AN APPLICATION OF PORTER'S THEORY OF THE COMPETITIVE ADVANTAGE OF NATIONS IN DETERMINATION OF THE COMPETITIVENESS OF THE KENYAN TEA EXPORT INDUSTRY

BY

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DECLARATION

This research project is my own original work and has never been presented in any other University.

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This project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

To my children Ethan and Hazel

And to my husband Aaron

Thank you for walking with me through this journey

ACKNOWLEDGEMENT

I thank the Almighty God I serve for bringing me this far. Without Him none of this would be possible.

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ABSTRACT

The Tea export industry plays a very crucial role in the Kenyan economy as tea is one of the main foreign exchange earners. In fact Tea has overtaken tourism to become the country's number one foreign exchange earner. Although the tea industry has been completely liberalized, government control exists under the Tea Board of Kenya whose directors are directly elected by key stakeholders in the industry. As the global environment changes, it is important that the tea exporting firms assess the changes with a view to enhancing their competitiveness.

Porter in his theory of competitive advantage points out that there are four primary determinants of competitiveness of firms; factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. The objectives of study were to determine the competitiveness of the Kenya Tea export industry using Porter’s theory of the competitive advantage of nations and to establish any other factors other than those suggested in the theory that could influence the competitiveness of Kenya’s tea export industry. Literature review was gathered from various authoritative sources with more emphasis on more current and relevant literature from renowned authors in strategic management.

The research design used was a descriptive survey approach which targeted 67 registered tea exporting companies in Kenya located within the city of Mombasa. The data collection tool used was a questionnaire with closed and open-ended questions guided by the contents of the literature review and aimed at achieving the set objectives. The targeted respondents were the Managing directors of the firms. The results obtained from the questionnaire were first summarized in a data preparation process and results were analyzed using the descriptive analysis and use of graphical techniques. Tables were used to show percentages and trends in the data. In order to measure the spread of the data over the sample population, mean scores and standard deviations were calculated using the SPSS package.

The study revealed that the tea exporting firms in Kenya apply the Porter’s theory of competitive advantage but also considered other factors in enhancing their competitiveness in the industry.

ABBREVIATIONS AND ACRONYMS

KTDA	Kenya Tea Development Agency
EATTA	East Africa Tea Trade Association
COMESA	Common Market for Eastern and Southern Africa

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The World Economic Forum in its Global Competitiveness Report (2008), ranks countries in terms of their international competitiveness. Krugman (1995b, 1998), hold that countries do not compete internationally that they are not like firms, competing with rivals in the global market place. Other scholars like Kohler (2006) supports Krugman's belief that countries do not compete, because trade is a positive sum game and thus "a country's welfare is ... determined by its absolute level of productivity and not by some international competitiveness rankings … In a trading world, productivity is magnified, in terms of its welfare potential by international exchange…"

Nonetheless, international competitiveness of countries is an ever-growing concern for governments, firms as well as academic scholars (Ketels 2006). Further, it is one of the most misused and misunderstood terms in the popular press and academic literature presently. According to Daniels (1991), it is "the elusive concept of national competitiveness" he further claims that there is no consensus on how to measure, explain and predict international competitiveness of countries, and "perhaps none is warranted".

There is debate on the true meaning and understanding of international competitiveness of countries because of the implicit assumption underlying the management theories that firm competitiveness can be extended to country competitiveness, as popularized by Porter (1990a) with his Diamond Framework and the world competitiveness reports.

1.1.1 The Competitive Advantage of Nations

Porter (1990) argues that nations are most likely to succeed in industries or industry segments where the national "diamond" is the most favourable. The diamond has four interrelated components which are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. Porter further argues that national prosperity is not inherited, rather is created. The extent to which a nation is competitive internationally depends on the capacity of its key industries to innovate and upgrade. Companies and by extension industries gain advantage against fellow competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home based suppliers and demanding local customers.

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

Classical economic theory defines comparative advantage as the natural endowment that would position a trading nation to a relatively better position to produce and trade in goods and or services derived from exploitation of such endowment. Competitive advantage on the other hand, would result from the existence of man-made structures, which are dynamic in nature that would position a trading nation to a relatively better position amongst her trading partners. Comparative advantage is fairly static, while competitive advantage is dynamic (Anderson, 2005)

For any industry to be effective and hence successful, they must respond appropriately to changes occurring in their operating environment. Subsequently, they need strategies to focus on their businesses and customers and deal with the emerging challenges they will encounter, both strategically and operationally. This ultimately calls for organizations to constantly evaluate the trends and conditions that may eventually affect the industry and adapt to them (Thompson and Strickland, 1993). By so doing, competitive advantage for the industry will be achieved and maintained.

1.1.2 Overview of the Tea industry in Kenya

Teas is mainly grown in several districts lying on both sides of the Rift Valley and include Kericho, Bomet, Nandi in the West and Muranga, Meru, Kirinyaga and Embu to the East. Production is shared between multinational companies and small scale growers. Both sectors have benefited from many scientific advances in tea cultivation, although average yields in the small sector are below those in the estates sector which stands at around 1800kg.ha. Despite the yield disparities, the small scale sector has managed to achieve higher quality standards resulting in consistently higher auction prices. The industry is the largest employer in the private sector, with more than 80,000 people working on the estate and about 3 million people earning their livelihood from the sector. (Gesimba, Lang'at, Liu and Woukau, 2005)

The Kenya Tea Development Agency's predecessor the Kenya Tea Development Authority was established in 1964 by an act of parliament as a parastatal charged with the responsibility of developing and fostering the young and nascent small scale growers sector who account for 60% of the total tea production in the country. From one factory serving 19,000 growers and only 4700 ha of tea, KTDA today has 51 factories spread in 24 districts. The factories are owned by 380,000 growers who cultivate approximately 93,000 ha of tea. Multinational on the other hand comprising mainly British tea companies and efficient estates account for the remaining 40% of production. (Kenya Tea Development Agency, 2011)

Although the tea industry has been completely liberalized, government control exists under the Tea Board of Kenya whose directors are directly elected by key stakeholders in the industry. The government oversees the maintenance of rural access roads and generally creates and enabling environment for expansion of domestic and international markets. Currently Kenya's per capita tea consumption stands at 0.44kg/year or approximately 5% of total marketed tea. (Tea Board of Kenya, 2012)

1.1.3 The Tea Export Industry in Kenya

The tea export business is managed through the East African Tea Trade Association (EATTA), headquartered in Mombasa and which an organization bringing together various stakeholders responsible for the internationalization of the tea industry. These include tea exporting companies also known as buyers, brokers, warehouses and tea packers. The Tea Board of Kenya has licensed EATTA to hold the weekly Mombasa auction which is the largest in the world in terms of volumes sold.

