



**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**THE EFFECTS OF ORGANIZATIONAL VALUE ADDING ACTIVITIES  
ON PROFITABILITY OF SELECTED LEATHER PRODUCT  
MANUFACTURERS IN ADDIS ABABA**

**BY**

**BETHELHEM ASRAT**

**JUNE, 2022  
ADDIS ABABA, ETHIOPIA**

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**JUNE, 2022**

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## **Letter of Certification**

This is to certify that this research, **effects of organizational value adding activities on profitability of selected leather product manufacturers in Addis the Ababa** conducted by **Bethelhem Asrat** for the partial fulfillment of the requirements for the degree of Masters of Arts in Business Administration at **ST. MARY'S UNIVERSITY** is an original work and not submitted before for any degree either at this university or any other university.

---

**Tewdros Mokonnen (PhD)      Research Advisor**

## **DECLARATION**

I earnestly proclaim that this thesis is entirely my Original work and has not been submitted in any form for another degree at any other university or college. Information from all the published or unpublished work of other authors has been properly acknowledged. I have produced it independently except for the guidance and supervision of the research advisor.

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

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# TABLE OF CONTENTS

ACKNOWLEDGEMENT .....	i
TABLE OF CONTENTS.....	ii
LIST OF TABLES .....	v
LIST OF FIGURES .....	vi
LIST OF ACRONYMS .....	vii
ABSTRACT.....	viii
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the Study .....	1
1.2 Statement of the Problem.....	3
1.3 Objectives of the Research.....	5
1.4. Research Questions.....	5
1.5 Significance of the Research.....	5
1.6 Scope of the Study .....	6
1.7 Definition of Terms.....	7
1.8 Organization of the Paper .....	8
CHAPTER TWO .....	9
LITERATURE REVIEW .....	9
2.1 Review of Theoretical Literature .....	9
2.1.1 Value Chain Defined.....	9
2.1.2 Primary Value Adding Activities.....	12
2.1.3 Support Value Adding Activities.....	13

2.1.4 Rationale and Importance of Value Chain Analysis .....	14
2.1.5 Alternative Views and Critics of Porter’s Value Chain Model .....	15
2.2 Empirical Literature .....	17
2.2.1 Global Leather Production .....	17
2.2.2 Ethiopian Leather Production .....	21
2.2.3 The Leather Sector .....	23
2.3 Previous Studies on the Operational Activities of the Organizations in the sector .....	28
3.4 Conceptual Framework .....	30
CHAPTER THREE .....	31
RESEARCH METHODOLOGY .....	31
Introduction .....	31
3.1. Research Design and Approach .....	31
3.2. The Study Site .....	31
3.3. Target Population .....	32
3.4. Sample Size and Selection Procedure .....	32
3.5 Data Sources .....	33
3.6. Data Collection and Analysis Methods .....	33
3.6.1. Reliability .....	35
3.6.2. Validity Analysis .....	36
3.7. Procedure of Data Collection .....	36
3.8 Ethical Consideration .....	37
CHAPTER FOUR .....	38
PRESENTATION OF RESEARCH FINDINGS .....	38
4.1 Introduction .....	38
4.2 Demographic Characteristics of the Leather Companies in Addis Ababa .....	38



4.3. Analysis of the Leather Value Adding in Addis Ababa .....	41
4.4. Analysis of Variance Test and Discussion of Results .....	42
4.5. Result from Descriptive Statistics.....	44
4.6 Analysis of Challenges Facing the Value Chain.....	53
CHAPTER FIVE .....	55
SUMMARY OF MAJOR FINDINGS AND RECOMMENDATION .....	55
5.1 Summary of Major Findings .....	55
5.2 Conclusions.....	56
5.3 Recommendations.....	57
References.....	59
Appendix.....	61

## LIST OF TABLES

Table 1: Leather goods market value forecast worldwide from 2016 until 2021GC (in billion U.S. dollars)* .....	19
Table 2: Top ten leather producing countries in 2020GC .....	20
Table 3 :Characteristics of Respondents by Sex and Age .....	39
Table 4: Type of Ownership .....	39
Table 5: Characteristics of Respondents' by Educational Qualification:- .....	40
Table 6: Characteristics of Respondents' marital status .....	41
Table 7: ANOVA Results for Value Adding Activities on Operating Profit Margin .....	43
Table 8: Descriptive Statistics results for all Value Adding Activities.....	44
Table 9: Mean results for Value Adding Activities on inbound logistics Profit Margin .....	45
Table 10:-Mean results for Value Adding Activities on Operations Profit Margin .....	46
Table 11: Mean results for Value Adding Activities on out bound logistics Profit Margin.....	47
Table 12: Mean results for Value Adding Activities on marketing Profit Margin.....	48
Table 13: Mean results for Value Adding Activities on Customer Profit Margin .....	49
Table 14: Mean results for Value Adding Activities on Firm infrastructure Profit Margin.....	50
Table 15: Mean results for Value Adding Activities on HR Profit Margin .....	51
Table 16: Mean results for Value Adding Activities on Technology development Profit Margin .....	52
Table 17: Mean results for Value Adding Activities on Procurement Profit Margin .....	53

## LIST OF FIGURES

Figure-1 Chapter2; porter’s value chain analysis.....	9
Figure -2 Chapter2; global leather goods market share by product.....	14
Figure-3 Chapter2; finished leather export destination .....	18
Figure-4 Chapter2; finished leather export share by investment type .....	19
Figure-5 Chapter2; conceptual frame work .....	25
Figure-6 Chapter3; Map of Addis Ababa city.....	26
Figure-7 Chapter4; how old is your organization .....	27
Figure-8 Chapter4; position of the respondent .....	34

## LIST OF ACRONYMS

ADLI -	Agricultural Development Led Industrialization
AGOA-	African Growth and Opportunities Act
COMESA-	Common Market for Eastern and Southern Africa
COMESA-	LLPI- Common Market for Eastern and Southern Africa Leather and Leather Products Institute
CSA-	Central Statistics Authority
ECA-	Economic Commission for Africa
ECC-	Ethiopian Chamber of Commerce
ELIA-	Ethiopian Leather Industries Association
ELIDI-	Ethiopian Leather Industry Development Institute
ERCA-	Ethiopian Revenue and Customs Authority
GC-	European calendar
EWEA-	Ethiopian Women Exporters Association
GDP-	Gross Domestic Product
GSP-	Generalized Scheme of Preferences
IMA-	Institute of Management Accountants
MoTI-	Ministry of Trade and Industry
MoFED-	Ministry of Finance and Economic Development
MoPED-	Ministry of Planning and Economic Development
PASDEP-	Plan for Accelerated and Sustained Development to End Poverty
ROI-	Return on Investment
UNIDO-	United Nations Industrial Development Organization

## **ABSTRACT**

*The main purpose of this study was to assess the effects of organizational value adding activities on profitability of selected leather product manufacturers in Addis Ababa. The study was conducted on eight selected leather product manufacturing firms. Descriptive survey method was used. Survey questionnaires were administered to 48 managerial positions and interview was also held with 8 general managers who were directly involved on the value adding activity to collect additional information. SPSS version 20 was used for analyzing the data. Narration and direct quotation were also used for analyzing the qualitative data. The finding of the study revealed, different value adding activities has been a common practice often conducted in leather product manufacturing firms, but with limited implementation of value adding activity resulted from lack of intervention training, skill and knowledge gap in conducting such value adding activity. P-value test analysis was conducted to see how significant the associations of the value adding activities performance levels of the organizations are with their profitability. Furthermore, inferential statistics and weighted mean testing was undertaken in the form of median tests and ANOVA to test the assumption that difference in performance level in the organizational value adding activities determines the variability in profit margins of the organizations. Also significant results from Analysis of variance taking operating profit margin of organizations as the response variable and performance levels of value adding activities as factors proved that organizational profitability is determined and depends on all primary and support value adding activities performance levels*

*Moreover, high cost of equipment for leather products manufacturing, limited access to finance, shortage of hard currency, storage and transport challenges, barriers to export markets and competition were observed as challenges affecting their business performance. To address the aforementioned problems, it is recommended that the whole process of value adding activity has to be modified by training.*

**Key word:** *value adding is described as the economic enhancement of a company*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The term "value-addition" describes the economic enhancement a company gives its products or services before offering them to customers. Value-addition helps explain why companies are able to sell their goods or services for more than they cost to produce. Value can be added to leather products in several different ways in the form of gloves, shoes, bags, and belts. It is very important as it provides consumers with an incentive to make purchases, thus increasing a company's revenue and bottom line (Adam Hayes, 2018GC). Thus value addition has a particular importance in that it offers strategy for transforming an unprofitable enterprise into a profitable one (MSU, 2005GC)

Designers will not be just about making products for export brands but also value-added service such as designing products like shoes, bags, belts, and gloves, and enhancing the level of skills and growing capacity. (Aqeel Ahmed, 2016GC)

Leather industry is one of the prioritized industries for the diversification of export and foreign exchange earnings (Ministry of Finance and Economic Development, 2010EC and National Planning Commission 2016GC). While Europe had been the main destination until 2011EC, the United States, China, neighboring Kenya and Canada came to be the main importers of Ethiopian footwear in 2016GC, according to data from ERCA.

In Ethiopia The leather industry has been one of the major traditional industries, but it is now at a turning point to change itself from a traditional industry to a modern industry to penetrate the international high value-added leather market, under the strong initiative of the Ethiopian government (Girma Admasu 2013GC). In the PASDEP, the leather industry is mentioned as an important sector for trade and industry development (MoFED, 2006GC).

Since 2012EC, the government has discouraged export of hides and skins to boost exports of value added products such that the promotion of high value-added leather products is going to encourage the process of the industrialization of agriculture (MoPED, 2016GC).

Through its 150% taxation on semi-processed leather exports, the Ethiopian government has clearly decided to encourage exporting value added products. This industry mostly consists of

transforming leather into shoes, gloves or garments. The repartition of the final products in Ethiopia is similar to elsewhere in the World.

During the last two years of the second Growth and Transformation Plan (GTP II), the low performance of leather and leather products export compared to the plan continued. In 2015/16 the plan was 206.6 million dollar while the actual export was 115.3 million. In 2016/17 the plan was 272.7 million USD with the performance of 114 million USD. In the remaining years an ambitious plan of reaching 368.1 million USD, 505.0 million USD and 706.5 million USD envisaged in 2017/18, 2018/19 and 2019/20 respectively (Ministry of Trade, 2017GC).

Given the above information, it is clear that there exists an opportunity for the development of the Finished leather products sector. Yet, if not effectively handled bringing about the desired quality and productivity of the outputs can be a serious challenge. When organizations big or small decide to enhance market coverage and competitiveness of their products and outreach customers beyond national domains, there are new challenges as the unknown and uncontrollable factors in an unfamiliar business world intensify. Anderson (2009GC, p. 34) states that „Poor fit between a company’s value adding activities and core capabilities and the evolved value chain of a new host market can make foreign market entry a painful process“. Firms will have to deal with a number of new issues pertaining to customer preferences, market foundation and logistics, and others like legal and regulatory considerations.

The Ethiopian leather industry suffers from a low penetration on the international market, because of a lack of competitiveness in terms of selling price. This can be explained by a high dependence on the upstream industries. The whole leather transformation process appears to be a byproduct industry. It is specialized in mid-range products because of the lack of design skills and quality problems. The shoe industry faces different problems. The production is not self-sufficient and the import costs of several shoe components compensate the comparative advantage due low salaries and government incentives. As for the other products, they suffer from distance to the markets.

An expert believes that value addition has not been well executed since there were not support packages given to the factories, when the law that obliged companies to add value was legislated. The government did not help tanneries create market value chains or aid in sharing the costs of environmental protection and technology, according to the expert. (Fortune, 2017GC)

“Due to these failures, the expectation of the government did not actually materialize,” the expert said.

Ethiopia earned 134 million dollars from leather and leather product exports, according to the Livestock Industry Development Institute, below the targets set by the Second Edition of the Growth & Transformation Plan (GTP II), which is around 280 million dollars.

## **1.2 Statement of the Problem**

The concept of value creation historically has been synonymous with value adding, and the concept of value adding is helpful when analyzing the potential profitability of the leather sector (Coltrain et al., 2000GC).

C. Haksever (2004GC) stated that value creation has an important aspect of business firm, but they don't know “For whom the value is created” because some author said it must create only for its shareholder, another said stakeholder. Value can be created from different activities, policies and practices of the firms. The value added process directly or indirectly affected the five group people like owner/shareholder, employees, customer, supplier and society. The shareholder gets value in terms of money, employee in term of health insurance, childcare facilities rather than salary customers get valuable products at seasonable price, society get through charitable contribution and corporate social responsibility by the firms.

Performing value adding activities in ways that would allow a firm the capabilities to outmatch rivals is a potential source of competitive advantage. Although potential for value adding different value adding activities vary, profitability and maintaining a sustainable market for a firm's products depends on how much aggregate value the goods and services hold in the mind of the final consumer. “An effective value chain analysis results in the identification of new ways to perform activities to create value based upon the firm's unique way of combining its resources and capabilities” (Prajogo, et al., 2008GC, p. 616).

Organizational Value adding activities are inherently intended to ultimately show how organizational capabilities and business strategies can be used to deliver the maximum value to customers. Assessing company performance in undertaking the value adding primary as well as support functions enables a firm to increase its competitiveness and sustainability of its value



chain and create a competitive advantage through better value contributions from its value adding activities.

Hill and Jones (2010GC) point out that, to perform good internal analysis company's managers need to be able to analyze the financial performance of their company, identifying how its operational activities and strategies contribute to profitability.

Most previous value chain studies have traditionally been undertaken at the macro industrial level UNIDO (2012GC) and Walters and Lancaster (2000GC) spanning all the value chain actors in different sectors and industries, including the leather and leather products sector (Abebe and Schaefer, 2013GC).

The gap that is expected to be narrowed down therefore by making an attempt to identify which value adding activities make significant impact and influence a firm's profitability by attempting to examine the relationship between value adding activities and profitability not at the industrial level but rather by making firm specific researches.

Through the study and analysis of their value chains, businesses can identify where to make upgrading on the value adding activities by determining how their revenue, cost and margins will be altered as a result of adopting alternative strategies.

The leather product manufacturers in performing the major value adding functions in organizations along with how these activities are related with profitability was studied.

The leather sector is overwhelmed with structural problems ranging from unorganized hide and skin collection systems upstream to poor marketing infrastructure downstream, according to the report. The report also asserts that Ethiopia has a large comparative advantage in the export of raw hides and skins but not in the export of value added leather products because of a lack of skilled human power and unavailability of needed inputs such as chemicals and high-quality hides and skins.(LIDI 2017GC, UNIDO 2012GC).

