
Other	-	-

As the survey result indicated, all the responding firms use their own fund to finance the fixed asset of the business as well as its working capital requirements and nine firms reported that bank loan also extended for them to finance its fixed capital and working capital needs in addition to their own funds and six firms used government fund to finance the working capital requirements of the business and four firms got advance payment guarantee to finance its working requirement but according to the response of the respondents the loan amount is not significant enough to cope up their working

capital shortage and to make them work at full capacity. They also complained on lack of timely and adequate working capital as one of the potential problems in their activities.

ii. Advanced factor

Talent and education

The sector lacks talented designers and senior manager in the area due to low wage rate, scarcity of labour, nature of the job and inconvenient work place. But currently the government of Ethiopia has been investing huge amount of investment in the construction of vocational training centers in different parts of the country to produce (train) technically skilled students that fit for the sector.

Capacity utilization

Table 11 percentage of the firm capacity utilized

Capacity utilized	Number	Percentage
0-20	-	-
21-40	2	20
41-60	4	40
61-80	4	40
81-100	-	-
Total		

As shown in Table 11 among the total shoe establishments included in this survey 20 percent of them were operating 21 and 40 percent of their full capacities, whereas 40 percent of them were operating between 41 and 60 percent capacity and the remaining 40 percent of the surveyed firms were operating between 61 and 80 percents of their full capacity. In general, the survey results indicate low level of capacity utilization in Ethiopian shoe industries.

The low level of capacity utilization in the sector would compel one to ask "what was behind this low level of capacity utilization?" The responses from the establishments

which are presented in Table 12 below reveal that all respondents agreed that one of the major reasons for the firm not fully operational is working capital shortage. Raw material shortage was the second major factor for not being fully operational (respond by 8 firms). Seven firms reported that spare part shortage were another binding constraint for the firm; whereas lack of market were the problem for five surveyed firms.

Table12 the reasons for not being fully operational

Reasons	Number	Percentage
Raw material shortage	8	80
Spare part shortage	7	70
Lack of market	5	50
Working capital shortage	10	100
Frequent machinery breakage	2	20
Government rules and regulations	2	20
New establishment	-	-
Other	3	30

4.2.2. Demand condition

Since the current estimated population of a country is 80 million and the continuing increase of the national economy and resident income will strongly and directly improve the demands for shoe it creates demand for shoe products in the local market as well as sources of cheap labour force in the production process of Shoe industry and these can be also great sources of potential for growth and expansion of the shoe sector.

For instance according to IMF report the country registered a double digit GDP growth from 2005 to 2008 and reached to 11.6 % in 2008 where as in 2009 and 2010 the growth rate declined to 6.5 percent. The continuing increase of the national economy and resident income will strongly and directly improve the demands for shoe.

Table 13: Real GDP and Real Per Capita GDP Growth for the period 1997- 2010 (in percent)

Growth indicators/years in G.C.	2004	2005	2006	2007	2008	2009	2010
Ethiopia, GDP	9.8	12.6	11.5	11.5	11.6	6.5	6.5
Ethiopia, Per Capita GDP	6.8	9.6	8.5	8.4	8.8	3.8	4.0

Source: International Monetary Fund (IMF)

In addition to the local demand, the preferential market access of export market commitments made by bilateral and multilateral trading partners, everything but Arms (EBA), Africa Growth and Opportunity Act (AGOA), the Canadian and Japanese schemes are important initiatives worth highlighting as potential opportunities for the shoe sub sector.

But the survey confirmed that firms and the industry as a whole faced serious competition from their competitors especially in the international market, shortage of raw materials, inferior quality of local inputs, high cost of import, limited access to finance, etc creates difficulty for the shoe producer firms to full fill the required demand and compete in various market segments.

4.2.3. Firm Strategy, Structure and Rivalry

Structure

Ethiopia shoe industry has formed a cluster but the level of clustering is still low and the degree of integration between the firms is not strong. The firms still have an old-fashion house hold management style and their further development is restricted. These conditions in turn causes for the low value chain in the industry since firms are widely engaged on individual basis for competition rather than working in cooperation. As the survey result asserted, the persistent supply constraints, which are not treated properly by

respected organizations compel firms to deal with the same types of problem with equal degree again and again and this in turn affects their firm strategy.

Strategy

The firm's ability to make the right strategic business decisions involves not only the best matching of its existing resource with existing market demand but also well-designed decisions on differentiating its products and creating demand to receive premium prices and to develop the firm's resources correspondingly.

Table14 Strategy of the firm to improve competitiveness of the firm

Strategy	Past		Future	
	Number	Percentage	Number	Percentage
Improve the networks with input suppliers	10	100	10	90
Expand total production capacity & invest in advance production technology	4	40	10	90
Computerized design & manufacturing, management & input sourcing, advertising & marketing	3	30	9	90
Diversify domestic sales in to exports	7	70	10	90
Other			1	10

As we have seen from table14 the strategy for all firms in the past was improving their net works with input suppliers. Diversifying domestic sales to export was viewed as one of the firms' strategies for seven firms, this plan in parallel with government export oriented strategy. Four firms reported that expand total production capacity and invest in advance production technology was their strategy where as only 3 firms reported 30 percent of their strategy was Computerized design & manufacturing, management & input sourcing, advertising & marketing.