1.2 Research Problem

Porter's (1990) focus on competition is a diversion from traditional economic thinking. Peng (2009) refers to it as the most recent theory that explains the international competitiveness of countries: "It is the first multilevel theory to realistically connect firms, industries and nations, whereas previous theories only work on one or two dimensions". International competition at the firm level has changed over the last decade because of the changing patterns of world trade, globalization of the world economy, rapid dissemination of technology and information, and the rise of the transnational organization. It is this emphasis on competition among firms in world markets that has renewed intellectual interest in international competitiveness at a country level.

Tea production has contributed significantly to the Kenyan economy and is expected to continue doing so in the foreseeable future. Tea has overtaken tourism to become the country's number one foreign exchange earner. The commodity earned the country Sh109 billion last year up from 97 billion in 2010 which was an improvement from 73 billion in 2009, cementing its place as the single most important commodity in the economy as it equally is a source of income for a large number of our people. Between 2009 and 2010 tea production rose 28 per cent from 310 million to 399 million kilograms, accounting for 10 per cent of the global tea output. The unfavourable weather conditions experienced in 2011 caused tea production to fall by five percent to 377.9 million kilograms. Even with this reduction, the production for last year was still higher than the outputs recorded in 2007 to 2009. Kenya is currently the the world's largest exporter of black tea. (East African Standard, July 2011).

Research studies that have been done on the tea industry have not concentrated on factors that have given the Kenyan tea export industry its rise to international domination and success. Mukhweso (2003) in his study seeking to establish factors affecting tea pricing and pricing strategy in the Mombasa Auction observed that the tea auction was a very important outlet for international pricing and marketing of tea. Karugo (2003) whose study had the objective of evaluating price trends in output sales by smallholder tea farmers found that the output would continue to rise irrespective of the trend in prices of green tea leaf. Chepkirui (2011) in her study on change initiatives in the East African Tea Trade Associaion observed that factors such as an adoption of electronic systems as well as organizational and structural changes in the association had brought change to the tea body. Bett (2003) in his study on strategic planning practices by tea manufacturing companies in Kenya concluded that certain environmental changes had forced companies to turn to the use of strategic planning. However, a knowledge gap exists on what and how specifically the Kenyan tea exports industry has been able to be competitive in the international market. It is on this premise that the basis of this research is founded by seeking to answer the question: Is Porter's theory of the Competitive Advantage of Nations applicable to determine the competitiveness of the Kenyan tea export industry?

1.3 Research objectives

This study has two objectives:

i. To determine the competitiveness of the Kenya Tea export industry using Porter's Theory of the Competitive Advantage of Nations.
ii. To establish any other factors other than those suggested in the theory that could influence the competitiveness of Kenya's Tea export industry.

1.4 Value of the Study

The findings of this study will add knowledge on the debate of the relevance and applicability of Porter's theory on the Competitive Advantage of Nations. The players in the tea industry in Kenya will be informed by the findings in the study of the precarious nature of the industry and as such help them see the need to re-strategize their operations to avoid other countries overtaking them.

The study will contribute to policy formulation in guiding tea players within the country in designing their operations in ways that will enhance their competitive advantage internationally. Further, the study will go a long way to helping the government formulate policies that will assist other industries succeed in a similar fashion in order to achieve improved economic outlook and development. It is hoped that the study aid in identification for further research on this subject.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature reviewed that is related to the study. Multiple factors affect the tea industry and these calls for the development of a framework to assess their effects and possible solutions. The literature builds on theories from various fields namely; theories on barriers and competition in international trade, supply chain management, vertical restraints and finally, creating sustainable competitive advantage.

2.2 The Concept of Competitiveness and Comparative Advantage

The concept of competitiveness has evolved over time with economic development and with formulation of development theories. Classical economists viewed competitiveness as arising from "market mechanisms" which force enterprises to measure up with each other in the production and distribution of goods and services at the best possible price and quality. Market mechanisms foster competition and efficiency in resources allocation, promote survival of the fittest enterprises and eliminate less efficient ones (Ketels, 2006).

Despite all the discussion on competitiveness, no clear definition or model has yet to be developed. It has proved to be a very broad and complex concept because of a whole range of factors accounted for it. Competitiveness is both a relative concept and a multi-dimensional one (Dwyer and Kim, 2001). Perspectives in various disciplines reveal that competitiveness is a multi-faceted concept. We can regard the notion of competitiveness as associated with four major groups of thought (Waheeduzzan and Ryans, 1996). These are comparative advantage and or price competitiveness perspective, strategy and management perspective, historical and social cultural perspective and development of indicators of national competitiveness.

Comparative advantage is one of the basic concepts of economic theory underlying the principles of specialization, division of labour and exchange. Comparative advantage exists when a country has a margin of superiority in the production of a good or service i.e. where the opportunity cost of production is lower. The basic theory of comparative advantage was developed by David Ricardo Ricardo's theory of comparative advantage was and was further developed by Heckscher, Ohlin and Samuelson who argued that countries have different factor endowments of labour, land and capital inputs. Countries will specialize in and export those products which use intensively the factors of production which they are most endowed. If each country specializes in those goods and services where they have an advantage, then total output and economic welfare can be increased (under certain assumptions). This is true even if one nation has an absolute advantage over another country.

Competitiveness in Kenya has been analyzed in several studies. According to Siggel et. Al (2000), the historical factors that contributed to lack of competitiveness include the import substitution industrialization strategy after independence that heavily protected local industries through tariff and non-tariff measures, exchange controls, import licensing, direct control of pricing by the government and weakness of the country's infrastructure to enjoy economies of scale.

Kenya's global competitiveness as a nation was ranked in the Global Competitiveness Report (2011-2012) prepared by the World Economic Forum (WEF). The report attempts to capture a nation's business environment which reflects its capability to compete in the international environment. The World Economic Forum has continued to shed light on the question of why some countries are able to grow on sustained basis for prolonged periods of time whilst pulling large segments of their population of poverty while others remain stagnant or worse actually see an erosion of living standards. For the year 2011-2012, Kenya was ranked 102 out of 142 nations according to the Global Competitive Index, an improvement from position 106 in the previous year. According to Lopez-Carlos (2005) the underlying concept of the Global Competitive Index is that while macroeconomic and institutional factors are critical for national competitiveness, they are necessary but not sufficient for creating wealth.

