



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**ASSESSMENT ON CHALLENGES OF RAW MATERIALS
IMPORT IN MANUFACTURING FIRMS: THE CASE OF
HORIZON ADDIS TIRE S.C**

BY
SOLOMON ASSEFA LAKEW

JUNE, 2019
ADDIS ABABA, ETHIOPIA

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ID NO: SGS/0160/2010

**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY,
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LIST OF ACRONYMS

IB	International Business
CBE	Commercial Bank of Ethiopia
FCY	Foreign Currency
COMMESA	Common Market for Eastern and Southern Africa
ERCA	Ethiopian Revenue and Custom Authority
ESLSE	Ethiopian Shipping Line Logistic Service Enterprise

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ABSTRACT

Manufacturing firms collect input from nearby and far places. Whenever possible, Sourcing in the home country enables companies to avoid numerous problems. However, for many companies, domestic source may be unavailable. Thus, the purpose of this study is assessing the challenges of raw materials import in manufacturing firms: the case of Horizon Addis tire Share Company which is located in Addis Ababa around saris. The company is extremely depending on importation that it is importing 112 types of raw materials (above 90% of its input need). To address this purpose, descriptive type of research design and qualitative research approach has been used. Primary data were collected from top management team through interview while secondary data has been collected from company manual and annual report. Descriptive analysis method was used to analyze the data collected through interview. Major findings of the study indicate that getting foreign currency as per the company requirement to import raw a material is the key challenge. As the result of this, raw materials shortage which limits the product supply capacity of the company and additional costs challenge the company. Using ESLSE for raw materials importation is not optional and this forced the company to pay more sea freight cost and create shipment delay. The finding also shows that Custom & other taxes on imported raw materials is not reasonably encouraging local manufacturers. Though, the company has knowledge and experience in international business, it has still single supplier and doesn't follow international price trend for major inputs. As the result of these challenges, the price of the company product is not competitive as locally produced product and could not use the production capacity to increase the market share. Finally, the researcher recommended to the company to have its own currency source by exporting its product at least to COMESA market and work on how to get the major input (Natural Rubber) from local source to address FCY shortage. Import transportation should be opened to manufacturers instead of depending only on ESLSE. The company needs to make its suppliers at least two and follow international market price trend for each material. As the company employee more than 800 workers, add more than 30% value and substituting imported tires, custom tariff should be minimized and vat and withholding tax refund time should be shorten.

Key words: *Manufacturing firm, Challenges, importation, competitiveness*

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

All countries around the globe are part of the global market place. As we entered into new millennium, more and more companies are going international. Although international business is not a new phenomenon, the volume of international investment and trade is gaining rapidly in importance. As a result, there are a growing percentage of their overall sales which are coming from other countries. We may argue that there has been considerable historical evolution of international markets, but in the recent years we have witnessing worldwide economic and managerial developments. These developments create the opportunities, challenges, as well as problems for managers in the global arena. International business has brought the set of changes in the economic activities of almost every country in the world. One of the primary reasons is increase of foreign investment and trade. This trend has forced policy makers, managers, and entrepreneurs to refocus their efforts and look for new opportunities in the international markets. Today, every nation and increasing number of companies buys and sells products and services in the global marketplaces (Katavić, 2006).

Manufacturing firms produce output and attain profit simultaneously through efficient utilization of resources. They collect input from nearby and far places. Such raw material sourcing helps to establish a long run relationship between suppliers and manufacturers. Some firms produce only one output, while some others are multi-products manufacturers. The firms try to use the available least cost technology for timely production and delivery of products with the given sets of resources. The success is reflected in performance (Ziall, 2010).

An import is a good or service brought into one country from another. The word "import" is derived from the word "port" since goods are often shipped via boat to foreign countries. Along with exports, imports form the backbone of international trade. If the value of a country's imports exceeds the value of its exports, the country has a negative balance of trade. Countries are most likely to import goods that their domestic industries cannot produce as efficiently or cheaply as the exporting country. Countries may also import raw materials or commodities that are not available within its borders. For example, many countries import oil because they cannot

produce it domestically or cannot produce enough to meet demand. Free trade agreements and tariff schedules often dictate which goods and materials are less expensive to import. With globalization and the increasing prevalence of free-trade agreements between the United States, other countries and trading blocks, U.S. imports increased from \$473 billion in 1989 to \$2.9 trillion in 2017 (Kenton, 2018).

Maintaining competitiveness for your company while increasing your profit margin can only be accomplished if you are constantly on the lookout for innovative ways to save money while still producing a quality product. One way a business can save a great deal of money is to purchase their raw materials internationally .According to (Jensen, 2010) Importing raw materials from overseas can save your company a great deal of money over time. You can bring in materials at a substantially lower price and, in turn, raise your profit margin. You may find that the products are of better quality and offer originality or authenticity. However, be sure to spend a great deal of time doing research to find a company that will safely deliver a quality product on time and for the prearranged price (Jensen, 2010).

Whenever possible Sourcing in the home country enables companies to avoid numerous problems, including those connected with language difference, long distance and lengthy supply lines, exchange-rate fluctuation , wars and insurrections , strikes, politics, tariffs, and complex transportation channel. However, for many companies, domestic sources may be unavailable or may be more expensive than foreign sources. In japan, foreign procurement is critical, because nearly all of that country's uranium bauxite, nickel, crude oil, iron ore, copper, coking coal and approximately 30 % of its agricultural products are imported, and Japanese trading companies came into being expressly to acquire the raw materials needed to fuel Japan's manufacturing. In some way, global sourcing is more expensive than domestic sourcing. For example, transportation and communication are more expensive, and companies may have to pay brokers and agents fee. Given the longer length of supply lines, it often takes more times to gets materials from abroad, and lead times are less certain. This problem increases the inventory carrying cost and makes it more difficult to get parts to the production site in a timely manner. If imported materials/parts come with errors and need to be reworked, the cost per unit will rise, and some components may have to be shipped back to the suppliers (Sullivan, 2005).

An integral part of East Asia's export-driven growth strategy was to protect domestic markets with trade barriers so as to enable domestic firms to grow from infancy to international competitiveness. This has left a legacy of viewing exports as beneficial and imports as harmful among the region's policymakers as well as general public. However, as Lawrence and Weinstein (1999) point out, World Bank (1993) and the supportive empirical literature focus only on the export-growth relationship, ignoring the role of imports in promoting productivity and growth. In the case of Japan, Lawrence and Weinstein found that protectionism was actually harmful to productivity, and exports did not enhance productivity whereas imports did. This suggests that learning, innovation, and competitive pressures resulting from foreign imports may be important channels for enhancing productivity at the firm level as well as the economy as a whole. At a broader level, the central empirical result is that imports have a significant positive effect on TFP (Kim, Lim, and Park, 2007).

To the extent of the researcher knowledge there is no empirical study on challenges of importation by manufacturing firms considering all factors addressed in this study, availability of foreign currency, International transportation, International business knowledge and experience, quality of imported raw materials, and custom tariff

1.2. Statement of the Problem

Various literature and studies result that global sourcing improves competitiveness of the firm while increasing the profit of the company. Firms could import raw materials due to various reasons that may affect their competitiveness in one or another way. Among others, costs of raw materials, quality advantage and access to raw materials that are only available abroad are some of the reasons. For a company that wishes to remain competitive, continuous cost reduction and increase in profit is very crucial to keep the position in a similar market.

A key reason that companies all over the world choose to import goods is to extend their profit margin. High taxes, wage minimums, and material costs in certain countries make it more useful to import products from a country where fees, wages, and material from a country where fees, wages, and material costs are considerably lower. This situation is particularly common when importing goods where natural resources are abundant. For example, imported cacao from Ghana is considerably cheaper than imported cacao from the United States (Douai, 2018).

Barriers to import can be defined as all those internal and external constraints that inhibit the ability of the firm to initiate, develop, or maintain importing activities. It should be noted at the outset that the import barriers empirical literature is still in an embryonic phase in comparison with the amount of relevant research work carried out in the area of exporting.