In 2012 the government of Ethiopia has banned exporting of raw hides/skin but value added leather products. Even though there aren't adequate studies on this issue some sources show that the export market of value added leather products has been declined due to low skill of designing products and not using modern machines.

This research examines the effects of value adding activities on profitability on selected leather manufacturers in Addis Ababa. So it is geographically limited to Addis Ababa, however most of leather manufacturers are located outside of the city for example in Modjo, Hawassa.

Culturally in Ethiopia people are not willing to provide financial information and status of their organizations so it was very difficult to get accurate information about value adding activities on profitability.

The study was conducted by distributing questionnaires which was in English and there was a language barrier while filling up the form.

### **1.3 Objectives of the Research**

The general objective of the research is studying the effects of organizational value adding activities on profitability of selected leather product manufacturers in Addis Ababa by considering their value creation chain. More specifically the study seeks,

- To survey how well the organizations perform value adding activities
- To analyze the challenges of value adding activities
- To investigate the effects of organizational value adding activities on profitability and operating profit margin of the organizations

### **1.4. Research Questions**

Accordingly, based on the research problem identified the following research questions were Addressed

1. What is the performance of the organizations in undertaking the value adding activities?
2. How does organizations' performance level in undertaking the primary and support value adding activities relate with and determine profitability?
3. What are the main challenges of value adding activities?

### **1.5 Significance of the Research**

This research presents a new perspective of how value chain research and analysis can be taken down to concentrate on organizational value chains in leather manufacturers. In addition, the research can be a future reference to other similar researches in to other sectors and

organizations. Besides this, the research can be extended to encompass the value chains of other industry actors for a more comprehensive study of the leather industry value chain in the future.

The research findings will be indicative of where strategies of leather manufacturers should focus to reconfigure their value chain activities and improve their financial as well as operational performances which will result in better and higher value added to their leather products.

Again, the research results will identify organizational value chain activities, which have greater or lesser contributions to and relations with profit margins of leather manufacturers. Using this as a starting point, the organizations can then decide on intervention strategies and areas for a better synchronization of organizational activities, by improving operational activities with additional potential for improvement which will lead to increased value added to their products.

Competitiveness is based on the notion that the perceived value of organizations market offerings exceeds that of the competitors in the market. This happens when the value load possessed by leather manufacturers output has a higher weight in customers' minds.

An organization, by identifying where it has weakness in the value chain and value creation activities can take steps to boost the value contributions of its value adding activities. One way to do this is to study the effect of value adding activities on profitability in leather manufacturers.

## **1.6 Scope of the Study**

This research is limited to 40 samples to study organizational value adding activities on profitability of selected leather product manufactures in Addis Ababa within six months of time period. The rationale behind the delimitation of the research to this specific area is the importance it presents to the national economy and its potential for development.

There is a national interest to improve the level of value addition to outputs from the agricultural sector for domestic and foreign markets. As a sub sector in the agricultural sector, the leather product economic area specifically has been selected for analysis.

This research does not cover analysis of other members of the leather sector like tanneries and input suppliers as well as informal small scale leather product manufacturers.

## 1.7 Definition of Terms

### What is value chain analysis?

A value chain is the full range of activities – including design, production, marketing and distribution – that businesses conduct to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials to make the products and consists of everything added before the product is sold to consumers. Value chain analysis finds any deficiencies in these processes and improves them, saving money, improving quality and expediting time to market.

### Components of a Value Chain

Porter splits a business's activities into two categories, "primary" and "support,"

**Primary activities-** These are a company's primary functions; in other words, all the things needed to create and sell their product:

- **Inbound logistics** involves the receiving, storing and distributing of raw materials used in the production process.
- **Operations** are the stage at which the raw materials are turned into the final product.
- **Outbound logistics** is the distribution of the final product to consumers.
- **Marketing and sales** involve advertising, promotions, sales-force organization, distribution channels, pricing and managing the final product to ensure it targets the appropriate consumer groups.
- **Service** comprises the actions needed to maintain the product's performance after it is produced, including installation, training, maintenance, repair, warranty and after-sale services.

### Support activities

Support activities help the primary functions:

- **Procurement** is how the raw materials for the product are obtained.
- **Technology development** can be used in the research and development stage, in how new products are developed and designed, and in process automation.

- **Human resource management** includes the activities involved in hiring and retaining the proper employees to help design, build and market the product. These could be tracked with a human resource information system.
- **Firm infrastructure** refers to an organization's structure as well as its management, planning, accounting, finance and quality-control mechanisms. This can include cloud computing and accounting software.

## **1.8 Organization of the Paper**

Value adding is the process of changing or transforming a product from its original state to a more valuable state. For example adding value to skin/hides means changing them into shoes, bags, belt, garment and so on.

The research report is organized into five chapters. Chapter one is the introduction part dealing with background of the study, statement of the problem, objectives, significance, delimitation and limitation of the study. The second chapter presents the review of related literature about the subject matter of the study. In chapter three, the research methodology is presented. Chapter four of the research report covers the presentation, analysis and interpretation of the data collected. In Chapter five summaries of major findings and recommendation is given.

## CHAPTER TWO

### LITERATURE REVIEW

This Literature Review covers important issues related with value chain studies and empirical theories. Articles, Books, Publications and other academic resources were reviewed to present the current discoursed among academicians and professionals.

#### **2.1 Review of Theoretical Literature**

##### **2.1.1 Value Chain Defined**

The earliest statement of value chain concepts in academic literature goes back to the 1980s, in the renowned works of Michael Porter (1985GC) who used the term in his book “Competitive Advantage: Creating and Sustaining Superior Performance”. He sought to assess the contribution of various firm activities he distinguished as primary and supportive activities contributing to the overall added value of its business. Primary activities relate to the production process and include inbound logistics, operations, outbound logistics, marketing and sales, and services. Support activities are necessary for the effectiveness and efficiency of the firm, such as procurement, human resource management, technology development and firm infrastructure. „Every firm is a collection of activities that are performed to design, produce, and market, deliver, and support its product. All these activities can be represented using a value chain (Porter 1985GC, p.36).

With the value chain concept Porter was able to emphasize that the profitability of a firm depends on how effectively the various activities that create product and service value added are managed.

Only if those activities are performed in a way that enables the firm to generate a sufficient margin between the overall costs of the activities and the price the consumer is willing to pay, is the firm profitable. The value added in each of the activities and overall determines how competitive the company is and whether it will maintain its competitive advantages in the future.

In the process of designing competitive strategies, capabilities and performance of internal organization units should be known so that it will be matched with external environmental opportunities which can be exploited. „The value chain is a tool to disaggregate a business into strategically relevant activities.

This enables identification of the source of competitive advantage by performing these activities more cheaply or better than its competitors" (Walters & Lancaster 2000GC, p.160).

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A company's success depends on how well each value adding activity has been properly aligned within the overall value creation chain within the organization. Each functional unit that is considered to be a value adding is assumed to contribute to the profitability of the company.

The better the activities are done along the value chain; the return margin of the company will increase consequently leading to increased profitability.

The generic value chain model of Michael Porter provides a starting point for disaggregation of activities in an organization for strategic differentiation analysis and strategic cost analysis. Fearné, et al., (2012GC) point out that this disaggregation of functions can also be further extended to consider broader value linkages and be applied to an inter-firm system, from raw material inputs acquisition until the final goods and services reach the customer for consumption.

Organizational value chain analysis is also an important tool for strategic company positioning in the context of the extended/industrial value chain. The supply chain focuses on the physical and logistical flow of materials from the suppliers of raw materials through distribution channels and product flows to deliver the final product and services to customers. Shapiro (2001GC) illustrates the network aspect in supply chains where supply chains are composed of connected transportation and logistics networks of organizations in an industry.

However, value chain analysis incorporates the value relationships and the gradual value additions to the inputs of production as the raw material is gradually transformed in to finished

products. Acharyulu and Shekhar (2012GC, p.91) agree that „The Value Chain VC is the expansion of the supply chain to include demand planning, defining markets and customers“ requirements“.

For Business organizations with the primary objective of gaining profits, business activities are intended to produce returns to the company more than the cost it incurs to produce the goods and services outputs of an organization. Porter used the term “margin” to denote the difference between the total value and the cost of performing the value activities. In his own words, „Value activities are the physically and technologically distinct activities a firm performs. These are the building blocks by which a firm creates a product valuable to its buyers. Margin is the difference between total value and the collective cost of performing the value activities“ (Porter 1985GC, p.38).

According to Revsine, et al., (2004GC) as a measure of margin in value chain, operating profit (earnings before interest and taxes) can be used to reflect and emphasize on the contributions of the value adding activities from the operational point of view, minimizing the implications of other financing or investing activities within the organization on firm performance. Operating profit accounts for both cost of sales and operating expenses.



Porter (1985) highlighted the major decompositions for the value adding activities as follows:



## 2.1.2 Primary Value Adding Activities

- Inbound Logistics – incorporates activities associated with
  - Receiving, storing, and disseminating inputs to the product
  - Material handling, warehousing
  - Inventory control, vehicle scheduling
- Operations- incorporates activities associated with
  - Facility operations, transforming inputs into the final product form
  - Machining, assembly, product testing
  - Equipment maintenance, quality control
- Outbound Logistics - incorporates activities associated with
  - Collecting, storing, and physically distributing the product to buyers
  - Finished goods warehousing, material handling
  - Product delivery, order processing, and scheduling
- Marketing and Sales- incorporates activities associated with
  - Providing a means by which buyers can purchase the product
  - Advertising, promotion, sales force, quoting
  - Channel selection, channel relations
- Service- incorporates activities associated with
  - repair
  - product returns and product adjustment
  - Training

### 2.1.3 Support Value Adding Activities

- Firm Infrastructure- consists of a number of activities including
  - General management,
  - planning, finance, accounting
  - Legal, government affairs
- Human Resource Management - consists of activities involved in
  - Recruiting, hiring, training,
  - development and compensation of all types of personnel
- Technology Development- consists of a company's
  - Know-how, procedures
  - technology embodied in process and operations
  - Technology research and development
- Procurement- consists of the activities in the purchasing function of organizations such as
  - Interacting with suppliers
  - Dealing with vendors,
  - Qualification rules and information systems.

The above listed sub- activities are generic by their nature, are common to most organizations and can be applied to variety of organizations in different business sectors. So in order to adapt the application of the model to study the organizational value chains of organizations in a given business sector, nature of the industry with in which the organizations operate as well as the operational characteristics unique to the organizations should be taken into consideration.

Supporting this, Kaplinsky and Morris (2001GC, p.49) stated that „Each value chain will have particular characteristics, whose distinctiveness and wider relevance can only be effectively captured and analyzed though an understanding of the broader issues which are involved in the context of industry relationships“.

In order to capture the essence of the research, the data collection instrument used for the research further builds on the above listed activity decompositions to improve instrument reliability and incorporate other relevant variables and factors needed to capture the data of value chain activities within the industry specific context.

#### **2.1.4 Rationale and Importance of Value Chain Analysis**

Value chain analysis at the organizational level and the resulting information generated from various investigative approaches towards the internal organizational performance in value creation enables managers and decision makers to select among alternative intervention options to improve the value adding activities for products and services of the organizations in the form of strategies and policies applicable to different operational activities in the organization. „A strategic tool to measure the importance of the customer’s perceived value is value chain analysis.

By enabling companies to determine the strategic advantages and disadvantages of their activities and value-creating processes in the marketplace, value chain analysis becomes essential for assessing competitive advantage“ (IMA 1996GC, p.1).

The value chain model developed by Porter comes along with the mechanism for creating and retaining competitive advantage in market competition. Porter (1985GC) outlines competitive strategies for organizations generally classified as cost advantage and product differentiation.

Value chain analysis has a primary purpose of identifying ways to improve competitiveness in those two dimensions, by altering the value chain activities. Other contributors to the science of value chain research and analysis like Shank and Govindarajan (1993GC) outlined how a mix of relative differentiation position and relative cost advantage position of an organization provides a basis to decide on which competitive strategy an organization should adopt. Consequently, all the value adding activities should be recalibrated to bring about the desired competitive power for the organization. Furthermore in the study of firm competitiveness from the resource based view of organizations, Grant (1991GC) also indicated that before the appropriate strategy can be determined and implemented, analysis of organizational resources and capabilities of an organization should precede and need to be identified. Resources became basis for competitive advantage when they are not only rare but also inimitable, thus making the organization very valuable to customers.

SWOT analysis in the process of Business strategy formulation and implementation is another managerial decision making situation where value chain analysis can be used as a tool. In order to match the internal competencies to opportunities in the external and competitive environment an internal audit of organizational capabilities in the value chain activities should be conducted.

The essential justification of the value chain analysis is to identify ways of creating additional value without incurring significant costs and transfer the value created. Hitt, et al., (2011GC, p.

108) stated that „The value chain is a template that firms use to analyze their cost position and to identify the multiple means that can be used to facilitate implementation of a chosen business level strategy“. Tomkins and Carr (1996GC), who conducted a research on a number of international firms to investigate whether these concepts are being applied, found that the most successful firms were those that focused on the value chain and competitive advantage analysis. This is mainly because the value chain analysis enables organizations to decide on strategic decisions such as outsourcing, vertical and horizontal integration etc.

### **2.1.5 Alternative Views and Critics of Porter's Value Chain Model**

At the organizational level, the value chain describes the full range of activities required to bring a product or service through the different phases of production, including physical transformation, the input of various producer services, and response to consumer demand. As such, value chains include the vertically linked interdependent processes that generate value for the consumer.

However, recently other applications of value chain studies have emerged that are not confined to the analysis of value creation activities within the organization. The concept of value chain is no longer thought to be limited only at the organizational level, as Porter did in his earlier works, but have been applied to much broader studies of extended value chains at the industry level and even at the global level.

For example according to Webber (2007GC), industry specific value chain analysis enables firms to identify efficiencies and competitiveness both within and among firms, acting on opportunities to build win-win linkages and collaboration.

As a member of an extended value chain at the industrial level, an organization has the chance to decide on how much to contribute the value chain, which will determine the return it expects from the value chain for the role it plays among the interconnected set of firms.

A number of researchers and academicians claim that by incorporating the impacts of linkages, relationships and other factors in the value chain analysis at the extended value chain level organizations can better understand the impact of their organizational activities on other participants. When these factors are also taken in consideration together with firm level value chain analysis, business strategies will tend to produce better results since the inputs for the strategy formulation are not only inward focusing, but also outward looking.