Lehmann (2004) asserts that Kenya has enormous potential for the development of small businesses if bureaucratic hurdles are removed. Further, the country's optimistic and reform-minded population makes the country a perfect investment opportunity for foreigners looking to break Africa's growing market.

2.3 Porter's Diamond Model

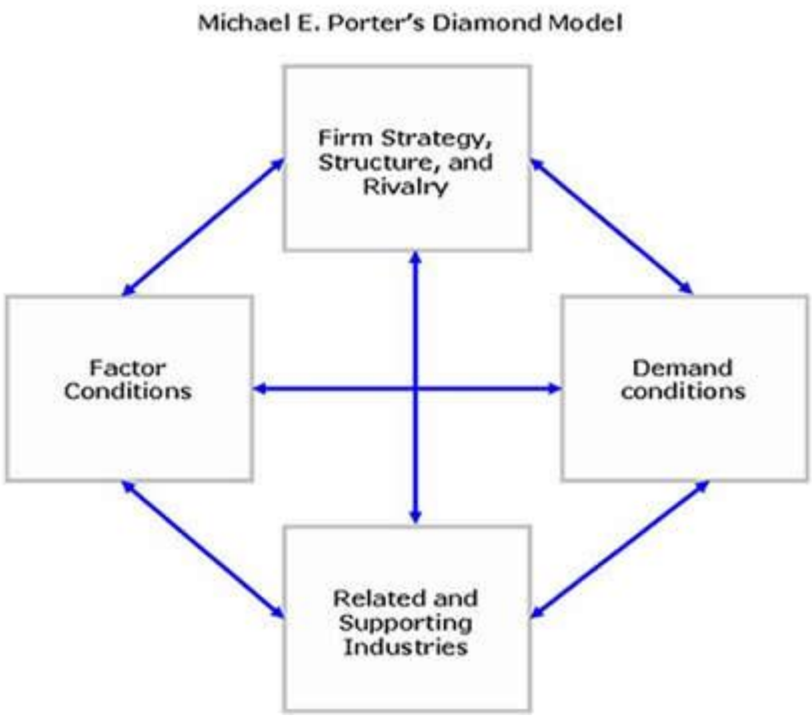
Porter (1998) argues that it is firms not nations that compete in international markets. He argues that one must understand how firms create and sustain competitive advantage in order to explain what role the nation plays in the process. A nation's industry consists of a group of companies competing not only amongst themselves, but also as an aggregate against the same industry in other countries. Firms position themselves within an industry through different strategies. In most cases, however, firms in a nation's industry pursue similar strategies that make the industry's strategy clearly different from the strategy of the same industry in another nation. A nation's industry is competitive relative to other nations' industries if the industry as aggregate has a competitive advantage that allows it to consistently create higher profits than rival industries in other nations (Porter, 1996)

Porter's theory of the Competitive Advantage of Nations which is the model for this study provides a framework to examine how nations gain a competitive advantage in the global market place based on specific determinants found in industries within a nation. This theory explores how businesses within a nation gain competitive advantage. Porter believes that, "groups or clusters of interconnected firms, suppliers, related industries, and institutions that arise in particular locations, have become a new way for companies, and governments to think about economies, assess the competitive advantage of locations, and set public policy" (Porter, 1990).

The four primary determinants of his model are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. Factor conditions are the basic inputs of production necessary to compete in an industry.

Examples of factor conditions are skilled labor, infrastructure, or capital resources. Demand conditions are the quality of the home demand for a product or service in an industry. Related and supporting industries are defined by whether a nation has the supplier and related industries that are internationally competitive. The fourth determinant is firm strategy, structure, and rivalry which is defined by the conditions within a nation that administer how companies are created, organized, and managed along with the type of domestic rivalry. According to Porter, these determinants individually and as a structure provide the atmosphere for nations to gain competitive advantage. Porter positions these determinants in a “diamond” pattern (Porter, 1990).

Figure 1: Porter’s Diamond Model



Source: Porter, M.E. The Competitive Advantage of Nations (1990)

Porter argues that the goals and strategies in firms vary throughout the world. It is important that the right goals and strategies are applied in order to meet the expectations of shareholders, managers and employees in a firm. Through the achievement of individual goals and company goals and sustained commitment of the same, the resulting influence on national priority on goals can lead to a competitive advantage. The findings of Porter's research suggests that the association between vigorous domestic rivalry between firms in a bid to outdo each other as well as constant pressure to gain market share by consistently improving processes and innovation, can enable an industry to have competitive advantage (Porter, 1990).

According to Porter (1990), factor conditions are the inputs that are necessary to compete in an industry. He breaks factors of production as human resources, physical resources, knowledge resources, capital resources, and infrastructure. Porter defines human resources as the quantity and quality of workers along with the costs of personnel. The physical resources of a nation would be land, water, mineral deposits, or other physical traits. Porter defines a nation's wealth of scientific, technical and market knowledge as knowledge resources. Capital resources defined by Porter are the costs and amount of capital available to finance an industry. Finally, Porter defines infrastructure as the infrastructure that is needed in order for an industry to compete. This includes transportation system, communications system, payments or funds transfer, health care, and parcel and mail delivery. He further states that if one nation is to have strong factor conditions, the appropriate industries within a nation must deploy these factors in an efficient and effective manner (Porter, 1990)

Home demand conditions for an industry's product or service is another determinant of Porter's national competitive advantage in an industry. He states that there are three broad attributes that are significant for home demand. They are the composition of home demand, the size and pattern of growth of home demand, and internationalization of domestic demand (Porter, 1990).

He suggests that home demand allows local firms to observe an earlier picture of the needs of the buyer before rival foreign firms. Home demand also creates competitive advantage because in order to meet the home nation buyer's needs, local firms can innovate and adapt faster than rival foreign firms.

The second attribute of demand conditions as stated by Porter is the demand size and pattern of growth. Porter (1990) states that, "provided that its composition is sophisticated and anticipates international and not just domestic needs, the size and pattern of growth of home demand can reinforce national advantage in an industry". The third attribute of demand conditions is the internationalization of domestic demand. Porter observes that competitive advantage can be realized through mechanisms that make a nation's domestic demand international.

