
# ASSESSING THE DETERMINING FACTORS OF COMPTETIVNESS IN ETHIOPIAN TRADITIONAL CLOTH MANUFACTURING SECTOR

**BY**

**SELAMAWIT HAILE**

**JANUARY, 2016**

**ADDIS ABABA**

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**SELAMAWIT HAILE**

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**ADDIS ABABA**

# ST. MARY'S UNIVERSITY

# SCHOOL OF GRADUATE STUDIES

## ASSESSING THE DETERMINING FACTORS OF COMPTETIVNESS IN ETHIOPIAN TRADITIONAL CLOTH MANUFACTURING SECTOR

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**SELAMAWIT HAILE**

Approval of Board of Examiners

External Examiner

Name ----------

Signature ----------

Date: ----------

Internal Examiner

Name ----------

Signature ----------

Date ----------

Advisor

Name: ----------

Signature ----------

Date: ----------

Conformation

Chairperson, Department Graduate Committee

Name: ----------

Signature ----------

Date ----------

## LETTER OF DECLARATION

I, Selamawit Haile, student of School of Graduate Studies of St. Mary's University, declare that this research, entitled "Assessing the Determining Factors of Competitiveness in Ethiopian Traditional Cloth Manufacturing Sector ", is my original work and not the work of others. All sources of materials used in this research have been duly acknowledged.

Selamawit Haile

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January, 2016
St. Mary's University
Addis Ababa, Ethiopia

# CERTIFICATE

This is to certify that Selamawit Haile has completed a research entitled, “Assessing the Determining Factors of Competitiveness in Ethiopian Traditional Cloth Manufacturing Sector ", under my supervision and follow up.

I also approve that her work is appropriate enough to be submitted for the award of the Masters Degree in Business Administration.

Dr. Temesgen Belayneh

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(Research advisor)

January, 2016

St. Mary’s University

Addis Ababa, Ethiopia

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## LIST OF ABBREVIATIONS AND ACRONYMS

AGOA: Africa Growth Opportunity Act

COM: Competitiveness

DC: Demand Condition

FC: Factors Condition

GOV: Role of Government

MBV: Market Based View

PDM: Porter's Diamond Model

RBV: Resource Based View

RSI: Related and Supporting Industries

SCP: Structure Conduct Performance

Gabi: A large rectangular shape thick cloth which Ethiopians usually wear during cold conditions, at night and rainy seasons, to keep them warm.

Inzirt: Traditional spinning wheel.

kesem: Top part of inzirt which is shaped like a small cone and acts as a bobbin for the thread to spool around

Kuta: It is a garment which measures twice as long as Netella. Usually men wear the cloth when they go to church.

Netella: A large rectangular shape thin cloth which Ethiopians usually wear when they go to church or funeral ceremonies.

Tilet: A decorative border of clothes with elaborate patterns and bright colors. This distinctive feature of the clothes makes each design different from one another. The cultural cloth aesthetic value is usually determined by this part.

Tilif: Handmade embroidery which is sawn on the Ethiopian cultural clothes. The design is usually cross shapes.

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***ABSTRACT***

*The objective of this study was to assess the determining factors of competitiveness in Ethiopian traditional cloth manufacturing sector. For this purpose, a mixed approach, that is to say, both qualitative and quantitative approach was employed to perform an in depth investigation of the case. Porter's diamond model, that is to say, factor conditions, demand conditions, related and supporting industries, firm's strategy, structure and rivalry, and government attitudes were the basic variables which used as a theoretical framework for data collection and analysis. Semi structured questionnaire was designed and were applied to gather needed information from one hundred eleven hand loom weaving, small and micro level enterprises. The findings of the study revealed that related and supporting industry is the most determinant factor of competitiveness in the sector, while, the demand conditions and role of government follow respectively. The result also shows that the factor conditions do not have a relationship with competitiveness in the sector. The findings of the study have practical implications for existing and new entrant firms in the sector to put emphasis to the factors and means of competiveness, which later guide to development of strategies both in firm and government level. Based on the findings, it is also recommended that strategies must be designed and implemented by all stakeholders to overcome the existing problems especially focusing on to the issues of production technology, skills, product distribution and promotion of products. Future studies can be done by using modified model which includes more explanatory variables. Furthermore, it can be studied by encompassing all participant groups in the sector to investigate the situation deeper.*

*Keywords: Competitive advantage, competitiveness, Diamond model.*

# CHAPTER ONE
# INTRODUCTION

The term competitiveness has been widely used over the past decades. Scholars and institutions have proposed their own definition of competitiveness from both micro economic and macroeconomic perspective. At the micro economic or firm level, competiveness is defined as in the ability of firms to consistently and profitably produce products that meet the requirements of an open market in terms of price, quality, etc. Any firm must meet these requirements if it is to remain in business, and the more competitive a firm relative to its rivals the greater will be its ability to gain market share. Conversely, uncompetitive firms will find their market share decline, and ultimately any firm that remains uncompetitive unless it is provided by some artificial support or protection will go out of business (Ronald, 2006).

Competiveness at macro level is defined as the degree to which, under open market conditions, a country can produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income .(OECD ,1992). Krugman (1994) argues that the concept national competitiveness is meaningless; hence, growth in national living standards is essentially determined by the growth rate of productivity. Porter (1990) also states that the only meaningful concept of competitiveness is productivity. Productivity is the value of the output produced by a unit of labor or capital. Productivity depends on quality, features and efficiency with which the products are produced. Nations' companies must relentlessly improve productivity in existing industries by raising product quality, adding desirable features, improving product, technology or boosting production efficiency. Companies must develop the necessary capabilities to compete in more and more sophisticated industry segments, where productivity is generally high (Porter, 1990). Wysokinska (2003) also discussed that higher productivity is the synonym of improved competitiveness (Wysokinska, 2003).

Competitive advantage is a comparatively recent concept. Barney (1991) defines competitive advantage as a strategy which is not implemented by current and potential competitors (Barney,

1991). In other uses, competitive advantage is used as shorthand for source of competitive advantage. Competitive advantage can be created and sustained. Differences in national values, culture, economic structures, and histories all contribute to competitive success. Nations can succeed in particular industries because their home environment is the most forward looking, dynamic and challenging (Porter, 1985).

There are different kinds of theories that are devoted to the issue of competitiveness and competitive advantage. Resource base view, market base view (Wang, 2014), comparative advantage theory and trade theory (Smith, 2010) are some of the main theories. As there are several conceptual literatures on competitiveness, the real question for analysis of competitiveness remains, to identify those factors that explain competitiveness rather than to describe its outcome (Ronald, 2006). This study focuses on Porter's competitive advantage of nation's theory. This is because Porter's theory provides an important foundation to identify factors that determine competitiveness for a particular issue.

The Competitive Advantage of Nation's theory seeks to explain competitiveness at the national level is wrong question to answer. Kohler (2006), supports this belief that countries do not compete, because trade is a positive sum game and thus a country's welfare is determined by its absolute level of productivity and not by some international competitiveness ranking.(Kohler,2006). According to the Competitive Advantage theory, it is needed to understand the determinants of productivity growth. This lies in attributes that individually and as a system constitute the diamond of national advantage. This attributes are represented in analytical framework, called the 'diamond model'. The major determinates include factor conditions, demand conditions, related and supporting industries, firm strategy, structure, and rivalry. Chance and role of government are also considered as determinants, influencing the major determinates. Although studies in the theory focused on developed or newly developed nations, the principles may be applied to developing nations as well (Bonnie, 2005).

Today, Ethiopia is part of a truly global economy. As the globalization of trade has been increasing, assessing the competitiveness of nations, industries and firms is important. In order to

maintain profitability and increase market shares, how to compete in an ever tougher world market place must be learned. That's why higher productivity and product quality have become essential.

Traditional clothes in Ethiopia are made from hand woven fabrics. The outfits are produced from cotton that is processed into yarn. Wool, silk and synthetic fabrics are also used in some cases. The major products of the handloom sector can be divided in to semi finished fabrics and finished products. The finished products are categorized into different traditional clothing like dresses, trousers, sweaters, netella, gabi, kuta, bags, shawls and home furnishing textiles including pillow covers, runners, table settings and bed throws. The products are sold mainly in the domestic market and to Ethiopians living abroad. The semi finished fabrics are usually channeled to the domestic garment factories for further processing (Merima & Gezahegne, 2008). The clothes usually have a decorative border with elaborate patterns and bright colors. Tilif, colored embroidery woven crosses or other designs can also be incorporated on the center and different section of the clothes. These distinctive features of the clothes make Ethiopian textiles unique unlike other countries' fabrics (Mekedes Hagos, 2011). Ethiopia has diverse traditional handloom products. For generations, the traditional handloom weaving industry has been a way to earn income and sustain livelihoods. (Chavan, 2010) Handloom weaving is traditionally done by men whereas the spinning of cotton in preparation of weaving is often done by women (Igataki, 2013). Although the weaving techniques have not changed in centuries, the weaving pattern, colors and threads have become more sophisticated. In contemporary Ethiopia, weavers use intricate motifs with eye catching hues that are beautiful and exotic (Mekedes Hagos, 2011)

In today's Ethiopia weavers are becoming highly skilled in their craft and their products are becoming sought both within Ethiopia and outside the country. However the sector faces various challenges on different aspects. Some of these are insufficient market, poor productivity and poor quality of products (Worku Alemayehu, 2006) .This study is driven with the assumption that the traditional sector having the mentioned problems would face a difficulty in competing in the market. For that reason, it attempts to identify the factors that affect competitiveness of the Ethiopian traditional cloth manufacturing sector. The purpose is to contribute towards improving

the competitiveness of the sector by identifying and examining the factors and suggesting measures to enhance the competitiveness.

