

**RELATIONSHIP BETWEEN TEA VALUE ADDITION STRATEGIES
AND PERFORMANCE OF KENYAN TEA EXPORTING COMPANIES**

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DECLARATION

This project is a result of my own original work and that no part of it has been presented for another degree in this University or elsewhere.

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DEDICATION

This research project is dedicated to my beloved Wife Rhoda Moraa and our Son Jimah Maticha who showed abundant love and patience as I left home early and arrived late. Hope this will inspire the entire family to be great scholars. To my dear Mum Loise Mokeira you've continued to inspire me to always work hard, and to my late father James, you are my hero.

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I would like to thank God for giving me strength to take this project to a successful completion.

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ABSTRACT

Today's dynamic business environment is continuously changing because of globalization, regulatory changes, increasing intensity of competition, increasingly demanding customers, new information technology, and mergers and acquisitions. This has resulted in markets that can be characterized as increasingly turbulent and volatile and has caused many organizations to seek competitive capabilities that enable them to exceed customers' expectations and enhance market and financial performance. Firms are increasingly adopting value addition strategies in order to reduce costs, increase market share and sales, and build solid customer relations. The study was to establish relationship between tea value addition strategies and performance in the Kenyan tea exporting companies. The research design adopted was cross sectional descriptive design. The population of the study comprised of all the 64 tea exporting companies operating in Kenya. The study used primary data which was collected using self-administered questionnaires. The data collected was analyzed using statistical package for social sciences and presented in tables. The study found out that value addition helps the companies create awareness among customers for their products and services but also serves as a useful vehicle in promoting brand image of products and services offered at the target market. The study further established that Tea value addition enables an organization to change the rules of the game and create that uniqueness that is more valuable and with the rising global competition in the value added market, and particularly for the value added black tea, factors such as quality, standards on food safety, maximum residue levels, and labeling rules are expected to have a major effect on price realization. The study recommends that with rising global competition in the value added market, and particularly for the value added black tea, Kenya exporters should be conscious of the need to bring about vertical integration in its traditional tea bulk exports and are now into converting a major portion of tea exports to consumer packs and other forms of value added exports, meeting the requirements of more sophisticated markets. A further research should be undertaken to further explore the relationship of value addition to the tea industry employing bigger samples and carrying out a more detailed analysis of firms. The study concluded that there exists a relationship between tea value addition and organizational performance.

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ABBREVIATIONS AND ACRONYMNS

1. **AFFA**-Agriculture, Fisheries and Food Authority
2. **CEO**-chief executive officer
3. **CTC**-crush tear and curl
4. **EATTA** - East Africa Tea Trade Association
5. **EPZA** - Export Processing Zone Authority
6. **FAO**-food and agriculture organization
7. **GDP**-gross domestic product
8. **KTDA** - Kenya Tea Development Agency Ltd
9. **KTDA**-Kenya tea development Authority.
10. **TBK**-Tea board of Kenya

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

For organizations to be competitive they need the ability to see a market opportunity by breaking away from the pack, organization can compete through differentiation of their goods and services from those offered by other suppliers. An organization differentiates itself from its competitors if it can be unique at something that is valuable to buyers. Value addition enables an organization to change the rules of the game and create that uniqueness that is more valuable. Shifting the decision maker requires modifying an organization's value chain in ways that can create competitive advantage (Porter, 1985) Value addition encompasses not only quality but also price. A customer's perception of the value associated with a product is generally based both on the degree to which the product meets his specification and the price that the customer will have to pay to acquire the product. Organizations derive competitive advantage by successfully providing customers with value on their products (Peter, 2004).

The research will be anchored on the following theories; Value chain theory, describes the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Competitive theory, Porter (1985) observes that a firm must have a competitive strategy if it has to maintain its performance and going concern and it must also establish a profitable and sustainable position against forces that determine industry competition. Dynamic capabilities as a firm's behavioural orientation to constantly integrate, reconfigure, renew and recreate its resources and capabilities, and

most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage.

Customer needs keep changing, there is importance for Kenyan tea exporting companies to investigate the market and adopt innovation strategies towards meeting these ever changing needs. Kenya tea exporters are faced with numerous challenges including intense competition, satisfying the needs of the customers, fluctuating foreign exchange currency, political instability in tea importing countries, inefficiencies at the Mombasa port, shipment of contrabands among others. In the desire to gain competitive advantage necessitated by internal and external challenges in the operative business, tea exporting firms have to respond to strategic issues on real time basis.

1.1.1 Tea Value Addition Strategies

Value addition can be done initially by primary production procedures, there are various value addition strategies used in the tea industry, among them include: Packing, where tea is put into bags in many forms. Packaging is considered to be an important indicator of quality. The quality of the product therefore has to be communicated by good packaging and not just by promises of quality made in the text on the packaging. (TBK, 2014) Value Packaging is an excellent way to communicate sophistication, class and value. This makes it an ideal strategic option for expressing premium positioning as well as being the instrument of choice when a product needs to be upgraded or a brand needs to be revitalized. Products in classy packaging are particularly popular presents too.

