

## **Determinants on Horticulture Investment Performance in Ethiopia-A special Reference around Addis Ababa City, Ethiopia**

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### **Abstract**

*Horticulture is the newest of Ethiopia's export industries, having grown very rapidly over the past years to become the country's fourth largest export industry. The Ethiopian horticulture industry began in the 1980s when state-owned farms started exporting cut flowers to Europe. An investors and managers which dealing with several problems resulting in failures of this investment; this study was carried out to identify and understand the underlying causes of floriculture investment failure. The main instrument of the study was interview and questionnaire which is supported with secondary source of data. To analyze the collected data mean, correlation and regression was used. It is concluded that the main cause for failure of horticulture investment performance in Ethiopia is poor management following with economic factors, financial factors and marketing factors.*

*Keywords: determinants, performance, horticulture investment*

### **1. INTRODUCTION**

#### **1.1 Background of the study**

The Government of Ethiopia gives high priority to the development of the horticulture sector. In that context, the Ethiopian Horticultural Development Agency was established in 2008 with the specific focus to promote and support the further development of the sector. Also, over the past years, the Ethiopian Government has created a very conducive environment for investors in the floricultural sector such as customs duty exemption, income tax exemption, and land availability for investment on leasehold basis, interest rates and available airfreight space with Ethiopian airlines. In addition, general investments in electricity,

communication and road infrastructure have stimulated foreign and local investments in the sector. A horticulture sector organization exists as Ethiopian Horticulture Producers Exporters Association (EHPEA), but needs further strengthening to effectively deal with the many issues related to a fast growing industry. Dialogue between government and private sector is taking place but is open to further intensification and increased efficiency. Ethiopian export horticulture is developing at a unique and unexpected high speed. In 2000, only nine (9) ha of land were under flowers, and this has increased to over 1,200 ha in 2008, with more than 80 flower growers. More than 90,000 jobs have been

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created in and around these flower farms. Some 70 percent of the country's flower products are exported to the Netherlands while 10-15 percent is exported to Germany. Russia, Japan and the Near East are other relevant markets. The rapidly growing flower sector in Ethiopia has now become the fourth foreign-currency generator of the country next to the top three: coffee, oilseeds and cereals. In addition to the positive impacts in terms of foreign exchange, economic development and creating employment, the horticulture sector provides an inspiring example of a successful introduction of advanced labor-intensive production technology. Ethiopian exports of fruits, vegetables and herbs have been limited but, with new investors coming in, these are now growing strongly. Both in Europe and the Middle East a growing interest exists for products from Ethiopia.

Ethiopia's flower industry is a current example for how much potential the country has in agricultural production. Horticulture was identified as one of the target industries to be developed to generate agriculture-led employment in downstream processing industries. Government officials from various departments and a host of private initiatives have cooperated closely to establish a base for flower production.

The value of better understanding of failure probably lies in learning from it and eventually preventing future failure or pursuing improved recovery strategies. Learning from the failure experience is therefore

critical for it to serve as a positive feedback mechanism (Shepherd, 2003: 318) or as an anticipatory mechanism (Shepherd et al. , 2007: 318) Fortunately, more and more research explores the learning associated with failure as a benefit to the firm for use in future decision making. Individuals do not freely and openly share knowledge about the mistakes they have made (Baumard & Starbuck, 2005: 283). Some members of organizations do not discuss failure and hence do not learn from failures. One reason for this lack of "de-briefing" is fear that colleagues might blame those who participated in failed ventures, and another is managerial hierarchy that reacts to failure by seeking and punishing culprits. Cannon and Edmondson's (2005: 299) earlier proposition states that to learn from failure intelligently requires identifying failure, analyzing failure and experimenting with failure. What set out as an analysis of business failure as a phenomenon ended in the heart of the business management domain, covering more than failure and as such interfacing with subjects such as culture, change, cognition, leadership, finance, strategy and many more variables of the business and non-business environments. This confirms the interrelatedness of entrepreneurship with these issues and shows that the origins and reach of decline and failure are extensive. This study is tried to identify the underlying factors affecting horticulture investment in Ethiopian i.e. why more than thirty horticulture investments fails and sick in Ethiopia since it is recent development in agricultural sector

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and stands as fourth foreign-currency generator.