Supporting industries help provide the necessary inputs that an industry may need to compete. Related industries help share or coordinate value chain activities within industries. Porter observes that these shared activities can happen in technology development, manufacturing, distribution, marketing, or service. Related industries provide a flow of valuable information and insight, which can help create competitive advantage for an industry (Porter, 1990).

Porter further illuminates that competitive advantage in supplier industries creates advantages in three ways. An early, fast, or preferential access to the most cost-effective inputs can create competitive advantage. Suppliers can help create competitive advantage by having close working relationship with the firms they supply. According to Porter, the constant communication and interaction between firms and suppliers can lead to innovation and upgrading. If suppliers are global competitors they would have more valuable sources of information and insight on competing internationally (Porter, 1990).

2.4 Other Factors Influencing Competition in Global Industries

Competition in global industries presents some unique strategic issues compared to domestic competition. Although their resolution depends on the industry and the home and host countries involved, such issues must be confronted in some way by global competitors.

The flow of goods and services through importation and exportation amongst countries constitute international trade. With the advent of globalization, new economic opportunities have emerged and this has also come with unforeseen threats. In light of these, nations are prone to increased competition and trade restrictions coordinated by economic communities such as the East African Community. Through the imposition of such restrictions Anderson (2005) holds that governments are protecting their domestic firms through the provision of trade advantages over foreign firms. These include among others importation quotas which directly reduce the quantities imported and concurrently reducing competition faced by domestic producers, trade embargos, and tariff and nontariff barriers imposed as taxes by governments to raise revenue as well as a means of restricting imports. According to Valpy (1863) the shortcomings of these barriers is that they can lead to retaliation from other countries through trade wars as evidenced by the research into these side effects with studies dating back to the 19th century. Additionally, politics has had a significant role to play in international trade; for example the recent war on terror resulted in new regulations imposed on international trade such as the bioterrorism laws on agricultural products. Milner, Rosendorff and Mansfield (2003) conducted an in-depth study into the role of politics in international trade. Their findings revealed that “motivations for leaders to make such agreements can come not just from economic factors or international pressures, but also from domestic political needs. Such agreements can help domestic leaders solve their internal problems. Ashenfelter and Graddy (2005) noted that by imposing trade policies, governments are legally protecting their domestic firms through the provision of trade advantages over foreign companies.

Companies are achieving competitive advantage as a result of the configuration and management of their supply chains. Chase, Aquilano and Jacobs (2003) state that "Companies have become more specialized and search for suppliers who can provide low cost, quality materials rather than own their source of supply. According to Lummus & Vokura (1999) it becomes critical for firms to manage the entire network of supply chain management in order to optimize overall performance".

Firms are faced with increased competition both nationally and internationally. A study by Poirier (1999) on supply chain management for competitive advantage revealed that there is a gap between firms that truly understand supply chain management and those that simply follow it. Lummus and Vokura (1999) suggest that for a company to be competitive, a variation of the marketing programs is not enough "all components of the supply chain must have the capability to meet strategic objectives." Lee (2002) suggests that managing supply chains effectively is a complex and challenging task, due to the current business trends of expanding product variety, short product life cycle, increasing outsourcing, globalization of businesses, and continuous advances in information technology."

Porter (1990) points out that nations can successfully dominate international competition by exploiting the competitive advantage of their industries. Ambastha and Momaya (2004) argue that "while there are many theories about competitiveness and related interdisciplinary fields of strategy, operations, resource-based view and economics, they are not used widely by practitioners in their decisions for enhancing or sustaining competitiveness."

To survive in an industry firms should tactfully reposition themselves, respond to and influence the industry's changing structure. This can be achieved through cost leadership translating to superior returns at lower costs and differentiation through provision of superior quality products (Porter 1990). Supply chain management integrates and coordinates the various processes and players into a seamless unit that meets the needs of the different products and customer groups. Buckley and Casson (1998) note that a well managed supply chain should assimilate all the traditional functions to provide value and satisfaction to the end user. Generally, the demand at the end of the supply chain is relatively stable but anticipated fluctuation in supplies results in price fluctuations as a result of forward buying, rationing and shortage gaming.

In the new global era successful firms are those that accurately anticipate market trends and quickly respond to changing customer needs (Stalk and Shulman, 1992). According to Towill and Christopher (2002), the end customer in the marketplace determines the success or failure of supply chains. They further state that "getting the right product, at the right price, at the right time to the consumer is not only the linchpin to competitive success but also the key to survival" (p. 299). Chase, Aquilano and Jacobs. (2000) contend that in the new global era companies are forced to find flexible ways to meet customer demand. The companies these days focus on optimizing their core activities so as to maximize the speed of response to customer demand. With increasingly sophisticated customer demand (product variety and customization) (Yang and Burns, 2003), and recent events of supply disruptions (Lee, 2004), supply chains have to be responsive to constantly changing market and business environment. It is thus incumbent on managers and researchers to strive for a better understanding of the responsiveness construct.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was used in the study. The chapter therefore presented the research design, target population, the research tools, and data collection procedures and data analysis techniques.

3.2 Research Design

This study adopted a descriptive survey approach. According to Mugenda and Mugenda, (2003) a descriptive survey is a systematic collection and analysis of data in order to answer questions concerning the current status of a program, proposal or activity. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables (Bryman and Bell, 2011). This approach was appropriate for this study, since the researcher intended to collect detailed information from the players in the tea export industry. The descriptions were useful for identifying variables and hypothetical constructs related to the application of Porter's Theory of the Competitive Advantage of Nations to the Kenyan tea export industry and in so doing answered the research questions in the study.

3.3 Population of the Study

The study population was all tea exporting companies in Kenya. The East Africa Tea Trade Association (EATTA) which was formed in 1957 is the mandated body which governs the registration of tea exporters, tea brokers, tea warehouses, tea packers and tea producers in the country. It is also the auspices under which the Mombasa Tea Auction is conducted. According to the June 2012 list, there are 67 duly registered tea exporting companies in Kenya and since they are few and are all readily accessible in the city of Mombasa, a census was carried out for this study.