## 1.1. Statement of the Problem

Traditional cloth making, handloom weaving, is one of heritages of craft skills in Ethiopia (Merima & Gezahegne, 2008). It has a long history in the country and is a source of income for a large number of people both in rural and urban areas. However, the industry faces poor productivity (Worku Alemayehu, 2006) and is low level in technology (Chavan, 2010). According to a report from textile industry development institute (2015), there are only six companies in this sector which are categorized under large and medium manufacturing enterprises having more than 1.5 million birr capital. All the other remaining enterprises are categorized under small and micro level manufacturing enterprises with a maximum capital of 50,000 birr (ETIDIa, 2015). In addition, the total cultural cloth export from total textile and garment product export was registered to be only1.5% on 2007 E.C (ETIDIb, 2015). Even though, the market share has shown improvements form the last consecutive years, the performance still needs improvement. This information in general indicates that there are constraints that hold back the small and micro level producers from development being competitive in the market. Yet, the main influential reasons for this situation have not been thoroughly examined. Therefore this study is intended to investigate the determinant factors having the following research questions

## 1.2. Research Questions

In order to assess the determining factors of competitiveness in Ethiopian traditional cloth manufacturing sector, the following research questions were formulated.

1. What factor affects the competitiveness of the Ethiopian traditional cloth manufacturing sector?

2. What is the effect of each factor on the competitiveness of Ethiopian traditional cloth manufacturing sector?

## 1.3. Objectives of the Study

The general and specific objectives of the study are described as follows;

### 1.3.1. General objective

The general objective of this study is to assess the determining factors of competitiveness in Ethiopian traditional cloth manufacturing sector.

### 1.3.2. Specific objectives

The specific objectives of the study are:

1. To investigate factors which influence the competitiveness of Ethiopian traditional textile sector using Porter's diamond model.

2. To examine the effect of each factors on the competitiveness of Ethiopian traditional textile sub sector.

## 1.4. Significance of the Study

The general objective of this study is to assess the determining factors of competitiveness in Ethiopian traditional cloth manufacturing sector. Thus; the findings of the study have both theoretical and practical contributions. The major ones are described below.

- It adds to the knowledge of Ethiopian traditional textile sub sector regarding to the nature of issues that determine the competitiveness of traditional cloth products.
- The findings provide valuable information for enterprises, government and stakeholders in the sector to design appropriate strategies that aim at enhancing the competitiveness of the sector.

- The result could be used as a tool to enhance the ability of enterprise managers to make informed decisions on how to perform the business profitably.
- Furthermore, the study can serve as a reference for further investigation to create better understanding and affordable solutions to the area.

## 1.5. Scope of the Study

This study was designed to explore sources of competitive advantage in Ethiopian traditional cloth manufacturing sector through investigating the determinant factors for competiveness. The study also examined how each factor influence the sectors' competiveness in the domestic market. The study used Porter's (1990) diamond model to analyze the problem. The study focused only on the production of Ethiopian traditional textiles by hand loom weavers located in the Addis Ababa city, Gulele sub city, micro and small enterprises. Gulele sub city is chosen for this study because it is the place where the majority of handloom weavers which are found in the city are concentrated.

## 1.6. Limitation of the study

Limited literatures were available regarding to the nature of Ethiopian traditional textile sector including the general characteristics and the manufacturing processes. This was a constraint for the study to formulate the overall background and the study methodology.

# CHAPTER TWO
# REVIEW OF RELATED LITERATURE

This chapter gives an overview of literature related to the research topic. The literature review introduces traditional cloth production process in Ethiopia. It also encompasses review of different theories on competitiveness and competitive advantages including the critiques given by different authors. Reviews of related studies on similar topics are also included in the chapter to illustrate identified literature gaps. Furthermore, theoretical framework of the study is explained thoroughly.

## 2.1. Traditional cloth manufacturing in Ethiopia

Ethiopia has a strong tradition in producing handmade textiles. The handicraft tradition is taught from generation to another generation. The ethnic and cultural diversity in the country has given rise to many unique and dynamic traditions of clothing. The textile tradition is resilient, dynamic and adaptable to change. Most traditional clothes are produced using handloom weaving process (Hofverberg, 2010).

The traditional handloom weaving is categorized as cottage/Handicraft manufacturing industry (Worku Alemayehu, 2006). According to Ethiopian central statistics authority survey report (2003) on Cottage/Handicraft Manufacturing Industries, there are 221,848 established textile weaving enterprises. The sub sector held second position in the handicraft manufacturing industry having highest number of establishments (CSA 2003). It generates highest number of employment and income in the country next to agriculture. The subsector has also strategic importance in the economic development with its strong linkage to the agriculture sector through raw material sourcing of lint cotton (Chavan, 2010).

The weavers could be classified as weavers who work in their houses and weavers who are members of cooperatives. There are also few big weaving enterprises. The cooperative members are facilitated by the city administration to acquire working sheds, improved looms, raw materials and trainings. Hand woven products are becoming important both in the domestic and

international markets. However, the major portions of the handloom products are consumed domestically. Ethiopians in abroad mainly and other foreigners are the users of these hand woven non-garment product items like tablecloths, pillow covers, etc. The handloom weavers sale products by taking sub contracts from well organized enterprises engaged in exporting of Hand loom weaving products. The weavers also receive orders from individual users and traditional cloth sales shops. In some cases the clusters sale products using an open market, usually in the weekends (Worku Alemayehu, 2006)

Hand loom clusters in Addis Ababa are expanded beyond the domestic market to capture the emerging market. Some clusters formed associations and become market agents. The market established by handloom export companies serves to reduce the marketing barrier. These companies specialize in a special brand of handloom products for export. The companies have developed and established business linkages through trade missions and trade fairs, whereby they promote innovative markets. They sub contract local producers specializing for export market with the specific brand design. The market destination is Europe at large and some parts of African countries. The Ethiopian Diaspora living abroad also acts as a market catalyst for creating market linkages (Gezahegn,Chamberlin, Moorman,Wamisho, Zhang, 2009)

Table 1: Export trend for Cultural Clothes

| Product types | Budget year (E.C.)(Volume in million kg ) | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Total cultural clothes export | 81 | 199 | 189 | 163 | 185 | 218 |
| Total textile & garment products export | 5875 | 9061 | 10671 | 17203 | 19452 | 14947 |
| % share of total cultural clothes from total textile & garment product export | 1.4 | 2.2 | 1.8 | 0.9 | 1.0 | 1.5 |

Source: ETIDIb: 2015.

2.1.1. Cultural cloth products

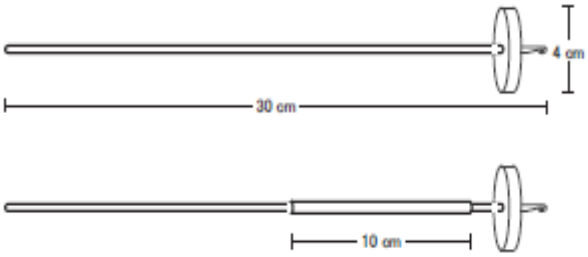
Different products are produced from the hand loom weaving process. The types of products produced could be broadly classified as Traditional cloth fabrics and modern accessories (Worku Alemayehu, 2006).

The traditional Cloth Fabrics & Dressings category includes traditional fabrics such as dresses, Gabi, Netela, Tibeb. The modern accessories are divided as home accessories and fashions. The home accessories include Pillow Cover, Runners, Wall Hygiene, Napkins, Bed Spreads, Table Covers, while fashions include Hand Bags, Scarves, Shawls and Shirts (Messele Hagos, 2006).

### 2.1.2. Production process

Generally, the traditional cloth production follows the processes of spinning, warping, starching the warp thread, setting up the loom , weaving and sawing (Igatagi, 2013). The weavers use three kinds of raw materials: Dir a produced warp, Mag, a weft which is spun and Tilet, colored threads used for decorative boarders (Hofverberg, 2010).The production of the hand-woven fabrics in Ethiopia is dominated by the use of cotton that is processed into yarn (Dir and Mag) (Meriam & Gezahegne, 2008). The sources for the colored threads are imports. Some weavers name the colored threads as Salayish, China, Wool e.t.c. (Worku Alemayehu, 2006).The main source for the cotton is the smallholder cotton farms that are found dispersed throughout the country. The seed from the unrefined cotton will be separated. After the cotton become soft and fluffy, it is stretched into a string by a slow process. The cotton is threaded using a spinning wheel or a piece of equipment called inzirt. The inzirt is holded in one hand and is twisted holding the cotton in the other hand and pull it slowly to make a yarn. The inzirt acts as a spinning wheel. On the top of the inzirt there is a part called the kesem. The kesem is shaped like a small cone and acts as a bobbin for the thread to spool around. Once enough kesem have been filled, the yarn is ready to be sent to a weaver (Mekdes Hagos, 2011).

Figure 1: Women spinning (left) and winding (right), Spindle (up) and winding (down) tool

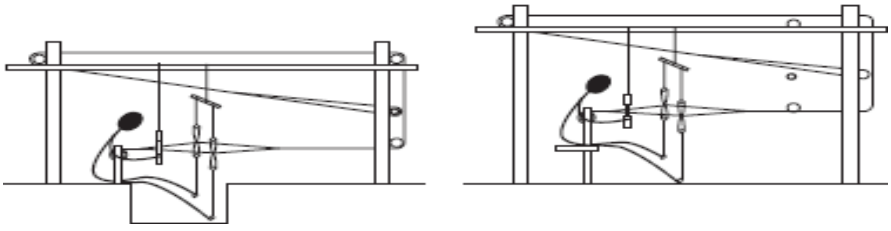



Source: Itagaki, 2013.

Warping is fixing the cotton thread onto a tool to hank it. Starching refers to a treatment process to protect the thread from tension and friction during weaving process (Itagaki, 2013). Manually operated machine is also used to 'stain' or 'color' some of the strings so they can be used for the colorful patterns that are sawn into the shawls or clothes. Often, women prepare and process the cotton. The other source of cotton yarn for weavers is the domestic textile mills. Adey Abeba Yarn Factory and Dire Dawa Textile Factory are textile mills that specialize in yarn making mainly (Meriam & Gezahegne, 2008).