### 1.2 Statement of the Problem

The horticulture sector has become very promising and attractive business in many countries globally and in countries like Kenya, Zimbabwe and Zambia in east Africa. Later Ethiopia has entered into the global horticulture market. The rapidly growing flower sector in Ethiopia has now become the fourth foreign-currency generator of the country next to the top three: coffee, oilseeds and cereals. In addition to the positive impacts in terms of foreign exchange, economic development and creating employment, the horticulture sector provides an inspiring example of a successful introduction of advanced labor-intensive production technology; Even if the Ethiopian government has created a very conducive environment for investors in the floricultural sector, more than thirty horticulture investments have failed and sick or rehabilitation process. The following investments are stuck or failed. These are Dyr business group, Eden roses, Garad, Groeneveld, Hadya flowers, Hasan Abusalam, Jerecho flowers, Kings Ethio flowers, Lucy Ethiopia, Mam trading, Menagesha flowers, Meskel flowers, Metrolux flowers, Noa flora, Queen flower, Seit agro, Silverline flowers, SMR Agriculture, Star business and Summit agro nindustry. (Source: Ethiopian Horticulture Development Agency, Business Planning and Development Department, 2011). And also the following investments are sick that means they are under rehabilitation treatment. These are

Kaf rose, Sheba flowers, flowerama, Fiyori Ethiopia, Ethio magical farm, Euro flora, Abdulhamid Jamal, Rainbow colors, Agri flora, Sprit and Omni Blossom Flowers. (source: Development Bank of Ethiopia, Investment rehabilitation department, 2011). But there is no research done on the topic of factors affecting of horticulture business failure in Ethiopia. That is why the researcher is intended to carry out this study in order to identify the underlying causes of failure of the above mentioned (failed and sick) horticulture investments because it will be serious problem for the existing active firms in their progress. It is also urgent thing to the government and other necessary bodies to take corrective action if the underlying causes are clearly identified.

### 1.3 Research Questions

The following questions are answered by the study after carrying out the study. These are

What are the factors that are affecting of the horticulture investment performance in Ethiopia?

What is the extent of each factor impact on horticulture investment in Ethiopia?

Which factors are the most serious factors affecting horticulture investment in Ethiopia?

What is the relationship between factors affecting horticulture investment in Ethiopia?

### 1.4 Objectives of the Study

The study deals with both general and specific objectives.

#### 1.4.1 General Objective

The general objective of the study is

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to identify the factors affecting horticulture investment in Ethiopia.

#### **1.4.2 Specific Objectives**

The specific objectives of the study will be aimed to

1. To identify the factors affecting horticulture investment in Ethiopia
2. To identify the extent of each factors affecting horticulture investment in Ethiopia
3. To see the relationship between factors affecting horticulture investment in Ethiopia
4. To forward and recommend the firms and policy makers to consider such factors.

## **2. Methodology**

In order to achieve the intended objectives the study used the following data collection instruments, data collection methods, data sources and analysis. The study use both qualitative and quantitative approaches. It is qualitative because typical data collection method used semi structured interview and semi structured questionnaire.

### **2.1 Sources of Data**

The source of data based on both primary sources and secondary source. The questionnaire and interview are used as data collection instruments to collect primary data. Secondary sources of data is collected from annual reports, books, the internet, manuals and seminars report on horticulture investments directly from development bank of Ethiopia, Ethiopian investment agencies, Ethiopia Horticulture Producers

Exporters Associations (EHPEA) and Ethiopian horticulture development agencies.

### **2.2 Data collection procedures**

The research questionnaire was distributed to active horticulture firms, Ethiopia Investment Agency (EIA), Ethiopian Horticulture Development Agencies (EHDA), Ethiopia Horticulture Producers Exporters Associations (EHPEA) and Development Bank of Ethiopia (DBE). One questionnaire paper is distributed for each of the department of active horticulture farm (like marketing, financial, farming/production, human resources). And Interviews are conducted with important people based on the researcher's judgment.