According to UNIDO (2006GC), the major distinctions of value chain literature are:

1. Strategic management and business administration approaches which focus on the individual firm,
2. Industrial cluster development approaches with arguments for strategic firm alliances and industry relationships and
3. The global value chain concept which emphasizes the importance of globalized impacts and factors on national and local value chains. For example, governmental and international development studies on difficulties of upgrading of producers and processors in developing countries to international markets.

Soosay, et al., (2012GC) stated that „Value Chain Analysis is a diagnostic tool for supporting the process of continuous improvement at the level of the chain as a whole (rather than individual businesses)“. Taylor (2005GC) defines Value Chain Analysis as the multidimensional assessment of the performance of value chains through the examination of product flows, information flows and the management and control of the chain.

These and many other similar works promote the idea that value chain analysis should not only be conducted and confined at the firm level and individual businesses, but should be applied at a broader context of value creation and flow starting from raw materials and input suppliers until the goods and services finally reach the hands of the customers.

McPhee and Wheeler (2006GC) also claim that business today have changed and evolved in their nature hence a revision of the value chain methodology is required to implement Porters

value chain model today. „A purely inward focus is no longer useful, Successful firms are now replacing internally focused strategy-development models with alternatives that allow a broader view of the firm as a part of the world around it“ (McPhee and Wheeler 2006GC, P.40). According to them for the value-chain model to be effective for the firm, a full representation of all of the available activities should be included in the model – including those activities aimed at creating value through external relationships beyond the scope the traditional firm bound value chain model.

In their proposition of an enhanced value chain model they termed as “Added-value chain model”, they incorporated new variables of supply chain management, external networks, product usage and Brand equity, with the aim of establishing a framework that has a holistic representation of both tangible and intangible characteristics of product value to the customer.

According to Varadarajan and Cunningham (1995GC), the concept of value added not only includes the tangible transformation of the product and services from raw materials in to finished products but also the intangible capabilities of the firm like information linkages, business knowledge and mature business relationships.

A consolidating view of the value chain at the firm level and other studies at the industry level has been presented by Rainbird (2004GC). He stated that these two perspectives naturally intersect. Value chain should be seen as operating at two levels concurrently without the need to focus studies at different levels separately.

By having a dynamic than static view of the value chain, it will be possible to maximize the firm’s ability to tailor its activities and processes to reflect wider migrations of, and changes in, value in the industry context the firm operates in.

## **2.2 Empirical Literature**

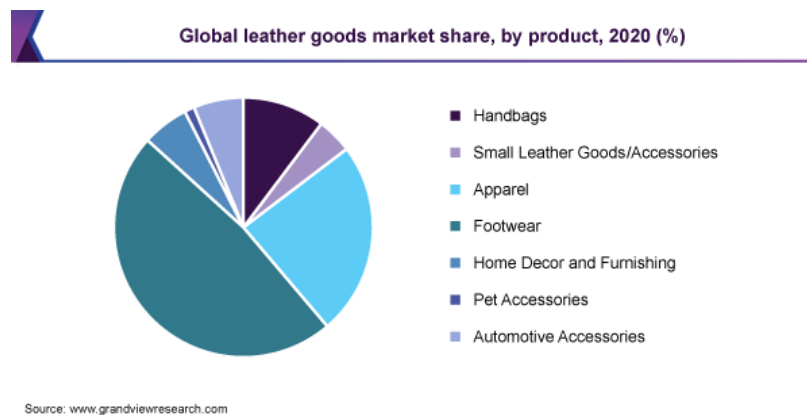
### **2.2.1 Global Leather Production**

The use of animal hides by mankind has been in practice since around 400,000 years ago (that is so long ago!) It also speaks to the value and usability of leather, which is very popular today.

The leather industry has been a key player in the global commerce market for millennia, some even claiming that it may be the second oldest profession in the world. Today it is indisputably a

major industry of huge economic importance on an international scale; in just one year alone, 23 billion square feet of leather is produced, accounting to around 45 billion dollars\* (2007GC).

However, the industry has not been unaffected since its genesis, but rather has experienced many significant and consequential changes, particularly in the last 20 to 30 years. Developing countries now produce over 60% of the world's leather needs.



The global leather goods market size was valued at USD 394.12 billion in 2020 and is expected to grow at a compound annual growth rate (CAGR) of 5.9% from 2021EC to 2028EC.

In 2020GC, 30.3 percent of the global values of exported leather goods were realized by China, making the country the leading exporter for leather goods in the world. Italy and France represented the traditional European tanning industry, with respectively 17.8 percent and 14.8 percent of the global export value for this product. Other Asian countries, such as Vietnam and India also had a share of the global export value: Vietnam with 6.4 percent and India with 2.6 percent of the worldwide export value.

The market is mainly driven by rising consumer disposable income, improved living standards, changing fashion trends, and growing domestic and international tourism. The rising demand for comfortable, trendy, and fancy leather apparel, footwear, and accessories, along with growing brand awareness, is expected to have a positive impact on the market. Attractive and luxurious leather products are often viewed as a style statement and status symbol. The rising demand for contemporary designs offered by prominent international brands, such as Giorgio Armani, Burberry, Prada, and Dolce & Gabbana, is driving the demand for various leather goods, including apparel, footwear, and accessories.

The COVID-19 pandemic has had a negative impact on the overall leather industry, including the footwear, apparel, and accessories categories. Retailers faced severe losses during the first two quarters of 2020GC. According to a report by World Footwear, At the end of the first two quarters of 2020GC the sales of footwear declined by close to 32% in the U.S. Low demand for footwear, in general, is subsequently expected to decrease the sales of leather shoes. Many manufacturers in the market have historically relied on China for finished products as well as raw materials used in the manufacturing of various leather goods. The pandemic has, however, disrupted the supply chain, causing severe losses in terms of product shipment and on-time delivery.

This statistic shows the market value of the leather goods market worldwide from 2016EC to 2021GC. In 2016GC, the global market value of leather goods was worth approximately 217.49 billion U.S. dollars.

**Table 1: Leather goods market value forecast worldwide from 2016 until 2021GC (in billion U.S. dollars)\***

Year in European calendar	Characteristic Market value in billion U.S. dollars
2021	271.21
2020*	264.36
2019*	251.77
2018*	239.78
2017*	228.36
2016	217.49

Source BizVibe



**Table 2: Top ten leather producing countries in 2020GC**

Rank	Country	Average annual production (million sq.ft)	Share of global production
1	China	6,170	25%
2	Brazil	2,360	9.5%
3	Russia	1,652	7%
4	India	1,560	6.4%
5	Italy	1,521	6.3%
6	South Korea	1,140	4.8%
7	Argentina	804	3.4%
8	US	719	3%
9	Mexico	642	2.7%
10	Turkey	529	2.2%

Source BizVibe

Designers worldwide showcase new apparel through fashion shows & events, thereby attracting more consumers toward leather clothing. Various design techniques, such as brocade, Lamé, and applique, are widely used on leather apparel and other elegant dresses. For instance, in September 2020GC, the Forever Leather Fashion show was organized in Shanghai, China. The show displayed a variety of leather products, including a range of modern style jackets, cross-stitched trench coats, travel bags, leather sneakers, duffel bags, and ankle boots. Such instances bring together hundreds of thousands of leather buyers, manufacturers, and designers from different provinces.

Rising awareness regarding the detrimental effects of unethical practices in the production of apparel and footwear has boosted the demand for sustainable products. Sustainable fashion is steadily attracting consumers as many renowned designers have been promoting the concept of sustainability. For instance, designers, such as Stella McCartney, have been promoting

sustainable fashion products, including footwear, in affordable stores, such as Top Shop and Zara.

### **2.2.2 Ethiopian Leather Production**

Ethiopia's leather and leather products await a rosy future. The country has been facing different challenges along with developing the sector for the past decades. However, the government has now come up with new strategies and policy measures to activate the sector. According to the Central Statistics Agency (CSA), Ethiopia is generously endowed with livestock resources. Its cattle population of more than 53 million, along with sheep and goat populations of 25.5 and 24.1 million respectively, put the country first in Africa. With an annual off-take rate of nearly 10 percent for cattle, 33 percent for sheep and 38 percent for goats, the country is endowed with enormous potential for cheap supply of skins and hides.

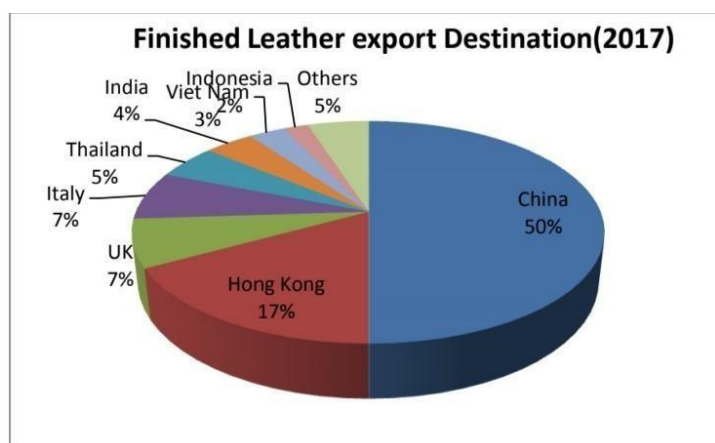
Ethiopian goat and sheep skins are known for their superior quality. Yet Ethiopia's share in world trade of leather and leather products is tiny. Currently, however, the Ethiopian government has given due recognition of this potential and efforts are underway to harness the potentials of the sector. Likewise, the government has been actively involved in the promotion of industrialization in the leather value chain.

According to the Ethiopian Investment Commission (EIC), the leather sector is one of the leading manufacturing sectors for Ethiopia. Of late, Ethiopia is exporting mainly finished leather followed by growing shoe exports. Other leather items including gloves, bags and small leather articles have a large potential for exponential growth. The recent expansion in leather gloves production is proof of existing capacity as well as the potential to export with a steady growth of volume and value. More than 75 domestic and foreign leather and leather product factories have invested in Ethiopia. Export of leather, which was 23 million USD in 2013GC, reached 133 million USD in 2018GC.

Recently, the Ministry of Trade and Industry disclosed that preparations are underway to establish new leather specialized city in the country. The city is expected to embrace the latest technology advanced and well-established leather and leather products manufacturing industries.

Hawassa Industrial Park, Bole Lemi Industrial Park, and Kombolcha Industrial park are among the leading industrial parks working specializing in textile, garment, leather and leather products.

China, Hong Kong, UK, Thailand, Italy, and India among others, are the leading export destinations of the Ethiopian leather and leather products.



Source - LIDI

### Government Support

- With the exception of a few products (e.g. semi-processed hides and skins – 150%), no export tax is levied on Ethiopian export products. A duty drawback scheme exists to incentivize export orientated production. Duties and other taxes paid are drawn back 100% at the time of export of the finished goods.
- Voucher scheme: A voucher is a printed document having monetary value and used in lieu of duties and taxes payable on imported raw materials. Exporters also benefit from this scheme.
- Bonded factory and manufacturing warehouse schemes are available. Suppliers have taken bonded ware house permission to supply for the foot wear as well as for other leather product industries.
- Exporters can retain up to 20% of their foreign exchange earnings for future use. No export price control is imposed by the National Bank of Ethiopia.
- Franco valuta imports of raw materials are allowed for enterprises engaged in export processing.
- An export credit guarantee scheme is available to mitigate risk of customer defaults and thereby facilitate competitive pricing.

- The constitution and investment law protect private property. Foreign investors can make remittances out of Ethiopia in convertible foreign currency at the prevailing exchange rate.
- Exempted from income tax up to 8 -10 years
- Exempted from duties and other taxes on imports of machinery, equipment, construction materials, spare parts, raw materials and vehicles
- No taxes on exports
- One-stop-shop government services
- Land lease term: 60-80 years at zero charge for factories and residential quarters Incentives for Leather Industry Park Developers
- Exempted from income tax up to 15 years (outside Addis Ababa)
- Land lease term: 60-80 years at nominal rate with sub-lease rights
- Provision of necessary infrastructure, including dedicated power substations
- Exempted from duties and other taxes on imports of machinery, equipment, construction materials. The export performance till now is found to be low due to limited managerial capacity in the sub-sector to compete in the global market, lack of application of better technology, absence of product diversification, confined market destination. Despite its long pedigree, the leather products industry in Ethiopia has been struggling with limited processing capacity that explains not just the inability of local leather goods producers to penetrate the export market, but also their failure to withstand competition from imports.

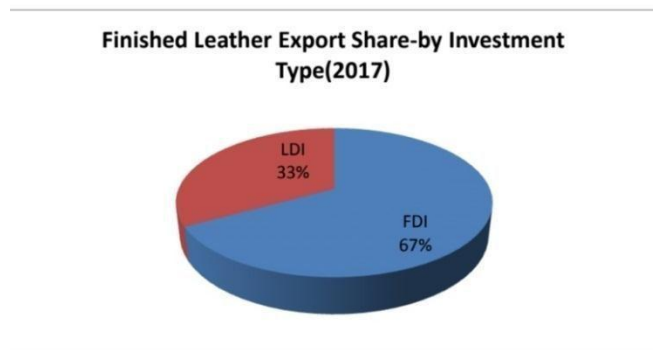
Currently, the government is processing all the preliminary activities to construct Leather City at Modjo. Ethiopia has a potentiality to invest more and expand in leather industry which substantially is because of raw hide and skin exports.

### **2.2.3 The Leather Sector**

According to Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA), the leather industry in Ethiopia started some 90 years ago, when the then Asko Tannery, now known as Tikur Abay Shoe Factory, first opened its doors. The success of this factory nurtured a number of shoemakers, who subsequently established their own factories in Addis Ababa and across the country. Today, in the Merkato district of Addis Ababa, a huge marketplace exists for

shoemakers serving the domestic market with wholesale shops dealing in leather, soles, shoe accessories, and shoe retail stores. At the same time, a number of factories are active that produce shoes for the export market, including Sole Rebels, Oliberté and Enzi. The leather and leather products sector contributes on average about 6-8 percent of the gross value product of all manufacturing industries and contributes about 6 percent to national GDP.

The trade of manufacture and export of leather footwear, leather goods and leather garments is one of the promising sectors for the economic and social growth of Ethiopia through foreign direct investment (FDI) or through Joint venture. Ethiopia is one of the top destinations for foreign direct investment (FDI), accounts for 18.5% of all jobs created through FDI in Africa.



Source- LIDI

### **Investment Advantages in the Leather and Leather products sector**

Overall, the Ethiopian leather and leather products sector exhibits the following main advantages for investment:

Raw material availability: good resource base in terms of quality and quantity. The country has the highest number of livestock in Africa and the world.