After the yarns are prepared, hand loom weaving machine is used to make the fabrics. The final cloth produced depends on the choice of threads used, color of threads and also choice of patterns. There are two types of Hand loom weaving machines. A horizontal treadle loom and pit looms. Type of machine usage depends on the regional variations (Hofverberg, 2010).

Figure 2: The pit treadle loom (left). The horizontal tread loom (right).



Source:Itagaki, 2013.

Primary components of the looms are heddle and reed. Traction for the heddle comes from either a pulley mechanism or a balance mechanism. Looms are typically set in two positions. It is set

on a legless chair fixed on the ground or fixed in place in a whole (Itagagi, 2013). Usually male craftsmen operate the weaving machine while the women clean and spin the cotton**.** Once the cotton is turned into fabric, then the actual patterns are sawn in by hand. This whole process will take days and is not conducive to mass production (Ethiopian design, 2010).

Figure 3: Handmade embroidery

Source: FTWWL, 2013

Organized quality management and inspection activities are not performed by the weavers. The weavers oversee how they are working according to the so called specification while weaving. But in the case of well organized weaving industries, there is a well established quality management system (Worku Alemayehu, 2006)

## 2.2. Theories on competitive advantage and competiveness

Competitive advantage is obtained when an organization develops or acquires a set of attributes or set of actions that allow it to outperform its competitors. The development of theories that help explain competitive advantage has occupied the attention of the management community for the better part of half a century. The pursuit of competitive advantage is arguably the central theme of the academic field of strategic management (Furrer, 2000). This section aims to provide

an introduction to the key theories that underpin the study of strategy and competitive advantage. The overview will span on the most common theories. In the early period, there were two dominant theories of competitive advantage: The market based view and the resource based view. The knowledge based view and capability based view of strategy have also been derived from the resource based view. A more recent formulation, the relational view of strategy has received considerable attention (Wang, 2014).

## The Market Based View

The market based view of strategy argues that industry factors and external market orientation are the primary determinants of firm performance .Structure conduct performance framework (Bain ,1968) and Porter's five forces model which is based on the SCP framework are two of the best known theories in this category (Porter,1980). Structure conduct performance paradigm describes the relationship of how industry structure affects firm behavior and ultimately firm performance. The Structure conduct performance paradigm relates performance to industry structure using a two step approach. According to the paradigm, the industry structure, the number of buyers and sellers in the industry, entry/exit barriers, and competitor's cost structures determines the behavior and strategies of competing firms in that industry. This industry conduct pricing and product strategies, investments in research and advertising, and distribution strategies) in turn affects the performance of firms in the industry. Following this reasoning, the SCP paradigm explains performance differences between firms largely through the structure of their industries, a factor external to the firm itself. It thereby emphasizes variations in industries' profitability and can assist in estimating the performance level that can be reasonably expected from a company within a certain industry. However, the behavior of an individual firm and its specific assets and resources remain largely neglected ( Knecht, 2014).

In formulating strategy, firms commonly make an overall assessment of their own competitive advantage via an assessment of the external environment based on Porters' five forces model. The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter, 1985). In this perspective, a firm's sources of market power explain its

relative performance. The five force model enables organization to analyze the current situation of their industry in a structured way. However, the model has limitations. Porter's model assumes a classic perfect market as well as static market structure, which is unlikely to be found in present-day dynamic markets. In addition, some industries are complex with multiple inter relationships, which make it difficult to comprehend and analyze using the five force model (Wang, 2014).

The most important and widely cited criticisms of the market based view are its assumption of resource homogeneity and the mobility of resources within an industry. Despite early management scholars' insight that competing firms within an industry are by no means all the same, the market based view considers firms to be homogeneous entities if temporary heterogeneity in resource allocation occurs between firms, the market based view assumes it will be instantly corrected through market mechanisms and the unlimited mobility of resources. This assumption stands in stark contrast to reality. Through its focus on the structure of an industry as a condition external to the firm, the market based view thereby neglects a firm's internal characteristics, structures, and resources (Knecht, 2014).

The Resource based view

In contrast to the market base view, the resource base view emphasis on the resources and internal capabilities of a firm as its sources of competitive advantage, The resource based view of the firm draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment (Wang, 2014), essentially viewing the firm as a bundle of resources. Since each firm has its own history, has grown over time, acquired assets, skills, and experiences along the way, and cultivated its own distinctive organizational culture, no two companies are alike. The optimal combination of these resources and their efficient allocation towards specific problems and opportunities sets a firm apart from the competition. The goal of a resource based approach is therefore to implement a strategy that is based on the firm's heterogeneous resources and that is not being implemented by competitors. This strategy would provide a sustained advantage due to its inimitability

(Knecht, 2014).It has been argued that the resource based view ignores the nature of market demand and only focuses on internal resources (Wang, 2014).

## The Knowledge-Based view

Researchers suggest that knowledge has special characteristics that make it the most important and valuable resource. They argue that knowledge, know-how, intellectual assets and competencies are the main drivers of superior performance in the information age (Hamel and Prahalad, 1994). Evans (2003) pointed out that material resources decrease when used in the firm, while knowledge assets increase with use. Tiwana (2002) argued that technology, capital, market share or product sources are easier to copy by other firms while knowledge is the only resource that is difficult to imitate. Grant (1996) argued that there are two types of knowledge: information and know-how. Beckmann (1999) proposed a five-level knowledge hierarchy comprising data, information, knowledge, expertise and capabilities. Zack (1999) divides organizational knowledge into three categories: core knowledge, advanced knowledge, and innovative knowledge. Core knowledge is the basic knowledge that enables a firm to survive in the market in the short-term. Advanced knowledge provides the firm with similar knowledge as its rivals and allows the firm to actively complete in the short term. Innovative knowledge gives the firm its competitive position over its rivals. The firm with innovative knowledge is able to introduce innovative products or services, potentially helping it become a market leader (Zack 1999).

## The Capability Based View

Grant (1991) argued that capabilities are the source of competitive advantage while resources are the source of capabilities. Amit and Shoemaker (1993) adopted a similar position and suggested that resources do not contribute to sustained competitive advantages for a firm, but its capabilities do. Accordingly, firm can gain competitive advantage from its ability to apply its capabilities to perform important activities within the firm. Amit and Shoemaker (1993) defined

capabilities in contrast to resources. A firm's capacity to deploy resources in combination using organizational processes affects a desired end (Amit and Shoemaker, 1993).

## The Relational View of Strategy

Dyer and Singh (1998) have offered a relational view of competitive advantage that focuses on network routines and processes as an important unit of analysis for understanding competitive advantage. The relational view critiques the RBV's assumption that resources are owned by a single firm. It has been argued that a firm's critical resources may extend beyond firm boundaries. Inter firm linkages may be a source of relational rents and competitive advantage. Dyer and Singh (1998) ,define a relational rent as, 'a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners. They identify four relational rents as sources of competitive advantage: relation-specific assets, knowledge-sharing routines, complementary resources and capabilities and effective governance. These activities could include sharing business information, buying or selling goods, receiving or providing services, participating in buy side or sell side coalitions, or collaborating on community projects'. The interaction-level analysis refers to the analysis of the distinct business arrangements of a specific firm. It provides a new and important intra organizational unit of analysis that is critical in structuring, analyzing and understanding business relationships. Wang (2004) noted that the relational view of strategy is also inter organizational, and the unit of analysis is, if anything, even more coarse-grained for the purposes of interaction-level analysis (Wang, 2004).

The market based view of strategy suggests that the primary source of high returns is the bargaining power of a firm in the market, and the resource based view suggests that this (source of high returns) is the set of unique resources, capabilities and knowledge of a firm. The relational view suggests that these are the shared knowledge and complementary resources of the network. Similarly, profit preservation mechanisms in the market based view are market barriers to entry, while in the resource based view, these are firm-level barriers to the imitation of unique

resources. In the relational view, these mechanisms include dyadic/network barriers to imitation and the scarcity of potential partners (that might prevent such a network from being replicated.

The competitive advantage of nations

Porter conducted a four year study of ten important trading nations to investigate why nations aim competitive advantage in particular industries .The sample of nations and industries offers a rich empirical foundation for developing and testing the new theory of how countries gain competitive advantage. According to porter, the answer lies in attributes that individually and as a system constitute the Diamond of national advantages. These attributes are; factor conditions, demand conditions, firms' strategy and rivalry, role of government and chance. (Porter 1990).

Smith (2010) says it is important to recognize that when the Diamond Model was proposed by Porter (1990), it represented a substantially different paradigm to assess the competitiveness of a country. Previous theories such as, Absolute Advantage Theory and the Comparative Advantage Theory focused on each country's factors of production: land, labor cost, capital, and natural resources. According to Adam Smith, the wealth of nations was determined by the total output of production, given specific resources. As modified by Ricardo, the opportunity cost of resource deployment, not simple productivity, would determine the advantage for one country in comparison with another. In either case, however, a country was seen to be more competitive than another based on the factors of production or endowments it enjoyed (Smith, 2010)

Porter (1990) argues that productivity is the main factor for international competitiveness and that the standard of living of a country's population can be improved as a direct result of increases in that factor. Productivity relies on increasing workers' skills, developing technologies, producing quality products, and reducing costs. At the national level, productivity can be increased when the industries in a particular country "upgrade" themselves to improve efficiencies. For instance, an increase in technology can boost productivity and at the same time, can facilitate the production of differentiated products with much added value for customers.

Porter (1990) explains that a country should focus on some industries that can be highly successful, because it is not possible to be highly competitive in every industry (Porter, 1990).

Although the diamond model was originally developed for national competitive analysis, Porter also provided industry case analyses in sample nations, in order to show that the model can be approached at the industry level. Other scholars thus have used this model to analyze specific industry competitiveness.