### **2.3 Sampling techniques**

The sample of the study is taken from forty five (45) horticulture investments which are fully operational from the period (2004-2011). From these seven fully operational investments which are found around Addis Ababa, taken equals around sixteen percent (16%) of the total population. These are Selam flowers, Zagwe flora plc, ET-highland flora plc, Dire Highlands flowers plc, Sheba flowers plc, Yassin Legesse flowers plc, and Roshanara Roses. These sample is taken and the questionnaire is distributed by random sampling, judgmental, and partly purposive decisions. Forty eight questionnaire was distributed and thirty nine was collected which is 81.25%.

### **2.4 Data analysis procedures**

After collecting the data, sorting and arranging of the data into different

types depending on the sources of information has been taken and reading the data to get the general sense of information and to reflect the overall meaning. The researchers used mean to analyze descriptive data and also used Pearson's correlation and regression analysis to analyze the collected data.

### 3. RESULTS AND DISCUSSION

The data gathered and collected from questionnaire, interview and secondary sources are analyzed, interpreted and presented

#### 3.1) General background information of respondents

Table 4.1.1 shows that around 51% and 36% of respondents are under the age distribution of 25-35 years and 20-25 years old respectively; the remaining found above 35 years old, 87% of respondents are males and 13% are females. All of the

respondents are educated by formal education. 85% of the respondents have higher level of achievement of university degree and above. The remaining 15% are diploma holders. Around 35% and 28% of respondents have educational background of management and horticulture respectively. 12% of respondents were experts in statistics and also 5% of agro-economists; others possess around 15% of total respondents. 23% of respondents have less than 2 years experience, 36% of respondents have 2-3 years work experience, and 20% of respondents have 3-5 years of experience and the remaining have above 5 years experience. 15% of the respondents are working at functional areas of financial and marketing departments, 7% and 5% are working at technical and farm or production areas respectively. The others are working at training and others areas.

**Table 3.1 General background information of respondents**

		No. of respondents	Percentage
1) Age	Below 20	0	0%
	20-25	14	36%
	25-35	20	51%
	Above 35	5	13%
Total		39	100%
	Female	5	13%
	Male	34	87%

Total		39	100%
3) formal education	Yes	39	100%
	No	0	0%
Total		39	100%
4) Highest level of education	Secondary level	0	0%
	Diploma	6	15 %
	University and degree above	33	85%
Total		39	100%
5) Fields of study	Management	14	35%
	Horticulture	10	28%
	Statistics	2	5%
	Agro-economics	5	12%
	Others	6	15%
Total		39	100%
6) Experience	0-2 years	9	23%
	2-3 years	14	36%
	3-5 years	8	20%
	5 years and above	8	20%

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Total		39	100%
7) Functional area	Financial	6	15%
	Marketing	6	15%
	Technical	3	7%
	Leadership	-	-
	Production	2	5%
Total		17	42%

(Source: from respondents' response for the questionnaire)

Table 3.2: **Economic related horticulture investment failure factors**

	Responses	No. of respondents	Percentage of respondents
1) To what extent do economic conditions affect	Highly	11	28%
	Moderately	23	59%
	Lowly	5	13%
Total		39	100%
	Industry weakness	14	36%

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2) Which economic Factor affect your business negatively			
	Insufficient profits	11	28%
	Interest rates	1	2%
	Exchange rate	12	30%
	Inflation	17	43%
	Heavy debt burdens	3	7%

(Source: from respondents response for the questionnaire)

Table 4.1.2 shows about economic related factors influence on horticulture investment failure. 28%, 59%, and 13% of respondents responded that economic conditions of Ethiopia affects the horticulture investment highly, moderately and lowly respectively. 36%, 28%, 2%, 30%, 43%, and 7% of respondents responded industry weakness, insufficient profit, interest rate, exchange rates, inflation, and heavy debt burdens as negatively influencing horticulture investment in Ethiopia.

**Table 3.3 Management related horticulture investment failure factors**

		No. of respondents	Percentage
1) Do you think that your business is negatively affected by poor leadership	Yes	35	85%
	No.	6	15%



<b>T o t a l</b>		39	100%
<b>2) Which one of the following is the main cause of horticulture investment in Ethiopia</b>	Poor business planning	24	61%
	Poor financial planning	15	38%
	Poor marketing	24	61%
	Poor management	37	95%

(Source: from respondents' response for the questionnaire)

Table 4.1.3 shows that 85% of respondents responded that poor leadership as main causes of failure of horticulture investment in Ethiopia and 15% respondents responded that leadership is not the main cause of horticulture investment in Ethiopia, 61%,

38%, 61% and 95% of respondents responded that poor business planning, poor financial planning, poor marketing and poor management as management related horticulture investment failure causes in Ethiopia respectively.