In addition to attaining membership with EATTA, any tea exporter must be licensed by the Tea Board of Kenya which is mandated to regulate the tea industry in all aspects of tea growing, research, manufacture, trade and promotion in both the local and international markets. To date, the Board has licensed 67 tea exporting companies to operate in domestic and international tea trading activities.

3.4 Data Collection

Data collection is the process of gathering information about a phenomenon using data collection instruments. Primary sources of data were used to obtain information for the study. Primary data was collected using a questionnaire tool which was distributed to all Managing Directors of the 67 tea exporting companies and this ensured that all members of the target population participated. The questionnaires will had both closed-ended and open-ended questions. Questionnaires gave the respondents adequate time to provide detailed responses to the questions without being under pressure to submit the necessary information. At the same time, questionnaires enabled the researcher to systematically collate multiple amounts of data or information without having to spend too much time doing so say for example when administering face-to-face interviews.

3.5 Data Analysis and Interpretation

After administering the questionnaires, the researcher coded the data and converted it into numerical codes for statistical analysis. Data was analyzed using both quantitative and qualitative methods. The Statistical Package for Social Sciences (SPSS) computer software was used to generate simple frequency tables to summarize them.

CHAPTER FOUR: ANALYSIS AND DISCUSSIONS

4.1 Introduction

The objectives of this study were to determine the competitiveness of the Kenya Tea export industry using Porter's Theory of the Competitive Advantage of Nations and to establish any other factors other than those suggested in the theory that could influence the competitiveness of Kenya's Tea export industry. Out of the sample of 67 firms, 52 (78%) responded to the questionnaire. This was considered adequate for the objectives of this study.

In this chapter, the analyzed data is presented together with the relevant interpretations. Findings have been presented in three parts: General information on firms, information relating to the competitiveness of the tea export industry using Porter's Theory and information relating to other factors influencing the competitiveness of Kenya's tea exporting industry

4.2 Profile of Respondents Firms

Section A of the questionnaire set to establish the profile of the tea exporting firms by requiring the respondents to answer a variety of questions based on either open ended questions or closed questions. This was aimed at determining whether the firms surveyed had the necessary experience in the industry as well determine the size of their operations. This was useful for this study in order to ensure data was collected not only from knowledgeable respondents but also from companies with relevant experience in the tea export industry. The data obtained was summarized into frequency tables and analysis done to identify key characteristics and dynamism of the firms.

4.2.1 Number of years in Existence as an Exporter

The respondents were asked to indicate the years of the firm had operated as an exporter. The data was then analyzed into range of years and percentages were calculated for each category based on the total number of 52 firms. The results are tabulated below.

Table 4.1 Number of years in Existence as an Exporter

Years	**Frequency**	**Percentage (%)**
1- 10	18	35
11 – 20	8	15
21 – 40	17	33
Over 40	9	17
Total	**52**	**100**

(Source: Research data)

Table 1 above indicates that 35% of the firms surveyed have operated between 1 to 10 years, 15% for 11 to 20 years, 33% for 21 to 40 years while 17% have operated for over 40 years. This implies that most of the tea exporting firms have operated for more than 10 years and therefore had the necessary experience in the industry relevant for the study.

4.2.2: Route Used to Buy the Tea

The tea export firms can use different routes to buy their tea. The study required the respondents to select between auction system only, direct contract and both auction and direct contract. The findings were summarized in a frequency table as shown below.

Table 4.2 Route Used to Buy the Tea

Route	Frequency	Percentage (%)
Auction system only	22	42
Direct contract from multinational estates only	0	0
Both auction & direct contract	30	58
Total	**52**	**100**

(Source: Research data)

The above table reveals that 42% of the firms use the auction system only to buy their tea while 58% use both the auction system and direct contract. Both methods seem to be popular with the respondents.

The respondents were also required to name which segment formed their biggest market share between local and international market. All the respondents indicated that the international markets had the biggest market share. The countries to which they export their tea included Djibouti, Egypt, Pakistan, China, Nigeria, Somalia, Iran, Kazakhstan, Arabia, Japan, Sudan, Kyrgyzstan, Yemen, Eritrea, Poland, India, Canada, US, United Kingdom, Russia, Sri Lanka, Central African Republic, Colombo and UAE.

4.2.3: Volume Traded by the Firms

The volume of tea traded by the tea export firms varies from one year to another depending on the supply and demand factors. It was necessary for this study to establish the trends over a six year period from 2006 to 2011. The respondents were asked to tick within a specified range of metric tonnes for each year. The data was summarized into absolute values and percentages were calculated in order to determine which years had high or low volumes. The results are tabulated below.

Table 4.3: Volume Traded by the Firms

Volume of tea (metric tons)	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Between 0 – 9999	25	8	8	8	0	0
10,000 – 19,999	25	17	25	8	8	8
20,000 – 29,999	25	42	25	25	17	17
30,000 – 39,999	8	17	8	17	25	33
40,000 – 49,999	0	0	17	25	33	25
Above 50,000	17	17	17	17	17	17
Total	**100**	**100**	**100**	**100**	**100**	**100**

(Source: Research data)

The table above shows the volume of tea traded by the firms over a period of six years. The percentage of firms in each category indicates that in 2006 majority of the firms traded below 30,000 tonnes with only 17% above 50,000 tonnes. In 2007 a larger majority traded 10,000 to 39,999 tonnes while in 2008 most firms traded above 10,000 tonnes. Years 2010 and 2011 were the best periods as most of the firms recorded high volumes above 20,000 tonnes. These trends indicate that business has been improving over the six year period.

4.3 Competitiveness of the Tea Export Industry Using Porter's Theory

The first objective of the study was to determine the competitiveness of the Kenyan tea export industry using the Porter's theory of competitive advantage. Porter (1998) argues that it is firms not nations that compete in international markets. He argues that one must understand how firms create and sustain competitive advantage in order to explain what role the nation plays in the process. The Porter's 'Diamond Model' identifies four primary determinants of competitive advantage of a nation; factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry.

According to Porter, these determinants individually and as a structure provide the atmosphere for nations to gain competitive advantage.

Based on this background this study set to investigate whether the firms in the tea export industry in Kenya agreed with Porter's model. The respondents were asked to rate the importance of factors within each category as either very high, high, moderate, low or very low. The data collected was coded using a likert scale as follows: 5 - Very high 4 – High 3 – Moderate 2 – Low 1 - Very low. The data was then analysed using SPSS by way of mean scores and standard deviations to enable interpretation of the results.