Tea blending, describes the process of mixing different teas together to produce a final product. This occurs chiefly with black tea that is blended to make most tea bags but can also occur with such teas as Pu-erh, where leaves are blended from different regions before

being compressed. The aim of blending is to create a well-balanced flavour using different origins and characters. This also allows for variations in tea leaf quality and differences from season to season to be smoothed out. The one golden rule of blending is this: Every blend must taste the same as the previous one, so a consumer will not be able to detect a difference in flavour from one purchase to the next (Amarakoon, 2002)

Tea flavoring: teas are flavoured in many different ways, often with natural herbs, berries, fruits or spices, and occasionally with essential oils or extracts. Sometimes we use what might seem like odd combinations to approximate a certain flavour – for instance, a mixture of banana extract and green mango combines to produce a great apple flavour, and green apple notes are almost always added to mango to bring out its natural flavour. is the use of herbs, spices and extracts to add value to tea before packing and releasing to consumers (EPZA, 2005)

Tea branding, is a value addition strategy that involves creating a differentiated name and image often using a logo and/or tag line in order to establish a presence in the consumer's mind and attract and keep customers (KTDA) Branding helps create loyalty, decreases the risk of losing market share to the competition by establishing a differential advantage, and allow premium pricing that is acceptable by the consumer because of the perceived value of the brand.

Tea bagging where tea is put into bags of small quantity for direct consumer usage. Tea is exported as small packets and bags instead of bulk. Tea receives a higher value more than other competing countries by packeting and bagging. Instead of black Tea, herbal Tea, flavoured Tea and green tea are exported as value added tea (EPZA, 2005). is used to

describe instances where a firm takes a product that may be considered a homogeneous product, with few differences (if any) from that of a competitor, and provides potential customers with a feature or add-on that gives it a greater sense of value. The process of adding value and gaining competitive advantage becomes central to a firm's competitive marketing strategy (Makowski, 1980).

Value addition is a multidimensional construct, interpreted differently by different people. Particular factors emphasized in the value adding mix in attempts to add value and achieve competitive advantage may be dependent on the intricacy of the service offering in question as well as the perceived knowledge and sophistication of the target market (Palmer, 2001).value addition forms the most important part of a brand's definition and is the primary basis for distinguishing a brand from a product. From a strategic perspective, added value of a player is the value created by all the players in the Added value vertical chain less the value created by all the players except the one in question. Value addition is today being driven by consumer choice and this is encouraging firms to look into new ways to add value to their products, Davis and Kay (1990)

The value chain provides a structure to capture the linkages of organizational activities that create value to customer and profit for the firm (Chase, Jacobs, Aquilano, & Agarwal, 2006). When the system is managed carefully, the linkages can be a vital source of competitive advantage (Pathania-Jain, 2001). The value chain analysis essentially entails the linkage of two areas. Firstly, the value chain links the value of the organizations' activities with its main functional parts. Then the assessment of the contribution of each part in the overall added value of the business is made (Lynch, 2003).A differentiation advantage may be achieved either by changing individual value chain activities to increase

uniqueness in the final product or service of the company, or by reconfiguring the company's value chain.

Organizations have now realized the difference between trading a commodity and marketing a consumer product (value added in branded pack). Commodities are products that consumers cannot differentiate from one another as they all seem to serve the same need and deliver the same value. Consumer brands in contrast are differentiated with compelling characteristics that make it better than other offerings in the product category. The concepts of a buyer-driven chain draw attention to the increasing importance of retailers and design/branding companies in the organization of global trade. Any value-adding strategy should take the objectives of relationship marketing, establishing, maintaining and enhancing relationships with customer at a profit, so that the objectives of the parties are met into account (Gronroos, 1982). The use of "added value" had been widely advocated as a strategy for achieving competitive advantage in an increasingly hostile business environment and advice had been provided on the organizational processes involved in creating this customer value (Kumar, 1994)

1.1.2 Organizational Performance and Value Addition

Organizational performance encompasses three specific areas of firm outcomes: Financial performance (profits, return on assets, return on investment, etc.); Market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added.) Performance itself is likely to be somewhat firm specific: as the strategic choices a firm makes will dictate which performance measures will reflect the latent performance construct (Steers, 1975).

Understanding how different independent variables link to a dependent performance variable is then no longer trivial (March & Sutton, 1997). A firm's overall performance is the difference between the value it offers to customers and its cost of creating that customer value. Value addition to products is the best strategies organizations employ to improve net profitability. Value-addition strategies open new markets, enhance the public's appreciation for the organization and extend the marketing season thus they offer organizations the potential to capture a larger share of the market.

Companies involved in product value addition attain higher returns because of the limited number of players in the marketing chain. In addition, they employ good business practices and high level of management. In almost all industries and organizations today, the growing integration of the global economy has provided the opportunity for substantial performance and increased profitability. Industries are realizing that they no longer have complete control over their market success since they rely heavily on the performance of their supply chain. Thus in order to survive, they must supply what customers want to buy, and they must survive competition

There are four areas of knowledge when assessing organizational performance First, value creation is situational and unique to the organizations; Different types of organizations have different concepts of what outcomes are valuable. Therefore, if performance is to be measured in terms of value created, samples of organizations that have homogeneous concepts of value must be selected. Value may be tangible or intangible, operational or financial. While public companies seek creation of shareholder value through increase in market value and dividends payment as their ultimate objective according to Blyth, Friskey, & Rappaport (1986), private companies' value creation may be a combination of both

financial and non-financial objectives. Where material owners are also the managers of an organization, value creation for shareholders is more likely to include non-financial outcomes, Jensen & Meckling (1976). Costs in public companies may be characterized as agency costs, but when the owners are also the managers, they are actually a component of return to shareholders.