In Ethiopia, tire market is growing as road infrastructure is being expanded, numbers of vehicles are increasing, and the income of the society is growing. For this growing demand, the major source of tire is foreign market, particularly Asia. Currently the country is importing more than 80 % of its tire demand from international market. This makes the country to spend its limited foreign currency to buy and import tires. Productions of tires need various chemicals, rubbers, carbon black and other materials as input in a big quantity and good quality. Currently Ethiopia is not producing these raw materials as needed. Except the natural rubber which is an elastic substance obtained from the latex sap of trees. All the other materials are not found in Ethiopia as they are petroleum products.

This study selects the only tire manufacturing company located in Addis Ababa. Horizon Addis tire Share Company is the only tire manufacturer in Ethiopia and among few firms in the east of Africa. The market share of this company is estimated to be 20 %. The company obtains and consumes 112 line items which are above 90% of its raw materials from global source, special from Asia. This shows that the company is highly reliant on importation for its raw material need. The company is working hard to satisfy the local market demand, substitute imported product, increase its market share and increase its profit as a result. While doing this, the big challenge is that the company obtains and consumes 90% of its raw materials from global source, special from Asia. This shows that the company is highly dependent on importation for its raw material input need. Though importing is vital in increasing profitability through less priced and quality raw materials, it is done with full of challenges. Due to this fact, factors that relate to importation, like availability of foreign currency, International transportation, International business knowledge and experience, quality of imported raw materials, and custom tariff are expected to be challenges of highly import dependent manufacturing company, Horizon Addis Tire S.C.

Therefore, this research investigated those importation factors that were expected to be challenges of importing raw materials by manufacturing companies, the case of Horizon Addis tire Share Company.

1.3. Research questions

The overall objective of this study was to identify the major challenges of importing raw materials by manufacturing firm and designed to answer the following questions.

- ✓ To what extent foreign currency availability is challenge the importation process of Horizon Addis Tire Share Company?
- ✓ How International transportation is challenge the importation process of Horizon Addis Tire Share Company?
- ✓ What is the challenge of international business knowledge & experience challenge the importation process of Horizon Addis Tire Share Company?
- ✓ How quality of imported raw materials is challenging the importation process of Horizon Addis Tire Share Company?
- ✓ In what way custom tariff on imported raw materials is challenge the importation process of Horizon Addis Tire Share Company?

1.4. Research Objectives

1.4.1. General objectives

The general objective of the study was assessing challenges of raw materials importation in manufacturing firm, in the case of Horizon Addis tire Share Company

1.4.2. Specific Objective

1. To analyze challenges of foreign currency availability in importation process of Horizon Addis Tire Share Company?
2. To evaluate the challenge of International transportation to importation process of Horizon Addis Tire Share Company?

3. To determine how business knowledge & experience challenge the importation process of Horizon Addis Tire Share Company?
4. To investigate quality of imported raw materials as a challenge to importation process of Horizon Addis Tire Share Company?
5. To examine how the custom tariff is challenging the importation process of Horizon Addis Tire Share Company?

1.5. Definition of Terms

- ✚ International business: Includes any type of business activity that crosses national borders.
- ✚ International trade: International trade is the exchange of capital, goods and services across international borders or territories.
- ✚ Globalization: The growing interdependency of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technologies, and flows of investment, people and information.
- ✚ Global sourcing: searching goods and service from international market place.
- ✚ Manufacturing firm: a firm that are using various type of input through a sequential process for producing products.

1.6. Significance of the study

This study assessed challenges of importing raw materials in terms of availability of foreign currency, international transportation cost, management skill and knowledge, quality of raw materials and custom tariff. Identify and understand the challenges of importation, assumed to provide help to the industry and particularly to Horizon Addis Tire S.C to devise solution for those challenges and improve their competitiveness. Further, this study is expected to awaken the concerned governmental office to play their role properly to assist a company like horizon, which is working hard to satisfy the demand of domestic market and substitute imported product. Finally, this paper could be used by scholars for further studies.

1.7. Scope of the Study

The purpose of the study was to assess in depth and identified challenges of raw materials importation in manufacturing firm which is the function of foreign currency availability, International transportation, International business knowledge and experience, quality of raw materials and custom tariff. The research was conducted on the company; Horizon Addis tire Share Company, Commercial department, premises located in Addis Ababa.

1.8. Organization of the study

The research paper was organized to have five chapters. Chapter one dealt with background of the study, statement of problem, definition of key words, research questions, research objectives, and significance of the study, scope of the study and organization of the study. Chapter two deal with the review of related theoretical and empirical literatures, and Chapter three contains methodology of the study. Chapter four present data analysis and presentation, and the final chapter was dedicated to summarize findings, to draw conclusion, limitation of the study and forward some policy recommendation.

CHAPTER TWO: REVIEW OF RELATED LITRATURE

2.1 Introduction

The most important reason for doing research is to produce new knowledge and understanding, and to disseminate it to make it available to everyone. When planning a research project, it is essential to know what the current state of knowledge is in your chosen subject as it is obviously a waste of time to spend months producing knowledge that is already freely available. Therefore, one of the first steps in planning a research project is to do a literature review: that is, to trawl through all the available information sources in order to track down the latest knowledge, and to assess it for relevance, quality, controversy and gaps. The last two will indicate where additional research is required – to try to resolve a controversy or to fill a gap (Walliman, 2011).

2.2 International Business

All countries around the globe are part of the global marketplace. As we entered into new millennium, more and more companies are going international. Although international business is not a new phenomenon, the volume of international investment and trade is gaining rapidly in importance. As a result, there are a growing percentage of their overall sales which are coming from other countries. We may argue that there has been considerable historical evolution of international markets, but in the recent years we have witnessing worldwide economic and managerial developments. These developments create the opportunities, challenges, as well as problems for managers in the global arena. International business has brought the set of changes in the economic activities of almost every country in the world. One of the primary reasons is increase of foreign investment and trade. This trend has forced policy makers, managers, and entrepreneurs to refocus their efforts and look for new opportunities in the international markets. Today, every nation and increasing number of companies buys and sells products and services in the global market places. (Katavić, 2006)

2.2.1 International Trade

In today's climate, words like "import" and "export" trigger adverse reactions. International trade influence the strength of local economy, unemployment rate and opportunities in business. While the stability of the local economy is essential, one of the ways it maintains its balance is

through international trade. Developing economies rely on international exports to stay afloat. The importance of imports to countries in Africa and other developing nations cannot be understated. Countries rich in raw materials and resources bolster their local economy and level the playing field by exporting sought-after goods and materials to countries around the world where these materials aren't available. One could say that imports and exports level the economic playing field for developing nations ((Douai, 2012).

2.2.2 The Difference between Import and Export

Maintaining a good relationship between import and export refers to the balance of trade. Importing goods brings new and exciting products to the local economy and makes it possible to build new products locally. Exporting products boosts the local economy and helps local businesses increase their revenue. Both import and export bring jobs to the local economy. The benefits of import include giving developing nations a chance to boost their economy, producing higher quality products, and increasing revenue by introducing a new product to a locale. Imports allow greater diversity in the market for shoppers and residents of specific countries, as they can obtain foreign products without traveling or paying additional fees. Import benefits extend beyond individuals to businesses. Local businesses that engage in importing goods can create a valuable niche in their local market. In this economy, excessive imports can weaken the local economy of any nation, resulting in high unemployment and a trade deficit. Some critics worry that imports undercut the job market by reducing the need for factories and products made locally. In the 20th and 21st century, companies have fired thousands of employees that build or assemble a product in favor of acquiring the product at a much cheaper cost. Many times this product can be acquired without sacrificing quality. The advantages of export include job creation, additional opportunity for business growth in international markets, and distributed risk. In many African countries, goods are rarely consumed locally, and foreign exports represent the primary use of the products, such as cacao. Exporting also introduces diversity in the local market. Consumers can enjoy a greater variety of food, entertainment, and clothing due to exports. Businesses that export can enjoy greater revenue and less risk because they are selling their products to a variety of consumers outside the local economy. If the local economy suffers, countries that engage in international trade can still enjoy a profit from their international customers. Also, trading with countries that have a stronger currency than your local currency

can further elevate the benefits of international trade. Though exporting goods generally increases revenue and boosts the local economy, exporting is not without its disadvantages. Excessive exports can deplete natural resources and goods in a particular country resulting in higher prices and limited availability of necessary products for countries that rely on these exports. Each summer when gas prices rise, it's due to limited exports. Relying on exports exclusively can result in being at the mercy of a foreign economy. International trade also introduces business risks, such as fraudulent sales, information security, and lack of control over environmental conditions. It requires trust of a supplier and their counterparts to deliver a product as promised with little ability to enforce their guarantee. It's imperative that both importers and exporters take precautions to avoid becoming another scary import story (Douai, 2012).