The future plan for all the surveyed firms want to pay serious attention to all given options of strategies i.e. Improve the networks with input suppliers, expand total

production capacity and invest in advance production technology, computerization in designing, manufacturing, management and input sourcing and marketing and diversify domestic sales in to exports. However, in practice it is impossible to implement all ranges of options simultaneously due to the limitation of resources, availability of skill etc.

Rivalry

The Ethiopian shoe industry is confronted with two fierce competitions in the domestic and international market. According to the survey result (see table15) the firms face strong competition at international market from East Asian countries.

Table 15 the main competitors of the firm in the foreign market

Competitors	Number	Percentage
Domestic firms	2	20
African countries	2	20
East Asian countries	7	70
East Europe	-	-
Caribbean countries	-	-
North American Countries	2	20
Other		

4.2.4. Related and support industries

The most important related and supporting industries to the shoe industry are the production of machineries, materials (like leather), relevant service and facilities. Shoe industry cooperation among these industries is an important factor to support the industry and to enhance the competitiveness.

The survey confirmed that shoe firms and the industry as a whole seriously faced problems on the availability, quality and cost of inputs. Absence of locally produced inputs at the required quantity, quality and reasonable price forces the firms to depend on foreign inputs. These problems limit the firms from being cost competitive in view of

their foreign competitors. In addition to the limitation on their cost competitiveness, the firms also face obstacles in terms of delivering products on time at the required style, color, size and fabric. The value added of the sector also becomes intangible because of the absences of coordinating specific activities in the value chain.

4.2.5. Government and chance

Direct Government Support

The government has intended to provide different incentives like Investment incentives, trade incentives, Tax incentives (tax free) for importation of capital goods, spare parts and inputs for exporters of the sector, Access to credit at low interest rate from Development Bank of Ethiopia, Access to land in different parts of the country, Export Credit guarantee scheme, export facilitation support in customs, banks, etc, Training and technical support from LIDI.

Chance

There are different opportunities in the shoe industry especially for exporters like tax and quota free access of market access through different preferential markets (AGOA, EBA,etc) and bi-lateral trade agreements (Ethio-Sudan, etc). These preferential markets considered as a necessary tool for poor countries to support their development process. And also low labour cost and high domestic demands are the other opportunities in the sector.

4.3. Preferential Market Access

Improved market access for the poorest countries is widely seen as a necessary tool to support their developmental efforts. United States, the European Union, Japan and Canada are the major countries that provide wide range of incentives which differ from one country to the other in coverage, conditions and clarity. Preferential market access allows eligible countries to export their products free of tariffs and quota. In this regard, Shoe industry products are one of the covered items to benefit from the schemes, while the schemes of each country set different conditions on different issues such as on origin of raw materials, types of raw materials, and types of finished products which are imported to their countries. Here, the study tried to assess the potential problems in utilizing the preferential market access.

From the surveyed firms, nine firms export their products to European Union countries (EBA), and seven firms export their products to United State (AGOA), six firms export to Japan and four firms to Canada using the schemes which are provided by these countries.

When we consider the share of revenue from exporting to preferential market access, on average 61-80 % of surveyed firms receive their revenue from exporting their products using preferential market access to European Union and the remaining part from United State, Canada and Japan.

With regard to problems of shoe sub sector in utilizing PMAs with reference to suppliers of input six firms of the respondent complains that lack of quality leather product (locally) and long process of customs procedures and certification was the major problems and four firms reported that limited range of local leather inputs and minimum

order size were the other problem. High costs of leather input and lack of leather suppliers from eligible SSA countries another problem which was reported by three firms.

Most of the surveyed firms assert limited finance with high cost, availability of power supply, low productivity of labour, lack of skilled managers and designers, lack of skill in cutting and assembly, lack of research and development institutions that support the development of shoe product, lack of vertically integrated shoe industry that would meet rules of origin, out dated technology and limited access and long process to get production area were the main difficulties that affect their production process in utilizing PMAs.

In relation to the distribution of output, 80 percent of the surveyed shoe firms put limited range of availability and costs of transport and absence of own port as major obstacle that limits the utilization of PMAs. 60 percent of the problem caused by high cost of telecommunication, poor service of port facility and poor quality of package according to the response of six surveyed firms. Limited availability of telecommunication service reported as a problem for four firms only.

With regards to markets, all respondents confirm of knowhow and experience in the international trade, lack of knowledge in identifying the preferences of customers in importer (U.S.) market and lack of promoter market as the main problem followed by competition from Asian shoe producer countries (80%), poor quality of the product (60%), removal of quota in the world market (20%).

In relation to future strategy that the firms want to adopt to utilize PMAs, all firms want to improve the net works with input suppliers, computerize design and manufacturing, management and input sourcing, advertizing and marketing followed by expanding production capacity and invest in advanced production technology and diversify domestic sales in to export (80 %).

Generally, the Ethiopian Shoe industries have tried to utilize the PMAs which are provided by various governments of the world but not as such significant. Therefore the government should give special attention that can help to exploit these preferential markets, since this market creates a potential for long term competitiveness of the sector.