Second, performance is a multi-dimensional construct, which permits value to be created on differing dimensions. Cameron (1986), Dess & Robinson (1984), Murphy, Traylor, & Hill (1996) and Steers (1975) states that there are many dimensions to performance and positive performance in one dimension may simultaneously result in negative performance in another dimension. For instance, if resource accumulation and profitability are hypothesized as separate dimensions of performance, adding resources in the form of equity may result in a lower risk adjusted return on investment. This means that the company has performed well on one dimension, resource accumulation, while it has earned lower performance on the second construct, profitability. Examining each dimension separately, without consideration of the other dimension will lead to decidedly different conclusions than examining the counterbalancing effects of the two dimensions simultaneously. To equate these levels of performance, a measure that co-varies with each dimension is needed.

Third, interpretation of Performance depends upon the Observer's Perspective. Each organizational stakeholder will have a different perspective of what is valuable based upon their purpose for associating with the organization. Creditors may perceive value to be created by the organization's ability to generate positive cash flow while equity investors may perceive value in expending company resources to create future opportunities, even if it diminishes cash flow and tangible company assets in the short term

Fourth, timing plays an important role in value creation. Opportunities created in the present, which will be realized in the future, are valued in the present but are based upon individual assumptions about future actions and conditions. These assumptions about future outcomes vary based upon the perceptions of the observer. An ideal measure must take into account information on both historical performance and expectations of future performance which depend on the actions taken to date to create strategic alternatives and opportunities. Therefore, the value of the opportunities created relates to past actions and, accordingly, this value should be included in a performance measure.

1.1.3 Kenya Tea Export Industry

Tea was introduced into Kenya from India by a European settler G.W.L. Caine in 1903. Over the years Kenya has grown into a formidable world tea producer and prides itself as the producer of the best quality black tea in the world. (Tea Board of Kenya, 2014).The country contributes 10% of the total global tea production and commands a remarkable 21% of the global tea exports outside producing countries. With over 3 million Kenyans, approximately 10% of the population, being directly and indirectly employed by the tea industry which is the largest sub-sector in the agricultural sector, tea plays an important role as the economy's main anchor (EPZA, 2005).

The tea industry in Kenya is fully liberalized and the marketing of tea is independently carried out by trade members (EPZA, 2005).Traditionally Kenyan tea has been sold to the market in bulk form and is much sought after by leading tea companies to blend and add taste to the most respected tea brands in the world. However, encouraged by Tea Board of Kenya, there is emerging a vibrant value-added sub-sector, led by the Tea Packers Association, which aims to provide consumers worldwide with pure Kenyan branded teas,

blended at source. Over 84% of Kenya tea is sold through the Mombasa auction, which is the second largest.

Tea exporting companies in Kenya consist of all those companies registered with EATTA as tea buying members. These companies are involved in buying tea, either at the Mombasa auction or through private sales, for the purpose of export to various tea consuming countries around the world (EATTA, 2010). The Auctions are held weekly, on Mondays and Tuesdays. There is presently, a main grades auction held on Tuesdays and secondary grades auction held on Mondays from 9.00 am. The variety of quality and progressively increased quantities offered have made Mombasa the second largest black tea auction center in the world after Colombo in Sri-Lanka. Kenya tea exporters focus on the weekly activities in this center to gauge the market trends and create benchmarks for their international prices of tea.

Due to the success story of the Mombasa auctions, courtesy of the EATTA, more producing countries continue to join the Association Kenyan tea exporters have maintained a strong presence in their core markets and have continued to expand their worldwide market share by increasing exports to already existing markets and opening up new destinations like Russia, Iran, Iraq and Kazakhstan among others. The major customers of Kenyan tea are Pakistan, the United Kingdom, Egypt, Afghanistan and Sudan, who account for 71% of Kenya tea export. Pakistan on its own buys 19% of the total tea export (TBK, 2011) traditionally,

Kenya's tea exports are mainly constituted by black CTC (crush tear and curl) teas in bulk and exports of green teas are still very low. Currently, the tea exporters are subject to more than 30 per cent in form of taxes, fee, levies, and charges (AFFA 2015). The tea industry

will earn the country foreign exchange if the packers and traders are offered incentives to invest in equipment for value addition without having to pay expensive duty.

1.2 Research Problem

Activities within an organization add value to the service and products that the organization produces, and all these activities should be run at optimum level if the organization is to gain any real competitive advantage. When a business seeks to gain a market share over competitors, it must do so by providing customers with greater value, either by offering a lower price, additional benefits or exceptional service. In recent times, consumer preferences have changed in favour of more convenient products which offer value. Majority of consumers are less likely to want to make decisions on type of product they are consuming; instead consumers are concerned with quality and reliability; this is evident in the rise in consumption of branded product. The need for value addition of products has become more necessary than before in order to provide the consumers world-wide with pure branded products from source. More value can be captured in the product supply chain by diversifying into value-added production. Through value addition strategies, organizations can differentiate themselves from their competitors by producing and providing superior or premium quality goods. Organizations need to create a perception of high quality and brand loyalty among its customers in order to attract and retain a large market share, Hill & Jones (2001)

The tea trade subsector plays a vital role in the Kenyan economy and is an important source of Foreign Exchange in the region`s largest economy. Kenyan exported 499 million kilos, up from 494.4 million kilos in 2013, reflecting a growth of 0.93 per cent (AFFA,2015). Kenyan exporters have sold tea to the market in bulk form and are much sought after by

leading tea companies for blending. Tea exporters are faced with many threats and opportunities emanating from both local and global business environment. They experience high degree of competition from tea exporters from other advanced world tea producing countries such as Sri Lanka, India, China as well as local competition at Mombasa tea auction. International blending centers have been established in London, Dubai and Humberg which have further created a lot of competition for the Kenyan exporters. Kenya is the second largest tea producer in the world, with 80 per cent of its production going to only five countries: Pakistan, UK, Egypt, Afghanistan and Sudan (TBK 2014). This lack of diversity of customers places Kenya in a precarious position, where a drop in demand from any one of these countries could have a major impact on revenues from Kenyan tea exports.