Access to wide market: Domestic market with a population of more than 100 million populations, COMESA market (19 member countries and over 400 million population), EBA (everything but arms) agreement with the European Union duty and quota free privilege, Very near to the Middle East and Asian market.

- An abundant and young workforce at competitive labor costs; Wage rates: Unskilled worker – US\$ 40 to US\$ 50; semi-skilled worker – US\$ 45 to US\$ 60; skilled worker – US\$ 60 to US\$ 80.

- A privileged geographic location since Ethiopia is centrally located with easy access to international value chains, and access to a state-of-the-art container port (Djibouti).
- Cheap utility cost together: The average power cost in Ethiopia is 2 US cents to 3 US cents/kWh.
- Ethiopia is a member of the World Intellectual Property Organization and the Multilateral Investment Guarantee Agency, a World Bank affiliate that issues guarantee against noncommercial risks in signatory countries.
- Strong export performance: Export of leather, which was US \$ 23 million in 2013EC, reaches US \$ 133 million in 2018EC, with 478% growth rate.

Abebe, who works as quality control supervisor at Colba Tannery, is worried about the industry these days owing to the various challenges he sees. One problem that jumps out at him is the low quality of the raw material that comes in. “When I started working four decades ago, 80pc of the hide and skin was within grade one to three, and the rejects not meeting export quality were very few,” he said. “Nowadays, the reverse is true as a result of natural or human-caused problems.”

Even though the number of tanneries in the country has grown to 24, the industry’s insiders stress that product quality; lack of access to capital and lack of market integration have created significant roadblocks.

At Colba, where Abebe works, the company has been impacted by these problems leading to production decline. Established in 2009GC, the tannery produces leather products for shoes, garments, gloves and belts for export to European and Asian countries, and processes up to 6,000 goat and sheep skins and large animal hides daily.

“For the first eight years, the company exported up to four containers a month, which is not the case anymore,” said Kebede Amede, a leather technologist at the tannery that employs 300 people. The company exported products valued at 16 million dollars in 2015EC. Last year, it saw a dramatic decline that registered only a third of that figure.

The main cause of the decline in export performance was the directive that made it mandatory to export value-added products. “The measure is not bad but requires market integration and great financial capacity on the part of the factories to develop the necessary technological capacity to produce competitive finished products and to meet the quality requirements of the importing countries,” argues Kebede.

To succeed in the export of value adding leather products, the factory has to be well-equipped with suitable machinery and have a better financial profile, according to professionals working in the industry. They add that this will enable the companies to procure the necessary raw material and cope with the constantly varying needs of clients that follow a frequently changing fashion industry.

Low-quality raw hides and skins collected from local markets are considered one of the major obstacles in the production of quality finished products.

Hides and skins are easily damaged by external parasites that live on the skins of small animals and hides of cattle. Damage also occurs during slaughtering and handling of the raw material prior to its arrival at the tanneries. “We have stopped engaging in the first stages of raw skin processing because of low quality raw hides and skins,” said Demberu Yohannes, production head at Friendship Tannery Plc, a Chinese company established almost a decade ago that produces suede, a type of finished leather commonly used for jackets, shoes, shirts, purses and furniture. “We couldn’t be competitive in the world market with the low-grade hides and skins, so we import wet blue and raw products from Sudan and Saudi Arabia for further processing and manufacturing of our products,” he adds.

The raw materials pass through multiples stages before they come out as finished products. Raw hides and skins are preserved with salt in the first stages and pass through machines and chemicals to be pickled. Then they are processed further and treated with chromium to end up as wet blue hides and skins

The value of the highest grade of semi-processed hides is three dollars for every square foot and 1.30 dollars for those with lower grades. Andrea Squillace, 61, an Italian who runs a family owned leather business from Milan that specializes in gloves and a client of Colba suggests local manufacturers can only gradually become engaged in the production of finished products.

“The leather industry doesn’t need too many heavy industries but many small factories that process semi-finished leathers that feed the heavy industry,” says Squillace, who has five decades of experience in the leather industry. “The process of converting semi-finished leather needs a lot of capital and resources.”

The leather sector is overwhelmed with structural problems ranging from unorganized hide and skin collection systems upstream to poor marketing infrastructure downstream, according to the report. The report also asserts that Ethiopia has a large comparative advantage in the export of raw hides and skins but not in the export of value added leather products because of a lack of skilled human power and unavailability of needed inputs such as chemicals and high-quality hides and skins.

The country is losing its known brand of genetic wealth once associated with special breeds that supplied high-quality raw hides and skins to the world tannery market. The expert recommends that a livestock genetic bank should be established to conserve indigenous cattle. “There must be a win-win strategy that can incentivize the industry as well as ensure that some of the negative impacts such as environmental pollution are addressed.”

Abebe agrees with the view of the expert, especially on the importance of quality cattle breeding. His memories are fresh from the times when strict follow-ups and support for animal husbandry were practiced to protect the hides and skins from parasites and other diseases to sustain quality input.

Leather Processing and Product Research and Innovation Center from Ethiopian textile and fashion technology examine that most Ethiopian Leather processes and product industries and SME,,s are facing a serious problem related to shortage of finished leather, lack of quality raw material, design weaknesses, manufacturing related problems, lack of Effluent treatment, lack of good management etc. (LIDI 2017GC, UNIDO 2012GC).

Despite some limited encouraging results, the leather and leather products industry faces enormous challenges that require grand strategic initiative to address the constraints. The problem of the leather and leather products sector among others includes shortage and low quality of raw materials, high cost and inefficient logistics, transportation and custom services, 28 lack of information, power and water utilities, marketing orientation, lack of skilled human resource (both technical and managerial), low level of technology use and financial constraints which limits the competitiveness of the sector (LIDI, 2015GC).



## **2.3 Previous Studies on the Operational Activities of the Organizations in the sector**

The leather products industry is characterized by rapid evolution in designs and product features.

Apart from the casually worn leather products, a highly profitable fashion leather market also exists internationally. To cope up with this dynamicity of the industry, the producers need to have the necessary inputs for production, be it leather or other product components on time. The organizations in the study rely on a limited number of tanneries for leather inputs that produce standard finished leather types which are restricted to producing semi processed leather (pickled leather) and export it to the rest of the world without further value addition. It has been reported that the biggest tanneries like Ethiopia Tannery and Shoa tannery export up to 85 % of their outputs, retaining only 15 % of their outputs for local sales, with very limited local value additions.

Mekonnen and Ayele (2008GC) stated that diversified leather products manufacturing responds to consumers demand for various sports, leisure and safety products, which requires design skills, knowledge and technology and special distribution channels. In addition, the increasingly flexible specialization modes of production- shorter fashion and business cycles, overcoming the adversity from leather substitutes, meeting tighter delivery schedules and shorter production runs, reducing costs and risks of maintaining inventory, etc are necessary to cope with rapidly changing market requirements.

Due to these facts organizations demand for inputs and production schedules is mainly customer driven and the organizations take it in to account when deciding on what to produce.

COMESA (2011GC), in a regional value chain analysis of member states study some weaknesses relating to main value chain actors in the leather industry have been identified. Shortages of maintenance and spare parts, lack of proper training at both managerial and as well as operational levels, and lack or regional design and brand alternatives are some of the factors hampering the level of value additions in the industry. Product designs and production flexibility play a paramount role to stay competitive in the leather products industry and can be important sources of competitive advantage

According to COMESA (2011GC), even if Ethiopia is one of the countries deemed to have the highest propensity to benefit from the sector, its full potential has not yet been fully realized. Specifically, the leather products sub sector suffers from poor linkages with the other stakeholders in the industry. For example, Tanneries in landlocked countries like Ethiopia experience logistical challenges on timely delivery of spare and wear parts for their machines, with a negative impact on productivity and product quality of the leather products produced.

Moreover, the absence of the local producers of even simple accessories and components in the region further cause serious logistical challenges to footwear manufacturers, as all these inputs must be imported. Other key operational constraints include Lack of technical design and production skills and lack of integrated and supportive sector policies.

Kotler and Armstrong (2012GC, p.12) explain that „the major marketing mix tools are classified into four broad groups, called the four Ps of marketing: product, price, place, and promotion“.

Currently there are initiatives in many directions that the organizations can capitalize on to their advantages from marketing point of view. To mention few, ECA (2011GC) on its 7th Session focused on the theme of policy actions and measures needed to accelerate the process of accelerating the establishment of a continental free trade area in Africa. This will have a positive impact on export performance of the industry organizations. COMESA besides working towards COMESA Customs Union also has a specialized wing exclusively working on leather products and the leather industry. The COMESA-LLPI has the theme of promoting Export oriented leather products production and marketing in the regional member states.

Such opportunities also exist in European markets. As per the EU’s new GSP, Ethiopia is among of the Forty-nine countries that continue to receive EBA treatment (duty free quota free access except for arms) in European Union markets. The exclusive legal basis for the new GSP is EU Regulation No 978/2012 of the European Parliament and of the Council.

The EU regulation No 978/2012 includes Ethiopia among the Beneficiary countries of the special arrangement for the least-developed countries as per Article 1(2) of the proclamation that refers to EBA treatment. There is a provision for „Articles of apparel and clothing accessories, of leather or of composition leather“ listed amid products that can be exported from the beneficiary countries. Unfortunately, Ethiopia is listed of AGOA in 2022GC.

However, the sector suffers from marketing related problems, for instance due to the long exporting process starting from obtaining export license to movement of export cargo which is difficult to understand and seamlessly complete all the documentation and procedural requirements.

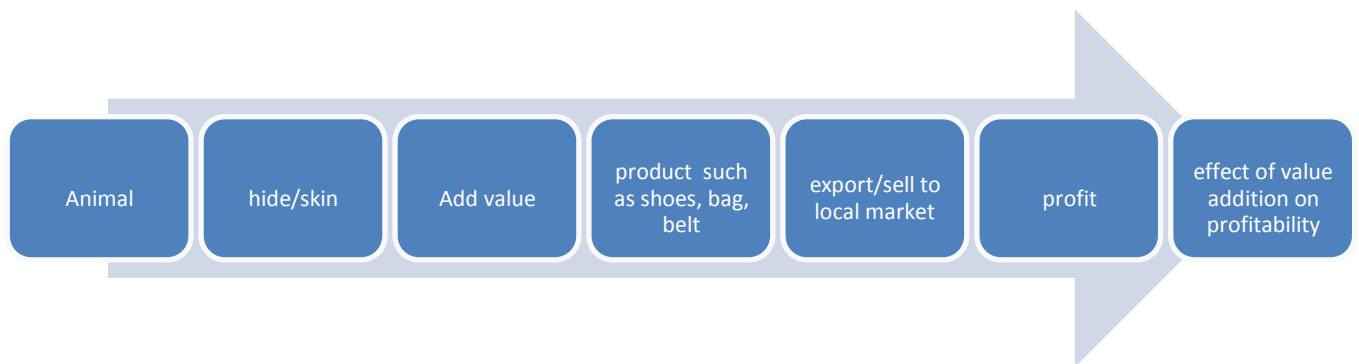
As a result of their membership in associations which promote export trade and improve business opportunities, the organizations benefit from extra platform where information about them and their products is conveyed to interested stakeholders. „Companies can attract customers by promoting various features of the Web site (thus enhancing its usefulness) or by conveying messages that focus on brand image, product assortment, competitive pricing, and customer service“ (Saeed, et al., 2003GC, p. 120).

Sutton and Kellow (2010GC) indicated that the organizations in the sector provide training to their employees either on the job or externally in collaboration with institutions like the Ethiopian Leather Industry Development Institute and Leather and Leather Products Technology Institute which was established by COMESA. The latter provides i) Diploma course for three years, ii) Job training course for one year, and

iii) Short-term training course to upgrade the skills of the actual workers at a rate of 1,000 trainees per year on average,

The institutes have the objectives of providing technical support and consultancy services for existing and potential investors in the sector and to create a conducive atmosphere for developing linkages among the stakeholders in the supply chain.

### 3.4 Conceptual Framework



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **Introduction**

This Chapter deals with the methodology that were used within the quest to oversee the implementation value adding activity system applied to boost high profit to those target leather manufactures. The methods which were used are going to be justified. This chapter includes the research design, which is the mixed method that amalgamates the gathering and analysis of information both qualitatively and quantitatively before the presentation of finding and also the interpretation of information. On top of that, it clearly presents the population and sampling procedures, the research tools which were sued to collect data, and the ethical considerations that were considered.

#### **3.1. Research Design and Approach**

This research is intended to assess the relationship between organizational value adding activities of organizations and profitability which was asserted through quantitative and qualitative data collection. It takes the form of confirmatory research design using cross sectional data where set of theory driven predicted.

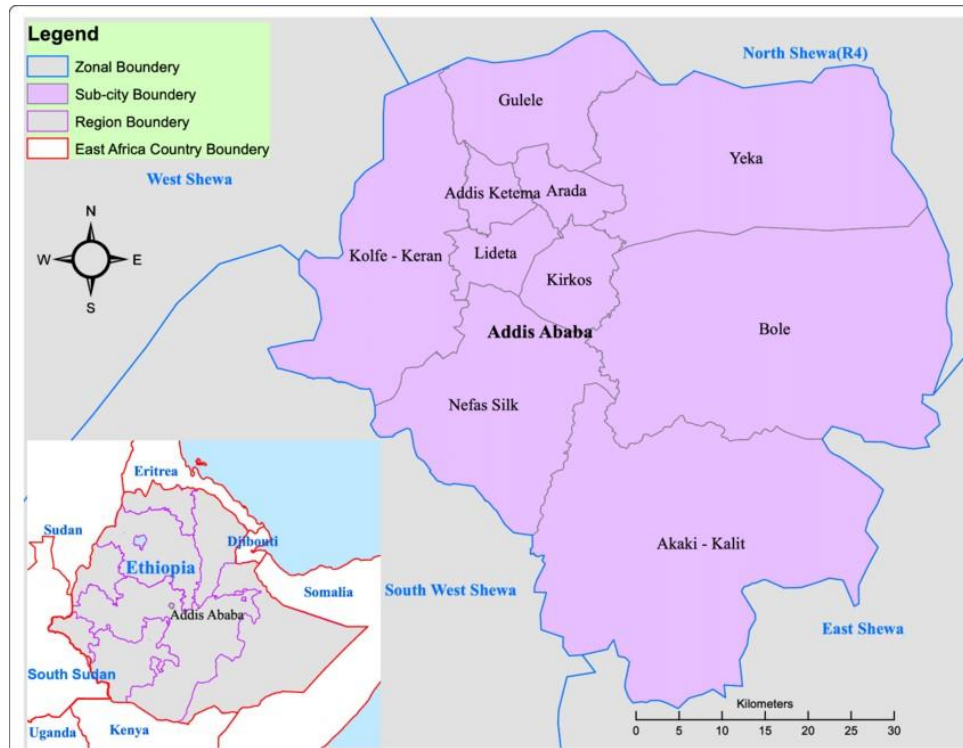
To attain this objective, the study used a mixed approach, QUANTITATIVE-qualitative concurrent design /Q+q/ (Creswell 2012GC) within which the qualitative data is supposed to support the quantitative data. Mixed approach is preferred over others because it maximizes the potential benefit that every approach offers and minimizes the risks of separate use of every approach (Brannen, and Moss, 2012GC). This research will use a concurrent design in which data will be collected through questionnaire across the sample population through a mixed sampling technique that amalgamates the gathering of appropriate data from employees being selected.