CHAPTER V

5. CONCLUSIONS AND POLICY IMPLICATION

5.1. Conclusions

By reviewing different literature of competitiveness and empirical studies done in different countries in different sector, this study tries to analyze competitiveness of the Ethiopian Shoe industry at firm levels. By employing the methodology within the Porter's Diamond framework. This part of the study tries to conclude and suggests some policy implications for Ethiopian shoe sector as per the model.

Factor conditions

One of the resources categorized under this category is the human resource, here the shoe sector could benefit through the comparative advantage that the country possesses: high population or working force and low labour cost. However, in spite of efforts done so far on behalf of the Government, the survey affirmed that the shoe industry was found in short of professionals (designers and managers) and skilled labourers which could enable the sector to compete in a sustainable manner in the various market segments. Concerning the financial market (capital resource), the survey confirmed that the financial market was not in a position to solve the problem with supply of capital (investment or working capital), which could enable the firms to operate in their full capacity and to quickly respond to product market demand. The main reasons were the commercial banks and the development bank have their own procedures to give loan that is not in line with the special nature of the industry, Cost of finance, lack of acceptable collateral, banks appraisal of the profitability and debt to equity ratio of the borrower, the

nature of the loan granted by commercial banks are by its nature a short term and medium terms but the shoe sector need a long term nature, Absence of specialized banks for industry development.

Generally, in these days production becoming more of knowledge intensive and this needs employees with a higher level education background but the availability of skilled, talented designers and skilled managers limited at the same time educational institutions are not a practical based so it is necessary to provide work related industrial training. This helps to produce labour that matches the interest of the industry.

The other factor that is categorized under the factor condition is the infrastructure, according to the surveyed firms significant changes have taken place in the "hard' tangible infrastructure which comprises of power supply, telecommunication, roads from factory to port, etc, in the past few years and this enhances the competitiveness of the firm and industry to a certain level. However, there are no or very little advancements in the "soft" intangible infrastructure such as business environment, trade associations and Research and Development (R&D) institutions. The Government trying to improve the competitiveness of the shoe sector through Benchmarking. However still so much work to do with regard to channeling information, facilitating and improving access to market, technology, product innovation or skills. Cost of inland transport, problems with packaging and port facility, air and sea freight are also confirmed in the survey analysis as crucial problems for achieving competitiveness of Shoe firms.

Demand condition

Poor quality of the products for local consumption and export limits the growth and potential of the shoe industry from having significant market share at the international market. The supply constraints such as the problem in raw materials, the limited access to finance, low labour productivity, poor business environment, non smooth nature of export incentives, etc resulted in the low demand for the shoe products in various market segments. Thus, a coordinating action is required to reduce the supply problems in order to create favorable demand conditions.

According to many studies among the factors that affect the competitive of one's country in the international market is the transaction cost which includes transportation costs and efficiency of services at custom. As a matter of fact most of accessories and components, different inputs are brought from abroad but the process of clearing at custom is very difficult.

The government formulates different mechanisms such as voucher system, duty draw back and bonded manufacturing ware house system for the manufactures. At this point one thing must be clearly stated the delay at custom is not only resulted from the problem of the custom office, rather it is mainly due to the unworkable guide lines and directives.

Related and support industries

The survey confirmed that Shoe firms faced problems on the availability, quality and cost of inputs. Absence of locally produced inputs at the required quantity, quality and reasonable price make the firms to produce below their production capacity. This limits their cost competitiveness so that the firms face obstacles in terms of delivering products

on time at the required style, color, size and leather type. The value added of the industry also becomes intangible because of the absences of coordinating specific activities in the value chain.

Firm structure, strategy and rivalry

In spite of competitive advantage that the shoe industry has, the number of operating firms is low as compared to other economies. These conditions in turn serve as causes for the low value chain in the industry since firms are widely engaged on individual basis for competition rather than working in cooperation. As the survey result asserted, the persistent supply constraints, which are not treated properly by respected organizations compel firms to deal with the same types of problem with equal degree again and again and this in turn affects their firm strategy. Accordingly, no significant difference was observed between the firms' current and future strategy.

In this competitive age of industry visionary and structured management at company or factory level is crucial. In many shoe factories ownership and Factory management have been the same. The factory owner is the administrator, the commercial manager, the marketer and the ultimate decision maker of each and everything inside the factor, "understandably, most of our producers are managed by owner/managers. Such owner/managers usually tend to harbor critical decision making within their authority to avoid things getting out of control. It requires a protracted campaign and induction of our managers to change their practice and empower their able officers make decisions at every level and remain accountable".

Communications of most shoe factories were very slow with customers. Unless the general manager or the owner decides how thing to be response on specific question from the customer employees who are working in the ``commercial`` or production department have no courage to give immediate reaction. The way of communication is that weather it is pricing or technical issue everything should pass via the general manager.

5.2 Policy implications

We have noted that competitive edge can be established by producing and selling in the local market. The government should give emphasis to local producers of shoe as it gives more emphasis for export-oriented firms. In Growth and Transformation plan recently Developed the government considers the importance of import substitution strategy for the overall development of the country especially in manufacturing sector. So the institutions established for the development of the sector like Ministry of Industry and Leather Industry Development Institute should emphasize on developing the domestic shoe producers by directing incentives which were designed for exporting firms.