**Table 3.4: To what extent did the following factors influence your business negatively?**

	<b>Major Problem</b>	<b>Minor Problem</b>	<b>No problem</b>
<b>Failure causes</b>			

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	No.	%	No.	%	No.	%
Lack of management skills and experience	27	69.3%	4	10%	6	15%
System and structural failure	30	77%	5	13%	0	0%
Big project lower expansion	28	71%	7	18%	1	2%
Failure at top managers	24	61%	8	20%	3	7%
Weak financial management	16	41%	17	43.5%	2	5%
Increased centralization	26	66%	11	28%	0	0%
Department of competent staff	26	66%	8	20%	5	12%
Poor management reporting	27	69%	10	25%	2	5%
Poorly understand cost behavior	18	46%	12	30%	3	7%
Loss of leadership credibility	31	79%	5	12.8%	2	5%

(Source: from respondents' response for the questionnaire)

Table 4.1.4 shows that 69%, respondents responded that 10% and 15% of the horticulture investments fails

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b/c of lack of management skills and experience as major, minor and no problem respectively. 77% and 13% of respondents responded that system and structural failure as major and minor causes of failure respectively. 71%, 18% and 2% respondents responded over expansion as major, minor and no problem for horticulture investment respectively. 61%, 20% and 7% of respondents responded that failure at top managers as major, minor and no problem respectively. 41%, 43.5% and 5% respondents responded that weak finance management as major, minor and no problem respectively. 66%, 28% and 0% of

respondents responded that increased centralization as major, minor and no problem respectively. 66%, 20 and 12% of respondents responded that department of competent employees as major, minor and no problem of failure respectively. 69%, 25% and 5% of respondents responded that poor management reporting as major, minor and no problem respectively. 46%, 30 and 7% of respondents responded that poor understanding of cost behaviors as major, minor and no problems of failure respectively. 79%, 12% and 5% of respondents responded that loss leadership creditability as major, minor and no problem.

**4. To what extent did the following factors influencing your corporate policies in favor of investing in Ethiopia?**

**Table 3.5: Management related horticulture investment failure factors**

	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Return on investment expected to be higher than could be obtained	9	23	21	53	4	10
Defenses market from other exporter	8	20	19	48	11	28
Attractive growth prospects	3	7	5	12	31	81
Threat of total						

blockage exports	1	2	16	41	20	51
Desire for growth	0	0	15	38	24	61
Availability of credit facilities and banking system	6	15	12	30	23	58
your domestic competitors						
Wage rate	0	0	23	58	17	43
Grant or support	0	0	21	53	18	46
Proximity to the market	2	5	25	64	12	30

(Source: from respondents' response for the questionnaire)

The above table shows that 23%, 53% and 10% of respondents responded that high expected return than obtained return as major, minor and no problem of failure respectively. 20%, 48% and 28% of respondents responded that defense of market from other exporter as major, minor and no problem of failure respectively. 7%, 12% and 81% of respondents responded that

attractive growth prospects as major, minor and no problem of failure respectively. 0%, 58% and 43% of respondents responded that wage rate as major, minor and no problem of failure respectively. 5%, 64% and 30% of respondents responded that proximity to the market as major, minor and no problem of failure respectively.

### 3.1.4 Finance related failure causes of horticulture investment in Ethiopia

Table 3.6 Finance related failure causes of horticulture investment in Ethiopia

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		No. of respondents	Percentage
1) Does an Ethiopian government provide enough loan to start your business?	Yes	34	87%
	No	5	13%
1) Do you think that shortage of capital as horticulture investment failure cause?	Yes	7	13%
	No.	32	82%

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(Source: from respondents' response for the questionnaire)

Table 4.1.6 shows that 87% and 13% of respondents responded that government provides enough loans and does not provide enough loan to the horticulture investment 13% of respondents responded that shortage of capital as main cause of failure and 82%

of respondents responded that shortage of initial capital is not the main cause of horticulture investment. Most of the respondents responded that government provides up to 70% of loans required to start horticulture business.