2.2.3 Global sourcing & its benefit

Sourcing in the home country enables companies to avoid numerous problems, including those connected with language difference, long distance and lengthy supply lines, exchange-rate fluctuation, wars and insurrections, strikes, politics, tariffs, and complex transportation channel. However, for many companies, domestic sources may be unavailable or may be more expensive than foreign sources. In Japan, foreign procurement is critical, because nearly all of that country's uranium, bauxite, nickel, crude oil, iron ore, copper, coking coal and approximately 30% of its agricultural products are imported, and Japanese trading companies came into being expressly to acquire the raw materials needed to fuel Japan's manufacturing. Companies pursue global sourcing strategies for a number of reasons:

- ✓ To reduce costs- due to less expensive labor, less restrictive work rules and lower land and facilities cost.
- ✓ To improve quality
- ✓ To increase exposure to worldwide technology
- ✓ To improve the delivery-of supplies process
- ✓ To gain access to materials and spare parts that are only available abroad, possibly because of technical specification of product capability
- ✓ To strengthen the reliability of supply by supplementing domestic with foreign supplies.
- ✓ To establish a presence in a foreign market

- ✓ To satisfy offset requirements
- ✓ To react to competitors offshore sourcing practice

In some way, global sourcing is more expensive than domestic sourcing. For example, transportation and communication are more expensive, and companies may have to pay brokers and agents fee. Given the longer length of supply lines, it often takes more times to get materials from abroad, and lead times are less certain. This problem increases the inventory carrying cost and makes it more difficult to get parts to the production site in a timely manner. If imported materials/parts come with errors and need to be reworked, the cost per unit will rise, and some components may have to be shipped back to the suppliers (Sullivan, 2007)

2.3 Benefits of Importing

According to Douai (2012) there are a variety of reasons for importing goods and raw materials, one of which is the benefit for the global economy. Medical equipment, smartphones, and many different types of food are just a few products that we rely on every day that wouldn't be possible without imports. The modern world also relies on imports to build sustainable products. Some items like microchips, wires, and oil are imported and used to build or operate local products.

Extend Profit Margins

A key reason that companies all over the world choose to import goods is to extend their profit margin. High taxes, wage minimums, and material costs in certain countries make it more useful to import products from a country where fees, wages, and material from a country where fees, wages, and material costs are considerably lower. Certain products can cost upwards of 50% less to grow, manufacture or produce abroad. This situation is particularly common when importing goods where natural resources are abundant. For example, imported cacao from Ghana is considerably cheaper than imported cacao from the United States.

Better Quality

Sometimes you'd like to sell an item or good that is not native to your region. In this case, it's better to go the source, as you're likely to get a higher quality product. Each country has particular strengths when it comes to exports. Consider, the Moroccan sardine industry, for example. Sardines from Morocco are not only plentiful but considered much better quality due to

the soil and natural habit that make the country an ideal home for the fish. When possible, it's best to get your product from the highest quality source, even if that means importing out of the country.

Government-Assisted Trade

In many countries, such as Ghana and Ivory Coast, the government plays some part in managing trade between local farmers and importers. Not only does this minimize risk, but in some cases, the government provides added support and benefits to importers including reduced taxes and assistance with customs. In these cases, it is very advantageous for companies to develop relationships with foreign exporters.

As said by Eigenberg (2017) any business involved in supplying goods or materials needs to constantly look at ways to increase the efficiency of the supply chain, while also managing costs. A practical solution to improve profit margins is to look to the overseas market for the raw materials. Importing goods can offer a variety of worthwhile benefits, such as high-quality goods, lower prices and a wider range of suppliers. While the opportunity to import goods is great for a lot of businesses, it is still essential to conduct the necessary research to avoid making mistake.

Comparative advantage

A major reason to import relates to comparative advantage and the potential to benefit from the more attractively priced goods. Comparative advantage relates to finding the overseas market with the more favorable production costs, such as lower tax schemes, low labor costs, cheaper raw materials, etc. By cutting the initial investment in materials or products, it makes it that much easier to increase future profits once the items are shipped back and sold in your own country. This makes importing one of the easiest and quickest ways to boost your profit margins and cut costs.

High quality products

Importing goods from countries across the world still mean it is possible to source high-quality products. There are plenty of countries that have their own specialties and strengths. For the

business that is looking to buy raw materials or goods from a country that specializes in a particular item, it often pays to buy direct from the source. This means it is possible to get access to the finest materials right at the start of the supply chain which should help to improve all-round quality and hopefully make the end product that much more marketable.

Trade relations

There are plenty of countries that attempt to promote trade relations to make it that much easier to import the desired goods or products necessary for your business. Government agencies may even be set up to help make the entire importing process as straightforward as possible. With the guidance of an official agency in place, the risks of trading with an overseas company are likely to be significantly reduced.

Regional resources

A further benefit is the ability to expand the potential market pool with the choice to buy resources that may only be found in specific regions of the world. This may relate to special technologies or raw materials (Eigenberg, 2017)

2.4 Challenges of sourcing abroad

Trading with foreign suppliers raises a number of issues you may not be familiar with from trading within Canada. Typically, these include language differences, new payment methods and increased paperwork requirements. However, with a little research and planning these challenges are easily overcome. Widening your purchasing to the international market can give you a significant competitive advantage. Using foreign suppliers can lower your input costs and give you access to specialized goods and materials that may not be available in Canada. This guide contains basic information. It outlines the differences you need to take into account when starting to trade abroad. It takes you through the key steps in finding and selecting foreign suppliers, and explains what to look for in terms of payment methods and drawing up contracts. Trading with foreign businesses differs from trading within Canada. New challenges are raised by the distances involved, by variations between countries, and by rules that govern international trading.

Legal considerations

It's not safe to assume that the same rules will apply abroad as in Canada. Factors to consider include:

- ✦ whether there are import or export restrictions at either end of the transaction
- ✦ whether technical standards in your supplier's country meet Canadian requirements
- ✦ who is liable if a product causes harm or loss
- ✦ whether your imported goods infringe any intellectual property rights
- ✦ who bears insurance costs at each stage of transit

A well-drafted written contract will help to avoid disagreements or disputes. See the page in this guide on drawing up contracts with foreign suppliers.

Other considerations

There is a range of other factors you should bear in mind:

- ✦ Language differences matter. It's not just a question of communication - make sure any labeling or other printed materials are error-free.
- ✦ Payment methods for international transactions are a bit more complicated. See the page in this guide on methods of paying foreign suppliers.
- ✦ Shipping procedures are also more complex, given the increased distances and the need to cross borders.
- ✦ Understanding the business and social practices of your supplier's country can help build trust and develop relationships. However, remember that Canadian consumers may judge you on the business practices of your suppliers.
- ✦ Think about how many suppliers you need. If you have too few you risk suffering supply-chain disruption if they have problems. If you have too many your managerial burdens will increase.