Absolute advantage theory

According to this theory, 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 imports those goods and services in which it has an absolute cost disadvantage. This theory explains why countries, through imports, can increase their welfare by simultaneously selling goods and services in international markets. Adam Smith thus viewed trade as a positive sum game (Smith 2010).

Comparative advantage

According to the law of comparative advantage, a country must specialize in those products that it can produce relatively more efficiently than other countries. This implies that despite absolute cost disadvantages in the production of goods and services, a country can still 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 specialization 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. (Smith 2010)

New trade theory

Traditional trade theory implies that trade will occur between countries with different technology/factor endowments. It is unable to explain why trade will take place between similar countries (or regions) and, by extension, why different production structures should occur in similar regions. However, one of the main features of the post-WWII period has been the growth of trade between similarly endowed industrialized countries and the predominance of intra-industry trade within this trade. Since production structures and factor endowments are to be expected to be relatively similar across industrialized countries, theories based on comparative advantage are insufficient to explain the pattern of intra-industry trade (differentiated goods in the same product categories) between industrialized countries. To attempt to explain trade between industrialized countries, new trade theories have focused on scale economies, product differentiation and imperfect competition as explanations of trade patterns between industrialized countries. The difference between the traditional and the new trade theory (based on monopolistic competition) is that at the level of inter-industry trade, comparative advantage continues to be the dominant explanation of trade flows, whereas at the level of intra-industry trade, economies of scale become the dominant explanation of trade flows in differentiated products. The similarity is that in both the traditional and the new thinking about trade, advantage comes through specialization. However, in the former, specialization takes place because of country differences, while in the later; the inherent advantage of specialization is based on increasing returns (Smith, 2010).

## 2.3. Critiques on National competitive advantage theory

Criticism of the diamond theory as an interactive system comes from two perspectives: from within the management school and from the economic school. Both perspectives are tried to be discussed below.

Klein (2010) focused the critique on the concept of competitive advantage, demonstrating that in contrast with its apparent objectivity, it exhibits circularity, ambiguity, ontological problems and subjectivity. These inherent and intractable inadequacies suggest that it is poorly specified as an object of strategy. In seeking to move beyond the limitations of competitive advantage, it sought to make a distinction between competition and strategy: strategy is how actors consciously or unconsciously seek to change firms' performance, whereas, competition is the process by which performance becomes relative. In this reading, many strategy theories can be understood better as theories of competition.

Criticism from the management school suggests that the home diamond focus of Porter does not take the attributes of the home country's largest trading partner into account (Rugman 1990), is not applicable to most of the world's smaller nations ( Cartwright, 1993) and ignores the role of multinational organizations in influencing the competitive success of nations (Dunning 1992, 1993). Rugman (1990) suggests an extension of Porter's diamond to include the attributes of the largest trading partner of the home country. Within this double diamond approach, Porter demonstrates that competitiveness depends on both domestic and foreign diamonds, and that the management of domestic firms should understand and exploit both diamonds if they wish to become or remain globally competitive (Rugman, 1990)

Porter's (1990) view that the traditional and new trade theories are inadequate to explain modern trade patterns has resulted in more severe criticism from the economic school.According to Grant (1991) Porter has built a bridge between strategic management and international economics because economists usually study a country as a whole with macroeconomic indicators such as: interest rate, inflation rate, while strategic management or international management scholars study firms, managers, and national cultures. He points out that the competitive advantage of nations (1990) focuses on clusters or industries as the unit of analysis, but at the end these industries are the actors that promote the country's competitiveness.

According to Waverman (1995), the diamond is so general that it tries to explain all aspects of trade and competition, but ends up explaining nothing. It does not distinguish between hypotheses, theorems, conjectures and facts and thus cannot proceed to prove causality.

In addition, Porter's analysis is criticized as unsatisfactory because there is no core theory, it has no ex ante prediction power, and it is a typical partial equilibrium analysis that leads to a misinterpretation of the traditional and new trade theories. Furthermore, the relationships between national welfare, productivity, trade, exports and competitiveness are misunderstood and wrongly interpreted (Waverman, 1995).

Smit (2010) says Porter's work on the Diamond framework and his work on clusters and competition is not about trade, patterns of trade, gains from trade, but is rather a general framework for analyzing country-specific sources of advantage that enhance the international competitive advantage of firms. Porter's (1990) He argues that Diamond framework thus provides the link between firm and country specific sources of competitive advantage that firms leverage to gain international competitive advantage. According to him, country-specific advantages are not the same as comparative advantage.

In general, the traditional and new trade theories explain trade; but do not explain the factors that determine the international competitiveness of a country's firms, which is what Porter attempts to explain in his Diamond Model.

## 2.4. Review of related studies conducted in the same area

Hiwotie Waleligne (2010) addresses the knowledge gap concerning the competitiveness of Ethiopian textile sub sector under AGOA using Michael Porter's (1990) "diamond model" as a theoretical framework. In particular, the study investigated and analyzed the positive and

negative factors affecting the competitiveness of Ethiopian textile sub-sector and pinpoints suggestions for intervention that enhance the sub-sector's competitiveness. Fifteen respondents among those textile exporters under AGOA were selected and interviewed and secondary source of data were also used. The data collected were organized based on Porter's determinants of competitive advantage. The study result revealed, on the one hand, that the poor and fragile related and supporting industries, unsophisticated local demand and poor firm's strategy and structure are among factors that obstruct the competitiveness of Ethiopian textile subsector. On the other hand, a huge potential of factor endowments, duty free market access of AGOA, and the support of government are the positive factors that prompt the sub-sector's competitiveness. This result implies that the government should exert further effort to avoid the constraints and to take advantages of the potential of subsector. So the competitiveness of Ethiopian textile Sub-sector can be enhanced through new or increased investment on advanced factors; this in turn could assist the subsector in maintaining or enhancing the current export level, thereby increase the competitiveness potential.

Daniel Kitaw and Amare Matebu (2010) conducted study on competitiveness of Ethiopian textile and garment industry. The study focused on the assessment of the current situations of Ethiopian textile and garment manufacturing firms with respect to their global competitiveness and examined the possible ways of competitiveness in an era of unprecedented global competition. The study has addressed the dimensions of global competitiveness and an attempt has been made to develop a model for comparative advantage. Further, the possible methods and tools to be used for global competitiveness of the firms have been suggested.

Uddin (2014) conducted a study on how Bangladeshi readymade garments industry can be competitive in the global Market. The researcher used qualitative method of study where phone interview and secondary data collection method was employed as data collecting instrument. The results of the study shows that cheap labor, preferential access, low investment and low energy cost are no more considered to be the basis of competitive advantage in Bangladesh garments industry. Cheap labor and preferential access are two main things that accelerated the growth of the industry in the early days of garments industrial development.

Messele Kassaw(2013) conducted a study on modeling competitiveness for Ethiopian traditional fashions in the global market. The findings of the research identified the critical factors affecting the competitiveness of Traditional Fashions' firms. These were reported to be quality, flexibility, technology, time, productivity and price. Considering the competitive advantages of the firm, momentous effect of the factors on the firm and saturated competition of fashion industries in the world a mathematical and WATCH model were developed for sustainable competitiveness of Traditional Fashions in the global market at any time. The WATCH Model also shows the innovation and continuous improvement of these fashions production process, value adding activities and evaluating their performance measures along the chain to lead the market in the customer drive economy. The findings indicated the performance measures of weavers and garments are affected by quality, flexibility, customer behavior, technology and price effects which hinder their competitiveness. Their productivity of also extremely affected by luck of special training or education, quality and technology and essentially raw material shortages, Working conditions, Market problem, customer behavior and finances. These problems decrease the weavers and garments efficient utilization of resources and their capacity of producing these fashions to satisfy customers in the global market. Questionnaires, Interviews and observations were used to survey the relevant data using purposive random sampling technique in all the production and distribution persons of the firms and supporting organizations of the firms for competitiveness in the global market. A mixed approach was used to analysis the data to achieve the principal objectives such as performance measures, the roles of garments and weavers, the factors to apprise the competitiveness of these fashions and their impacts in tourism industry were assessed extensively.

Mboya and Kazungu (2015), conducted a study on determinants of competitive advantage in the textile and apparel industry in Tanzania. This study explores the magnitude of the key attributes underlying competitive advantages in the textile and apparel industry in Tanzania by using Porter's Diamond Model (PDM). The sampling design used in this study is non probability and data were collected from two hundred four respondents in three regions. The estimated results from factor analysis, principal component analysis and structural equation modeling support

strongly the relevancy of the Porter's Diamond model in enhancing firm competitive advantage in the textiles and apparel industry in Tanzania. The two most important factors on competitive advantage of the textiles and apparel industry are demand conditions and related and supporting industries.

Wang (2005) analyzed 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. The study arrived at a conclusion that competitiveness of the Ningbo garment industry is above the national average level and possessing a nationwide competitive advantage.