Biegon (2007) researched on the challenges facing the tea industry in exporting value added (branded) teas, the study applied a descriptive research design and the target population of the study comprised of 12 tea producers, 136 tea packers, and selected key informants from the Ministries of Agriculture, Trade & Industry, Export promotion council and Tea board of Kenya. The study findings established that the challenges facing the Kenyan tea industry in exporting of value-added tea (Branded) arise due to lack of domestic support either from the government, relevant agencies/institutions, or from the players within the tea industry itself; restrictions to market access; stringent Sanitary and Phyto-sanitary measures and the standards set by importers of tea on the basis of climatic conditions of the source country; unexpected changes in prices in the world tea markets; and terms-of-trade losses. Musau (2003), studied on the relationship between tea value addition and profitability of exporting companies in the Kenyan, in this particular study he used data covering a five year period and revealed that profitability from companies that engaged in value addition is higher compared to those of companies that did not engage in

value addition. The study concluded that there exists a strong relationship between value addition and profitability for tea exporting companies in Kenya.

Studies on tea value addition in relation to performance of the tea exporting companies are rare, it's in this context that this study seeks to evaluate tea value addition and performance in the tea exporting companies in Kenya and therefore seeks to answer the following questions: Is there a relationship between tea value addition and performance in Kenyan tea exporting companies? And how do value addition strategies influence organizational performance in the Kenyan tea exporting companies?

1.3 Research Objectives

- i .To establish value addition strategies in Kenyan tea exporting companies.
- ii.To establish relationship between tea value addition strategies and performance in Kenyan tea exporting companies.

1.4 Value of the Study

This study will help Kenya tea exporters in assessing the effectiveness of value addition in export tea and Recommendations will be made on the value addition strategies which have worked and which should be strengthened and those which should be changed or abandoned altogether.

The study will contribute to the existing vast body of knowledge on the value chain analysis in the context of tea exporting firms in Kenya. Current and future scholars will also make use of the findings of this study in identifying gaps for further research.

The policy makers, especially Ministry of Agriculture, Tea board of Kenya and others will find this study useful for purposes of coming up with appropriate policies and regulations that enhance the value and contribution of tea exporting companies to the Kenyan economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of literature on value addition in various agricultural commodities and how these value addition strategies relate to performance of various firms. The chapter contains theoretical foundation, value addition strategies, organizational performance and value addition strategies, empirical literature, and finally the summary of the literature.

2.2 Theoretical Foundation

The study will be based on the following theories which relate to organizational competitive advantage and sustainability, value chain theory, competitive advantage and dynamic Capability theory.

2.2.1 Competitive Advantage Theory

In the Competitive advantage theory; Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors. Grant (1991) argued that capabilities are the source of competitive advantage while resources are the source of capabilities. Amit and Shoemaker (1993) adopted a similar position and suggested that resources do not contribute to sustained competitive advantages for a firm, but its capabilities do. Haas and Hansen (2005), as well as Long and Vickers-Koch (1995), supported the importance of capabilities and suggest that a firm can gain competitive advantage from its ability to apply its capabilities to perform important activities within the firm. Amit and Shoemaker (1993,) defined capabilities in contrast to resources, as ‘a firm’s capacity to deploy resources,

usually in combination using organizational processes, and affect a desired end. They are information-based, tangible or intangible processes that are firm-specific and developed over time through complex interactions among the firm's resources'. Teece et al. (1997) define dynamic capabilities as, 'the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments'. Grant (1996) defines organisational performance is said to have competitive advantage over its rivals when it can not only attract and retain customers in the long-term, but also defend against competition.

Successful organizational performance can be equated to successful value creation for common stockholders. Porter (1985) observes that a firm must have a competitive strategy if it has to maintain its performance and going concern and it must also establish a profitable and sustainable position against forces that determine industry competition. Alchian & Demsetz (1972), Barney (2001), Jensen & Meckling (1976) and Simon (1976) assert that an organization is a voluntary association of productive assets, including human, physical and capital resources, for the purpose of achieving a shared purpose, profit. Therefore, value creation is the essential overall performance criteria for any organization. The concept of Value chain emerged from the realization that continuous improvements in system design and performance could only occur when firms seek closer coordination and integration with suppliers and customers. Developing closer strategic relationships with customers and suppliers enables organizations to learn and adapt more effectively than if operating unilaterally. capability as, 'a firm's ability to perform repeatedly a productive task which relates either directly or indirectly to a firm's capacity for creating value through effecting the transformation of inputs to outputs'. Grant (1996) also divides capability into four categories: cross-functional capabilities, broad-functional

capabilities, activity-related capabilities and specialized capabilities. Sirmon et al. (2003) stressed the importance of organizational learning. They suggest that capabilities and organizational learning implicitly and explicitly are a part of any strategy within a firm. It has been argued (Zack 1999) that the ability to learn and create new knowledge is essential for gaining competitive advantage. Lee et al. (2001) discussed the influence of internal capabilities and external networks on firm performance.