Import substitution incentive should be done side by side with export incentive scheme to boost the production capacity of the country. The shoe demand and supply gap in the local market must be narrowed so that the eyes of the manufactures will be opened to the export market.

The government should develop a specific strategy on the shoe sector under the export-oriented strategy framework in order to identify various interventions that show how preferential market accesses especially AGOA and EBA and other bilateral trade agreements can be effectively utilized with the consultation of all stakeholders including

the government, manufacturing firms, financial institutions, custom office, in land and sea transports agencies etc.

As the study intensely explained the competitiveness level of the Ethiopian shoe industry at the firm level is low. Therefore, the study recommends the following specific points in order to solve the problems:

Raw materials supply

In Ethiopia, with regard to input to produce shoe everything except leather is imported either from Europe or China. Product development is very crucial in setting the company at a competitive level.

The problem of raw materials for shoe firms is very crucial due to the absence of reliable suppliers, poor quality and high cost of inputs. Hence, the involvement of the government is crucial.

- The Ministry of Industry (The leather Industry Development Institute) has to take the initiatives in cooperation with the Ministry of Agriculture and ELIA (Ethiopian Leather Industry Association) for this stake. It is necessary to improve the supply chain problem in the leather industry starting from animal husbandry to provide sufficient leather input for the sector and makes the sector competitive enough at local as well as international market.
- In the short run, instead of direct involvement of Shoe firms in importing inputs, the government should encourage and support the establishment of agents of the foreign companies and other efficient importers to intensively involve in importing inputs. This creates an opportunity for firms to get the

inputs locally and this may help firms from keeping huge stocks, increase the availability of working capital and reduce the problems with custom procedures.

Accessories and component supply

The Government has set growth and transformation plan, according to this plan the industry has to take the role of the agriculture starting from 2007.E.C. for this to happen a lot of technology transfer by a method of copying followed by innovation industrialization should be used.

At least free of taxation of import of accessories and components is required for including the whole shoe manufactures because of the following reasons:

- So far the government tried to promote accessory and component producers (local and foreign). The government should be aggressive to provide various incentives for the establishment of vertically integrated Leather processing and accessories industries as well as renovating the existing ones in order to have a reliable and quality supply of inputs with reasonable price.
- It has been clear that the manufacture sector by the very nature is tiresome compared to the other way of business. Hence in line with the policy of the government it should be given the maximum incentives to attract local and foreign investors in this specific sector.
- To achieve the very end goal of moving from the agriculture sector to industry sector technology coping and transfer activities should be implemented intensively.

Immediate solution: Leather Industry Development Institute and other collaborating organization must help the factories getting reliable supplier of accessories and components.

Long term solution: There must be integrated accessory and components manufacturing unit in Ethiopia producing molds, cutting Knife eyelets, shoeboxes, and shoe rapping papers. This initiative should be taken by the government at first stage by establishing these integrated manufacturing units in the industry zone area later when the market demand for these inputs matures the responsibly can be given to the private sector. Here also the owners of the factories have to believe product development is a crucial stage of marketing. Training on designing should be given for factories designer, Product development center (PDC) of shoe factories should be supported by CAD-CAM. At this stage the cost of product development should be funded by organization such as ECF, ECBP, UNIDO and USAID.

Access to finance:

The commercial banks and the development bank have their own procedures to give loan that is not in line with the special nature of the shoe industry. There is the government support program by way of export credit guarantee scheme. However the modality of accessing it is the bottleneck. So,

- The normal banking system cannot work for exporters in meeting the delivery date of the production time frame. Therefore it is important to establish export import bank (EXIM bank) which have its own structure and procedures, good

example of these kinds of banks are the Import and export banks of Turkey, India, Russia and USA.

- The government should also clear the problems that are related with the utilization of financial incentives and should be committed to monitor the effectiveness of schemes implementation through regular meetings, discussions and dialogue among financial institutions, the government and firms for a better utilization of the financial incentives.

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Appendices

Appendix I

Questionnaires

Competitiveness of Ethiopian Shoe Industry: Response to Export Market

Competitiveness is one of the most powerful concepts in modern economic thinking. It can be defined at national level, industry and firm level.

Firm level competitiveness can also be defined as "the ability of a firm to design, produce and/or market products superior to those offered by competitors, considering the price and non-price qualities" (D'Cruz, 1992). "Competitiveness" is primarily a firm-level concept and refers to the ability of affirm to produce output of superior quality and lower costs than its domestic and international competitors. It is reached by improving product quality and through processes of product development (Beyene, 2009).

The footwear industry is part of a production chain that begins with cattle rearing and leather production and then moves on to the industrial phase, which comprises three stages: the cold-storage plant and slaughterhouse stage, then the tannery stage and, lastly, the manufacture of leather goods, including footwear. The output of the sector is not homogeneous. Not only is the product range highly varied (sports, formal or special shoes, shoes for men, women or children, shoes made entirely of leather, plastic or rubber or a combination of these, etc.), but within a single category of footwear products are differentiated by quality, brand, etc. This variety has led to considerable segmentation of the footwear market, which determines the characteristics of competition in the sector.