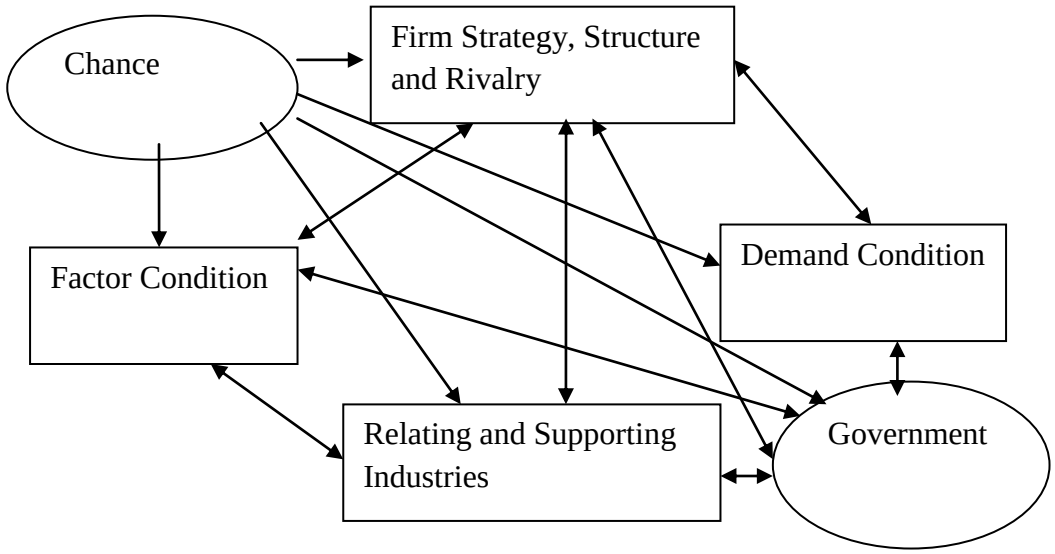
## 2.5 Theoretical framework

### 2.5.1. Theoretical frame

Firm's growth is largely determined by the company's business environment surrounding the company. Business environments shape and influence the nature of how the company began determine the product, how do companies choose the raw materials, processing, to how companies respond to market. Porter (1990) advanced a new theory to explain national competitive advantage. The main question that is attempted to be answered is why some countries are more successful in particular industries than others. Porter identifies four classes of country attributes ,which are called the National Diamond, that provide the underlying conditions or platform for the determination the national competitive advantage of a nation. These are factor conditions, demand conditions, related and support industries, and company strategy, structure and rivalry. Porter also proposes two other factors, namely government policy and chance (exogenous shocks), that support and complement the system of national competitiveness but do not create lasting competitive advantages. Porter (1990) emphasizes that the diamond is a system and that all four conditions identified in the Diamond Framework must hold (be strong) for an industry to be truly internationally competitive. Countries with the strongest diamonds are therefore supposed to end up with the most competitive firms in that industry.

In order to analyze the sources of competitive advantages and determinant factors in Ethiopian traditional cloth manufacturing sector, Michael Porter's (1990) national competitive advantage theory, diamond model, will be used as a theoretical framework. The researcher took this theory because Porter's theory provides an important foundation to identify factors that determine the competitiveness of the sector. In addition, the model can give directly applicable recommendations on what to change in order to improve the competitiveness of an industry. The diamond framework and derived hypothesis are described below.

Figure 4: Porters' diamond model (1990)




Source: Porter (1990)

Factor Conditions

The factor conditions are related to situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. 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, labor markets, or liquidity of national stock markets. These national factors often provide initial advantages, which are subsequently built upon. 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 (Porter, 1990).

### Demand conditions

Demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. Home demand is determined by three major characteristics: the mix of customers' needs and wants, the scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets. Porter (1990) 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, 1990).

### Related and Supporting Industries

Related and supporting industries refer to 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 (Porter, 1990).

### Firm Strategy, Structure, and Rivalry

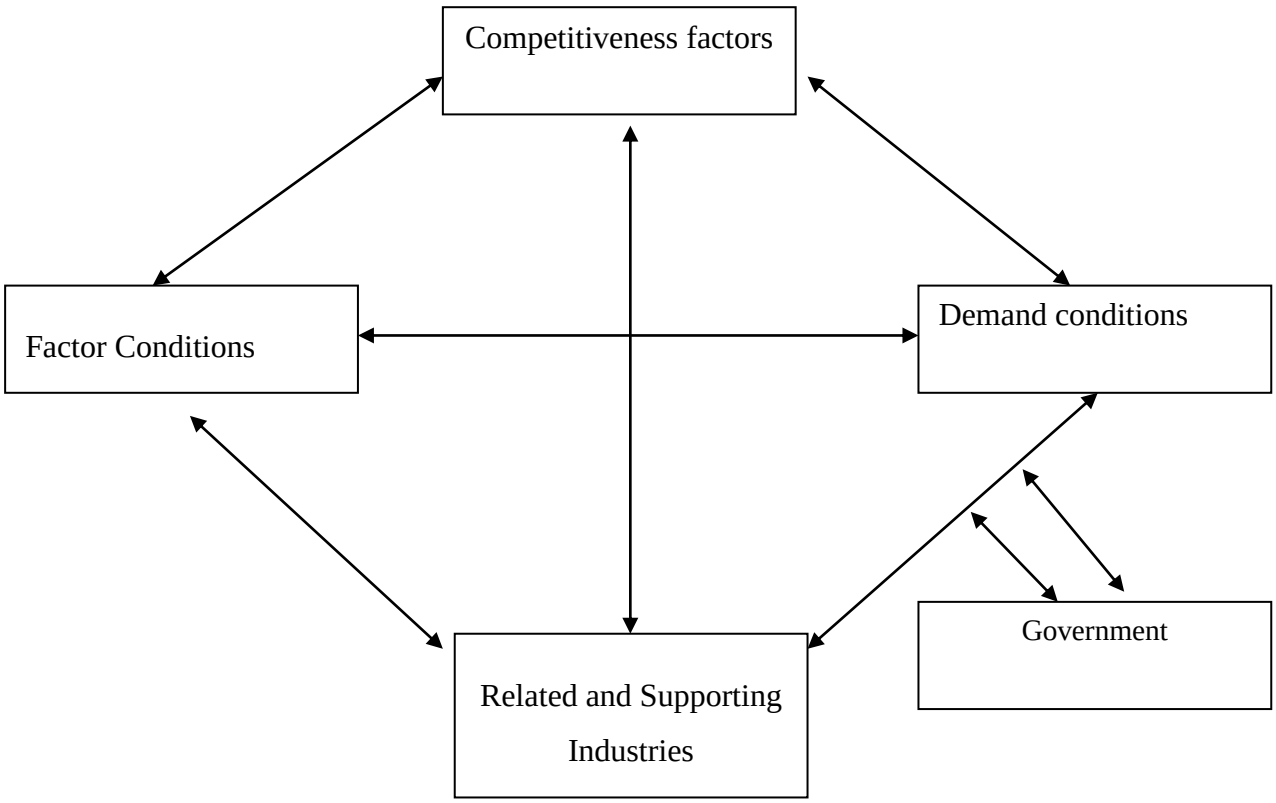
In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special 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 (Porter, 1990).

Role of government and Chance

Government can influence each of the above four determinants of competitiveness. Government can influence the supply conditions of key production factors, demand conditions in the home market and competition between firms. Government interventions can occur at local, regional, national or supranational level. Chance events are occurrences that are outside of control of a firm. They are important because they create discontinuities in which some gain competitive positions and some lose (Porter, 1990).

In order to study the porter's model empirically, the study used a modified model which was organized by Sun and his colleagues (2010). According to this model firm’s strategy and rivalry is used as a measurement for competitiveness. The model is presented below. The models are illustrated in the figure below.

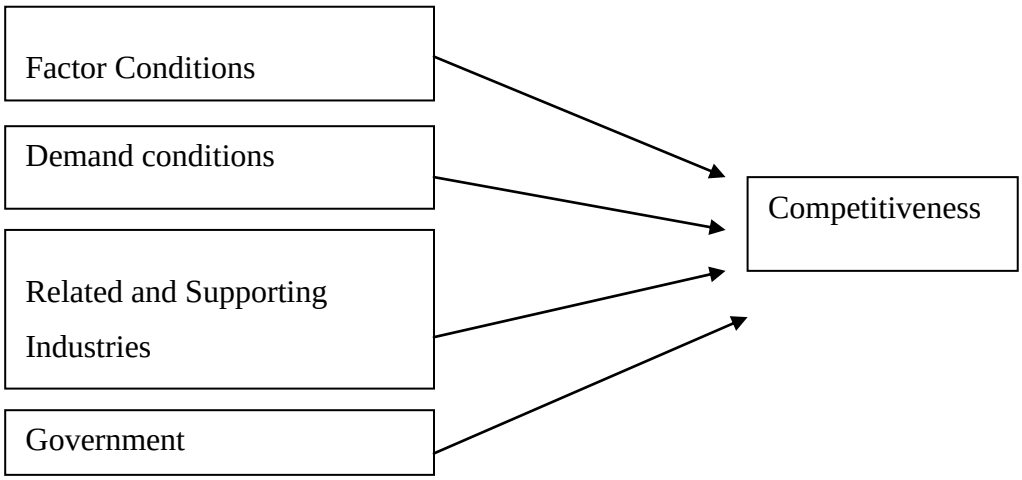
Figure 5: Research Model One.




Source: Sun (2010)

This model was further modified by Bakan & Dogan (2012), which is implemented as a research model for this study inorder to analyse the relationships between the determinant factors and competitiveness.

Figure 6: Research Model Two




Source: Bakan & Dogan (2012).

2.5.2. Research hypothesis

Based on the above research model (Bakan & Dogan 2012), hypotheses have been developed for analysis. The independent variables are the factor conditions, the demand conditions, the related and supportive industries and role of government. The independent variables affect the dependent variable, competitiveness, positively. Therefore, the following research hypotheses are defined;

H1: The factor conditions have a positive effect on the competitiveness of the sub sector.

H2: The demand conditions have a positive effect on the competitiveness of the sub sector.

H3: The related and supportive industries have a positive effect on the competitiveness of the sub sector.

H4: The government has a positive effect on the competitiveness of the sub sector

# CHAPTER THREE
# RESEARCH DESIGN AND METHODOLOGY

## 3.1. Research Design

The purpose of this study is to assess the determining factors that affect competitiveness in Ethiopian traditional cloth manufacturing sector, using porter's competitive advantage of nations theory or 'diamond model' .The effect of each factor on the competitiveness of Ethiopian traditional cloth manufacturing was also analyzed to examine the relationships. For this purpose, a mixed approach, that is to say, both qualitative and quantitative approach was employed in order to perform an in depth investigation of the case. Based on the study model, the factor conditions, demand conditions, related and supporting industries, firm's strategy, structure and rivalry and government attitudes were the basic variables used as a theoretical framework for data collection and analysis.