The origin of your goods can affect the level of duty you pay. Some goods attract a preferential rate of duty, so you need to check where your supplier's raw materials have come from. Visiting suppliers is the best way of doing this (Canada chamber of Commerce, 2009).

2.5. Details to be considered when importing

Maintaining competitiveness for your company while increasing your profit margin can only be accomplished if you are constantly on the lookout for innovative ways to save money while still producing a quality product. One way a business can save a great deal of money is to purchase their raw materials internationally. However, many business owners are unsure of how to create a strong, trustworthy relationship with an overseas company. They may be apprehensive about purchasing from overseas suppliers, or they may not understand the culture enough to negotiate prices. Often times, business owners find themselves in a bad situation with a less than reputable company due to their lack of knowledge or research. Before making the jump to purchasing raw materials overseas, you must do a great deal of research. Allow plenty of time to perform this research. You cannot just expect to do an online search, find a company that looks decent, and begin purchasing immediately. While this could be possible, most likely you'll find yourself in a mess.

Location

First, do research to find which country or area would be the best to purchase your type of raw material. Some countries are known for their expertise in a certain product. For example, South Africa may be known for its diamond exports, while China, one of the world's leading raw materials exporters, is known for rare metals used in technology. If a particular country is known for producing higher quality materials and is actually a specialist in that particular item, it will pay for you to import. By purchasing from a country that specializes in the material, you can avoid higher premiums from countries that do not readily produce the item.

Comparing Companies

After determining the country or region you would like to research further, find several top companies to compare. You will want to **compare prices, wait times, and shipping and payment terms**. You should also ask for references to check the reliability and quality of the

material. This type of research will allow you to choose the best company and can save you thousands of dollars by avoiding companies that offer unsatisfactory products. When researching the company, you may run into foreign language barriers, so it may be wise to hire a trusted translator to ensure accurate communication and understanding. Be sure to find out any hidden costs, such as shipping. It would be beneficial to have the company provide an itemized list of each cost and fee you will incur. If they cannot provide this list, most likely they are not the type of company you want to do business with.

Quality

The biggest mistake business owners make is to fall for a deal that seems too good to be true. If the prices seem outrageously lower than you are used to, begin by inquiring why. The business may claim to ship the same product as competitors, but if their prices are significantly lower, there must be a reason why. In most cases, the difference is in the quality. Remember; don't forgo quality for a cheaper price. The cheaper quality product will not satisfy your demanding customers. If you expect to remain competitive in your field, you need to ensure that the product you are researching is of the same, if not better quality. You can do so by asking for samples.

Importing raw materials from overseas can save your company a great deal of money over time. You can bring in materials at a substantially lower price and, in turn, raise your profit margin. You may find that the products are of better quality and offer originality or authenticity. However, be sure to spend a great deal of time doing research to find a company that will safely deliver a quality product on time and for the prearranged price (Jensen, 2010).

2.6. Factors Related to Importation (Empirical Literature)

International Transportation

The cost of transportation of merchandise from one country to another is a combination of two major components: inland and international transportation costs. About 23 percent of world trade by value occurs between countries that share a land border and this proportion has been nearly constant over recent decades, though it varies significantly across continents (Hummels, 2007). For India, between 1 and 5 percent of trade by value is with land-neighboring countries (De, 2008c). For trade with nonadjacent partners, nearly all merchandise trade moves by ocean and air

modes. Bulk commodities like oil and petroleum products, minerals and grains are shipped almost exclusively via ocean cargo. Bulk cargoes constitute the majority of international trade when measured in terms of weight, but are a much smaller and shrinking share of trade when measured in value terms. Manufactured goods are the largest and most rapidly growing portion of world trade. Containerization in ocean transportation has changed the composition of freight rates, where freight (ocean) cost is one of the major components of international transportation costs. It has an impact on trade equivalent same as tariffs. Freight costs vary across regions, where inefficient transport services could be the potential element for freight costs differentials resulting in longer time of delivery. Inefficient transport services are reflected in higher freight costs and longer time for delivery (Prabir De & Rout, 2008).

The study by Melkamu, A (2016) on Ethiopian transport system explored that transport costs are very high in Ethiopia. For instance, in garment processing trade, overall transport cost cover 28 percent of the total value added. This is a high proportion compared to the world average and Africa's average which are 6.1 and between 15 and 20 percent respectively. According to the World Bank Report (1991) efficiently organized flows of goods and information are only possible if there is a well-developed transport and communication infrastructure. The report also described that in sub-Saharan African countries, this infrastructure is poorly managed and maintained. Until recently about half of the region's paved roads and 70 percent of its unpaved roads were only in a fair to poor condition and required substantial repair.

Geoff (2006) in his study argued that a well-established transport system in the logistical operations could lead to increased effectiveness, reduced operation costs and promotion of the firms' service value.

Imported Raw Material Quality

High dependency on imported raw materials and intermediate goods has remained the distinguishing feature of the Ethiopian manufacturing sector. The main reasons for high dependency on imported raw materials were unavailability of raw materials in the local market and lack of sufficient local supply. Inadequate and poor quality imported raw materials and technologies, along with low level of technical skills, top the lists of the problems facing the sector. Series of surveys conducted by the Central Statistical Agency (CSA) on the

manufacturing sector consistently reported that more than 50pc of firms claim that their first major reason for their low capacity utilization is inadequate and poor quality raw materials. This calls for a concerted effort both by government and other stakeholders to seek ways and means of enhancing domestic production of manufacturing raw materials thus reducing the outflow of the scarce foreign currency (AACCSA, 2014).

Effect of Hard Currency

Trade finance plays a key role in helping developing countries participate in global trade. Following the 2008-09 economic crisis, small and medium-sized enterprises (SMEs) have found it increasingly difficult to access this vital form of credit. The poorer the country is, the greater the challenges. The lack of adequate trade finance is particularly acute in Africa and developing Asia. Easing the supply of credit in regions where trade potential is the greatest could have a big impact in helping small businesses grow and in supporting the development of the poorest countries (World Trade Organization, 2016).

Limited access to finance to fund manufacturing projects and shortage of foreign currency to import raw material and intermediary goods are the main problems of the manufacturing firms in Ethiopia. Thus, the government should alleviate this problem by coordinately working with financial service providers found both within Ethiopia and abroad in order to make available funds for new investment in manufacturing sector in addition to giving due attention to reserve foreign currency that useful for importing raw materials and capital goods. AACCSA may teach or provide information for manufacturers on how they can access finances from different sources (AACCSA, 2014).

International Business Experience

This experience allows firms to develop knowledge and skills that are useful for internationalizing their operations. Specifically, international experience improves a firm's ability to overcome its liability of foreignness and reduces the costs and time of doing so (Barkema, Bell, & Pennings, 1996). Internationally experienced firms are able to transfer their experiential learning into new contexts to overcome their liabilities of foreignness more rapidly. Such firms are thus able to internationalize more rapidly when compared to firms without international experience. For example, experience with establishing and managing operations in

other countries allows firms to adjust to host country particularities such as consumer demands or legal restrictions, more rapidly. The experiential learning associated with international experience thus facilitates the rapid internationalization of firms' operations. In addition to this facilitating effect of international experience we suggest that international experience can also "push" firms to internationalize rapidly. Managers of firms with international experience are more likely to have an international mindset, and are thus likely to view their firms' markets as international. Such an international mindset also makes managers more likely to look for growth opportunities outside the firm's home-country, increasing the speed of firm internationalization. RBV-based research has highlighted top managers' international experience as a source of firm-specific, inimitable and tacit knowledge that affects the internationalization of firms (Barney, Wright, & Ketchen, 2001). Research on entrepreneurship in general, and on International New Ventures/Born Globals in particular, has highlights that entrepreneurs learn from their experience and become more likely to spot new opportunities in general, or new opportunities for international expansion in particular (Luo, Zhao, & Du, 2005, Musteen, Francis, & Datta, 2010).