2.2.2 Value Chain Theory

Value chain theory refers of upstream suppliers with downstream customers, the main idea is to use it as an analysis tool for strategic planning and it describes the value chain framework as an interdependent system or network of activities, connected by linkages which, if managed carefully, could be a vital source of good performance. Porter (1998) analyzed the value chain in five steps; First, he identified the various distinct value chain activities that the organization undertakes and categorized them as either primary or support activities.; He then grouped these activities by type i.e. whether direct , indirect or quality assurance and sought to establish the linkages of these activities within the value chain. Next, he carried out an assessment of the distinct activities or combinations of activities that have the potential to add value to the customer. Finally, he developed a strategy to apply changes to those activities that contribute to performance, which leads to competitive advantage of the firm. He concluded that the various activities performed by an organization contribute to its overall performance.

Value chain is the internal processes or an activity a company performs “to design, produce, market, deliver and support its product. A firm’s value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to

implementing its strategy, and the underlying economics of the activities themselves.” one of the most systematic approaches to examining the performance of firms. In almost all industries and organizations today, the growing integration of the global economy has provided the opportunity for substantial performance and increased profitability. Industries are realizing that they no longer have complete control over their market success since they rely heavily on the performance of their supply chain. Thus in order to survive, they must supply what customers want to buy, and they must survive competition. A firm’s overall performance is the difference between the value it offers to customers and its cost of creating that customer value. According to the Institute of Management Accountants, IMA (1986) value chain analysis helps firms assess performance in three areas; First, through identification of sources of profitability and understanding the cost of their internal processes; Secondly, by identifying opportunities for creating and sustaining superior differentiated products and finally understanding the relationships and associated costs among external suppliers and customers.

2.2.3 Dynamic Capability Theory

Dynamic capabilities is a firm’s behavioural orientation to constantly integrate, reconfigure, renew and recreate its resources and capabilities, and most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage dynamic capabilities are not simply processes, but embedded in processes. Processes are often explicit or modifiable structuring and combination of resources and thus can be transferred more easily within the firm or across firms. Capabilities refer to a firm’s capacity to deploy resources, usually in combination, and encapsulate both explicit processes and those tacit elements (such as know-how and leadership) embedded in the processes. Hence, capabilities are often firm-specific and are

developed over time through complex interactions among the firm's resources (Amit and Schoemaker 1993). Quality control is a process that can be easily adopted by firms, whereas total quality management (TQM) is not just a process, but requires the firm's capability of developing an organizational-wide vision, empowering employees and building a customer-orientation culture. TQM requires the firm not only install a quality management process, but most importantly tap into the tacit 'energy' of the firm dynamic capabilities emphasis a firm's constant pursuit of the renewal, reconfiguration and re-creation of resources, capabilities and core capabilities to address the environmental change. Collis (1994) makes a particularly explicit point that dynamic capabilities govern the rate of change of capabilities

2.3 Empirical Literature on Value Addition

Lines (2006) in his study on tea value addition and Global market; through cross sectional research design illustrates that with the growth of the supermarkets in Europe and North America, the character of tea buying changed quite dramatically in the 1990s. There has been a centralization of tea buying, increased buying by individual companies and the bypassing of wholesalers through direct links between the tea buyers and tea packers. Leading companies spend a great deal on promotion of their products. In Japan the advertising expenditure was 8%, compared to 4% in the US and 2.5% in the UK. A great amount of money is also spent on trade promotions to retail outlets to try to persuade them to carry their brands, particularly by smaller companies. He further adds that Producing countries currently sell tea most often as a generic without branding and packaging, despite the increase this could mean in prices; branded tea fetches prices six times higher than bulk export. His study concludes that retailers generally seem to add small margins on the tea

but make their money from these promotional margin allowances from the packers who practice tea value addition.

M Benny(2005),on his study on value added products on green tea seeks to find out the strategies of value addition in Indian tea industry, he notes that value addition is an important step next to standardization and that firms that engaged in value addition have an advantage over those that didn't. The government of India gives tax exemptions to firms that engage in value addition in order to support and encourage export of value added tea. He concludes that value added products give better results and provide better handling thus increases export potential as well as sell in the domestic market.

Kalegaba (2010) studied increasing value addition and enhancing tea exports of sri lanka, his findings were that expanding into value addition brings producers the opportunity to gain from production further along the value chain, thus increasing employment opportunities and encouraging growth in linking industries (such as packaging, shipping, banking, transport and advertising).greater value addition will eventually increases net earnings and stimulate overall economic growth. He further notes that in 2000 the central bank of sri-lanka reported that value addition activities in plantations was responsible for 2.5 per cent of GDP,16 per cent of total export earnings and 73 per cent of total agricultural earnings. He concluded that increasing the export of value added teas would result into macro-economic benefits which included greater employment, increased foreign exchange, and potential for strengthening industrial clusters in the economy via forward and backward integration.

Marete (2010) in his study on value chain analysis and organizational performance of beer manufacturing companies in Kenya seeks to determine how beer manufacturing firms in Kenya use value chain approach to assess performance and to establish the relationship between value chain analysis and organizational performance in the beer manufacturing industry in Kenya. The study adopted a cross sectional descriptive survey to establish the activities that constitute the value chain and extent in which these activities affect performance. He argues that the purpose of a value chain is to attain full and seamless interaction among stakeholders to create a win-win situation. Understanding these relationships and their various impacts to the value of an organization's products and services is a critical ingredient to the performance of the organization.