#### **3.2. The Study Site**

Addis Ababa is one of the prominent cities in Africa as well as in the world. Addis Ababa is a city consisting of eleven sub-cities. In the city there are around 42 domestic and foreign leather and leather product factories that have invested in Ethiopia from large to medium scale manufacturers which produce Leather garments, gloves, bags, apparel and Footwear namely.

Hence, Addis Ababa is purposively selected for this study because the researcher had a really close familiarity with the social, geographical and administrative environment of the city which successively was very helpful to induce relevant data from respondents on time.

**Figure 1: Map of Addis Ababa city**



Source research gate

### 3.3. Target Population

In research context, population is defined as a bunch of people with a minimum of one common characteristic which distinguishes that group from other individuals (John W. Best, 2006GC). The target populations of this research were eight general managers, eight marketing manager, eight operational manager, eight human resource manager, eight financial manager and eight sales manager in total of 48 permanent different Managerial workers of leather manufacturing organization in Addis Ababa, Ethiopia were selected.

### 3.4. Sample Size and Selection Procedure

Kombo and Tromp (2015GC) explained a sample to be a subset of a population that has been selected to reflect or represent characteristics of a population. According to Mugenda and Mugenda (2013GC), when the study population is less than 10,000, a sample size of between 10

and 30% is a good representation of the target population and hence 20% was adequate for analysis.

Therefore, 8 (20%\*42) organization were used from 42 leather product manufactures and formed the sample for this study. The study used simple random sampling to select those 8 organizations from the whole leather product manufactures.

Contrary to this, census sampling technique were used to select the six managers from each organizations who were directly involved in the value adding activity of those organizations, so as to get accurate data which would best enable to answer the research questions and as their number is limited and thought to be manageable to use the entire population as a sample. Here, census was used as this method incorporates all items as samples; no element of chance is left and highest accuracy is obtained (Kothari, 2004GC).

### **3.5 Data Sources**

In this research, both primary and secondary data sources were used to get reliable, relevant and consolidated data so as to reach on concrete findings. The primary sources of data were collected from three groups of respondents; General Managers, Marketing Managers, operation manager, human resource manager, and financial Manager and sales manager of those selected organizations. To supplement the primary data, secondary sources of data were collected from review of related books and unpublished reading materials dealing with the effects of value adding activities on profitability. Secondary data sources were relevant documents with the researcher were an additional evidences for the study.

### **3.6. Data Collection and Analysis Methods**

To conduct the research both primary and secondary data were conducted which is called a mixed method approach. A mixed-method approach enables research triangulations (to cross check findings) (Voss et al., 2002GC).The primary Data will be collected through questionnaire to be administered to managers of organizations in the study. The Instrument that used for collecting secondary data will be a financial data collection sheet.

The questionnaire consists of 3 parts: Personal Data, Organizational Ownership and Structure and Organizational Value Chain Activities Survey. The third part, organizational activities survey was designed based on the value chain model developed by Michael porter as described

in his book *Competitive Advantage: Creating and Sustaining Superior Performance* (1985GC). This value chain model was adapted to develop questions that relate to organizational primary and support value chain activities, structured in a 5 point Likert items for each of the nine primary and support value chain activities that will be filled by managerial level employees who rate the organization's performance by selecting from 5 performance levels.

Secondary document analysis will be conducted to collect financial data. Tabulated financial data collection sheet with three sections will be distributed to the sample organizations. The first section will be to collect sales data, which is summarized for four quarters of the operational (fiscal) years and last two sections are for collecting operating costs (direct labor, direct material, factory overhead costs) and operating expenses for the same operational period in which the sales data will be collected respectively.

Once the data is collected descriptive analysis was made through summarization and presentation of the survey results and analysis was conducted using MS-Excel, Minitab and SPSS software. Inferential analysis was also be conducted by calculating the cost-expense-margin breakdown of each of the organizations from the collected financial data, and then using ANOVA, Correlation and Median Tests. The nine primary and secondary value adding activities are variables considered (assumed) to be related with final product values and return margins.

Profit margin is considered to be the sum total of the added value contributed by the activities, depending on the scale to which the activities are existent and performed in the organizations. The strength and direction of correlation between the value adding activities and the profit margin shows their nature of association, while the analysis prove if the final profit margins do depend on the level of performance of the value adding activities.

There are two sets of data types that exhibit different characteristics used in the research. On one hand the survey results from the questionnaire is an ordinal data and, on the other hand, the financial data is a continuous ratio scale data. Since the questionnaire is composed of 48 individual items classified under 9 latent variables, the Likert items was converted in to Likert scales for each organization by calculating the median score of the Likert items.

For Likert data, positional measures of location like mode and median are appropriate than calculation of item means when constructing scale variables. Wu (2007GC) explains that Parametric tests like ANOVA and regression analysis for populations rely on mean values and

based on the assumption that the sample data variable has an approximate normal distribution. Clason and Dormody (1992GC) recommend that when at least one of the variables is at the ordinal scale, conservative application of measure of correlation should follow the nature of data at the lower level. Hence, this makes ordinal correlation using Spearman's rho correlation coefficient the better choice of inferential analysis in this research.

Jamieson (2004GC) also argues that the response categories in Likert survey design have a rank order but the intervals between values cannot be presumed equal. According to Jamieson, the appropriate descriptive and inferential statistics differ for ordinal and interval variables and if the wrong statistical technique is used, the researcher increases the chance of coming to the wrong conclusion. Kuzon et al., (1996GC) also writes that using parametric statistics on ordinal data is appropriate if the dependent variable considered in the study has a scale level of measurement.

The research methodology of Prajogo, et al., (2008GC) was adapted in this research to analyze and interpret the analysis. In the mentioned research similar data collection instrument was used, which was a 5 point Likert scale survey design. The instrument developed for the study comprised four scales of independent variables and two scales of dependent variables. The researchers were exploring the extent to which four elements of the value chain –marketing, research and development, procurement, and operations – are related with product quality and product innovation.

### **3.6.1. Reliability**

Cronbach's alpha is the most common measure of internal consistency ("reliability") of research data collected. It is more often used when there are multiple Likert questions in a survey questionnaire that form a scale, and there is an interest to determine if the data collected is reliable enough to be used for analysis. The reliability analysis, through calculating the

Cronbach's alpha, for the Likert items revealed that the reliability test results for the dataset surpassed the threshold of 0.7 as suggested by (Nunnally, 1978GC).

Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability. Cronbach's alpha will generally increase as the inter correlations among test items increase, and is thus known as an internal consistency estimate of reliability of test scores. Because inter correlations among test items are maximized when all



items measure the same construct, Cronbach's alpha is widely believed to indirectly indicate the degree to which a set of items measures a single latent construct (Cronbach, 1951GC).

### **3.6.2. Validity Analysis**

According to Drost (2011GC), Validity emphasizes in creating meaningfulness of the research components and it is concerned whether or not the data collection instrument enables true measurement of what it intended to measure. While Statistical Conclusion Validity focus on testing whether or not relationships exist between the two variables i.e. dependent and independent variables which if not fulfilled results in low statistical power, violation of assumptions and reliability of measures.

### **3.7. Procedure of Data Collection**

As for the data collection procedure, the researcher first announced the full purpose of the research to the most administrator of the selected organization; soon get permission and letter of recognition to hold out the research within the target firms. To the current effect, having letter of authorization from St. Mary's University to induce permission, the researcher directly visited the sample organization for consent. After permission, creating a smooth relationship with all administrators in order to make them cooperative for the provision of the relevant information; and introducing the objective and purposes of the study will be crucial steps. Up next data gathering instruments were developed and pilot testing was conducted. Then, the questionnaires were redesigned based on important feedbacks obtained from the advisor and aforementioned means. Finally, the items were checked for their validity and reliability. With relation to the validity (content, construct and face) were properly checked. With relevance reliability of the questionnaire, it was checked via SPSS software (version-20) program.

Having done all those tasks above, awareness among all the respondents about the objectives of the study and items of the questionnaire were created before it gets distributed. Following this, each questionnaire with a cover letter explaining the purpose of the study was given to respondents on individual bases. Here envelopes to respondents were provided in order that confidentiality of their responses is going to be ensured. Hence, the questionnaires were administered to 48 different Managers. Actually, the questionnaires were administered to 35; the attrition was 15% due to which 30 questionnaires were returned out of 48 distributed. Moreover, during data collection process, respondents were highly encouraged to complete the

questionnaires in break time and they were also requested to immediately return the questionnaire papers back after completion.

The interviews were conducted with eight General Managers. With respect to the accomplishment of the interview, interview was conducted inside respondents' office. Their responses were written in rough paper since they were not volunteers to induce their voices recorded.

### **3.8 Ethical Consideration**

According to Saunders, Lewis and Thornhill, (2001:130). Ethics refers to the appropriateness of your behavior in relation to the rights of those who became the subject of your work, or are affected by it. The following ethics were remarked in the research field:

**Informed consent:** participants were given the choice to participate or not to participate, and further more were informed in advance about the nature of the study.

**Right to privacy:** the nature and quality of participants' performance were kept strictly confidential

**Honesty with professional colleagues:** findings were reported with a complete and honest fashion, without misrepresenting what has been done or intentionally misleading others as to the nature of it. Data were not being fabricated to support a particular conclusion.

**Confidentiality/Anonymity:** as it is a good research practice to offer confidentiality or anonymity, the respondents' response was kept confidential.

The researcher reflected on the ethical issues in every aspect of the activity of this study. Furthermore, when distributing the questionnaire, respondents were guaranteed that the information they provide were confidential and used for academic purpose only. More over a statement conforms that the prohibition of including any identity detail or personal references in the questionnaire will be included. This was to avoid any biased response or unauthentic data provided by respondents and to make participants feel safe in filling the questionnaire. As a result, the gathered data was kept confidential and would not be used for any personal interest and also the whole process of the study will controlled to be within acceptable professional ethics.

# CHAPTER FOUR

## PRESENTATION OF RESEARCH FINDINGS

### 4.1 Introduction

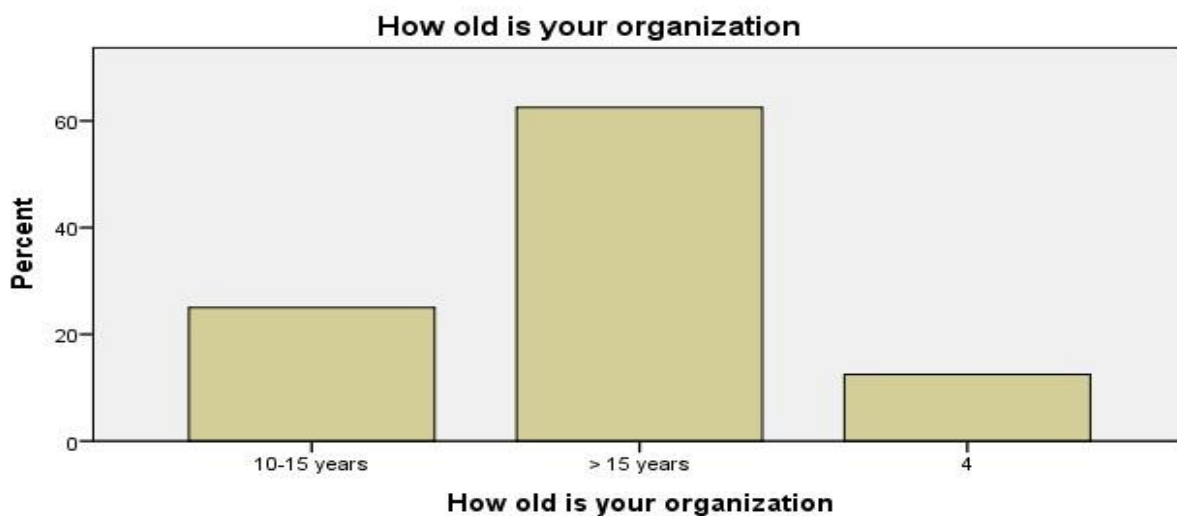
The primary objective of this study was to analyze the value adding system in leather processing in Addis Ababa and evaluate the profit margins within the different levels of participants in the value adding. This chapter presents the findings of the data as described in chapter three. In presenting the research data, descriptive statistics was used to establish the characteristics of the population and the data was interpreted in descriptive tables indicating frequency, percentages, mean and standard deviation.

Being that the population was made up of eight companies and they all participated in the study, a census was conducted. The response rate was adequate for the study and the following findings can be considered representative of leather companies in Addis Ababa.

### 4.2 Demographic Characteristics of the Leather Companies in Addis Ababa

The study first sought to evaluate the demographic characteristics of the established and operational leather companies in Addis Ababa. The variables selected were the length of time the respondents have been in the leather business, years of experiences and educational level, type of specialty product they produce, marital status.

**Figure 2: Length of time in the leather business**



**Source:** output from SPSS statement of leather companies

Comparatively as shown in the above graph, 62% of the companies have been in the leather business for more than 15 years. 25 % of the companies are for between 10-15 years in leather business. And the rest 12.2 % are in this business for less than 10 years. As such, they would be considered mature business to be engaged in this study as they have gone through the cycles of challenges and successes in this business.

**Table 3 :Characteristics of Respondents by Sex and Age**

Cross tabulation							
		age of the respondents					Total
		< 30	31-35	36-40	41-45	> 45	
Sex of respondents	Male	1	0	1	12	18	32
	Female	0	2	0	7	7	16
Total		1	2	1	19	25	48

**Source:** output from SPSS statement of leather companies

As shown in the above table-3, majority of the respondents 32(66.7%) indicated that they are males with different age groups and the rest 16(33.3%) of them are females. This may imply that the managerial of leather organization of Addis Ababa are dominated by male officers.