Custom Tariff

Even though tariff revenues are an important income source for some governments, the estimated loss of below 10 per cent should not be seen as an absolute loss for countries. Lower tariffs will not only allow consumers to have access to cheaper products but also producers to better enter other African markets. In addition, firms will have access to cheaper raw materials and intermediate goods from other African countries which will reduce their cost of production. Therefore, a tariff revenue loss mainly signifies redistribution of income from governments to consumers and producers. The CFTA, moreover, produces welfare gains well beyond tariff losses (UNCTAD, 2017).

2.7. Knowledge Gap

Sourcing raw materials from international market is believed to be a major means to reduce cost and improve quality while increasing profit margin. Reduced cost and better quality of a product together result in increasing the competitiveness of a company. However, importation of raw materials in African countries like Ethiopia is challenging due to various reasons. The challenges are related with , Availability of foreign currency, International transportation, and International

business knowledge, Quality of raw materials and Custom tariff. This study tried to identify which factors are challenging the importation process of the case company and how.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter is concerned with the Methodology that was used in this research. This part of the paper is crucial as it was used in order to obtain information and infer conclusions about the subject matter, Assessment on challenges of raw materials import in manufacturing firms. The research design, Research approach, source of data, data collection tools, Total population, Sample size, methods of data analysis and ethical consideration was also discussed as below.

3.1 Research Design

According to Creswell (2009), Research designs are plans and the procedures for research that span the steps from broad assumption to detailed methods of data collection, analysis and interpretation.

Descriptive research survey has been employed to conduct the study and assess the challenges of raw materials importation in manufacturing firms. The goal of descriptive research design is to describe a phenomenon and its characteristics. This type of research design is more concerned with what rather than how or why something has happened (Nassaji, 2017).

3.2 Research Approach

The research approach that has been used for this study was qualitative research approach. Qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. The final written report has a flexible structure. Those who engage in this form of inquiry support a way of looking at research that honors an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation (Creswell, 2014).

3.3 Target Population

To complete the survey through a quantitative approach, it was necessary to define the population to focus on. The target population could be defined as “the collection of elements or

objects that possess the information sought by the researcher and about which inferences are to be made (Malhotra, 2004, p.315). This is about people that were included in the research as sufficient respondent in order to answer research questions.

For this study, the target population was commercial department which consisted sales and marketing and purchase section. The choice to use this department was due to its closeness to the subject matter to grasp the deep knowledge of experienced and top employees of the company. The total number of respondent has been three top management members in the department that include, deputy General Manager (operation), Commercial department manager and Purchasing deputy manager.

3.4 Sampling and Sampling Technique

Purposive data sampling were used, the idea behind qualitative research is to purposefully select participants or sites (or documents or visual material) that will best help the researcher understand the problem and the research question. This does not necessarily suggest random sampling or selection of a large number of participants and sites, as typically found in quantitative research (Creswell, 2014). The target population of the study is the commercial department (sales, Marketing and purchase sections) as this department is close to the topic. The deputy general manager (operation) of the case company was selected purposely as one of the respondents to get the general overview of the topic and the General and Deputy Manager as they are handling the import activity.

3.5 Data Source and Collection Methods

The researcher used both primary and secondary data source to collect data for this study. Primary data was collected mainly through interview. For this thesis, interviews seems to be suitable method because they allow asking open ended questions to small sample and exploring individual experiences or opinions regarding the researched phenomenon. In qualitative research, interviews tend to be more flexible. Unstructured and semi-structured interviews mostly focus on the interviewee's opinion and experience, aiming to get rich and in-depth data (Bryman 2008). Thus, they rather have the characteristics of conversations, trying to deal in-depth with the individual case (Pole and Lampard 2002). According to Silverman (2000), exploratory studies

need to be less structured than confirmatory studies. In a study with a rather small sample size, like this thesis, the focus is not so much on comparing the cases. Thus, the questions do not need to be very standardized and can be rather open. The researcher conducts face-to-face interviews with participants. The interviews involve unstructured and generally open-ended questions that are few in number and intended to elicit views and opinions from the participants. The interview was conducted with deputy general manager (operation), Commercial manager, and deputy purchase manager. The researcher has been also collected qualitative documents from Company internal record and annual report to supplement the primary source.

3.6 Data Analysis and Presentation

The Collected data has been analyzed using qualitative data analysis technique Lofland (1974) suggests that although data collection and analysis strategies are similar across qualitative methods, the way the findings are reported is diverse. Miles and Huber man (1984) address the importance of creating a data display and suggest that narrative text has been the most frequent form of display for qualitative data. Therefore, the results have been presented in descriptive, narrative form rather than as a scientific report.

3.7 Reliability and Validity

3.7.1 Reliability

The reliability refers to a measurement that supplies consistent results with equal values [Blumberg et al., 2005]. It measures consistency, precision, repeatability, and trustworthiness of a research [Chakrabartty, 2013]. It indicates the extent to which it is without bias (error free), and hence insures consistent measurement cross time and across the various items in the instruments (the observed scores).

The researcher tried to ensure the reliability of the instrument by avoiding asking leading questions, giving the interviewee a chance to sum up and clarify the points they have made , conducting a pilot interview; and taking notes not just depending on tape recorders.

3.7.2 Validity

Validity is often defined as the extent to which an instrument measures what it asserts to measure [Blumberg et al., 2005]. Validity of a research instrument assesses the extent to which the instrument measures what it is designed to measure (Robson, 2011).

To assure the validity of the instrument, the researcher uses member checking to determine the accuracy of the qualitative findings through taking the final report or specific descriptions or themes back to participants and determining whether these participants feel that they were accurate, experience of the researcher also considered to check the validity , Spend prolonged time in the field, in this way, the researcher develops an in-depth understanding of the phenomenon under study and can convey detail about the site and the people that lends credibility to the narrative account. The more experience that a researcher has with participants in their settings, the more accurate or valid will be the findings and finally, proper detection by my advisor was taken to ensure the validity of the instruments.

3.8 Ethical Consideration

The researcher used the collected data only for this study purpose and the information given by the respondent was only accessed by the researcher and may be by the advisor. The researcher didn't require the respondent to disclose their name and promised to keep all the collected data secretly. The researcher didn't modify the collected data but used it as collected without any change. In general the researcher considered the ethical values and didn't violet the privacy of both respondent and the company.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter dedicated for two issues that the first part analyzes results drawn from interview and summary of findings as to answer the research questions on assessing the challenges of importing raw materials in manufacturing firms in the case of Horizon Addis Tire Share Company.

The researcher managed three interviews with top management team, Deputy General Manager (operation), Commercial Department Manager and Deputy Purchase Manager.

4.2 Presentation of Data Analysis

In this section the two interdependent factors namely the demography and analysis variables are presented respectively. The first part of the analysis includes the demography data to describe the demography elements defined in the interview: Gender, Education background, Department and year of experience.

The presentation on the variables of the research include Availability of foreign currency, international transportation, international business knowledge and experience, quality of imported raw materials and custom tariff as the expected challenges of importing raw materials .

4.3. Interviewee characteristics

In the following, the characteristics of the interviewed employees described in order to understand the backgrounds of the interviewed persons. Most of this information has been collected through a short questionnaire (see appendix point A). However, some information was also collected through the interviews and summarized at this point.

Table 1 Demographic Characteristics of Sample Respondent

Demography Factors		Response	
		Frequency	Percentage
Gender	Male	3	100
	Female		
	Total	3	100
Education background	Higher secondary level		
	Diploma holder		
	Bachelor	1	33.3
	Masters	2	66.6
	Total	3	100
Department	Purchase	1	33.3
	Marketing		
	Sales		
	Others	2	66.6
	Total	3	100
Years of Experience	3_5	1	33.3
	6_10	2	66.6
	above 10		
	Total	3	100

Source: Own survey (2019)

As shown in the above table, it clear that all of the respondents are Male with the percentage that covers 100% and from this, we can understand that males dominate the department.