The practice of the country in shoe export activities is insignificant. Hence, this questioner is developed to assess the competitiveness of Ethiopian shoe sub sector at international and local market level and suggest policy implication for the policy makers to improve competitiveness.

Part A

I. Background Information

1. Name of Company_____

2. Respondent Name and Title_____

3. Contact Information

   Region_____

   City/Woreda/ sub city_____

   P. O. Box_____

   Telephone_____

   E-mail address_____

4. Year of establishment_____ ☐

   1. Before 1974
   2. Between 1975 and 1991
   3. Between 1992 and 2002
   4. After 2002

5. Form of company_____ ☐

   1. Sole proprietorship
   2. Private limited company
   3. Share Company
   4. Partnership

6. Ownership type_____ ☐

   1. Public
   2. Domestic private
   3. Wholly Foreign
   4. Joint Venture
   5. Other, please specify_____

7. Total number of employees_____

   Male _____

Female _____

8. Amount of total capital

Start up capital _____

Current capital _____

9. What are the main items Produced by the firm?

1. Men's shoe _____ ☐
2. Ladies shoe _____ ☐
3. Children's shoe _____ ☐
4. Other, please specify _____ ☐

10. Where is the main market segment for the firm? _____

1. Fully for domestic, go to Q. 12
2. Fully for foreign, go to Q. 13 and Q.14
3. Both, if both go to Q.12 – Q.14

11. If the answer in Q. 10 is 3 (Both)

1. The share of domestic from total revenue_____
2. The share of foreign from total revenue_____

12. What is/are the main domestic segments of the firm?

1. Military/police and other government institution_____ ☐
2. Students_____ ☐
3. Factory workers_____ ☐
4. Common consumers and others _____ ☐

13. What is/are the main foreign segment of the firm? (If yes 1, if no 2)

1. European countries_____ ☐
2. United States_____ ☐
3. Asian countries_____ ☐
4. Middle East_____ ☐
5. Other African Countries_____ ☐
6. Latin America and Caribbean countries_____ ☐

14. Who is/ are the main competitor(s) of the firm in the foreign market?

(If yes 1, if no 2) ☐

1. Domestic firms_____
2. Other African countries_____ ☐
3. East Asian countries_____ ☐
4. East Europe_____ ☐
5. Caribbean and _____ ☐
6. North America_____ ☐
7. Other please specify_____ ☐

15. Did the firm operate in its full capacity? (If yes 1, if not 2) ____ ☐

16. If the answer for question no.15 is 2, what percentage of the firm capacity utilized? _____

17. What are the reasons for not being fully operational? (If yes 1, if no 2)

1. Raw materials shortage_____ ☐
2. Spare part shortage_____ ☐
3. Lack of market _____ ☐
4. Working capital shortage_____ ☐
5. Frequent machinery breakage_____ ☐
6. Government rules and regulation_____ ☐
7. New establishment_____ ☐
8. Others please specify_____ ☐

18. Company Profit or loss Status_____ ☐

1. Profitable
2. Loss
3. Indifferent

Part B

In this part of the questionnaire there are identified problems which are taken from different literatures and which are considered as factors that hamper the competitiveness of the shoe industry in Ethiopia. The respondent should make his/her subjective judgments about his/her own problems from question number 3-11, without references to others and here the respondent asks to rank the problems and put in four group with "1" is corresponding to "not at all", "2" is corresponding to "somewhat" and "3" to an important degree and " 4" means do not know/not applied. For the rest of questions he/she can select one or more from the given choices.

1=not at all

2=some what

3=to an important degree

4=do not know/not applied

II. Issues related with raw material supply

1. How did you evaluate the availability of raw material?

   1. Excellent_____ ☐
   2. Very good _____ ☐
   3. Good_____ ☐
   4. Very limited (poor) _____ ☐
   5. Not available _____ ☐

2. What are the firm's sources of inputs? _____ ☐

   1. Fully imported, go to Q.3 & Q.4,
   2. Partially imported, go to Q.3, Q.4 and Q.5
   3. Locally supplied, go to Q.5

3. What are the problems with importing inputs?

   1. Delay in clearing goods through customs_____ ☐
   2. Duty exemption is not recognized _____ ☐
   3. Reliability on foreign suppliers is problematic_____ ☐
   4. Problem with licensing/authorization to import_____ ☐

5. High cost of inputs _____ ☐

6. Minimum order size _____ ☐

7. Other, please specify_____ ☐

4. How the firm managed the procurement of foreign inputs?

1. Foreign companies/ retailers shop inputs in _____ ☐

2. Foreign companies / retailers tell how to ☐

procure the inputs internationally _____ ☐

3. Order with other local firms in bulk_____

4. The firm its own direct contact with foreign supplier _____ ☐

5. Other, please specify_____ ☐

5. What are the problems with local inputs?

1. Absence of inputs_____ ☐

2. Lack of inputs _____ ☐

3. Inferior quality _____ ☐

4. Problem with reliability _____ ☐

5. High cost of inputs relative to imported_____ ☐

6. Other, please specify_____ ☐

III. Issues related with production, distribution and marketing of firms

6. What are the problems with distribution of goods?

1. Domestic distribution of goods_____ ☐

2. Distribution to point of export_____ ☐

3. Overseas distribution_____ ☐

7. What are the problems related to Infrastructure?

1. Power supply_____ ☐

2. Telecommunication_____ ☐

3. Roads from factory to port_____ ☐

4. Domestic source of quality Package _____ ☐

5. Sea freight_____ ☐

6. Air freight_____ ☐

7. Port facility_____ ☐

8. Other, please specify_____

8. How does the firm respond to the product order in real time according to?

1. Style_____ ☐
2. Color_____ ☐
3. Size _____ ☐
4. Leather_____ ☐

9. How does the firm communicate with its foreign supplier and customer?

1. Electronic information exchange_____ ☐
2. Computerized inventories_____ ☐
3. Website _____ ☐
4. Other, please specify_____