A mean score of <1.5 implies that the importance of the factor was rated very low. A mean score of 1.5 – 2.5 implies low importance, 2.5 – 3.5 moderate and 3.5 – 4.5 high while a mean score of > 4.5 implies very high importance. Standard deviation of <1 means that there were no significant variations in responses while that >1 implies that there were significant variations in responses.

Table 4.4: Factors Affecting Competitiveness

Firm Structure, strategy and rivalry	Mean	Std. Deviation
Company mission and vision statement	4.3	0.7
Defined organization structure	4.0	0.8
Competition between tea exporters	4.3	0.8
Competition from other global tea traders	4.1	1.0
Documented company policies	4.1	0.9
Average	**4.2**	**0.8**
Demand conditions		
Demand from local customers	2.6	1.3
Demand from international customers	4.5	0.5
Average	**3.6**	**1.4**
Factor conditions		
Qualified tea tasters, auction buyers.	4.5	0.5
Capital resources – Financing availability	4.4	0.5
Road network (infrastructure)	3.6	0.6
Adequate warehousing facilities	3.7	0.6
Regulatory and administrative infrastructure such as Tea Board of Kenya influence, etc.	3.7	1.0
Information infrastructure	4.0	1.0
Technological and innovative solutions such as from Tea Research Foundation	3.7	1.0
Average	**3.9**	**0.9**
Related and Supporting industries		
Banks and banking networks	4.3	0.8
Access of capable, locally based suppliers	4.0	1.0
Joint participation of promotion at local and international exhibitions	3.4	1.2
Membership associations (EATTA)	3.4	0.9
Transporters	3.4	0.9
Kenya Revenue Authority	3.9	1.0
Tea Brokers	4.1	0.9
KPA and Shipping lines	4.5	0.6
Average	**3.9**	**1.0**

(Source: Research data)

The table above shows that firm's structure, strategy and rivalry had an average mean score of 4.2 indicating that most of the factors were rated to be of high importance to the firms. The standard deviation 0.8 indicates that there were no significant variations in the responses. Demand conditions had an average mean score of 3.6 implying moderate importance. However, there were significant variations in the responses as the standard deviation was greater than 1. Factor conditions had an average mean score of 3.9 indicating moderate importance and a standard deviation of 0.9 showing there were no significant variations in the responses. Related and supporting industries had an average mean score of 3.9 indicating moderate importance to the tea exporting firms. The standard deviation of 1 implies there were no significant variations in the responses.

These findings reveal that the tea exporting industry in Kenya considers the Porter's Diamond Model factors to be important in determining the competitiveness.

4.4 Other Factors affecting Competitiveness

The second objective of the study was to establish whether there were any other factors other than those suggested in the theory that could influence the competitiveness of Kenya's Tea export industry. Competition in global industries presents some unique strategic issues compared to domestic competition. Although their resolution depends on the industry and the home and host countries involved, such issues must be confronted in some way by global competitors.

With the advent of globalization, new economic opportunities have emerged and this has also come with unforeseen threats. In light of these, nations are prone to increased competition and trade restrictions coordinated by economic communities such as the East African Community. Through the imposition of such restrictions Anderson (2005) holds that governments are protecting their domestic firms through the provision of trade advantages over foreign firms. These include among others importation quotas which directly reduce the quantities imported and concurrently reducing competition faced by domestic producers, trade embargos, and tariff and nontariff barriers imposed as taxes by governments to raise revenue as well as a means of restricting imports.

Based on this background the study sought to investigate whether there were other factors influencing competitiveness in the tea export industry.

4.4.1 Flow of information

The access to information is an important aspect in every industry so as both buyers and sellers can make good and timely decisions. To flow of information in the tea export industry, the respondents were asked to indicate whether the ease of flow was very poor, poor, fair, good or very good. The results obtained were then summarized and analysed by use of percentages. These findings are shown on table 5 below.

Table 4.5: Flow of information

Ease in flow of information	Frequency	Percentage (%)
Very Poor	0	0
Poor	4	8
Fair	35	67
Good	9	17
Very Good	4	8
Total	**52**	**100**

(Source: Research data)

From the above table it is evident that 35 (67%) of the firms surveyed indicated that the information flow in the industry was fair while 9 (17%) indicated the flow was good. Only 4 (8%) indicated that the flow was very good. This implies that most of the firms surveyed agree that information flow within the tea export industry is good.

The respondents were further required to explain how the flow information affects the players in the industry. The findings revealed that 83% of the respondents agree that flow of information does affect the industry players while 17% did not agree. Those who agreed noted that information flow was vital for the tea industry since it affected many other factors. It was also noted that information aids planning, forecasting and tea purchasing decisions. Timely and accurate information is also necessary to do business. Some respondents indicated that it would be difficult to determine the market trends without information. Others stated that traders are informed on market trends to avoid impulse buying. However, some stated that big suppliers favoured big exporters thus discriminating in information flow.

4.4.2 Appraisal of the Firms

Findings on appraisal of the firms on certain key issues in the tea trade indicated that 33% are appraised on compromised quality of teas on offer at the auction. 83% of the firms were appraised on awareness of true customer satisfaction while 75% on awareness of market trends. Appraisal on global tea prices in other international auction centres had 58%. These results imply that most of the firms were appraised on a number of issues.

Results on the current structure of supply chain in the tea industry indicated that 92% of the respondents agree that the industry is liberalized while only 8% indicated that it is not. A liberalized market is one which encourages free and fair competition hence the tea industry can be termed as competitive.

4.4.3 Effect of Global Tea Prices

An important aspect of competitiveness in any industry is price. Asked whether global tea prices affected their business, all respondents agreed. Some of the respondents stated that global prices affect their profit margins and cash flow. Others noted that global tea prices affect purchases and exports because they deal with sensitive importers who have international network for sourcing tea. Since most of their consumers are in the global market, most firms indicated that global tea prices play a big role in the tea industry. These findings reveal that pricing plays a vital role in the competitiveness of the tea exporting industry in Kenya.

4.4.4 Effect of Market Integration

The study went further to find out how the firms had been affected by market integration through globalization as tea exporters. Most of the respondents stated that this had created stiff competition in the industry since the importers had access to more information on the market. This had led to reduced trading volumes, profit margins and market shares. This indicated that the tea exporting firms needed to adjust to the changes in the global industry so as to remain competitive.