#### 4. To extent do the following financial factors affect horticulture business?

**Table 3.7 Finance related failure causes of horticulture investment in Ethiopia**

Business failure factors	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
High operating expenses						
Lack of capital	9	23	21	53	4	10
Over financing	8	20	19	48	1	28
Lack of control over cash	3	7	5	12	3	81
Poor case flow management	1	2	16	41	2	51
No costing and	0	0	15	38	2	61

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control system						
Assuming debt too early	6	15	12	30	23	58
Venture capital relationship	0	0	23	58	17	43
Working capital deficiencies	0	0	21	53	18	46
too high payroll						
Inadequate cash flow	2	5	25	64	12	30

(Source: from respondents' response for the questionnaire)

Table 3.7 shows different financial factors as the main causes of horticulture investment failure. 84%, 10 % and 2% of respondents responded as high operating expenses being major, minor and no problem. 25%, 61% and 7% of respondents responded that lack of capital as major, minor and no problem of horticulture investment failure in Ethiopia. 20%, 53% and 18% of respondents responded that over financing as major, minor and no problem of horticulture investment failure in Ethiopia respectively. 23%, 53% and 2% of respondents responded that lack of control over cash as major, minor

and no problem of horticulture investment failure in Ethiopia respectively. 35%, 34% and 20% of respondents responded that poor cash flow management as major, minor and no problem of horticulture investment failure in Ethiopia respectively. 5%, 77% and 10 % of respondents responded that venture capital relationship as major, minor and no problem of horticulture investment failure in Ethiopia respectively. 30%, 53% and 2% of respondents responded that inadequate cash flow as major, minor and no problem of horticulture investment failure in Ethiopia respectively.

### 3.1.5 Marketing related cause for horticulture investment

Table 3.8 marketing related factors of horticulture investment failure in Ethiopia

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		No. of respondents	Percentage of respondents
<b>Do you think poor marketing is main cause of failure of horticulture investment</b>	Yes	27	69%
	No	12	30%
<b>Which market related factors can be cause for horticulture investment failure in Ethiopia?</b>	Lack of knowledge about the product	5	12
	Inappropriate marketing	12	30
	Lack of good communication with the customer	15	38
	Poor pricing	21	51
	Poor quality of product	24	61
	Too great reliance on one customer	26	66
	Failure to focus on specific market	13	33
	Failure to gain new market	23	59
	Product timing design and definition	12	30

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	Product distribution	1	2
	Lack of identifying customer wants and needs	17	47
	Entry of new competitor	8	20

(Source: from respondents' response for the questionnaire)

Table 3.8 shows that marketing related factors of horticulture investment failure in Ethiopia. 69% of respondents responded that horticulture investment fails because of poor marketing while 30% of respondents responded that it fails not because of poor marketing. 12%, 30%, 38%, 51% and 61 % of respondents responded that lack of knowledge about the products, inappropriate marketing, lack of good communication with customers, poor pricing and poor quality of products as a cause of failure of horticulture business.

66%, 33%, 59%, 30%, 2%, 47% and 20% of respondents responded that too great reliance on one customer, failure to specific market focus, failure to gain new market, product timing, design and definition, product distribution, lack of identifying customer wants and needs, and entry of new competitors as a failure causes of horticulture investment in Ethiopia. In addition the respondents said that lack of knowledge about different market channel as a marketing related failure cause of horticulture investment in Ethiopia.

### 3.1.6 The other general horticulture investment Failure factors

#### 1. To what extent does the following factor affect horticulture investment in Ethiopia?

**Table 3.9 the other general horticulture investment Failure factors**

Business failure causes	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%
Economic factors like insufficient profits, industry weakness, etc	18	46	21	54	0	0

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Financial factors like heavy operating expenses, insufficient capital	21	51	14	36	0	0
Experience factors like lack of business knowledge, lack of management experience	24	61.5	12	30	0	0
Neglect like poor work habits, business conflicts	14	35	12	30	8	20
Fraud	8	20	15	38	11	28
Disaster	3	7	15	38	7	17
Strategy factors like over expansion	6	15	9	23	20	51

(Source: from respondents' response for the questionnaire)

Table 3.9 depicts that 46% and 54% of the respondents responded that economic factor as major and minor problem of the horticulture investment failures factors respectively. It also shows 51% and 36% of respondents responded that finance factors as major and minor cause of business failures respectively.