10. How does firm seek market for its product?

1. on subcontract to large manufactures_____ ☐
2. by contacting brand label companies_____ ☐
3. by contacting retailer on the foreign/domestic market ____ ☐
4. by using its own destination market_____ ☐
5. Other, please specify_____

11. How is the degree of computerization of the organization production and distribution functions?

1. Product design, pattern makeup, layout, cutting _____ ☐
2. Assembly_____ ☐
3. Inventory management; order control, customer relation, input sourcing searches, Output marketing _____ ☐

12. What are the sources of information for learning about export market (if yes 1, if no 2)

1. TV, radio, film_____ ☐
2. Foreign newspaper and Magazines_____ ☐
3. Internet_____ ☐

4. Government (foreign affairs)_____ ☐
5. Chamber of commerce or professional association____ ☐
6. Exhibition and trade fairs_____ ☐
7. Material input and Equipment supplier_____ ☐
8. Wholesaler or retailer abroad_____ ☐
9. Personal brokers _____ ☐
10. Other, please specify_____

13. What are the sources of information for learning about new technology

(if yes 1, if no 2)

1. TV, radio, film_____ ☐
2. Foreign newspaper and Magazines_____ ☐
3. Internet_____ ☐
4. Government (foreign affairs)_____ ☐
5. Chamber of commerce or professional association_____ ☐
6. Exhibition and trade fairs_____ ☐
7. Material input and Equipment suppliers_____ ☐
8. Whole seller or retailer abroad_____ ☐
9. Personal brokers _____ ☐
10. Other, please specify_____

14. What are the sources of information for learning about Product Design?

(if yes 1, if no 2)

1. TV, radio, film_____ ☐
2. Foreign newspaper and Magazines_____ ☐
3. Internet_____ ☐
4. Government (foreign affairs)_____ ☐
5. Chamber of commerce or professional association___ ☐
6. Exhibition and trade fairs_____ ☐
7. Material input and Equipment suppliers_____ ☐
8. Wholesaler or retailer abroad_____ ☐
9. Personal brokers _____ ☐
10. Other, please specify_____

IV. Issues related with suppliers and related industries

15. How do you evaluate the service level of suppliers?

1. Excellent_____ ☐
2. Very good_____ ☐
3. Good_____ ☐
4. Poor_____ ☐
5. Not available_____ ☐

16. How do you see the development of related industries? ☐

1. Excellent ☐
2. Very good ☐
3. Good ☐
4. Poor ☐
5. Not available ☐

V. Issues related with firm strategy, structure and rivalry

17. Is there any competition in the market for your product?

1. Yes, strong competition ☐
2. Yes, to some extent ☐
3. No ☐

18. What was the strategy to improve competitiveness of the firm in the past? (If yes 1, if no 2)

1. Improve the networks with input suppliers ☐
2. Expand total production capacity and invest in advance production technology ☐
3. Computerize design and manufacturing, management and input sourcing, advertising and marketing ☐
4. Diversify domestic sales into exports ☐
5. Other, please specify ____

19. What could be the strategy to improve competitiveness of the firm in the future? (If yes 1, if no 2)

1. Improve the networks with input suppliers ☐
2. Expand total production capacity and invest in advance production technology ☐
3. Computerize design and manufacturing, management and input sourcing, advertising and marketing ☐
4. Diversify domestic sales into exports ☐
5. Other, please specify ____

20. What were the factors that contribute for competitiveness of firms in the past? (If yes 1, if no 2)

1. Reduce production cost ☐
2. Advanced technology ☐
3. Specialized production ☐
4. Diversified production ☐
5. On time supply ☐
6. Make use of preference capital ☐

7. Direct access to quota ☐
8. Marketing system economize material input ☐
9. Good management staff ☐
10. Skill of labour ☐
11. Other, please specify _____

21. What are the mechanisms that determines quality of the firm product?

(If yes1, if no 2)

1. Standard and quality control authority ☐
2. Market requirement ☐
3. Skill of the workers ☐
4. Availability and cost of inputs ☐
5. Machine ☐
6. Availability and cost of finance ☐
7. Other, Please specify _____

22. What kinds of new customers do you plan to attract in the near future

1. Do not plan ☐
2. Domestic ☐
3. Foreign ☐
4. Both domestic and foreign ☐

VI. Issues related with access to finance

23. What are the sources of finance for working capital? (If yes 1, if no 2)

1. Own fund ☐
2. Foreign loan ☐
3. Domestic loan ☐
4. Credit from supplier ☐
5. Advanced payment ☐
6. Government fund (export credit guarantee Scheme) ☐
7. Other, please specify _____