The Food and Agriculture Organization (FAO) United Nations committee on commodity problems (2005) found out that the global economy, including agriculture, is integrating rapidly through trade. The rate of growth in agricultural trade over the past decade has been about 3 percent annually, more than three times the rate of agricultural output growth. Developing countries are much less dependent on agricultural exports than they were in the past. In contrast with the growing importance of processed agricultural exports in other developing countries, the LDCs have seen the share of their processed product exports decline from around 30 percent of total agricultural exports in the 1960s to less than 20 percent in the 1990s. advises that value added market offers new opportunities, business prospects incomes additionally.

Nzeki (2008) in his study the relationship between tea value addition and profitability of exporting companies in the Kenyan tea industry used descriptive design to establish if it does make financial prudence to engage in value addition instead of the traditional bulk tea

exports. The study revealed that profitability from companies that engaged in value addition is higher compared to those of companies that did not engage in value addition

2.4 Summary of Literature Review

Above literature review reveals that there exists a strong relationship between value addition and profitability for tea exporting companies in Kenya however studies on relationship of tea value addition that to performance of Kenya tea exporting companies are scarce for actual output or results as measured against its intended outputs (or goals and objectives).According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: Financial performance (profits, return on assets, return on investment, etc.), product market performance (sales, market share, etc.) and shareholder return (total shareholder return, economic value added, etc.).So this study focused on value addition strategies and how they affect financial, market and shareholder value performance on the Kenyan tea exporting companies

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that was used in the study in order to meet the objectives. These include research design, population of study, data collection technique and the tools that were used in data collection, and finally how the data collected was analyzed (data analysis).

3.2 Research Design

The study used descriptive cross-sectional study design. This design was preferred because the study was aimed at establishing the value addition strategies, the relationship between tea value addition and performance in Kenyan tea exporting companies. According to Cooper & Schindler (2003) descriptive study is concerned with finding out who, what, where, when and how much of a phenomenon, which will be the concern of the study. A descriptive survey was considered appropriate as it enabled collection of considerable amount of information required for generalization.

3.3 Population of Study

The population of this study comprised of all the tea exporting (buyers) companies in Kenya who are members of East African Tea Traders Association (EATTA). There are 64 companies as per EATTA register of June 2015 (Appendix I).

3.4 Data Collection

Primary data was collected using semi-structured questionnaire (Appendix II). According to Mugenda & Mugenda (2003), questionnaires were used to obtain important information about the population. The questionnaire had four sections where section 1 covered the profile of respondent companies; this information was required to classify the organizations. Section 2 covered the business environment while section 3 covered the value addition strategies and section 4 organizational performances. The research used a combination of drop-and-pick and mail questionnaires. The questionnaires were addressed to the Chief Executive Officers (CEO) of each organization. The CEO is the person in charge of the company's strategy and scans the environment so as to realign the strategy with the environmental changes. The researcher made follow up through telephone reminders.

The study comprised of 38 tea exporting firms. While a total of 64 tea exporting companies as obtained from the EATTA register had been anticipated to take part in the study, only 38 companies were able to return the questionnaires given out to them. This forms a study sample of 59.38% of the target population.

3.5 Data Analysis

The data collected was edited to ensure consistency across respondents and accuracy. To permit quantitative analysis, the data was coded. Since the research was comparing the correlation between value addition and performance, performance was the "dependent" item and value addition the "independent" item. The goal was to see if a change in the independent item (value addition) would result in a change in the dependent item

(performance of Kenyan tea exporters). This information helped the researcher to understand an indicator's predictive abilities.

value addition have additional predictors of achievement (e.g. flavouring, branding, packing and blending). A simple regression model was used in determining the level of influence the independent variables have on dependent variable as shown below, we could construct a linear equation containing all those variables. In general then, multiple regression procedures was used to estimate a linear equation of the form:

$$(OP) = \beta_0 + \beta_1 + e \dots\dots\dots$$

Where;

Where:

OP = *Organization Performance* Index for the *ith* firm ($i = 1, 2, 3, 4, 5 \dots 38$)

VA = *Value Addition strategies* (tea Branding, tea packing, tea blending, tea flavouring, and tea bagging) Index for the *ith* firm ($i = 1, 2, 3, 4, 5 \dots 38$)

β_0, β_1 = are regression constants

e = standard error

CHAPTER FOUR DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents an analysis of the data collected from a sample of 38 tea exporting firms in Kenya. Data analysis and report of findings was done using descriptive statistics in the form of frequency tables, graphs, percentages, mean and standard deviation. The chapter covers the profile of the respondent companies, establishing value additions strategies in Kenyan tea exporting companies and the relationship between tea value additions strategies and performance in Kenyan tea exporting companies

4.2 Profile of Respondent Companies

The study sought to establish when the respondent companies were started as a testament of the quality of experience in tea exporting trade they could have gained over the years. From this information, the number of years of operation was computed for each organization. The results obtained are summarized in table 4.1

Table 4.1 Years of Operation

| Years of operation | frequency | percentage |
|---------------------------|------------------|-------------------|
| Over 20 years | 11 | 28.9 |
| 11-20years | 14 | 36.8 |
| 3-10years | 11 | 28.9 |
| 2 and below | 2 | 5.4 |
| Total | 38 | 100 |

Source: Research Data (2015)

Results of the analysis show that all the respondent firms accept two (5.4%) of the sample had at least 3 years’ experience in tea exporting business. Further, it is seen that 65.8% had over 10 years’ experience in tea handling business which then shows that a majority of the respondent firms had been in the business long enough to be able to understand the rules of engagement.