61% and 30% of respondents of responded that experience factors as major and minor problem of the horticulture investment failures factors respectively. Neglect as failure factor responded as follows, 35%, 30% and 20% as major minor and no problem respectively. 20%, 38% and 28% of respondents

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responded that fraud as major, minor and no problem for horticulture investment. Disaster as business failure responded as 7%, 53% and 17% of major, minor and no

problem respectively. 15%, 23% and 51% of respondents respond that strategic problem as major, minor and no problem respectively.

**3) To what extent did the following policies and conditions influence your business decision?**

**Table 3.10 the other general horticulture investment Failure factors**

Business failure causes	Positive effect		No effect		Strongly negative	
	No.	%	No.	%	No.	%
Fears of political instability	0	0	32	82	3	8
Restriction on foreign ownership	14	36	23	59	2	5
Tariff free entry of components	34	87	3	8	0	0
Tariff free entry equipment	33	85	2	5	4	10
Tax holiday allowance	30	77	1	2	0	0
Incentives to export	37	95	2	5	0	0
Availability of land	33	85	1	2	6	15
Adequate infrastructure	34	87	0	0	1	2
Availability of labor (skilled/unskilled)	18	46	20	5	1	2

Low wage costs	30	77	3	8	0	0
Absences of capital markets	17	44	8	20.5	12	31
Current size of flower industry	16	41	15	38	4	10

(Source: from respondents' response for the questionnaire)

Table 3.10 shows the general country policies existing conditions horticulture business. 82% and 8% respondents responded fears political instability has no effect and strongly negative effect. 36%, 59% and 5% respectively responded that restriction on foreign ownership as strongly positive, no effect and negative effect on horticulture investment. 87% and 8% of respondents responded that tariff free entry of components as strongly positive and no effect on horticulture investments. Tax holiday allowance has 77% positive effect and 2% of negative effect. 95% and 5% of respondents responds incentives to exports as positive influence. 85%, 2% and 15% of respondents responded that availability of land as

positive, no effect and negative effect on investment of horticulture. 87% and 2% of respondents responded that adequate infrastructure as positive and negative influence. 46%, 51% and 2% respond that availability of labor influence positive, no influence and negative influence on horticulture investment. Low wage cost is responded as positive and no influence by 77% and 8% of respondents respectively. 44%, 20% and 31% of respondents responded that absence of capital markets as positive, no effect and negative effect on horticulture investment. Current size of flower industry influences 41%, 38% and 10% positive effect, no effect and negative effect respectively on horticulture investment.

#### 4. To what extent did the following objective conditional influence horticulture business activity in Ethiopia?

**Table 3.11 the other general horticulture investment Failure factors**

Business failure causes	Major Problem		Minor Problem		No problem	
	No.	%	No.	%	No.	%

Availability of quality packaging industry	20	51	14	36	7	18
Access to adequate road and transportation	11	28	23	59	5	13
Efficiency of cargo freight	30	77	5	13	1	2
Access to adequate means of communication	8	20	30	77	1	2
Availability of good government	0	0	18	46	17	45
Availability of credit facilities and efficient banking system	4	10	5	13	26	66

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Prevailing climate and natural resources	1	2	11	28	27	69

(Source: from respondents' response for the questionnaire)

The above table shows that 51%, 36% and 18% of respondents responded that horticulture business activity b/c of quality of packaging industry as major, minor and no problem respectively. 28%, 59% and 13% of respondents responded that accessibility of adequate road and transportation as major, minor and no problem respectively. Respondents responded Efficiency of cargo freight as 77%, 13% and 2% of major, minor and no problem respectively. 30%, 77% and 2%

percent respondents responded that means of communication as major, minor and no problem for horticulture investment while 46% and 45% responded that availability of good governance as minor and no problem. 10%, 13% and 66% respondents responded that credit facilities and banking system as major, minor and no problem respectively. 2%, 28% and 69% of respondents responded that prevailing climate and natural resources as major, minor and no problem respectively.