## 3.2. Population and Sampling Techniques

The textiles industry has 221,848 established enterprises in cottage/Handicraft manufacturing industries with 45% of these located in urban areas. (CSA 2003). According to the information from Federal micro and small scale enterprises development agency, 70% of the enterprises which are involved in hand loom weaving are located in Addis Ababa, Gulele sub city(FeMSEDA, 2015). The sub city encompasses one hundred fifty four small and micro hand loom weaving enterprises, having the highest number of the micro enterprises compared to the other sub cities located in Addis Ababa. (GSCMSEDA, 2015) . Due to this, the micro and small enterprises in this sub city are taken as a target population for this study. The number of sample is estimated to be one hundred eleven considering 95% confidence interval and 5% error.

$$n = \frac{N}{1 + N (e)^2}$$

Source: Research advisors, (2006)

Where **n** is the sample size, **N** is the population size, and **e** is the level of precision or expected error. By using this formula at 95% confidence level and 5% level of precision the sample size was as follows:-

$$n = 154/ (1+154(0.05)2)$$

$$n= 111 \text{ samples}$$

Random sampling technique was employed as sampling technique to collect the desired data. Persons at managerial level are managed to respond for the questions, hence, it is believed that they will have a better knowledge of the situation

### 3.3. Instruments of Data Collection

A combination of both primary and secondary sources of data was used to generate the required information. This increases the dependability of the results. Primary data was collected through semi structural questionnaires. The semi structural questionnaires was used as a data collection instrument in order to conduct an in depth exploratory data collection seeking to understand the results. All the questions were designed based on Porter's theory of National Competitive Advantage. The questions presented to the participants consisted of factor conditions, demand conditions, firm strategy, structure & rivalry, related & supporting industries and role of government. The questions were primarily aimed at gathering information on the competitiveness of Ethiopian traditional cloth manufacturing sector based on Porter's determinant factors. The secondary data was collected from different documentations and archival records. The main sources were documents from Ministry of Trade and Industry, Textile Industry Development Institute, Federal micro and small enterprises agency, Gulele sub city micro and small enterprises agency and Ethiopian central statistics agency.

### 3.4. Methods of Data Analysis

In order to investigate the possible factors, spreadsheet was adopted, under which all the potential factors is listed. By doing so, descriptive type of analysis was carried out. In order to

examine the relationship between the variables of diamond model and competitiveness, both simple and multilinear regression analysis was conducted .A correlation analysis was used to examine the strength of the relationships between independent variables, (the factor conditions, the demand conditions, the related and supportive industries and the government) and the dependent variable (competitiveness ). A regression analysis was used to test the developed hypotheses and to investigate the relationship between independent variables and the dependent variable in the model. The tool, SPSS Statistics Twenty was utilized to perform the analysis

3.5. Validity and Reliability of the study

Reliability of the basic variables was measured with Cronbach's alpha values, which is widely used in literatures. The analysis involved all determinant variables (factor conditions, demand conditions, role of government, related and supporting industries) and the dependent variable, competitiveness. The analysis was performed taking thirty samples from the study group.

Table 2: Reliability Statistics

| No | Variables | Cronbach's Alpha | N of Items |
|---|---|---|---|
| 1 | Factor conditions | .643 | 10 |
| 2 | Demand conditions | .620 | 6 |
| 3 | Related and supporting industries | .804 | 7 |
| 4 | Role of government | .716 | 5 |
| 5 | Competiveness | .729 | 6 |
| Average result | | 0.7024 | |

The analysis result shows the Cronbach's alpha values for the variables. The entire value of the variables is defined as an acceptable level because Nunally (1978) stated that reliability as low as .70 is acceptable in basic research.

# CHAPTER FOUR
# RESULTS AND DISCUSSION

The purpose of this study is to assess the determining factors of competitiveness in Ethiopian traditional cloth manufacturing sector. For this purpose, the well known model in the literature, which is developed by Porter was used. Porter's diamond model was modified for this study purpose arguing that four variables of the diamond model (the factor conditions, the demand conditions, the related and supportive industries and the role of the government) affect the competitiveness of the sector. Additional aim of this study was to investigate if there is a significant influence of the variables on competitiveness.

For this purpose, both quantitative and qualitative method of study was implemented. Semi structured questionnaire were designed and were applied to upper level of managers of small and micro enterprises who are involved with traditional cloth manufacturing sector. The number of questionnaire replies was one hundred fifteen from one hundred thirty distributed questionnaires. The collected data was analyzed both qualitatively and quantitatively. The findings and the discussions are presented below.

## 4.1. The Sample Characteristics

The first part of the questionnaire gathered information about the respondents' background. The characteristics of the respondents are described in terms of gender, age, experience in the organization, positions at firms and type of products. The research sample consists of 102 males (88.7%) and 13 females (11.3%). Respondents ages ranged from 19 to 60 but the majority of the respondents (45.3%) are in the age range from 30 to 40. The respondents are distributed by work experience as follows: fewer than 5 years 12.1%, 6 to 15 years 38.7%, 15 years or more 49.2%. Position levels are ranged as follows: chair person 44%, secretor 26.6 %, and finance head 29.4 %.

4.2. Qualitative results

The collected qualitative data is analyzed through summarizing, categorizing and structuring process. Frequency analysis was performed to look into the results. The findings are presented and discussed below.

Factor conditions

Factor conditions are factors which are necessary for a firm to compete. Based on the gathered data, the followings variables were pointed out by the respondents as main factors for competiveness of Ethiopian traditional cloth manufacturing sector. In this condition, lack of skilled labor is discussed as the crucial factor. It is also discussed that poor education level and lack of managerial and leadership skills on the managerial position caused the sector to be less competitive. According to the respondents, consistent trainings are not being given to the members to increase productivity through continual assessment of gap.

Table 3: Factors condition

| No | Factor | Frequency of responds |
|---|---|---|
| 1 | Electric power interruption | 0.7% |
| 2 | Lack of Infrastructure | 1.3% |
| 3 | Lack of skilled labor including the managerial positions and lack of trainings. | 13.4% |
| 4 | Lack of finance and working capital | 2.3% |
| 5 | Poor working  place availability and suitability | 1.0% |
| Total | | 18.6% |

In general, 18.6% responds were given indicating factor conditions as a determinant factor for competiveness of Ethiopian traditional cloth manufacturing sector.

Demand conditions

The analysis of the gathered data shows that little effort has been taken in promoting Ethiopian traditional cloth products. According to the result, the people's knowledge about product types, design, quality and variety is very low. Even more, it was discussed that the people preference in using the traditional clothes are tide to holidays and events only, while imported clothes are preferred to daily activities. Due to that, there is very low consumption and demand to the traditional cloth. But the respondents agree that the demand is showing growth compared to past experiences. Apart from that, the result shows that there is low creativity in design, product type and styles. This also contributes to low competiveness of the sector in the market, hence, assessing and fulfilling consumers' requirements is necessary.

Table 4: Demand condition

| No | Factor | Frequency of respond |
|---|---|---|
| 1 | Low product quality | 2.6% |
| 2 | Low creativity | 1.3% |
| 3 | Less demand | 1.6% |
| 4 | Lack of knowledge on products and enterprises | 4.2% |
| Total | | 9.8% |

In general, 9.8% responds were given as demand conditions a determinant factor for competiveness of the sector.

Related and supporting industries

Only three factors were explained in the related and supporting industries conditions affecting the competiveness of the sector. The result shows that lack of product distribution channels appears to be the biggest problem of the sector contributing to low productivity. The respondents indicated that there is no market channel which links the producers from the consumers. Instead, there are interveners in the middle who buy the products from the weavers with low price and

sell to the consumers with high price .Due to that, it is discussed that the weavers are not being beneficiary from the trade as much as they should be. This can lead the weavers to suffer from low income, productivity and creativity. Another challenge is shortage of supplies for raw materials with high quality and fair price. The fact that the production technique and manufacturing machine is very traditional made the sector to be less productive.

Table 5: Related and supporting industries

| No | Factor | Number of respond |
|---|---|---|
| 1 | Lack of Product distribution channel | 29.6% |
| 2 | Shortage of supply of quality raw material with fair price | 16.3% |
| 3 | Lack of modern machine technology | 4.6% |
| Total | | 50.5% |

In general, 50.5% responds were given pointing that related and supporting industries are the determinants of competiveness of the sector. This accounts, highest number of responds.

Firms structure, strategy and Rivalry

The result of the analysis shows that there are three variables in the firm structure, strategy and rivalry category that affect the competiveness of the sector. The result points out that the traditional cloth manufacturing sector faces rivalry from domestic and foreign products of modern clothes. The design and quality issues can make the modern clothes to be preferable for different applications. Apart from that, the result shows that the clustering mechanism and the team work in the enterprises affect competiveness. It is discussed that clusters are organized without considering age, education level and skill of the members. Non implementation of administrative rules and regulations is also presented as another factor.

Table 6: Firms strategy and Rivalry

| No | Factor | Frequency of respond |
|---|---|---|
| 1 | Clustering mechanism and team working | 1.3% |
| 2 | Lack of rules and regulations | 1.3% |
| 3 | Import of modern clothes | 1.6% |
| Total | | 4.2% |

In general, 4.2% responds were given indicating the firm strategy and rivalry conditions are a determinant factor for competiveness.

Role of government

The result of the analysis reveals that the role of government is also a determining factor for the competitiveness of the sector. The result reveals that, even though good polices are designed to support the sector, it faces a problem of implementation, control and follow up. Responds are also given indicating that there is insufficient government support in creating product distribution or market channels for the producers.