An important global trend has been the formation of trading blocs and regional economic integration such as COMESA. Firms and member countries have benefited a lot from such blocs over the past few years. All of the firms surveyed agreed that they had benefited from COMESA. The benefits included removal of trade barriers which has enabled free movement of goods & services, cost cutting and easy access of tea from the COMESA region. The respondents also noted that tea from member states did not attract tax and there were no restrictions on purchases. The tea industry has also benefited from tax relief from the COMESA region. These findings indicate the formation of COMESA has broadened the tea exporting industry in Kenya and has created more business opportunities for the firms. The removal of trade barriers has made the Kenyan tea more competitive abroad.

4.4.5 Barriers to Tea Trade

Results on the barriers to tea trade that the firms had experienced elicited a number of responses. Most respondents stated that there were sanctions imposed to some countries which hindered free movement of goods. Some noted that unilateral duties being imposed by some countries also acted as trade barriers. Other barriers noted included certification barriers, trade embargoes and high tariffs from government, congestion at the Mombasa port and customs restriction on tea warehousing. Economic sanctions and pirating in the high seas were also cited as trade barriers.

The findings above confirm that the tea exporting firms competitiveness is affected by many other factors other than those suggested in the Porter's theory of competitive advantage.

4.5 Discussion of Major Findings

The results on objective one reveal that the tea export firms apply the Porter's theory of Competitive advantage in enhancing competitiveness in the industry. The respondents agree that the firm's structure, strategy and rivalry were important in determining their competitiveness in the global market. Most factors were rated of high importance to the firms. These factors included company mission and vision statement, defined organization structure, competition between tea exporters, competition from other global tea traders and documented company policies. Demand conditions were rated of moderate importance to the firms in building their global competitiveness. However, demand from local customers was rated of low importance as all the firms were exporters and their main market was the international customers. Factor conditions were rated of moderate importance by all firms but of specific importance were capital resources - financing availability, qualified tea tasters, auction buyers and information infrastructure. The related and supporting industries had moderate importance to all firms but of high importance were banks and banking networks, Tea Brokers, KPA and Shipping lines and access of capable, locally based suppliers.

These findings are therefore in line with the Porter's Theory except in the area of demand conditions where local demand was not seen to be of any importance.

Findings on objective two reveal that there are many other factors which are considered by the tea exporting firms other than those suggested by the Porter's theory of competitive advantage. The most important factors noted were access to information, appraisal of the firms on certain key issues, current structure of supply chain, global tea prices and market integration through globalization. The respondents agreed that access to information was an important factor to both the sellers and buyers in the tea exporting industry. However, some stated that big suppliers favoured big exporters thus discriminating in information flow. With regard to appraisal of the firms on certain key issues in the tea trade the study established that there were appraisals carried out on key issues in the tea trade. Majority of the firms were appraised on awareness of true customer satisfaction.

All respondents agreed that global tea prices affected the tea trade. Some of the respondents stated that global prices affected their profit margins and cash flow. Others noted that global tea prices affect purchases and exports because they deal with sensitive importers who have international network for sourcing tea. Most of the respondents stated that this had created stiff competition in the industry since the importers had access to more information on the market. This had led to reduced trading volumes, profit margins and market shares. This indicated that the tea exporting firms needed to adjust to the changes in the global industry so as to remain competitive.

All of the firms surveyed agreed that they had benefited from COMESA. The benefits included removal of trade barriers which has enabled free movement of goods and services, cost cutting and easy access of tea from the COMESA region. However, some respondents stated that there were sanctions imposed to some countries which hindered free movement of goods. Others noted that unilateral duties being imposed by some countries also acted as trade barriers.

The findings of this study are also in line with those of Mukhweso (2003) in his study seeking to establish factors affecting tea pricing and pricing strategy in the Mombasa Auction. Mukhweso observed that the tea auction was a very important outlet for international pricing and marketing of tea. Chepkirui (2011) in her study on change initiatives in the East African Tea Trade Associaion observed that factors such as an adoption of electronic systems as well as organizational and structural changes in the association had brought change to the tea body. These factors were also noted in this study under the Porter's theory. Bett (2003) in his study on strategic planning practices by tea manufacturing companies in Kenya concluded that certain environmental changes had forced companies to turn to the use of strategic planning. This study also established that the tea exporting firms apply Porter's theory of Competitive Advantage of Nations which is a strategic planning concept.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Introduction

In this chapter, the findings of the research are summarized and discussed. The chapter also offers conclusions of the study; highlights the limitations of the study; and provides suggestions for further research.

5.2 Summary

International competitiveness of countries is an ever-growing concern for governments, firms as well as academic scholars (Ketels 2006). Further, it is one of the most misused and misunderstood terms in the popular press and academic literature presently. According to Daniels (1991), it is the elusive concept of national competitiveness. This study sought to determine the competitiveness of the Kenya Tea export industry using Porter's Theory of the Competitive Advantage of Nations. The study also set to establish any other factors other than those suggested in the theory that could influence the competitiveness of Kenya's Tea export industry.

In achieving the first objective the study established that the factors affecting the competitiveness of the tea exporting industry were based on the Porter's theory of competitive advantage. The results showed that the firm's structure, strategy and rivalry had been rated to be of high importance to the firms. Demand conditions had moderate importance while factor conditions had moderate importance to the firms. Related and supporting industries also had moderate importance to the tea exporting firms. These findings reveal that the tea exporting industry in Kenya considers the Porter's diamond model factors to be important in determining the competitiveness.

In achieving the second objective the study established that the tea export industry in Kenya considered good information flow as an important factor in the competitiveness of the industry. Most firms are able to access vital market information to enable them to make decisions. The respondents also indicated that good information flow was necessary as it sets a level playing ground for all competing firms in the tea export industry. The study also revealed some firms indicated that big suppliers favoured big exporters thus discriminating in information flow.

Findings on appraisal of the firms on certain key issues in the tea trade revealed that the tea exporting firms were appraised on compromised quality of teas on offer at the auction. Others were also appraised on awareness of true customer satisfaction while some on awareness of market trends. This means that there were standards set in the industry to monitor quality of the product and consumer awareness an attribute which is important in creating a competitive environment. The current structure of supply chain in the tea industry was majorly liberalized.