The above table shows that the respondent holds a qualification from Bachelor to masters. Majority of the sample respondent are holding Masters which comprise 66.6 %, masters and one employee is with Bachelor. This composition tell us that the respondents are in different education level and indicate that the department is filled with educated employees and capable to understand the subject matter very well. The above table shows that the composition of the respondent, this information helps us to understand how the respondents are close to the subject matter.

As shown from the above table, 1 respondent is from purchasing section (deputy manager) which comprises 33.3%, the department manager and the deputy general manager (operation) is also part of the sample respondent.

It was also mandatory to know the experience level of the respondent that is reflected through years of experience they have worked in the department. The above table shows that all of the respondents are above three years' experience. This also tells us that the respondents are capable enough to understand the research area well.

4.4. Analyses of Collected data

In this section the researcher tried to investigate respondent's feedback about those factors that are related to importation. To assess the challenges of importation, five factors: foreign currency availability, international transportation, International business knowledge and experience, quality of imported raw materials and custom tariff are the dimensions. This helped to know which factors are challenging the importation process of the company. Therefore, the respondent answer to the above mentioned factors were analyzed as below:

I. Foreign currency availability

✚ Do you think foreign currency is a problem and affecting your business activities?

Answer: We are import dependent and no issue that we are being affected directly or indirectly by its availability. We are importing 112 different raw materials, from chemicals to our major input Natural rubber. This is above 90 % of our raw materials requirements. For consistent production, we need to make sure those raw materials are available in the warehouse on the right time. No currency, no raw materials and no production as result.

Thus, as the company is import dependent, if no currency no raw materials and production consequently.

✚ Do you believe that foreign currency shortage is frequently observed problem?

Answer: The respondents confirmed that the company doesn't get foreign currency approval as per its requirements. When comparing the approval with the company requirement, there is huge gap. Due to this the company suffers a lot with raw materials shortage. To produce the product, the company should get all materials needed for the

production of tire at a time and this is not possible with the approved FCY amount. The frequency of the approval is long and it is inconsistency. The approval time takes long time (6 months & above) and it is not possible to predict the next approval time.

✚ **Do Charges and commissions of banks you are working with are above the industry average?**

Answer: As there is foreign currency shortage, the company has not a chance to choose among banks based on their commission and charges for LC/TT/CAD. Instead the company utilizes the currency approved by any of its bank ignoring the commission and charges.

✚ **Are you given FCY approval priority as manufacturer?**

Answer: The respondents agreed that the case company is given priority by bank for foreign currency allocation to import its raw materials. This result denotes that the company, as a manufacturer, is given priority for foreign currency approval. Based on the government foreign currency approval policy, manufacturing is priority sector next to fuel and medicine. Whenever banks have sufficient foreign currency that serves the top priority sectors, manufacturing sector get the chance because of the economic contributions they are making to the nation.

From the above response we can infer that foreign currency availability is a challenge to the company as it is a cause for raw material shortage and additional cost with regard to banks commission and service charges.

II. International transportation

✚ **Does Lack of alternative shipping lines to import your raw materials affect your business activity?**

Answer: Respondents explained that the company is affected by lack of alternative shipping lines for importation. This indicate that using only Ethiopian shipping line creates delivery delay

in that the company accept the shipment and delivery schedule only given by this shipping line . As a policy by the government of Ethiopia, importers should use only Ethiopian shipping line for their cargo. This creates dependency on the shipping line for shipment and delivery time.

3. Does Importing from Asia have any effect on your business in relation with transportation?

Answer: Similarly all respondents replied that importing from Asia has cost effect. Importing from Asia has big cost impact as the distance is very long comparing to Africa, Middle East and Europe. The international transportation cost becomes almost double comparing to the above mentioned continents. This entails that importing most of the major raw materials frequently from Asia (especially from china) has a delay report.

Geographically Ethiopia is far from Asia and this take long transit time to ship and deliver the materials to the company. This creates raw materials stock out pressure and force the company to stop production.

✚ Does shipment space create delay?

Answer: Respondents explained that the company could not get space for shipment. Most of time the shipping company is fully booked for company schedule and the company is forced to postponed and accept the shipping lines schedule. This create shipment and delivery delay. ESLSE is governmental and the only shipping line for all Ethiopian importation. It is obvious that the shipping line monopolizes the sector and over burdened by the transaction. As a result, having shipment space is very difficult. Though this is a country policy to protect the shipping line and save hard currency which is to be paid to other international shipping line, it is a challenge to company like Horizon Addis.

✚ Do the ships sail as per schedule?

Answer: The interviewees were asked that if ships are sail as per their schedule and they responded that mostly the shipping line do not keep its schedule to deliver the materials on time. After the shipment and arrival date is fixed, due to various reasons, the ships may not sail for more than two weeks and this makes the company out of schedule and creates production stoppage.

We can infer from the above response that the international transportation is a challenge to the company because it depends on ESLSE and this force the company to accept ESLSE shipment schedule and price. Importing most of its raw materials from Asia also bring a challenge of long transit time and high freight cost.

III. International business knowledge and experience.

✚ Are purchase related employees knowledgeable and experienced of international business?

Answer: The respondents agree that employees in the foreign purchase related department are knowledgeable and experienced in international business account. This result shows that the position of the company is good in the area (international business); employees have knowledge and experience how to communicate the suppliers in the entire world to discuss the business matter. The company has not communication barrier and these enable the company to establish smooth relationship with its suppliers and this has advantage on cost, quality of raw materials and delivery term.

✚ Does negotiation for discount and other trade terms difficult to the company?

Answer: Negotiation for price discount and other terms is difficult even if our employees have experience in the area. This is due to rushing purchasing practice of the company. As soon as we get FCY approval from banks, we rush to process and have the materials on time for production. Second the company should utilized approved FCY immediately before expiry date (from 7 to 10 days), else not possible to utilized any time .Therefore, Most of time we have not sufficient time to negotiate the supplier for price.

From this we can understand that the company is not in a position to negotiate for price discount and other terms due to the rushing purchasing practice of the company. This makes the company to rush and conclude the contract without taking time for negotiation.

✚ Do you have more than one supplier for similar materials to compare price?

Answer: The respondents reply that the company has not more than one supplier to all of its imported raw materials. Introducing the right suppliers to the company is not an easy task and

needs long time. As a result we don't have additional suppliers to all of our imported raw materials. For some major raw materials, we have more than two suppliers.

This implies that the company depends on only one supplier to most of its raw materials and it is not comparing price and quality with other suppliers. Also this does not enable the company to switch to other suppliers easily in case the existing supplier fails to supply due to various reasons. Having more than one supplier minimize dependency on a single supplier and increase bargaining.

✚ Do you follow international price trend?

Answer: The interviewees agree that the company has not a trend to check and follow international market price consistently. This is due to internet connection, unavailability of the information and lack of employee's commitment. Even if it is vital to collect such information, the company is not doing it seriously.

This indicates that the company has a problem of having international price information to all of its imported raw materials and it is blind regarding the current price of the material. Also the company has no strong ground to let the supplier to make discount. This let the company to buy beyond the market price.

✚ Do you think you are price taker as African company?

Answer: The Company is price taker as it is small customer to the big international suppliers. They offer to the materials and said take it or leave it. Since we don't have more options, there is nothing we can do except accepting the price and precede the purchase. For some materials the company doesn't hold stock as it need space and hold capital, so they rush to get the material with whatever price. In such condition the issue is avoiding production stoppage and not the price

From this we can infer that the company bargaining power is very weak due to being small customer to the suppliers and having only one supplier to most of its raw materials. These force the company to accept the price offered by the supplier without negotiation.

The above points indicate that the company employees are knowledgeable and experienced on international business. However, the company doesn't have additional supplier for all of its raw

materials, follow international price trend and negotiation is difficult to the company. As a result the company has little bargaining power and become price taker.

IV. **Quality of Imported Raw materials**

✚ Do you check raw materials sample before bulk shipment?