24. What are the sources of Finance for fixed capital? (If yes 1, if no 2)

1. Own fund ☐

2. Foreign loan ☐
3. Domestic loan ☐
4. Credit from supplier ☐
5. Government fund (export credit guarantee Scheme) ☐
6. Others, please specify

25. How is the foreign exchange management? (if yes 1, if no 2)

1. Easy access to foreign exchange ☐
2. Normal access, but rates different from the official rate ☐
3. Easy access to convert into birr at official rate ☐

VII. Issues related with access to foreign capital

26. How does the firm filling to have an access to foreign investment capital?

(If yes 1, if no 2)

1. Have already commenced ☐
2. Have been contacted ☐
3. Being a negotiation for joint venture ☐
4. Would like to have foreign investor as a partner ☐
5. No need for such relation ☐

27. What are the problems faced by foreign investor? (If yes 1, if no 2)

1. Lack of local firms working together ☐
2. Business registration ☐
3. Import/export licensing ☐
4. Access to land/production space ☐
5. Other, please specify

28. What are the reasons for foreign firms to operate a shoe plant in Ethiopia?

(If yes 1, if no 2)

1. Low Labour cost ☐
2. Skilled labour availability ☐
3. Trade incentives ☐
4. Investment incentive ☐
5. AGOA initiative ☐
6. Reputation for quality Leather ☐
7. Overall political and business environment ☐
8. Other, please specify

VIII. Issues related with the condition of labour market

29. What are the main constraints in the labour market?

(If yes 1, if no 2)

1. Lack of skilled labour, if yes, go to Q.29 _____ ☐
2. Lack of unskilled labour, if yes, go to Q.30_____ ☐
3. Lack of talented designer, if yes go to Q.31 _____ ☐
4. Lack of Managerial skilled labor, if yes go to Q.32__ ☐
5. Other, Specify _____

30. What are the main reasons of difficulty in obtaining skilled Labour?

(If yes 1, if no 2)

1. Low wage_____ ☐
2. Inconvenient working place _____ ☐
3. Scarcity of labour _____ ☐
4. Implement job/ nature of the job_____ ☐
5. Other, please specify _____

31. What are the main reasons of difficulty in obtaining unskilled labour?

(if yes1, if no 2)

1. Low wage_____ ☐
2. Inconvenient working place _____ ☐
3. Scarcity of labour_____ ☐
4. Implement job/ nature of the job_____ ☐
5. Other, please specify _____

32. What are the main reasons of difficulty in obtaining talented designers?

(if yes 1, if no 2)

1. Low wage_____ ☐
2. Inconvenient working place _____ ☐
3. Scarcity of labour_____ ☐
4. Implement job/ nature of the job_____ ☐
5. Other, please specify _____

33. What are the main reasons of difficulty in obtaining skilled managers?

(if yes 1, if no 2)

6. Low wage_____ ☐
7. Inconvenient working place _____ ☐
8. Scarcity of labour_____ ☐
9. Implement job/ nature of the job_____ ☐

10. Other, please specify _____

34. How is the condition of job turnover/ instability? ("1" is corresponding to "not at all", "2" is corresponding to "somewhat" and "3" to an important degree and "4" means do not know/not applied.)

1. Skilled labour_____ ☐
2. Unskilled labour_____ ☐
3. Talented designers _____ ☐
4. Skilled managers _____ ☐

35. What types of work force organization the firm applied? _____

1. Workers are organized in bundles and workers specialize in specific task
2. Workers are organized in production teams and are multi-skilled
3. Workers make complete products
4. Other, please specify _____

36. How is the firm's strategy to maintain product quality?_____

1. Workers are trained for product quality assurance
2. Workers compensation is partly a function of product assurance
3. Other, specify_____

37. What type of special skill acquired by management on job training for management body? _____ ☐

1. Manager are trained in house
2. Manager are trained in special courses in country
3. Manager are trained in special courses in abroad
4. Other specify_____

38. What is the reaction of labour union on the firm over all production, distribution and marketing plan and strategy?_____ ☐

1. Labour union is militant and organizes job actions frequently
2. Labour union is cooperative and helps firms maximize labour productivity
3. No labour union.

Part C

Question 39-46 are asked only for export- oriented firms

39. Does the firm export its product using preferential market access (PMA's)?

    1. Yes, go to question number 39 _____ ☐
    2. No, go to question number 41 _____ ☐

40. Which preferential markets the firm export its product? (if yes 1, if no 2)

    1. European Union, everything but not arms _____ ☐
    2. United States, African growth and opportunity Act____ ☐
    3. Canadian _____ ☐
    4. Japan _____ ☐

41. What percentage share of revenue gain from exporting to specific market?

    1. European Union, everything but not arms _____
    2. United States, African growth and opportunity Act _____
    3. Canadian_____
    4. Japan_____

42. What are the peculiar problems of shoe industries in utilizing PMAs with reference to supplies of inputs? (if yes 1, if no 2)