Table 7: Role of Government

| No | Factor | Frequency of responds |
|---|---|---|
| 1 | Insufficient government support for the sector | 1.6% |
| 2 | Good government polices but lack implementation, follow up and control | 14.3% |
| 3 | Taxes by government | 1.0% |
| Total | | 16.9% |

In general, 16.9 % responds were given indicating that the role of government is a determinant factor for the competiveness of the sector.

4.2. Correlations Results

A correlation analysis was used to examine the strength of the relationships between independent variables the factor conditions (FC), the demand conditions (DC), the related and supportive industries (RSI), the government (GOV) and the dependent variable ,the competitiveness of the sector(COM). The table below contains the correlations for all of the variables.

Table 10: Correlation Results

| Pearson Correlation | COM | GOV | DD | FC | RSI |
|---|---|---|---|---|---|
| COM | 1.000 | | | | |
| GOV | .398 | 1.000 | | | |
| DD | .338 | .152 | 1.000 | . | |
| FC | .125 | .123 | .117 | 1.000 | |
| RSI | .487 | .399 | .243 | .394 | 1.000 |

Results of correlation analysis show that the relationships between the independent and dependent variables are positive. All of the measures appeared to be relatively distinct; the largest correlation between the related and supportive industries and competitiveness is 0.487 and the lowest correlation between the demand conditions and the factor conditions is 0.117. The result shows that there is very weak relation between the correlations among the factor conditions and the other variables. The demand conditions and the role of government also have weak correlations with competitiveness. Whereas, the related and supportive industry has a moderate correlation with it.

4.3. Test of assumptions

Two way regression analyses were employed for analyzing the collected data. A simple linear regression analysis is used to test the developed hypotheses and to investigate the relationship between each independent variables and the dependent variable in the model. Furthermore, multilinear regression analysis is used to investigate how the combinations of independent

variables can affect the dependent variable and to examine the most determinant variable from the factors. Normality of the distribution was analyzed before the regression analysis.

4.3.1. The effect of factor conditions on the competitiveness of traditional cloth manufacturing sector

The first hypothesis involves the relationship between the factor conditions and the competitiveness of the sector. The factor condition questions are related to the situations regarding to the availability of quality raw materials with fair price, the availability of skilled labor with satisfactory production technology and the availability of infrastructures and working area for traditional cloth production. This hypothesis was tested using a simple linear regression with the competitiveness of the sector as the dependent variable and the factor conditions as the independent variable. The results are discussed below.

Table 9: The relationship between factor conditions and competiveness

| Model | | Standardized Coefficients | T | Sig. | Model Summary | | |
|---|---|---|---|---|---|---|---|
| | | Beta | | | R | R Square | Adjusted R Square |
| 1 | (Constant) | | 10.595 | .000 | | | |
| | FC | .125 | 1.343 | .182 | .125 | .016 | .007 |

The above result shows that there is no significant relationship between the factor conditions and competitiveness with a p value 0.182. This is greater than the level of significance, 0.05. The strength of the relationship between the two variables is based on the R statistic, which in a simple two variable, regression is the same as the correlation coefficient. In this case, the R statistic is .125, indicating a very weak relationship. Therefore, the above result indicates that hypothesis one, the factor conditions have a positive effect on the competitiveness of the

industry, is neglected. The traditional cloth manufacturers which are involved in this study are the ones which are organized under small and micro enterprises. According to the response of the respondents, the small and micro enterprise agency in the Gulele sub city provide different service for the enterprise members. Some of these are: providing working area and loan services. In addition, the enterprises are also supported in gaining supply of quality raw materials and trainings. Though the level of service satisfaction which is obtained by the members is in question, the above result reveals that these situations do not create impact on competiveness.

4.3.2. The effect of the demand conditions on the competitiveness of traditional cloth manufacturing sector

The second hypothesis demonstrates the relationship between the demand conditions and the competitiveness of the sector. The demand condition questions are concerned with the demand of traditional clothes in the country market. it also assesses consumers knowledge and product(design, quality and price) requirement regarding to traditional clothes. This hypothesis was tested using a linear regression with the competitiveness of the sector as the dependent variable and the demand conditions as the independent variable. The results are discussed below.

Table 10: The relationship between demand conditions and competiveness

| Model | Standardized Coefficients | T | Sig. | Model summary | | |
|---|---|---|---|---|---|---|
| | Beta | | | R | R Square | Adjusted R Square |
| (Constant) | | 6.296 | .000 | | | |
| DC | .338 | 3.817 | .000 | .338 | .114 | .106 |

Examining the significance of the regression from the above result shows that there is significant relationship between demand conditions and competitiveness with value 0.000, which is less than the level of significance of 0.05. The result shows R statistic 0f .338, indicating weak

relationship, the adjusted R square of 0.106 value demonstrates that, 10.6 % of variance in the competitiveness of the sector is accounted by the demand conditions. In addition, the regression analysis result shows that the Beta coefficient is 0.338, which implies that there is positive relationship between the factor conditions and the competitiveness of the sector. According to the responds of the respondents, the home demand for traditional clothes is increasing as the designs and quality of traditional clothes is being improved. These conditions create advantages for competition Therefore, the above result indicates that hypothesis two, the demand conditions have a positive effect on the competitiveness of the industry, is supported.

4.3.3. The effect of the related and supportive industries on the competitiveness of traditional cloth manufacturing sector

The third hypothesis demonstrates the relationship between related and supportive industries and the competitiveness of the sector. The related and supporting industries questions are related to products (traditional clothes) distribution network, availability of competitive suppliers in the market, the sector's relation with research and development institutions regarding to advancement of production technology and working skills. This hypothesis was tested using a linear regression with the competitiveness of the sector as the dependent variable and the related and supportive industries as the independent variable. The results are presented and discussed below.

Table 11: The Relationship between the Related and Supportive Industries and the Competitiveness of the sector

| Model | Standardized Coefficients | T | Sig. | Model summary | | |
|---|---|---|---|---|---|---|
| | Beta | | | R | R Square | Adjusted R Square |
| (Constant) | | 10.771 | .000 | | | |
| RSI | .487 | 5.925 | .000 | .487 | .237 | .230 |

Examining the significance of the regression from the above result shows that there is significant relationship between related and supporting industries and competitiveness with value 0.000. The value is less than the level of significance of 0.05. The R statistic 0f .487, indicates that there is moderate relationship between the two variables. The Adjusted R Square of 0.230 value shows that, 23% of variance in the competitiveness of the sector is accounted by the related and supportive industries. In addition, the regression analysis result shows that the Beta coefficient is 0.487, which indicates that there is positive relationship between the related and supportive industries and the competitiveness of the sector. Responses from the respondents indicate that there is a very weak channel for distributing produced products. This situation makes producers to gain lower income which later affects the competitiveness. Therefore, the above result indicates that Hypothesis three, the related and supportive industries have a positive effect on the competitiveness of the industry, is supported.

4.3.4. The effect of role of government on the competitiveness of the sector

The fourth hypothesis demonstrates the relationship between the role of the government and the competitiveness of the sector. The questions regarding to the role of government are related to impacts of established policies, taxes, standards and regulations. This hypothesis was tested using a linear regression with the competitiveness of the sector as the dependent variable and competitiveness as the independent variable. The results are presented and discussed below.

Table 12: The relationship between the role of government and the competitiveness

| Model | Standardized Coefficients | T | Sig. | Model summary | | |
|---|---|---|---|---|---|---|
| | Beta | | | R | R Square | Adjusted R Square |
| Constant | | 5.373 | .000 | | | |
| GOV | .398 | 4.609 | .000 | .398 | .158 | .151 |

Examining the significance of the regression in the above table shows that there is significant relationship between roles of government and competitiveness with p value of 0.000, which is less than the level of significance of 0.05. The result shows R statistic of .398, indicating that there is weak relationship between the two variables. The Adjusted R Square of 0.151 value

Table 13: The existence of relationship between the independent and dependent variables

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 19.845 | 4 | 4.961 | 13.954 | .000[b] |
| | Residual | 39.111 | 110 | .356 | | |
| | Total | 58.956 | 114 | | | |

shows that, 15.1% of variance in the competitiveness of the sector is accounted by the role of the government. In addition, the regression analysis result shows that the Beta coefficient is 0.398, which indicates that there is positive relationship between the related and supportive industries and the competitiveness of the sector. Therefore, the above result indicates that Hypothesis four, the role of government have a positive effect on the competitiveness of the industry, is supported. According to some responds, the established policies and standards are supportive for the sector. However, it is indicated that there is low effectiveness during implementation. this condition creates impact on competiveness.

4.3.5. The effect of all independent variables on the competitiveness of the sector

Multilinear regression analysis is used to investigate how linear combinations of independent variables can predict the dependent variable. The results are presented and discussed below.

The significance of the regression in the ANOVA table shows that there is significant relationship between the combined independent variables and competitiveness with p value 0.000, which is less than the level of significance of 0.05.

Table 14: The relationship between independent variables and dependent variables

| Model | S. Coefficients | T | Sig. | Co linearity Statistics | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Beta | | | Tolerance | VIF | R | $R^2$ | Adjusted R square | Durbin watison |
| Con. | | 2.339 | .021 | | | | | | |
| GOV | .225 | 2.645 | .009 | .836 | 1.196 | .580 | .337 | .312 | 2.038 |
| DC | .222 | 2.769 | .007 | .937 | 1.067 | | | | |
| FC | -.075 | -.889 | .376 | .843 | 1.186 | | | | |
| RSI | .373 | 4.012 | .000 | .698 | 1.433 | | | | |

The value of the Durbin-Watson statistic is approximately two which is in an acceptable range. This implies that the residuals are independent or not correlated. In addition, all tolerance values are higher than 0.1 and variance inflation factor for each independent variable is below 2.5. This implies that there is no problem in multi co linearity.

The result shows R statistic 0f .580, indicating that there is moderate relationship between all independent variables and competitiveness , the Adjusted R Square of 0.312 value shows that , 31.2% of variance in the competitiveness of the sector is accounted by the independent values which are analyzed. This result indicates that there are more unexplained variables that affect competiveness.