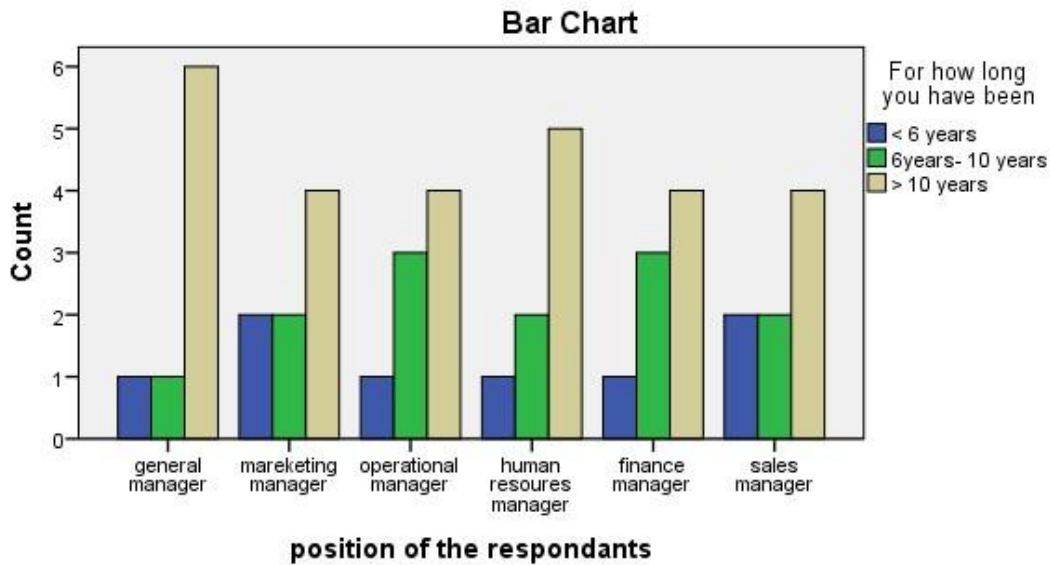
**Table 4: Type of Ownership**

Form of ownership					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	sole proprietor ship	17	35.4	35.4	35.4
	plc.	31	64.6	64.6	100.0
	Total	48	100.0	100.0	

**Source:** output from SPSS statement of leather companies

As shown in the above table-4, Majority of the companies 31 (64.6%) are plc. And the rest 17 (35.4%) are sole proprietor ship. This implies that the majority of leather products firms are plc. hence have an advantages of taxation by governments and other merits of plc.

**Figure 3:- Characteristics of respondents’ position and years of experiences.**



**Source:** output from SPSS statement of leather companies

Comparatively as shown in the above chart, majority of the managerial positions were taken by highly experienced (> 10 years) peoples. And some have 6-10 years’ experience and the rest have less than 6 years of experience. Hence, this shows most of the leather product organizations are well experienced with the required skills and experiences.

**Table 5: Characteristics of Respondents’ by Educational Qualification:-**

Educational status of the respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	12 completed	1	2.1	2.1	2.1
	diploma holder	1	2.1	2.1	4.2
	Degree	28	58.3	58.3	62.5
	Masters and above	18	37.5	37.5	100.0
	Total	48	100.0	100.0	

**Source:** output from SPSS statement of leather companies

As shown in the above table-5, with respect to educational qualification of the respondents, the majority 28(58.3%) of the managers had first degree and the rest 18(37.5%) were MA and above

holders. Beside to this 1(2.1%) of had diploma and 12 complete. It is possible to say that the majority of management body with the right qualification which is expected by the Ethiopian Ministry of investment commission. From this one can understand that the managements are good enough experienced and have the skills and techniques of performance appraisal.

**Table 6: Characteristics of Respondents’ marital status**

Marital status of the respondents’					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unmarried	39	81.3	81.3	81.3
	married	8	16.7	16.7	97.9
	divorced	1	2.1	2.1	100.0
	Total	48	100.0	100.0	

**Source:** output from SPSS statement of leather companies

As shown in table-6 above, Majority of the companies’ managers 81 (81.3%) were unmarried. And the rest 8 (16.7%) were married. Only few 1(2.1%) were divorced. This implies that the majority of leather products firm’s managers are unmarried.

### 4.3. Analysis of the Leather Value Adding in Addis Ababa

The first objective of the study was to analyze the leather value adding in Addis so as to identify the participants within the value chain and their role in the industry. According to data from the interview of all general managers of such selected leather product organizations, the major activities in the value chain are:-

- ✓ Bags and shoes
- ✓ Clothes and accessories
- ✓ Balls
- ✓ Leather articles
- ✓ Wallet and belt
- ✓ Key handler ...etc

Hence, as we can see none of the respondents is in animal rearing activities or involved in slaughter house activities. None of the respondents conducts all the activities in the value adding.

#### **4.4. Analysis of Variance Test and Discussion of Results**

As mentioned in the third chapter of this research, ANOVA was conducted to see the effects of value adding activities of the organizations and their operating profit margin. The logic behind this analysis is, to see if operating profit margin is influenced and depends on the level of performance in the value adding activities classified as primary and secondary value adding activities. If the ANOVA tests results are consistent with the results obtained from the previous tests then it can be concluded with a high degree of assurance that organizations value adding activities can be used as an explanatory factor for the variation in the operating profit margin.

Also, an important implication from the test results will be to identify which value adding activities have more explanatory and determining impact on the operating profit margin of the organizations. In that way, the test results can be converted in actual intervention actions in the organizations because, more emphasis should be given to the factors (the set of value adding activities) that seem to influence profitability of the organizations more than the others. The data collection instrument consisted of a survey questionnaire used to collect information about the performance of each organization with respect to the value adding activities.

Each organization was represented by a proxy managerial level of employee, with their critical points of view on the variables, who rated the organization in the nine value adding activity dimensions of the independent variables. The level of agreement explains the existence and application of a given value adding activity. If the Likert scale shows an agreement to the elements (Likert items) for a given determinant factors this point towards a strong performance of the organization in that specific value adding activity. On the contrary if the scale shows a disagreement, then this can be translated as a weak performance in the value adding activity.

ANOVA compares the variability that exists within the groups or levels to the variability that exists between the groups or levels to determine if there are any differences among the means. The variability between the groups is measured by comparing the observed group means to the mean of all of the groups put together. Consequently, as the differences between the groups get bigger it is expected that the average difference between the mean of the groups and the overall mean also gets bigger. So the need of ANOVA test is that, even if the population means of the groups under investigation are equal, there is a chance also called sampling error that the mean of the groups or the levels might be different due to randomization of sample selection. For each

of the groups in the independent variable the influence of random variability is the sole cause of a different value in the dependent variable. Using the variability of the response variable, the amount of variability can be estimated in the sample data collected. This statistic essentially tells how large the differences are between our groups relative to how much random variability that exists in the observations. Table below presents the one way ANOVA test results.

**Table 7: ANOVA Results for Value Adding Activities on Operating Profit Margin**

<b>ANOVA</b>						
		Sum of Squares	Df	Mean Square	F	Sig.
inbound logistics	Between Groups	.416	2	.208	1.998	.148
	Within Groups	4.690	45	.104		
	Total	5.107	47			
Operation	Between Groups	.092	2	.046	.734	.486
	Within Groups	2.816	45	.063		
	Total	2.907	47			
out bound logistics	Between Groups	.127	2	.064	.957	.392
	Within Groups	2.992	45	.066		
	Total	3.119	47			
marketing and sales	Between Groups	.127	2	.063	.781	.464
	Within Groups	3.654	45	.081		
	Total	3.781	47			
customer service	Between Groups	.056	2	.028	.208	.813
	Within Groups	6.104	45	.136		
	Total	6.160	47			
firm infrastructure	Between Groups	.107	2	.053	.447	.642
	Within Groups	5.372	45	.119		
	Total	5.479	47			
Human resource management	Between Groups	.026	2	.013	.211	.811
	Within Groups	2.734	45	.061		
	Total	2.760	47			
Technology development	Between Groups	.041	2	.021	.239	.789
	Within Groups	3.866	45	.086		
	Total	3.907	47			
procurement(purchasing)	Between Groups	.101	2	.050	.851	.434
	Within Groups	2.659	45	.059		
	Total	2.760	47			

**Source:** output from SPSS statement of leather companies



The final decision of the ANOVA test results were significant for all operating profit margin of organizations  $p > 0.05$ , thus there is a significant importance in operating profit margin of the organizations based on the level of performance in their all nine value adding activity.

#### 4.5. Result from Descriptive Statistics

**Table 8: Descriptive Statistics results for all Value Adding Activities**

Descriptive Statistics				
	N	Sum	Mean	Std. Deviation
inbound logistics	48	119.20	2.4833	.32962
Operations	48	117.33	2.4444	.24872
out bound logistics	48	133.00	2.7708	.25761
marketing and sales	48	156.86	3.2679	.28362
customer service	48	115.20	2.4000	.36203
firm infrastructure	48	153.40	3.1958	.34144
Human resource management	48	146.40	3.0500	.24233
Technology development	48	154.40	3.2167	.28831
procurement(purchasing)	48	146.40	3.0500	.24233
Valid N (listwise)	48			

**Source:** output from SPSS statement of leather companies

As mentioned in the first chapter of this research, ANOVA was conducted to see the effects of value adding activities on profitability of the organizations. The logic behind this analysis is, to see if operating profit margin is influenced and depends on the level of performance in the value adding activities classified as primary and secondary value adding activities.

The results show that, respondents were asked to evaluate the value adding activities of the organizations that has been practiced in each sample leather product manufacturing. The result portrayed in Table-8 above shows both the grand mean (3.3) and mean values for market and sales, firm infrastructure, HR, technology, procurement are (3.3, 3.2,3.1,3.2 and 3.1 respectively) were above the ideal mean (3) and the mean value for inbound, operation, out

bound, customer are(2.5, 2.4, 2.8, and 2.4) respectively. Nevertheless, any small defect in the procedure may lead the practice to complete failure (Scott 2001 and Maths& Jackson 1997).

Hence, the following desiccations were obtained from descriptive statics result:-

### **Inbound Logistics Levels of Performance**

**Table 9: Mean results for Value Adding Activities on inbound logistics Profit Margin**

<b>inbound logistics</b>		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	1.60	1	2.1	2.1	2.1	<b>2.5</b>
	1.80	1	2.1	2.1	4.2	
	2.00	5	10.4	10.4	14.6	
	2.20	5	10.4	10.4	25.0	
	2.40	12	25.0	25.0	50.0	
	2.60	10	20.8	20.8	70.8	
	2.80	10	20.8	20.8	91.7	
	3.00	4	8.3	8.3	100.0	
	Total	48	100.0	100.0		

**Source:** output from SPSS statement of leather companies

In this regard, referring table-9 respondents asserted that the level of performance in their inbound logistics value adding activity practiced in their leather manufacturing is average (mean=2.5), which is less than the ideal mean 3. The ANOVA test results were significant for operating profit margin of organizations  $p=0.148$  thus we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in their inbound logistics value adding activity. Hence, additional effort is required with continuously monitor and improve the value adding activities for more profit and competitiveness is necessary.

## Operations Levels of Performance

**Table 10:-Mean results for Value Adding Activities on Operations Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	1.83	1	2.1	2.1	2.1	
	2.00	3	6.3	6.3	8.3	
	2.17	6	12.5	12.5	20.8	
	2.33	10	20.8	20.8	41.7	2.4
	2.50	15	31.3	31.3	72.9	
	2.67	8	16.7	16.7	89.6	
	2.83	4	8.3	8.3	97.9	
	3.00	1	2.1	2.1	100.0	
	Total	48	100.0	100.0		2.4

**Source:** output from SPSS statement of leather companies

In the same manner, with reference of table- 10 respondents asserted respondents asserted that the level of performance in their operating value adding activity practiced in their leather manufacturing needs improvement (mean=2.4),which is less than the ideal mean 3. The ANOVA test results were significant for operating profit margin of organizations  $p= 0.486$  thus we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in their operating value adding activity. Hence the level of implementation needs improvement.

On the contrary all general Managers were asked about the value adding activities level of performance in their firm, they replied that there is a significant importance in operating profit margin of the organizations based on the level of performance in their operating value adding activity. Hence, continuously monitor and improve the value adding activities for more profit and competitiveness is necessary.

## Outbound logistics Levels of Performance

**Table 11: Mean results for Value Adding Activities on out bound logistics Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.20	2	4.2	4.2	4.2	2.8
	2.40	4	8.3	8.3	12.5	
	2.60	13	27.1	27.1	39.6	
	2.80	15	31.3	31.3	70.8	
	3.00	8	16.7	16.7	87.5	
	3.20	6	12.5	12.5	100.0	
Total	48	100.0	100.0		2.8	

**Source:** output from SPSS statement of leather companies

The third result states that there is no statistically moderate in the mean operating profit margin of the organization for different levels of performance in their outbound logistics value adding activity. The ANOVA test results were significant mean= 2.8, p= 0.392 thus we can conclude that there is a significant advantage in operating profit margin of the organizations based on the level of performance in their outbound logistics value adding activity. Hence, additional effort is required with continuously monitor and improve the value adding activities for more profit and competitiveness is necessary.

## Marketing and sales Levels of Performance

**Table 12: Mean results for Value Adding Activities on marketing Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.29	1	2.1	2.1	2.1	3.3
	2.86	1	2.1	2.1	4.2	
	3.00	10	20.8	20.8	25.0	
	3.14	8	16.7	16.7	41.7	
	3.29	10	20.8	20.8	62.5	
	3.43	10	20.8	20.8	83.3	
	3.57	5	10.4	10.4	93.8	
	3.71	1	2.1	2.1	95.8	
	3.86	1	2.1	2.1	97.9	
	4.00	1	2.1	2.1	100.0	
Total	48	100.0	100.0		3.3	

**Source:** output from SPSS statement of leather companies

And also from the above table-12 a steep increase in mean operating profit margin across the levels of performance in the operations value adding activity. While the mean operating profit margins of the weak average and strong levels of performance are relatively closer to each other, the value for very strong level of performance is further and much higher than the rest ( mean =3.3). The ANOVA test results show as the company is at high level of implementing and operating profit margin of the organizations based on the level of performance in their marketing and sales value adding activity.

In an interview with general managers and an open ended question all of the respondents supported and agreed with the significance importance of value adding activities at different levels. Hence, the result of this shows that the operating profit margin of the organizations based on the level of performance in their marketing and sales value adding activity implemented at high level in the company.