### 3.2 Data Analysis from Secondary Sources

- The followings are production problems of horticulture investment in Ethiopia are
- The level of technology of the country: cut flowers production requires high level of technology and facilities.
- The nature of crop: the crops are very sensitive and require close attention and strict follow up, starting

production site up to marketing.

- High prices of planting materials: the existing conditions do not allow producing planting materials locally.
- Transport the high cost of cargo and linear.
- No attention is given by research to generate technologies, in order to promote cut flowers production. (Dr. Bateno Kabeto, Tadesse Debebe, 1999)

Major constraints in

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horticulture  
investment of  
Ethiopia are

1. Absence of development for horticulture industry and agricultural policy.
2. Lack of modern technology in production and marketing system low level of productivity
3. Limited infrastructural; and communication facilities supply.
4. Lack of update and effective marketing research and information.
5. Shortage of skilled and competent manpower and training
6. Absence of institution responsible to development of horticulture
7. Low level of research and development.
8. Some policy law, regulatory and implementation procedure impediment
9. Financial difficulties of investors in the sector
10. Inadequate air cargo space.
11. Unavailability of inputs, green house structure and high quality packaging materials in domestic marketing as compared to other competing countries.
12. Management and supervision problems.
13. Unsatisfactory promotional activities both in supply and demand sides.
14. Absence of professional association. (By Sisay Habte, 2001)

### 3.3 Data Gathered From Conducted

#### Interview

As the interview made with different people who has good background to the study, they have given the following causes as the reason why horticulture investment fails in Ethiopia.

Development Bank of Ethiopia gives loans when the investors want to invest in this sector. But the investors are not paying their debt properly because of many reasons like management, economic, finance and other related factors; the bank sells and foreclose their property that they have taken as collateral.

Economic related failure factors such as inflation, exchange rate, labor, land and others has affecting this investment negatively. Horticulture investment is highly sensitive with inflation of a given countries since the investment is deals with importing and exporting process. Purchasing power of local currencies when it is needed to import necessary inputs for production is being very weak. And when the product is exported, it is needed to change from dollar to euro then to local currencies. The base payment of land is very expensive especially when the land is contracted from farmers.

Most of the interviewee said that the government provides around seventy percent of loan for this sector; therefore it is not failing because of the lack of enough initial capital even if some investors are not fulfilling the necessary requirements like proposal, pro-forma, personal information and others. Lack of good marketing is also causes of horticulture investment in Ethiopia. Most of the flowers producers focused on the

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one customer centered i.e. Holland Auction market. There is high standardized supply of product which is not meeting the customer's preferences. Transportation and promotion cost makes the price of the product high. Timing, quality and lacking of domestic market are also the cause this investment failure.

All interviewee looks management problem as the major cause of

failure of horticulture investment in Ethiopia. That is those who are the owner of the farm becomes general manager but they have no management qualification as well as experience and skill about the inputs, the production process. There is also no good labor management so that there is high employee turnover. There is high training and capacity management problem.

### 3.4 Correlation and Regression analysis

**Table 3.2.1 the relationship between investment performance factors and Investment performance**

Factors	Investment performance	
Economic Factors	Pearson Correlation	.580 <sup>**</sup>
	Sig. (2-tailed)	.005
Organizational (Management) factors	Pearson Correlation	.738 <sup>**</sup>
	Sig. (2-tailed)	.000
Marketing Factors	Pearson Correlation	.549 <sup>**</sup>
	Sig. (2-tailed)	.008
Financial Factors	Pearson Correlation	.710 <sup>**</sup>
	Sig. (2-tailed)	.002
Other factors	Pearson Correlation	.510 <sup>**</sup>
	Sig. (2-tailed)	0.001
**. Correlation is significant at the 0.01 level (2-tailed)		

Source: Survey Questionnaire 2013

This Table 3.2.1 shows that the between dependent variables and independent variables have perfectly

positive relationship because the Pearson correlation of all the dimensions are greater than 0.5.