Answer: The respondent replied that the company has a system to check raw materials sample before bulk shipment. As per the procedure the company first communicates the supplier for the document (specification) and if this is as per our standard we will ask the supplier to send us sample to our laboratory test. It is only after the sample test is accepted, bulk purchase will be made.

This indicates that based on the inspection result the sample may be rejected if it is not as per the standard. This enables the company to control the quality of imported raw materials before bulk shipment and avoid consequences if less quality materials are shipped. Therefore, the company has no challenge in this area.

✚ Is The Company consistent on entry inspection for incoming raw materials?

Answer: They replied as, we have a procedure as to how and when every imported raw material are inspected before unloading and deliver to store. Randomly sample is taken from the shipment and sends to laboratory to make sure that the materials are as per the approved sample and our standard. If the test result doesn't meet the standard, the materials don't unload and send to store. For each shipment there is also conformity report send by the supplier to the factory

This indicates that the company gives due attention to maintain quality of imported raw materials from its origin to destiny.

✚ What is the fate of less quality imported raw materials confirmed by entry inspection?

Answer: The Company is consistent in inspecting every incoming raw material. If the test result of the materials is above or below the standard, further investigation will be made to see how the deviation is serious and check whether it is within the tolerable limit or not. If the deviation is out of the tolerable limit, the supplier will be communicated and decision will be made how to

handle the material. Otherwise, company doesn't accept materials that are not as per the agreed standard.

This shows that if quality problem occur which is rare, the company doesn't compromise to hold the materials whatever is the cost impact. This tells that the company doesn't accept any inferior raw materials that send by the supplier either by fault or deliberately. The company doesn't compromise to accept and consume in production materials that is lower in quality. In this case, the fate of such materials is determined by the suppliers.

✚ Do the suppliers willing to compensate for lower quality raw materials?

Answer: Interviewees replied that, as far as the non-conformity is confirmed by both the customer and suppliers experts, the supplier agree to compensate the company either by sending other material or other mechanisms which is depend on the agreement between the supplier and the company.

This specifies that the supplier is willing to make compensation to those materials that are not meet the standard either in cash or by replacing the material with quality product. This assists the company not to compromise to use lower quality materials for its main product.

The above indicators show that, quality of imported raw materials is not challenge the company importation process. This is the result of consistent entry inspection from the sample to every bulk shipment delivery of the raw materials. If there is any lower quality materials send by the supplier, the company doesn't use it for its tire production. Instead, the suppliers agree to replace the material or compensate for the damage.

V. Custom Tariff

✚ Do you think that custom and other tariffs on imported raw materials are reasonable?

Answer: The respondent replied that custom and other tariffs on imported raw materials are not reasonable. The minimum rate for custom tariff is 5 % and 10% for other materials. Including Vat and other taxes, the company is paying 23% to major inputs and up to 48 % to other materials. We don't believe that this is reasonable to such import dependent company. The respondents believe that since the company is working on import substitution products and

employee more than 800 citizens should be assisted by the government and all taxes related to importation to be exempted.

They also said that the refunding time for VAT and withholding tax is unreasonably long. The refunding time for the 15 % VAT is more than a month. Same is also true for withholding tax which needs more than a year to be refunded by the authority.

These replies indicate that the custom and other taxes rate are challenging the company competitiveness by increasing the cost of the product and holding the company working capital by long returning time.

✚ Does the custom authority encourage the company with incentives related to raw materials importation?

Answer: Respondents agree that the incentives by the Custom authority are not sufficient comparing with what the company is contributing to the nation as manufacturer. The respondents doesn't believe that government do encourage the company as it is such strategic company that adds more than 30% value locally ,employee more than 800 citizens and working on import substitution to save hard currency .

Without the government support it is very difficult to the factory to sustain in the market and contribute to the nation. As the sector is among government priority areas, the authority is expected to support the factory

✚ Does the rate to Custom and other Tariffs on imported raw materials by other merchandising business are the same?

The Interviewees replied that even if Duty and tariff rate on similar imported raw materials imported by other merchandizing business is not same. However, the rate levied to manufacturing companies like horizon should be zero as the contribution is significant.

This implies that the rate is lower to manufacturing companies comparing to other merchandising business which import just to sale without adding any value and employee two or three employees.

In general, the respondents reply that the custom authority has not incentives that encourage the company as local manufacturers. The tariffs are believed to be higher and needs to be waived.

CHAPTER FIVE: SUMMARY, CONCLUSION, LIMITATION & RECOMMENDATION

This chapter contains four sections; in the first section summary of findings presented, based on the research findings conclusion was made in the second section, section three was dedicated to highlight the limitations of the study and the last section was devoted to recommendation to the company to take some corrective actions.

5.1. SUMMARY OF FINDINGS

The summary of the major findings of the research were presented as below

- ✚ Although The Company is working with more than two banks to increase the chance of getting foreign currency and given priority as manufacturer by the government for foreign currency approval to import raw materials, still the company has challenge in getting the hard currency as per their requirement. First of all the currency is in short and second the company requirement is very high. Only for one month consumption of their major input (natural rubber), the company needs USD 600,000.00. This is only for one item of the 112 importing materials. The company is paying commission and service charge above the industry average to get foreign currency from other banks. Therefore, FCY is found to be a big challenge and problem to the company.

- ✚ The company has knowledgeable and experienced employees on international business. They are capable of how to communicate suppliers and process the transactions, however, doesn't follow and use the international price index as benchmark to compare supplier's price with. This should be the major work to an experienced employee to get information on the current international market price of the materials. This indicates that the company is blind as to what is going on in the international market. This forced the company to accept price of suppliers which is above the market price. The company also has only one supplier for most of its imported raw materials. Having only one supplier is not good and has its' own risk. The employees need to go an extra mile to get additional suppliers to all of its raw materials, but found that this is a problem and challenge to the company due to the lengthy process of adding suppliers.

- ✚ The company is importing most of its raw materials from Asia. This is because of the price advantage comparing to other continents. Though the raw material price of this continent is lesser, the long transit time, high transportation cost and booking problems are major challenges of importing from this continent. Working only with ESLSE is also a challenge to the company as it makes the company without options to compare the freight cost and shipping schedule with other shipping line. The company is being forced to accept ESLSE freight cost and shipment schedule that affects the company competitiveness and business activity.
- ✚ Including vat and withholding tax the company is paying to custom authority for imported raw materials from 23% to 48% to its major and other materials respectively. The rates on imported raw materials are not believed to be reasonable and must be exempted from imported raw materials by manufacturers like Horizon Addis tyre S.C. Also the refunding time for returnable taxes like vat and withholding tax is very long. Refunding time for Vat is one month and one year for that of withholding tax. This holds the working capital of the company, and let the company to pays interest to banks without using the borrowed money. In addition to the above, the custom authority incentives to those who are importing raw materials and producing are not sufficient to encourage local manufacturers.
- ✚ The quality of imported raw materials is found to be not a challenge to the company. This is due to the procedure that the company has from communicating new suppliers to deliver the bulk shipment to the company.

5.2 CONCLUSION

The below conclusions of the research were made based on the major findings of the study:

- ✚ The company is highly import dependent as it is importing more than 90 % of its input needs. To import all of its raw materials (112 line items), the company needs to wait banks approval for more than six months .After waiting for such long time, the banks release some hard currency which enable the company to import some of its input only

for some months consumption. Again need to wait banks approval to import the other materials. This circle will continue either till the company starts sourcing the materials in the country or start using its own FCY. This is the main and serious challenge that needs close attention. Findings show that the company could not produce with its full capacity to increase its profit and market share due to foreign currency shortage. Not getting foreign currency as per its requirement, hamper the company business activities by shortening raw materials supply. This problem will be expected to continue in the future and if action will not been taken, the problem will be serious to the extent of closing the factory. Finding finance to import raw material is very difficult even with higher banks service and commission charges which higher the cost of the product. As there is foreign currency shortage, the company is vulnerable for additional cost to obtain the material on time in using air mode of shipment.