The respondents were asked to indicate structure of ownership in their organizations, this was aimed at knowing whether they were fully local (Kenyan), partly local and partly foreign or fully foreign. Table.4.2 shows the response.

Table 4.2: Company Ownership

| Ownership | frequency | percentage |
|-------------------------|------------------|-------------------|
| Full local | 21 | 55.26 |
| Full foreign | 5 | 13.16 |
| Partially local/foreign | 12 | 31.58 |
| Others | 0 | 0 |
| Total | 38 | 100 |

Source: Research data (2015)

Results from Table 4.2 on the company’s ownership structure showed that 55.26% were fully locally owned, 31.58. %were fully foreign owned and 13.16% were joint ventures – partly local partly foreign while others were none. This means a majority of tea exporting companies are owned by locals who are Kenyans.

4.3 Tea Value Addition

The researcher in this section sought first to understand the nature of business environment in which the Kenyan exporters were operating in, if the companies carried out value

addition, the period value addition strategies have been in place and the various value addition strategies adopted.

4.3.1 External Environment

For any business to thrive well and compete, it has to understand the external environment that it operates in. Respondents were asked to indicate the developments in the tea industry's external environment. Results showed that 55.30% of the respondents indicated that they were operating in a continuously changing environment, 26.30% of the respondents indicated that the environment was always surprising while 18.40% indicated that the environment was relatively stable. This implies that developments in the external environment are continuously changing and tea exporting companies are advised to implement environmental developments strategies that can manage such continuous changes.

4.3.2 Tea Export

Tea is either exported in bulk or after adding value to it, respondents were therefore asked to indicate between value added tea and bulk tea which they export more. The purpose of these was enable the researcher determine what customers preferred among the two. According to the findings (table 4.3), 81.57% of the respondents indicated that they do carry out value addition strategy in their company while 18.43% indicated that they never carry out value addition. Majority of tea exporting companies studied practice tea value addition. It implies that competition to acquire and retain clients among these companies is very high.

Table 4.3: Tea exports

| Tea exports | Frequency | percent |
|---------------------|-----------|------------|
| Value added exports | 31 | 81.57 |
| Bulk exports | 7 | 18.43 |
| | 38 | 100 |

4.3.3 Tea Value Addition Strategies

Various tea value addition strategies are used by different companies to compete in the tea market, companies adopt different strategies depending on various factors i.e. cost of the strategy, resource availability to implement the strategy and the demands of their clients. Respondents were therefore asked on a scale of 1-5 which strategies they use in order to determine the most appropriate strategy in use. The table below shows the summary of those respondents.

Table 4.4: Value Addition Strategies

| Value Addition Strategy | Frequency | Percent | Cumulative percent |
|-------------------------|-----------|------------|--------------------|
| Tea packing | 16 | 42.10 | 42.10 |
| Tea blending | 10 | 26.32 | 68.42 |
| Tea branding | 6 | 15.79 | 84.21 |
| Tea bagging | 4 | 10.53 | 94.74 |
| Tea flavoring | 2 | 5.26 | 100 |
| Total | 38 | 100 | |

Source: Research data, (2015)

The result shows that majority of the tea exporting companies use tea packing as their value addition strategy. According to table 4.4, 42.10% of the respondents indicated that they use

tea packaging strategy, 26.32% indicated tea blending strategy, 15.79% indicated tea branding strategy, and 10.53% indicated tea bagging strategy while 5.26% indicated tea flavouring strategy. This implies that a strategy which is relevant to the industry is tea package. It is therefore recommended that the tea exporting company focus more of their market research on tea packaging processes.

4.3.4 Importance of Value Addition Strategies

The researcher sought to know the importance/critical of value addition to the future of the respondents' company. These was to enable the researcher determine if respondent companies were investing in value addition and were aware of it. The result shown in figure 4.7 indicated that 50.00% of the respondents said that value addition is most important to the future of their company, 26.32% indicated important, 15.79% indicated neither while 7.89% indicated not important. This means that value addition is generally important for the future survival of tea export companies and therefore should be enhanced.

Table 4.5: Importance of Value Addition Strategies

| Value Addition | Frequency | percentage |
|-----------------------|------------------|-------------------|
| Most important | 19 | 50.00 |
| important | 10 | 26.32 |
| Neither | 6 | 15.79 |
| Not important | 3 | 7.89 |
| Strongly unimportant | 0 | 0.00 |
| Total | 38 | 100 |

Source: Research Data, (2015)

4.4 Relationship between Value Addition Strategies and Performance

The researcher sought to know if there exists any relationship between value addition and organization performance in the tea industry. This section covered the evaluation of performance, factors influencing adoption of strategy, influence of value addition on performance and regression analysis.

4.4.1 Evaluation of Performance

An organisational performance evaluation is a systematic process for obtaining valid information about the performance of an organisation. The researcher aimed at trying to understand the period at which these evaluations were done. According to the results on table 4.8, majority of the respondents indicated that performance evaluation is done mostly in a continuous manner with 36.8% respondents agreeing on while a few respondents with 5.3% noted that they preferred to perform semi-annually evaluation. This means that most tea exporting companies closely monitor any value addition strategy they have adopted and make adjustments early on areas which need to be improved, modified or strengthened.