## Customer service Levels of Performance

**Table 13: Mean results for Value Adding Activities on Customer Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	1.20	1	2.1	2.1	2.1	
	1.80	4	8.3	8.3	10.4	
	2.00	3	6.3	6.3	16.7	
	2.20	6	12.5	12.5	29.2	
	2.40	16	33.3	33.3	62.5	2.4
	2.60	10	20.8	20.8	83.3	2.4
	2.80	5	10.4	10.4	93.8	
	3.00	2	4.2	4.2	97.9	
	3.20	1	2.1	2.1	100.0	
	Total	48	100.0	100.0		

**Source:** output from SPSS statement of leather companies

In the same manner, referring table-13 respondents asserted that the level of performance for customer service in their operating value adding activity practiced in their leather manufacturing needs improvement (mean=2.4), which is less than the ideal mean 3 and equal with operating value adding activity at operations level. The ANOVA test results were significant mean=2.4,  $p= 0.813$  thus we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in their customer service value adding activity hence implemented at moderate level in the company. Hence, from this result shows that the company is moderate in the level of performance in their customer service value adding adoption, except continuous improvement of this activity from moderate higher level of implementation.

## Firm infrastructure Levels of Performance

**Table 14: Mean results for Value Adding Activities on Firm infrastructure Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.20	1	2.1	2.1	2.1	3.2
	2.60	3	6.3	6.3	8.3	
	2.80	4	8.3	8.3	16.7	
	3.00	7	14.6	14.6	31.3	
	3.20	17	35.4	35.4	66.7	
	3.40	8	16.7	16.7	83.3	
	3.60	5	10.4	10.4	93.8	
	3.80	2	4.2	4.2	97.9	
	4.00	1	2.1	2.1	100.0	
Total	48	100.0	100.0		3.2	

**Source:** output from SPSS statement of leather companies

In line with firm infrastructure respondents asserted that the level of performance for customer service in their operating value adding activity practiced in their leather manufacturing needs improvement (mean=3.2), which is greater than the ideal mean 3 and equal with operating value adding activity at technology level. The ANOVA test results were significant mean=3.2, p= 0.34 thus we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in firm infrastructure value adding activity hence implemented at high level in the company. In more concrete terms the companies were working for better profit.

## Human resource management Levels of Performance

**Table 15: Mean results for Value Adding Activities on HR Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.20	1	2.1	2.1	2.1	
	2.60	1	2.1	2.1	4.2	3.1
	2.80	8	16.7	16.7	20.8	
	3.00	20	41.7	41.7	62.5	
	3.20	11	22.9	22.9	85.4	
	3.40	6	12.5	12.5	97.9	
	3.60	1	2.1	2.1	100.0	
	Total	48	100.0	100.0		3.1

**Source:** output from SPSS statement of leather companies

Regarding with human resource management respondents asserted that the level of performance for human resource in their operating value adding activity practiced in their leather manufacturing is at high level (mean=3.1), which is greater than the ideal mean 3 and equal with procurement value adding activity at technology level. The ANOVA test results were significant mean=3.1,  $p= 0.24$  thus we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in HR value adding activity hence implemented at high level in the company. In more concrete terms the company was working for better profit needs continuous improvement of this activity for better level of implementation.



## Technology development Levels of Performance

**Table 16: Mean results for Value Adding Activities on Technology development Profit Margin**

Technology development		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.20	1	2.1	2.1	2.1	
	2.80	4	8.3	8.3	10.4	3.2
	3.00	10	20.8	20.8	31.3	
	3.20	14	29.2	29.2	60.4	
	3.40	13	27.1	27.1	87.5	
	3.60	4	8.3	8.3	95.8	
	3.80	2	4.2	4.2	100.0	
	Total	48	100.0	100.0		3.2

**Source:** output from SPSS statement of leather companies

Comparatively as the above table-16 average performance levels with respect to technology development have mean operating profit margin values closer to each other. Similarly, it can be seen that strong (mean= 3.2) and  $p = .29$  levels of operating profit values. Hence we can conclude that there is a significant importance in operating profit margin of the organizations based on the level of performance in technology development level of value adding activity. Hence technology development was implemented at high level in the company. In more concrete terms the company was working for better profit needs continuous improvement of this activity for better level of implementation.

## Procurement Levels of Performance

**Table 17: Mean results for Value Adding Activities on Procurement Profit Margin**

		Frequency	Percent	Valid Percent	Cumulative Percent	Grand mean
Valid	2.40	1	2.1	2.1	2.1	
	2.60	3	6.3	6.3	8.3	
	2.80	6	12.5	12.5	20.8	3.1
	3.00	19	39.6	39.6	60.4	
	3.20	12	25.0	25.0	85.4	
	3.40	6	12.5	12.5	97.9	
	3.60	1	2.1	2.1	100.0	
	Total	48	100.0	100.0		3.1

**Source:** output from SPSS statement of leather companies

Regarding with procurement ,with reference of table-17 respondents asserted that the level of performance for human resource in their operating value adding activity practiced in their leather manufacturing is at high level (mean=3.1), which is greater than the ideal mean 3 and equal with HR value adding activity at technology level. The ANOVA test results were significant mean=3.1,  $p= 0.24$  thus we can conclude that there is a significant positive impacts in operating profit margin of the organizations based on the level of performance in procurement(purchasing) value adding activity hence implemented at high level in the company. In more concrete terms the company was working for better profit needs continuous improvement of this activity for better level of implementation.

### 4.6 Analysis of Challenges Facing the Value Chain

The quality of raw hides and skins received at the tannery was considered to be of low standards across the companies with all the companies returning a positive response. Even though availability manpower was challenge the companies are willing to train them but however, the significant challenge was turnover of employees within the leather value adding activities. When asked about the ease to access the domestic and export market for finished products was cited by all the participants as a major challenge for the business was to get an export market but the

domestic market was not that difficult since the companies have sales office around the city and they all have their own client.in addition to that auction is the number one way of getting bulk sales. The response on the expense of equipment for tanning and leather products manufacturing, limited access to finance, storage and transport challenges, barriers to export markets and competition from second hand imports were observed as challenges affecting their business performance. Moreover, the following were significant challenges with in leather production value adding:-

- ✓ Storage and transport challenges
- ✓ Barriers to export trade
- ✓ Dissatisfaction of employee
- ✓ Turnover of employee
- ✓ Shortage of hard currency
- ✓ Shortage of row materials like chemicals, leather and accessories
- ✓ Technology gap
- ✓ Luck of Business leader ship
- ✓ Luck of Government support
- ✓ Transportation cost
- ✓ Illegal competitors
- ✓ Not organized manufacturers
- ✓ Management skill gap
- ✓ Inflation

## CHAPTER FIVE

### SUMMARY OF MAJOR FINDINGS AND RECOMMENDATION

#### 5.1 Summary of Major Findings

The study was conducted on the effects of organizational value adding activities on profitability of selected leather product manufacturers in Addis Ababa City. Data were collected from 48 managerial positions of eight selected leather product manufacturing using questionnaire and interview in the same order. The data collected in person by the researcher using questionnaire and interview then organized and coded using SPSS (questionnaire) and narrated under the research questions. Then, the findings from both instruments were presented in an integrative way. The major findings are:

1. A higher proportion of respondents 32(66.7%) were male and 16(33.3%) were females. And majority of respondents were well experienced in managerial profession (more than 15 years).
2. All respondents claimed that the nine core value adding activities are implemented at high level in the company.
3. 62% of the companies have been in the leather business for more than 15 years. 25 % of the companies are for between 10-15 % years in leather business. And the rest 12.2 % are in this business for less than 10 years.
4. Majority of the organizations are private limited companies with an estimated percentage of 64.6% and the rest 35.4% are sole proprietors. Also confidence interval estimates suggest that profitability of businesses with larger capital have higher profit margins.
5. The result from different managerial questionnaire shows that value adding activities practiced in their respective leather manufacturing was linked to the marketing and sales issues (mean=3.3), firm infrastructure and technology development had importance (Mean=3.2) ,and human resources management and procurement had (3.1). But the lowest mean score was recorded in inbound logistics services, operations, out bound logistics and customer services which are less than ideal mean they felt defective.

6. The major activities in the value chain are: - Bags and shoes, jackets, leather articles, Wallet and belt, Key hander.
7. The study investigated that possible problems that made value adding activities on profitability tasks difficult are: the high cost of equipment for tanning and leather products manufacturing, limited access to finance, hard currency, storage and transport challenges, barriers to export markets and competition from second hand imports were observed as challenges affecting their business performance are the most bottle necked challenges. Thus, the above problems adversely affected the profitability of those companies and were possibly contributed to loss.
8. From open to close ended questioners and interviews of this research result indicates that actual production activity is not the only source of difference in operating profit margin, which is usually given more concern than other factors in terms of determining profitability.

## **5.2 Conclusions**

Based on the findings stated above the following conclusions were drawn:

First, as expected, the result showed a mixed entertaining both positive and negative views relationship between firm value adding activities and profitability with different statistical significance. It shows that the more implementation in firm value adding activity results higher profitability by the coefficient amount. It can be concluded that as much as large implementation in firms value adding activities have greater possibility of taking advantage of scale of economies which enable more efficient production, greater bargaining power, exploiting experience curve effect and getting price above competitive level.

Secondly, leather product manufacturing are surrounded by a dearth of challenges related to the high cost of equipment for tanning and leather products manufacturing, limited access to finance, accessories, hard currency, storage and transport challenges, barriers to export markets and competition from second hand imports were observed. Besides, they are also entangled with problems related to low quality raw hide & skins, high cost of tanning equipment and leather product manufacturing ,lack of trained manpower ,limited access to credit finance, storage and transport challenges, barriers to export trade, competition from second hand imports, access to local and export markets. Given such degree of challenges, the practice will not be effective.

### **5.3 Recommendations**

- The research result indicates that actual production activity is not the only source of difference in operating profit margin, which is usually given more concern than other factors in terms of determining profitability. Each of the value adding activities both primary and support have a significant positive impact on operating profit margin.
- By undertaking studies in their value adding activities to identify problems and solving them to improve their performance organizations can enhance their profitability. Even if traditionally some value adding activities are given more emphasis than others, having an all rounded approach towards improving value adding activities performance levels creates a synergetic impact on improving operating profit margin, because as seen from the analysis test results in the research, there are other value adding activities that are indeed significant in impacting profitability.
- Business and enterprises in the sector need to measure analyze and improve their overall performance as they encounter increasing competition from an ever-changing business environment. Hence designing and implementing strategies that capitalize simultaneously on improvement in their internal value adding activities and external opportunities will result in better business profitability.
- The level of performance in marketing and sales, firm infrastructures and technology development value adding activities of the organizations resulted in higher coefficient of determination values with respect to organizational profitability. This indicates that currently the three most important determinants of operating profit margins are the above mentioned value adding activities. Even so, other value adding activities also have significant impact on profitability, signifying still there is room to improve performance in those value adding activities.
- The organizations should work closely with organizations that provide technical and training assistance for the sector association. In that way proper quality and performance standard benchmarks to gauge how well they are performing their value adding activities can be established and implemented.

- Improving the contribution of the value adding activities requires investment and studies to identify ways of upgrading and standardizing the work being done in the value adding activities. Then intervention strategies can result in improvement of their value adding activities, their by improving their profitability.

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## Appendix 1 Questionnaire

**St. Mary's University**  
**School of Graduate Studies**  
**Department of Management**  
**MBA Program**

Dear respondent,

First of all I want to express my gratitude for your willingness to fill this questionnaire.

The purpose of this questionnaire is to collect primary data to be used for a research that I am currently undertaking as a partial requirement to obtain my MBA degree from St. Mary's University. The theme of the research is "A Study on the Relationship between Organizational Value Adding Activities and Profitability of Selected Leather Products Manufacturers in Addis Ababa Based on Michael Porter's Value Chain Model". The questions are designed to capture data regarding different operational and functional areas, which will be indicative of the value creation chain in your organization.

For confidentiality, there is no need to write your name or any other identifying marks on the questionnaire. Please try to fill the questionnaire frankly, selecting your answers appropriately. When you complete filling it, Please check your answers to make sure that you have answered all the questions. If you need any clarifications on the questions you can reach me any time through my address given below. **Any information you provide will be used only for academic purposes and its use will be confined exclusively for this research.**

Thank you in advance!!

## Personal Data

Please Put “✓” Mark in an appropriate Answer Box.

NO	Characteristics	possible answer				
1.1	Sex	male <input type="checkbox"/>	Female <input type="checkbox"/>			
1.2	Age	≤30 <input type="checkbox"/>	31-35 <input type="checkbox"/>	36-40 <input type="checkbox"/>	41-45 <input type="checkbox"/>	≥46 <input type="checkbox"/>
1.3	Marital status	Unmarried <input type="checkbox"/>	Married <input type="checkbox"/>	Divorced <input type="checkbox"/>		
1.4	Educational status	Below grade 12 <input type="checkbox"/>	12 completed <input type="checkbox"/>	Diploma <input type="checkbox"/>	1 <sup>st</sup> degree <input type="checkbox"/>	Masters and above <input type="checkbox"/>

### Organizational characteristics

No	Questions	Possible answers			
2.1	Form of ownership	Sole proprietorship <input type="checkbox"/>		Partnership <input type="checkbox"/>	P.L.C <input type="checkbox"/>
2.2	How old is your organization	<input type="checkbox"/> 10 years <input type="checkbox"/>		10-15 years <input type="checkbox"/>	<input type="checkbox"/> 15 years <input type="checkbox"/>
2.3	How much is your capital now? (in birr)	$\geq 2,500,000$ <input type="checkbox"/>	2,500,000- 5,000,000 <input type="checkbox"/>	5,000,000- 10,000,000 <input type="checkbox"/>	$\geq 10,000,000$ <input type="checkbox"/>
2.4	How many employees do you have?	$\leq 100$ <input type="checkbox"/>	100-200 <input type="checkbox"/>	200-300 <input type="checkbox"/>	$\geq 300$ <input type="checkbox"/>
2.5	For how long you have been exporting your products to foreign markets?	$\leq 5$ years <input type="checkbox"/>		6-10 years <input type="checkbox"/>	$\geq 11$ years <input type="checkbox"/>

### Organizational Value adding Activities Survey

□ Please Put “□” Mark in an appropriate Answer Box from the list of opinion magnitude scale answers that comes closest to your opinion of the level of performance in the value adding activities.