- ✚ Currently the company is using only ESLSE for all it's imported by sea raw materials. This is because of government police that all importers should use ESLSE for various reasons. However, depending only on ESLS forced the company to pay higher sea freight cost and lack flexible shipments schedule. Most of the time, ESLSE is over booked as all importers are using it and not possible to get the material as per the company schedule. This make the company to be stocked out and forced either to cut production or close the factory till the materials are get delivered. The factory is importing from Asia due to cost advantage, but this make the transit time long (more than a month) and the freight cost higher.
- ✚ The company is unable to consider the international board price and having only a single supplier to most of the raw materials .This is another challenge that the company is confronting. This made the company to be blind and accept one supplier price without comparing and negotiating. Foreign sourcing is advantageous since the company is able to assess the whole market in different ways. Having only one supplier has a risk of being without supplier if the relationship with the existing one is broken also weakens the bargaining power of the company.

- ✚ Custom tariff on imported raw materials levied by the authority is also a burden instead of incentivized and encourage the company. Comparing to other sector, the manufacturing sector is favored by the authority. However, the custom tax, withholding tax, vat and surtax are still a burden to the factory. Though, the vat and withholding tax are returnable, the process takes long time, for vat one month and withholding tax a year. This is also a burden to a company which is working with bank's working capital loan.
- ✚ The above mentioned factors are challenging the company by increase the cost in one or another way. Increase in cost means, increase in price and decrease in profit margin. Raw material shortage, as the result of foreign currency and shipment delay, challenge the company to produce less. These also challenge the company by increasing the fixed cost and reduce sales volume and lose market share. Therefore, the survival of the company is challenged by these factors (Availability of foreign currency, international transportation, international business knowledge and experience and custom tariff) which are related to importation.

5.3 LIMITATIONS OF THE STUDY

There was no similar works done by other researcher on the same area. As a result triangulation was not possible to gain good understanding from different perspectives of an investigated phenomenon. The sample size is limited to the commercial department management team and employees at different level. Larger samples more closely approximate the population; however the selected department is close to the subject under study.

5.4 RECOMMENDATIONS

Based on the findings of the summary and the conclusion, the following recommendations were forwarded to the Management of Horizon Addis Tire Share Company and to all concerned parties:-

- ✚ The company is import dependent from small chemicals to its major inputs like Natural Rubber. It is importing almost all types of raw materials for more than 40 years. Financing such huge company for all of its raw materials is a burden to banks as well as to the

country. Currently foreign currency is in short, the gap for the payment deficit is very high. The government of Ethiopia is in a very serious problem with regard to foreign currency availability. Therefore the Company should not expect foreign currency approval as before and needed from government. To ensure the existence of the company, the management team should find its own foreign currency source to finance at least some of its imported raw materials. This could be done by exerting effort to start exporting its product to nearby countries to use the hard currency from the export for its importation. Most of our neighboring countries have not tire factories and importing all their tire needs from abroad. Therefore, there is a chance to penetrate the COMMESA market with their product.

- ✚ Second, the company should work on cultivating its major inputs locally. Natural rubber which comprises 47 % of the company need can be sourced locally with government or other parties. As we have favorable weather and land, this material could be sourced locally. By doing this, 47% of the company currency requirement will be reduced. Other raw materials are petroleum products and need to be imported in the future as well. These actions can save the company from shut down.
- ✚ As the company is importing most of its raw material from Asia, there is no issue that the cost and transit time are very high. This problem worsens by depending only on the government shipping line (ESLS). To minimize the cost and transit time, there must be a chance to use other shipping line comparing for cost and transit time. The sector should be liberalized, competition among shipping lines must be there so that the company benefit from the better service. After waiting for months for foreign currency approval, the company should not wait for some other months to transport the materials from the port of loading to its destination. The government mustn't monopolize the sector, but build the capacity of ESLS and open the market to other competitors in the transportation sector bring quality service to customers like Horizon Addis tire S.C. Otherwise, the inefficiency of the ESLS should not be transferred to the company.
- ✚ The company should not pay above the market price. This can be done by having more than one supplier for same material to compare for price and other commercial terms. The company should send an enquiry at least for two suppliers so that it can compare the price

of these suppliers that the quality is remaining same. It is obvious that finding the right supplier needs a continuous effort and commitment still it is important as determining the company existence. There is also international price index by 3rd parties which is designed to give information and protect buyers from any bias transactions. Therefore, for major materials the company should follow and use the information given by such organization as benchmark. Otherwise, this challenge will continue and the company will buy paying to companies above market value.

- ✚ The company should put pressure on ERCA to remove the custom tariff on imported raw materials by manufacturers. The company is paying profit tax; it is strategic for our country as it is producing our basic necessity that is being imported by hard currency, employee more than 800 citizens. The company and other manufacturers should be encouraged and incentivized to remain in the market being competitive. Although tax is main source of the government, the benefit that the country is obtaining from such company is incomparable. Therefore, government should encourage and support the company by exempt taxes on imported raw materials.

Ethiopia is well known to have multiplicity of mineral resources. Nevertheless, their employment is not realized yet, mineral resource investigation and use is still at the beginning stage. This frustrate the growth if industries are used them. Due to this, the sector will continue to import inputs. Therefore, the concerned parties should consider this as major challenges that the manufacturing sector is facing. Immediate action should be taken to do the right to increase raw materials availability with the required quality and quantity by means of strengthen raw materials producer's capacity.

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APPENDIX A

INTERVIEW QUESTIONNAIRE (characteristics)

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES DEPARTMENT OF GENERAL MBA

The researcher is currently conducting research entitled, **ASSESSMENT ON CHALLENGES OF RAW MATERIALS IMPORT IN MANUFACTURING FIRMS: THE CASE OF HORIZON ADDIS TIRE S.C. "**. Please answer the interview questions honestly and without any mental reservation. Your response will be treated with utmost concern and confidentiality.

Phase 1 Demographic information

1. Gender

Male

Female

2. Education background

Higher secondary level

Diploma holder

Bachelor

Other

3. Department

Purchase

Sales

Marketing

Others

4. Year of experience

3-5

6-10

Above 10

APENDEX B

INTERVIEW QUESTIONS

1. Foreign currency Availability

- ✚ Do you think foreign currency is a problem and affecting your business activities?
- ✚ Do you believe that foreign currency shortage is frequently observed problem?
- ✚ Do Charges and commissions of banks you are working with are above the industry average?
- ✚ Are you given FCY approval priority as manufacturer?

2. International transportation

- ✚ Does Lack of alternative shipping lines to import your raw materials affect your business activity?
- ✚ Does Importing from Asia have any effect on your business in relation with transportation?
- ✚ Does shipment space create delay?
- ✚ Do the ships sail as per schedule?

3. International business knowledge and experience.

- ✚ Are purchase related employees knowledgeable and experienced of international business?
- ✚ Does negotiation for discount and other trade terms difficult to the company?
- ✚ Do you have more than one supplier for similar materials to compare price?
- ✚ Do you follow international price trend?
- ✚ Do you think you are price taker as African company?

4. Quality of Imported Raw materials

- ✚ Do you check raw materials sample before bulk shipment?
- ✚ Is The Company consistent on entry inspection for incoming raw materials?
- ✚ What is the fate of less quality imported raw materials confirmed by entry inspection?
- ✚ Do the suppliers willing to compensate for lower quality raw materials?

5. Custom Tariff

- ✚ Do you think that custom and other tariffs on imported raw materials are reasonable?
- ✚ Does the custom authority encourage the company with incentives related to raw materials importation?
- ✚ Does the rate to Custom and other Tariffs on imported raw materials by other merchandising business are the same?

DECLARATION

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

Name

Signature

St. Mary's University College, Addis Ababa

June, 2019

ENDORSEMENT

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

Name

Signature

St. Mary's University College, Addis Ababa

June, 2019