**The table 3.2.2 below indicates the most serious factors affecting horticulture investment performance**

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	Standardize	t	Sig.
	d Coefficients		
	Beta		
(Constant)		-1.964	.038
Economic Factors	.207	1.975	.007
Organizational/Management factors	.270	2.082	.000
Marketing Factors	.157	1.846	.005
Financial Factors	.183	1.063	.004
Other factors	.143	1.783	.000
R Square = .650			
Adjusted R Square = .656			

Source: Survey Questionnaire 2013

The table 3.2.2 above shows that all investment performance factors are significant variables that can affect the horticulture firms' investment performance. In addition to its significances, the standardized coefficients (beta) column indicates the parameters' contributions to the investment performance of the firms. In this regard, the ranking of its contribution shows that organization (management) factors have greatest contribution to the investment performance of the firms following with economic factors, financial factors marketing factors and other factors.

#### 4. FINDINGS

##### ANDRECOMMENDATIONS

The following conclusions, findings and recommendation are given from

the data analyzed and information forwarded.

##### 4.1 Findings

1. Management related problems are the main causes of horticulture business failure in Ethiopia. Poor business planning, poor financial planning, poor marketing, lack of leadership creditability, increased centralization, system and structural failure, over expansion, failure at top managers, poor reporting, lack of management experience, knowledge and skills, lack of hiring competent employees and poor employee management relation are the management related horticulture investment failure factors in Ethiopia.
2. Heavy operating expense, poor cash flow management, lack of control over budget and cost,

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venture capital relationship, working capital deficiencies, too high payroll, assuming debt too early, fraud and neglecting behavior of investors when payment deadline reaches and absence of capital market are some of finance related horticulture investment failure causes in Ethiopia.

3. Industry weakness, insufficient profits, inflation, exchange rate, labor wage rate and land contract cost are some of economic related failure factors of horticulture business in Ethiopia.
4. Too great reliance on one customer, failure to get new market, lack of identifying customer wants and needs, lack of good communication with customer, poor product timing, lack of knowledge about different market channels, poor pricing and free entry of new competitors are marketing related factors of horticulture investment failure in Ethiopia.
5. Other factors like disaster, climatic change, land fertility, joint ventures relationship, lack of quality packing industries, lack of efficient cargo freight, high transportation cost, lack of efficient credit facilities and banking system, country policy conditions infrastructure related causes are some of other horticulture investment failure factors in Ethiopia.

#### 4.2. Recommendation

As management problem is the main cause of horticulture investment failure causes in Ethiopia, those who are managing their investment

currently and who are going to be manager and investor of horticulture business should:

Develop effective business plan

Develop good financial plan and management in order to avoid heavy operating expenses and poor cash flow, control costing and budget, reduce high payroll expenses and working capital deficiencies.

Use good marketing systems and strategies by searching for new market and customers, by identifying customer wants and needs, using right pricing strategies, by providing and distributing to their right customer channels by following right market timing in order to satisfy customer preferences, by using market research and development and other necessary marketing actions.

Leader should give credit and should be committed to their jobs and responsibilities.

There should be participatory and decentralized way of solving problems making decisions and setting objectives.

Investors and managers should avoid frauding and neglecting behaviors

Effective follow up reporting and appraisal of their employees and performance should be kept.

Employees should get necessary motivation, incentives safety, health protection and other services.

Necessary training should be given to managers and workers

Consideration for economic related factors like inflation exchange rate, bond, labor and other resources should be given.

Looking for the demand of the market and supplying necessary product according to the market

demand is very important thing, Ethiopian government should encourage different institutes which will strive for horticulture investment success in addition to Ethiopian horticulture development agency and Ethiopian Horticulture Producers and Exporters Association.

They should follow appropriate climatic condition for the production.

They should develop quality packaging industry and efficient cargo freight services

Ethiopian government should provide necessary infrastructure like electricity, transportation and road etc.

To compete and sustain in the international market, the flower industry needs to contemplate on its competitive advantage for better performance.

Even though Ethiopia has the potential to expand the horticulture industry, the government needs to strengthen and extend infrastructure facilities beyond the capital.

Major work in areas of marketing strategy and human resource development has to be carried out by the sector in order to be competent in the international flower market.

The product range needs to be widened in order to minimize risk.

The government needs to look at the root of the problem concerning financial institutions and come up with some concrete solution.

Most of all, code of conduct should be developed by the government concerning social and environmental aspects of production, methods being used, impact of production processes on

local environments, or any other negative social impact and employees' health and safety issues. Finally, further research is required in the concerned areas so that a strong foundation can be laid for the sector to grow

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