    1. Rules of Origin to source inputs_____ ☐
    2. Limited range of local Leather_____ ☐
    3. High cost of local Leather_____ ☐
    4. Lack of quality Leather producer locally_____ ☐
    5. Lack of Leather supplier in competitive way from eligible SSA countries _____ ☐
    6. Long process of custom procedures and certification ___ ☐
    7. Minimum order size_____ ☐
    8. Other, please specify_____

43. What are the peculiar problems of Shoe industries in utilizing PMAs with reference to firm production process? (If yes 1, if no 2)

1. Uncertainty of PMAs in turn lack of encourages to reinvest and expand production capacity ☐
2. Lack of skill in design ☐
3. Lack of skill in cutting and assembly ☐
4. Lack of managerial skill ☐
5. Out dated technology ☐
6. Low productivity of labour ☐
7. Power availability ☐
8. High power cost ☐
9. Limited access to finance ☐
10. High cost of finance ☐
11. Limited access and long process to production area ☐
12. Lack of vertically integrated leather industry that would meet rules of origin ☐
13. Lack of research and development institutes support for product development ☐
14. Other, please specify _____

_____

44. What are the peculiar problems of Shoe industries in utilizing PMAs with reference to distribution of Shoe products? (If yes 1, if no 2)

1. Limited availability of telecommunication services ☐
2. High cost of telecommunication ☐
3. Limited range of transport accessibility ☐
4. High cost of transport ☐
5. Poor service of port facility ☐
6 Poor quality of packages ☐
7. Absence of own port /landlocked/ ☐

8. Other, please specify_____

45. What are the peculiar problems of Shoe industries in utilizing PMAs with references to marketing of Shoe products? (If yes 1, if no 2)

1. Removal of quota in world market _____ ☐
2. Competition from local Shoe producer's _____ ☐
3. Competition from other AGOA eligible SSA countries shoe exporter_____ ☐
4. Competition from Asian Shoe producer countries _____ ☐
5. Poor quality of the product _____ ☐
6. Lack of knowhow and experience in the international trade _____ ☐
7. Lack of knowledge for the preference of consumers in U.S market _____ ☐
8. Lack of promoters_____ ☐
9. Brand issue_____ ☐
10. Other, Please specify _____

_____

46. What could be the strategy to improve competitiveness of the firm in the future to utilize PMAs? (If yes 1, if no 2)

1. Improve the networks with input suppliers _____ ☐
2. Expand total production capacity and invest in advance production technology _____ ☐
3. Computerize design and manufacturing, management and input sourcing, advertising and marketing _____ ☐
4. Diversify domestic sales into exports _____ ☐
5. Other specify _____

_____

IX. General Questions

47. What opportunities the shoe sector has in the current economic environment?

48. What support (including the business environment the firm operates) did the firm obtained from the government?

49. What will the firm recommend the government to improve the shoe sector

----------Thanks----------

Annex II (Sample Description of Surveyed Firms)

The company year of establishment

Year	Number	Percentage
Before 1974	2	
Between 1975 -1991	7	
Between 1992-2002	1	
After 2002		
Total Respondents	10	100

Form of Company

Type	Number	Percentage
Private Limited Company	10	100
Share company		
Partnership		
Total Respondents	10	100

Ownership Type

Type	Number	Percentage
Public		
Domestic private	10	100
Wholly Foreign		
Joint venture		
Other	10	100

Number of Employees

Range of number of employees	Number	Percentage
10-19	2	20
20-49	2	20
Above 49	6	60
Total Response	10	100

The main items produced by the surveyed firm

Items	Number	Percentage
Men's shoe	8	80
Lady's shoe	5	50
Children's shoe	5	50
Other	1	10

The main market segment of the surveyed garment firm

Market segments	Number	Percentage
Fully for domestic		
Fully for foreign		
Both	10	100

The main domestic Market segments of domestic oriented and partial Local produced firm

Domestic market segments	Number	Percentage
Military/police and other government institution	4	40
Students	2	20
Factory workers	2	20
Common consumers	8	80

The main foreign segments of the exporting surveyed firm

Foreign segments	Number	Percentage
European Countries	10	100
United States	8	80
Asian countries	3	30
Middle East	7	70
African countries	8	80
Latin America and Caribbean countries	-	-

The main competitors of the firm in the foreign market

Competitors	Number	Percentage
Domestic firms	2	20
Other African countries	2	20
East Asian countries	7	70
East Europe	8	80
Caribbean countries	-	-
North American countries	2	20
Other	-	-

Percentage of the firm capacity utilized

Capacity utilized	Number	Percentage
0-20	-	-
21-40	2	20
41-60	4	40
61-80	4	40
81-100	-	-
Total	10	100

The reasons for not being fully operational

Reasons	Number	Percentage
Raw materials shortage	8	80
Spare part shortage	7	70
Lack of market	5	50
Working capital shortage	10	100
Frequent machinery breakage	2	20
Government rule and regulations	2	20
New establishment	-	-
Other	30	30

Declaration

I, the undersigned, declare that this project paper is my original work and has not been presented in any other university or college. All sources of materials used for this project paper have been duly acknowledged.

Declared by BIRHANESH GOFA

Signature _____

Date 11/06/'12

Advisor _____

Signature _____

Date _____