The Significance level for the role of government variable is .009, which is less than our alpha level of .05. This shows that it is significantly related to the dependent variable. Looking at the B coefficient, it can be observed that it is positive, indicating that as role of government increases competitiveness also increases.

The Significance level for the demand conditions variable is .007, which is less than our alpha level of .05. This shows that it is significantly related to the dependent variable. Looking at the B coefficient, it can be observed that it is positive, indicating that as demand conditions increase competitiveness also increases.

The Significance level for the factor conditions variable is .376, which is greater than our alpha level of .05. This shows that there is no significant relation between the factor condition and the competitiveness.

The Significance level for related and supporting industries variable is .000, which is less than our alpha level of .05. This shows that it is significantly related to the dependent variable. Looking at the B coefficient, it can be observed that it is positive, indicating that as related and supporting industry conditions increase competitiveness also increase.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1. Summary of the findings and Conclusion

The objective of this study is to assess the determining factors of competitiveness in the Ethiopian traditional cloth manufacturing sector that can assist firms in evaluating and utilizing better strategy in order to improve productivity and competitiveness. The study was made using porter's five determinant factors, the factor conditions, demand conditions, related and supporting industry, role of government and firm's structure, strategy and rivalry. The result of the study indicates that related and supporting industries affect the competitiveness of the sector more than any other factors that are indicated in the research model. This is highly due to lack of designed product distribution channels, poor supply of quality raw materials with fair price and lack of modernized production and machine technology .This result is supported by the qualitative study which is performed to investigate the situation deeper. It is also known that the secondary affective condition for competitiveness is the demand conditions. The major problems which are observed in this area are poor product quality, poor knowledge of products by consumers and low demand for traditional clothes. Role of government follow the demand conditions in affecting the competitiveness of the sector. The study result reveals that there are good polices which supports the sector. However, problems are raised regarding to effective implementation, follow up and control. The result of the study also indicates that the factor condition has no relationship with competitiveness. This describes that the factor conditions is not a determinant factor for the competiveness of the sector. The micro and small scale enterprises which are included in the study are supported through finance and working area by the sub city small and micro enterprise agency. These settings might aid the factor conditions not to be determinant for the sector competiveness. But lack of skilled labor is still reported as a

major problem in the study group. In general, the combination of the independent variables accounts 31.2% of variance in the competitiveness of the sector. This indicates that this study can be further study by modifying the model and including more variables to explain the situation better. The above findings have high implications for the managers of the firms, both operating in the sector and also the ones who plan to enter, in the means of competitiveness of the sector. It assists firms to put emphasis to the determinant factors which later guide to development of strategies both in firm and government level.

## 5.2. Recommendations

Ethiopian traditional clothes have been produced through handloom weavers for a long period of time for livelihood and income generations. These products are indigenous to the country and are expressed as an identity of the country. However, the sector did not develop as it should be in terms of changing the lives of the producers and promoting the country. It is the responsibility of the citizens to overcome this problem through identifying and minimizing the problems. Based on the findings of the above study, the following suggestions are given to improve the productivity and competitiveness of the sector.

- Strategies must be designed and implemented to distribute the products of the weavers in a way that helps them to be benefited from the products which they produced.

- Opportunities must be developed to encourage high entrants of raw material suppliers into the market.

- Research and higher education intuitions should make their study to focus on this sector for improving the production and machine technology.

- Promotions must be performed about products so that people have high knowledge and demand for the product.

- Trainings must be given to enhance the creativity and product quality of producers. Furthermore, trainings must be given for producers to increase their managerial, leadership and financial skill.

- Further investigation in the area must be conducted using different theoretical framework and encompassing all participatory groups to investigate the situation deeper.

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## APPENDIX I

## QUESTIONNAIRE (ENGLISH)

**PURPOSE OF THE QUESTIONNAIRE**

The purpose of this questionnaire is to gather relevant information regarding to the competitiveness of Ethiopian traditional cloth manufacturing sector.

**THANK YOU FOR COOPERATION!!**

### PART ONE

### BACKGROUND INFORMATION

Instructions: Please check the relevant box

1. How many years of experience do your firm has in the business? ----------
2. Number of employees in your company? ----------
3. Please specify your Product items: ----------
4. Is your firm

(a) Sole proprietorship

(b) Partnership

(c) Trade association

(d) Limited Liabile Company

5. Respondent's position in the firm: ----------
6. Respondent's years of experience in the firm: ----------
7. Respondent's age: ----------
8. Respondent's sex: ----------

**PART TWO**

**IDENTIFYING FACTORS THAT AFFECT THE COMPETETIVNESS OF THE SECTOR**

1) What do you think are the main challenges or problems for effective competitiveness of Ethiopian traditional cloth manufacturing sector in the market?

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2) How do you evaluate the following factors in relation to the production of Ethiopian traditional cloth products?

| No | Factors | 5 Very important | 4 Important | 3 Not sure | 2 Not important | 1 Not important at all |
|---|---|---|---|---|---|---|
| 1 | Infrastructure | | | | | |
| 2 | Production Technology | | | | | |
| 3 | Skilled labor | | | | | |
| 4 | Capital resources/ banking industry | | | | | |
| 5 | Physical/land,water electricity e.t.c/ resources | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 6 | Distributing channels | | | | | |
| 7 | Government Policy/Regulation | | | | | |
| 8 | Demand for products | | | | | |
| 9 | Competition from local Rivals | | | | | |
| 10 | Research and development institutions | | | | | |
| 11 | Raw material and other related materials availability | | | | | |

4. What do you say about the government's effort and Policy towards the competiveness of the sector?

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6. What type of management and organizational structures in the nation match the traditional cloth manufacturing sector needs?-

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**PART THREE**

**EXAMINING THE EFFECT OF EATCH FACTORS ON THE COMPETETIVNESS**

Please rate the extent **(Tick as appropriate**) to which you agree or disagree with each statement on a scale of 1-5 where

1= strongly disagree

2= disagree

3= neutral

4= agree

| No | Factor conditions | Codes | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Skilled labor is readily available and sufficient | 1 | 2 | 3 | 4 | 5 |
| 2 | Skilled labor is available with fair price | 1 | 2 | 3 | 4 | 5 |
| 3 | Supply / availability / of raw materials and production materials in the market is sufficient | 1 | 2 | 3 | 4 | 5 |
| 4 | High quality of raw materials are available with fair price | 1 | 2 | 3 | 4 | 5 |
| 5 | The production technology in the industry is sufficient and satisfactory for the production process | 1 | 2 | 3 | 4 | 5 |
| 6 | Low amount of capital is required to enter this Industry | 1 | 2 | 3 | 4 | 5 |
| 7 | Access to capital for entering, expansion and modernization is easy | 1 | 2 | 3 | 4 | 5 |
| 8 | Access to obtain working area is easy and cheap | 1 | 2 | 3 | 4 | 5 |
| 9 | The poor state of transportation increases costs of production significantly | 1 | 2 | 3 | 4 | 5 |
| 10 | Electric power supply to run production is sufficient and reliable | 1 | 2 | 3 | 4 | 5 |

5= strongly agree.

| No | Demand condition | Codes | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | The demand for traditional textile products is high in the country | 1 | 2 | 3 | 4 | 5 |
| 2 | The demand for traditional textile products is growing very fast from time to time. | 1 | 2 | 3 | 4 | 5 |
| 3 | Domestic demand prefers traditional clothes than imported. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | Domestic Customers have high knowledge and information about products and services | 1 | 2 | 3 | 4 | 5 |
| 5 | Buyers requirement in design and quality of products as well as price does not show a significant change from time to time | 1 | 2 | 3 | 4 | 5 |

| No | Related and supporting industries | Codes | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | The product distribution networks are vibrant and effective | 1 | 2 | 3 | 4 | 5 |
| 2 | There are sufficient amount of suppliers in the market regarding to the different requirements in producing the products | 1 | 2 | 3 | 4 | 5 |
| 3 | The suppliers are highly competitive regarding to cost, quality and quantity. | 1 | 2 | 3 | 4 | 5 |
| 4 | Relations with research and development institutions is very strong which have high contribution in advancement of production technology and success in the industry | 1 | 2 | 3 | 4 | 5 |
| 5 | The work relation between and other related textile sectors, suppliers, distributers and government is strong. | 1 | 2 | 3 | 4 | 5 |
| 6 | Suppliers are competitive in the international market | 1 | 2 | 3 | 4 | 5 |
| 7 | Working in trade association enhanced your productivity | 1 | 2 | 3 | 4 | 5 |

| No | Role of government | Codes | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Taxes by government is adding a significant cost to your business | 1 | 2 | 3 | 4 | 5 |
| 2 | Policies by government help cushion against cheap imports | 1 | 2 | 3 | 4 | 5 |
| 3 | Polices by Government support export of your product through different subsidies | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | The establishment of local standards and regulations is unsuitable for your business operation | 1 | 2 | 3 | 4 | 5 |
| 5 | There is high bureaucracy and control on accomplishment of operations | 1 | 2 | 3 | 4 | 5 |

| No | Competitiveness of the sub sector (Firm strategy ,structure, rivalry) | Codes | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | There is high level of competition between companies in the industry. | 1 | 2 | 3 | 4 | 5 |
| 2 | Innovation for new designs and products is high. | 1 | 2 | 3 | 4 | 5 |
| 3 | You are applying different mechanisms and standards to fulfill customers requirements in terms of design, price, quality e.t.c | 1 | 2 | 3 | 4 | 5 |
| 4 | Your firm has a good image in the market | 1 | 2 | 3 | 4 | 5 |
| 5 | There are other type of competitors in your industry which are having high share of the market | 1 | 2 | 3 | 4 | 5 |
| 6 | You are applying effective strategies to win the competition in the market. | 1 | 2 | 3 | 4 | 5 |