On global tea prices the study found out that all respondents agreed that this was an important factor in the industry's competitiveness. Since most of them sell their tea in the international market they noted that global tea prices affect their profit margins and cash flow. Although some respondents noted that the prices are set by the market forces of demand and supply, these findings reveal that pricing plays a vital role in the competitiveness of the tea exporting industry in Kenya.

Results on how the firms had been affected by market integration through globalization as tea exporters indicated that this had created stiff competition in the industry since the importers had access to more information on the market. This had led to reduced trading volumes, profit margins and market shares. This indicated that the tea exporting firms needed to adjust to the changes in the global industry so as to remain more competitive globally.

The study also revealed that the industry has benefited a lot from the COMESA trading activities. The benefits included removal of trade barriers which had enabled free movement of goods & services, cost cutting and easy access of tea from the COMESA region. The study also unearthed that tea from member states did not attract tax and there were no restrictions on purchases. These findings indicate the formation of COMESA has broadened the tea exporting industry in Kenya and has created more business opportunities for the firms. The removal of trade barriers has made the Kenyan tea more competitive abroad.

Further revelations from the study on competitiveness showed that there were a number of barriers to tea trade that the firms had experienced. These included sanctions imposed to some countries which hindered free movement of goods, unilateral duties being imposed by some countries, certification barriers, trade embargoes and high tariffs from government. The congestion at the Mombasa port and customs restriction on tea warehousing was also cited as important barriers.

5.3 Conclusions

The findings of this research show a number of realities regarding the Tea export industry in Kenya and its competitiveness in the global arena. The study confirms that the Porter's theory of the Competitive Advantage of Nations is applicable in determining the competitiveness of the Kenyan tea export industry. All the firms apply the four determinants in seeking to be competitive in the international markets. The study also clearly shows that the industry has become more competitive with the good information flow, globalization through integration and has gained more competitive advantage over international rivals. However the study noted that there were a number of barriers which were hindering the firms in gaining more competitiveness some of which are local while others are global. The firms also do consider other factors other than those suggested in Porter's theory in increasing their global competitiveness.

5.4 Limitations of the Study

The study adopted a descriptive survey approach whose predominant data collection technique was a questionnaire. The target population was 67 tea exporting firms but only 52 responded to the questionnaire. The response rate was therefore 78% with a none-response rate of 22%. Some respondents did not also fill in some of the key data that was essential in coming up with the findings and conclusions.

5.5 Suggestions for Further Research

With regard to further research, it is suggested that a study be carried out to determine the forces driving competition in the tea industry as a whole in Kenya to provide an understanding on the nature of competitive forces adopted by the players in the industry. It is also suggested that interested future scholars should look at strategic responses by the various tea companies to changes in the environment to provide further insight on the nature of developments taking place in the industry and what kind of responses could be predominant.

Further research should also be carried out in firms in other industries other than tea exporting industry in Kenya to establish which factors are predominant in determining the competitiveness.

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APPENDICES

Appendix 1: Introduction Letter

UNIVERSITY OF NAIROBI
MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsities

P.O. Box 99560, 80107
Mombasa, Kenya

DATE: 18TH SEPTEMBER, 2012

TO WHOM IT MAY CONCERN

The bearer of this letter, Keter Winnie Chepkurui of Registration Number D61/71186/2009 is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

She is required to submit as part of her coursework assessment a research project report. We would like the student to do her project on *An Application of Porter's Theory of the Competitive Advantage of Nations in Determination of the Competitiveness of the Kenyan Tea Export Industry.* We would, therefore, appreciate if you assist her by allowing her to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.

UNIVERSITY OF NAIROBI MOMBASA MOMBASA CAMPUS

Zephaniah Ogero Nyagwoka
Administrative Assistant, School of Business-Mombasa Campus

Appendix 2: Questionnaire

Section A

1. Name of your organization ……………………………………………………….

2. Number of years in existence as an exporter …………………………………….

3. Please indicate the route through which you buy your tea
i. Action system …………………..
ii. Direct contact from multinational estates ………………………….

4. To what countries does your company export to? ………………………………..
…………………………………………………………………………………………
5. Between local and international markets, which forms the bigger segment of your business as a percentage of your total business?.…………………………………..

6. Between the year 2006 and 2011 indicate the volumes in metric tones that your firm traded

Kilos of tea (metric tons)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Between 0 – 9999						
10,000 – 19,999						
20,000 – 29,999						
30,000 – 39,999						
40,000 – 49,999						
Above 50,000						

7. Between the tea exporters, please indicate the ease in flow of information

i. Very Poor
ii. Poor
iii. Fair
iv. Good
v. Very Good

8. Does the flow of information affect the players in the industry? If so, please explain how.
………………………………………………………………………………………………………

9. From the following possible information in the tea trade, select if you are appraised on the following:

i. Compromised quality of teas on offer at the auction
ii. Awareness of true customer satisfaction
iii. Awareness of market trends
iv. Global tea prices in other international auction centres

10. Please indicate the current structure of supply chain in the Tea industry

i. Liberalized
ii. Not liberalized

11. Do global tea prices affect your business. If so, please explain how………………………………………………………………………………… ……………………………………………………………………………………………………

12. Through globalization, markets are integrating; from an exporters point of view briefly indicate how this has affected your tea exporting business.
……………………………………………………………………………………………

13. Has Kenya's tea industry benefited from COMESA? If so, briefly explain how.
……………………………………………………………………………………………….

14. Can you list any barriers to tea trade that your firm has experienced in exporting tea? …………………………………………………………………………

Section B

Please tick on the appropriate box the level of importance of the listed factors towards the success of your business.

Firm Structure, strategy and rivalry					
	Very high	High	Moderate	Low	Very low
Company mission and vision statement					
Defined organization structure					
Competition between tea exporters					
Competition from other global tea traders					
Documented company policies					
Factor conditions					
Qualified tea tasters, auction buyers.					
Capital resources – Financing availability					
Road network (infrastructure)					
Adequate warehousing facilities					
Regulatory and administrative infrastructure such as Tea Board of Kenya influence, etc.					
Information infrastructure					
Technological and innovative solutions such as from Tea Research Foundation					
Demand conditions					
Demand from local customers					
Demand from international customers					

Related and Supporting industries					
Banks and banking networks					
Access of capable, locally based suppliers					
Joint participation of promotion at local and international exhibitions					
Membership associations (EATTA)					
Transporters					
Kenya Revenue Authority					
Tea Brokers					
KPA and Shipping lines					