No	Question	Very strong 1	Strong 2	Average 3	Weak 4	Very weak 5
3.1	<b>inbound logistics</b>					
3.1.1	There is application of modern inventory management techniques.					
3.1.2	There exists effective communication between your inbound logistics division and the production department.					
3.1.3	Raw materials and inputs are properly kept in ware houses.					
3.1.4	Once inputs have been received, there is proper controlling on how the inputs are transferred from warehouse (inventory) to production.					
3.1.5	raw materials supply is balanced with finished products demand					
3.2	<b>Operations</b>					

3.2.1	Production and manufacturing is undertaken using cost efficient machinery and equipment					
3.2.2	Machines and equipments enable to easily produce new product designs					
3.2.3	Production and manufacturing techniques are designed to measure product value added and production Costs					
3.2.4	Product testing and quality control is undertaken on regular basis					
3.2.5	Machinery and equipment is maintained on regular basis					
3.2.6	The organization has experience of customized production based on agreements and product specifications with sub-contractors (or) customers					
3.3	<b>Out bound logistics</b>					
3.3.1	There exists an organized inventory management for finished products					
3.3.2	Finished products are packed with reliable packages					
3.3.3	Products are distributed and delivered to customer through transportation alternatives with quick access to markets					

	alternatives with quick access to markets					
3.3.4	There is an optimized connection between marketing (sales) and outbound logistics					
3.3.5	Delivery deadlines of customers' orders are consistently met					
3.4	<b>Marketing and Sales</b>					
3.4.1	Marketing efforts are undertaken to make the products more accessible to customers					
3.4.2	International trade agreements benefit the organization to increase products sales in foreign markets					
3.4.3	Promotion and advertising is used to beat competitors and expand markets					
3.4.4	There are by- lateral agreements and deals with marketing channel members					
3.4.5	Marketing activities focus on creating a long lasting relations with customers					
3.4.6	Market research is used to design and implement marketing strategies					
3.4.7	The organization faces little difficulty and problems in the exporting process					
3.5	<b>Customer service</b>					
3.5.1	The organization offers warranty for its products					
3.5.2	Sufficient information about the company's products is available and communicated to current and potential customers					
3.5.3	Customers have the right to return defective products as per return policies					
3.5.4	Marketing officers (employees ) are trained to develop skills for superior customer service					
3.5.5	There is a system for accepting and dealing with customers complaints					

3.6	<b>Firm infrastructure</b>	Very strong	strong	Average	weak	Very weak
3.6.1	The company prepares a strategic plan and the company management actively controls its implementation					
3.6.2	There is a strong financial system integrating all the functional units of the company					
3.6.3	There is a clear distinction between financial and operational aspects for planning and controlling purposes					
3.6.4	There are operational manuals and policies for operational and administrative units of the company					
3.6.5	There is an established system to solve legal and regulatory issues that arise from the firms commitment to its customers and governing bodies					
3.7	<b>Human Resource Management</b>					
3.7.1	There are formal procedures and operational guidelines to recruit and hire qualified employees.					
3.7.2	The organization provides sufficient training for employees skill and attitude development					
3.7.3	The compensation scheme of them organization reinforces and motivates the employees for increased productivity					
3.7.4	Employees are seen as a very important asset of the organization to maintain its competitive advantage					



3.7.5	The company management has a positive attitude and willingness to address the concerns and needs of the employees					
3.8	<b>Technology development</b>					
3.8.1	Modern computer based information processing technologies are an integral part of operations and management					
3.8.2	Availability of innovative and up-to-date production technologies enable the firm to produce products that have good competitive advantage					
3.8.3	The organizations sets budget plans for acquisition and implementation of better production technologies					
3.8.4	The company possesses technologies that most other competitors do not have					
3.8.5	There are research and development activities undertaken to identify new technological trends and changes					
3.9	<b>Procurement (Purchasing)</b>					
3.9.1	There is a system for checking the quality of purchased inputs and raw materials for production					
3.9.2	The company tries to maintain long lasting relationships with its suppliers					
3.9.3	There is little or no shortages of raw materials for production as a result of the company purchasing policy and procedure					
3.9.4	The company follows a competitive procurement strategy to select suppliers					
3.9.5	Procurement of raw materials and inputs considers customers" needs, than just focusing on the requirements of the production department.					

4. Is there value adding operating activity in your company? Tell me them?

---

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5. What are the challenges that you observe while implementing value adding operating activity in your company?

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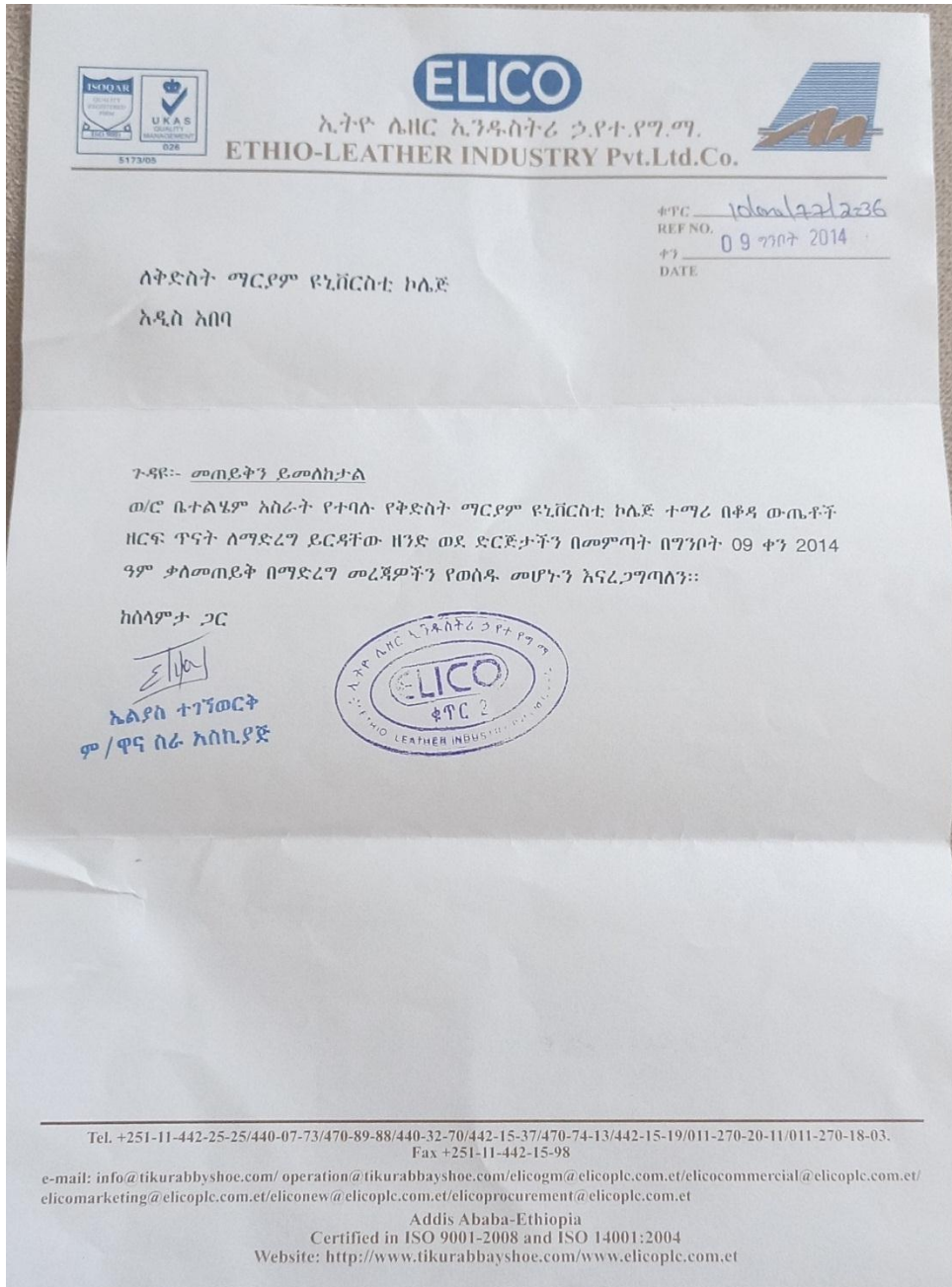
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6. What intervention mechanisms would you suggest to improve value adding operating activity in your company? \_\_\_\_\_

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Appendix 2

Few of the letters that proves that the researcher have collected questionnaire



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St. Mary's University  
School of Graduate Studies

+251-11-552-45 03 1211, 18490 Fax 011552 83 49 e-mails: sgs@smuc.edu.et. Addis Ababa, Ethiopia

*To HR Dept  
For your action*

Ref No: SMU/1560/2022

Date: April 16, 2022

*AB  
17-5-2022*

TOWHOM IT MAY CONCERN

Subject: Requesting Cooperation for Data Collection

Bethlehem Asrat ID No. SGS/0481/2013A is a student in the Department of Business Administration (MBA) who is working on her Thesis entitled "The Effects of Organizational Structure on the Performance of Leather Products". I kindly request you to provide me with data from relevant departments.

Therefore, I kindly request your assistance in this regard.

Any assistance you provide will be highly appreciated.

Sincerely,

*[Signature]*  
Fupha T. [Name]  
Guidance [Title]

*For Marketing  
For Supply dept  
for your support  
[Signature]*

ADDIS ABABA, ETHIOPIA

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# ምንተስኖት ደረጃ አስመጪና ላኪ MINTESNOT DEREJE IMPORT EXPORT

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አለ

### ጉዳዩ:- መጠይቅን ይመለከታል

ወ/ር ቤተሌሎም አስራት የተባሉ የቅድስት ማርያም ዩንቨርሲቲ ኮሌጅ ተማሪ በቆዳ ውጤቶች ዘርፍ ጥናት ለማድረግ ይረዳቸው ዘንድ ወደ ድርጅታችን በመምጣት በግንቦት 10 ቀን 2014 ዓ.ም ቃለመጠይቅ በማድረግ መረጃዎችን የወሰዱ መሆኑን አናረጋግጣለን።

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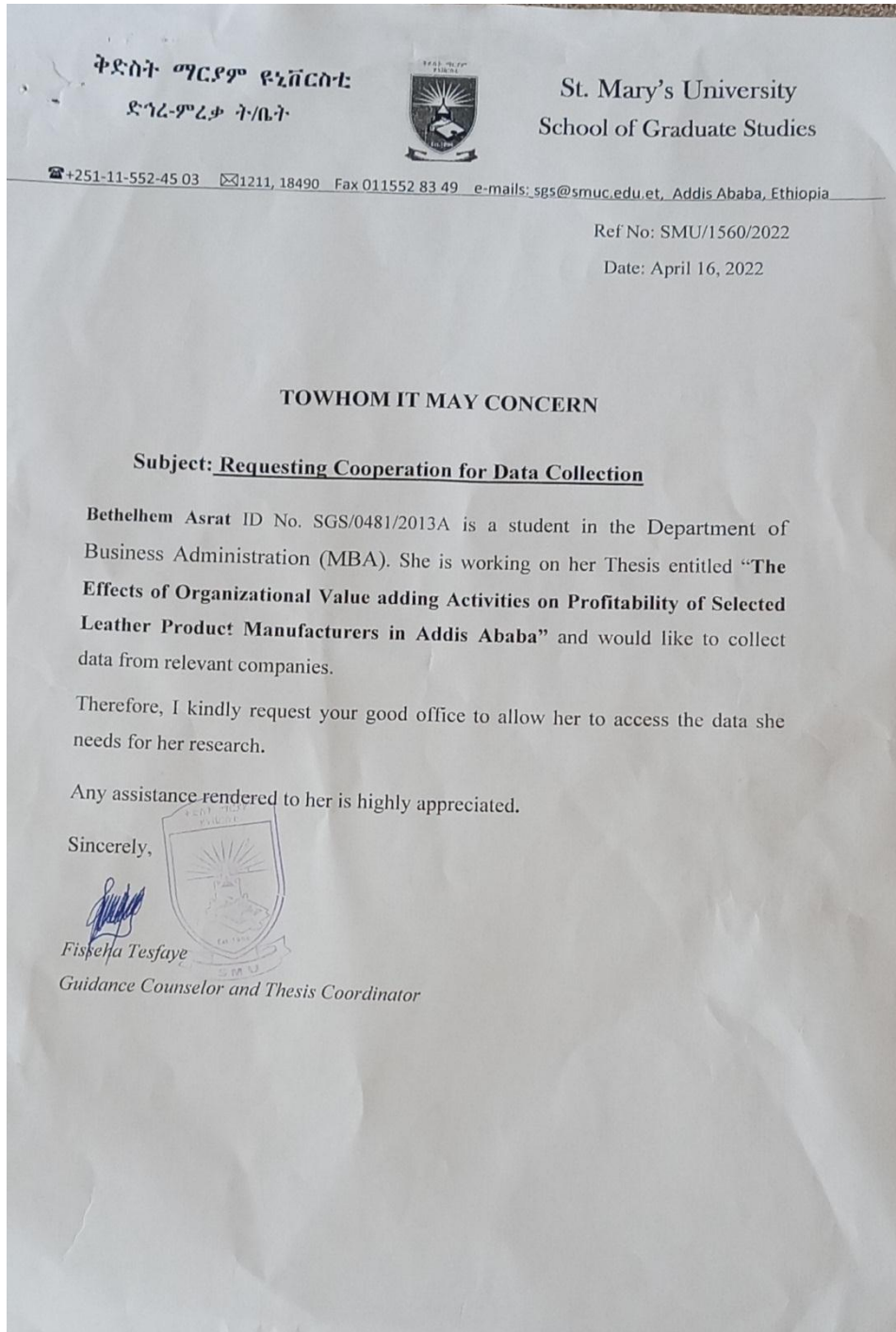
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Appendix 3

Recommendation letter from St. Mary University



<b>Tests of Normality</b>						
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
inbound logistics	.150	48	.008	.944	48	.024
operation	.172	48	.001	.959	48	.095
out bound logistics	.163	48	.003	.933	48	.009
marketing and sales	.131	48	.039	.934	48	.009
customer service	.208	48	.000	.936	48	.012
firm infrastructure	.192	48	.000	.954	48	.055
Human resource management	.210	48	.000	.903	48	.001
Technology development	.164	48	.002	.924	48	.004
procurement(purchasing)	.210	48	.000	.933	48	.009
a. Lilliefors Significance Correction						

## Statistics

		inbound logistics	operation	outbound logistics	marketing and sales	customer service	firm infrastructure	Human resource management	Technology development	procurement(purchasing)
N	Valid	48	48	48	48	48	48	48	48	48
	Missing	0	0	0	0	0	0	0	0	0
Mean		2.5	2.44	2.8	3.3	2.4	3.2	3.1	3.22	3.1
Std. Deviation		.33	.25	.25761	.284	.36	.34	.24	.29	.24
Variance		.109	.062	.07	.08	.13	.12	.06	.083	.06
Skewness		-.501	-.197	-.091	-.347	-.696	-.314	-.580	-.685	-.281
Std. Error of Skewness		.343	.343	.343	.343	.343	.343	.343	.343	.343
Kurtosis		-.089	-.042	-.321	2.437	1.712	.893	-.089	-.042	-.321
Std. Error of Kurtosis		.674	.674	.674	.674	.674	.674	.674	.674	.674