Table 4.6: Evaluation of Performance

| Performance evaluation | Frequency | percentage |
|-------------------------------|------------------|-------------------|
| Continuous | 14 | 36.8 |
| Weekly | 6 | 15.7 |
| Monthly | 8 | 21.0 |
| Quarterly | 4 | 10.6 |
| Semi-annually | 2 | 5.3 |
| Annually | 4 | 10.6 |
| Total | 38 | 100 |

Source: Research Data (2015)

4.4.2 Adoption of Value Addition Strategies

For adoption of any strategy in an organization various factors have to be considered, respondents were therefore asked on which factors they consider in adopting a given value addition strategy. Majority of respondents with a mean of 4.4279 stated that they consider the resources needed and what they have before adopting a certain strategy while a few respondents with a mean of 3.5714 consider the gains they shall attain before deciding on the strategy to adopt. The findings in table 4.6 indicated that majority of firms in the tea industry are guided by the resources at hand unlike what they expect to earn before adopting any strategy.

Table 4.7: Adoption of Strategy

| Factor influencing Strategy | Mean | Standard Deviation |
|------------------------------------|-------------|---------------------------|
| Income/gain | 3.5714 | 1.1118 |
| Profit/losses | 3.7143 | 1.0801 |
| Resource needed | 4.4279 | 0.9759 |
| Time spent | 3.8571 | 0.6958 |

Source: Research Data (2015)

4.4.3 Influence of Value Addition on Performance

Organizations adopt a given strategy hoping that it shall have a positive influence on their performance. The researcher therefore sought to establish what influence value addition had on performance where performance was measured through the indicators listed below. Further, the researcher sought to determine if there exists any relationship between the two. Respondents were requested to indicate (scale of 1-5) the influence of tea value addition

strategies to the key performance indicators of the Kenyan tea exporting companies. (Table 4.8 shows the summary of the findings)

Table 4.8: Influence of Value Addition on Performance

| Influence of Value Addition on Performance | Mean | S.D |
|--|-------------|------------|
| Increase the profits of the organization | 4.1604 | 0.8165 |
| Increases company sales volume | 4.0193 | 0.7431 |
| Enhances the purchase of organizational products by the consumer | 4.4162 | 0.5345 |
| Increasing sales volume and market share of the company | 4.2857 | 0.4879 |
| It enhances the organization relationship with its customers | 4.1429 | 0.6938 |
| The firm adopts well to changes in environment | 4.2558 | 0.58961 |
| Team work exists within the organization | 3.4419 | 0.53356 |

Source: Research Data (2015)

The results indicate that value addition by the company's enhances the purchase of organizational products by the consumer with a mean score of 4.4162. The respondents noted that value addition increased sales volume and market share and that it helps to increase the profits of the organization with a mean score of 4.2857 and 4.1604 respectively. Companies that practiced value addition adapted well to changes in the unstable environment and competition in the tea industry with a mean of 4.2558. The respondents further said that value addition enhances the organization relationship with its customers with a mean of 4.1429 and that it affects the affects company sales volume (mean 4.0193). The results indicate that the practice of value addition by the companies

influenced the performance of the companies and this show that the survival of the companies depends to a large extent on value addition

4.4.4 Relationship Analysis between Tea Value Addition Strategies and Performance

In this study, regression analysis was conducted to establish the relationship between value addition and organization performance in the tea industry. The study was based on the premise that there is a relationship between value addition (independent variable) and organization performance (dependent variable). The relationship was tested at 95 percent confidence level ($\alpha = 0.05$). The regression model was as follows:

$$Y (OP) = \beta_0 + \beta_1 X + e \dots\dots\dots$$

Where;

(Y) OP = *Organization Performance* Index for the *ith* firm ($i = 1, 2, 3, 4, 5 \dots 38$)

VA = *Value Addition* strategies (tea packing, tea blending, tea branding, tea bagging, tea flavouring) Index for the *ith* firm ($i = 1, 2, 3, 4, 5 \dots \dots \dots 38$)

β_0, β_1 = are regression constants

e = standard error

The aggregate mean score of Value addition measures (Independent variable) were regressed on the aggregate mean score of the organizational performance measures (dependent variable) and the relevant results presented in Table 4.9

Predictors: (Constant) Aggregate Mean score of Value addition strategy

From the Table 4.9, the regression analysis conducted using data from 38 tea exporting companies in Kenya shows that there is a positive relationship between value addition strategies and all the organization performance measures. This is indicated by the value of $R=0.883$. The results further show a strong correlation between the value addition strategies

(independent variable) and the organization performance (dependent variable) as shown by the values of $R^2=0.780$.

Regression

| | | Notes |
|------------------------|---|---|
| Output Created | | |
| Comments | | |
| Input | Data | |
| | Active Dataset | DataSet1 |
| | Filter | <none> |
| | Weight | <none> |
| | Split File | <none> |
| | N of Rows in Working Data File | 56 |
| Missing Value Handling | Definition of Missing | User-defined missing values are treated as missing. |
| | Cases Used | Statistics are based on cases with no missing values for any variable used. |
| Syntax | | REGRESSION |
| | | /MISSING LISTWISE |
| | | /STATISTICS COEFF OUTS CI(95) R ANOVA |
| | | CHANGE |
| | | /CRITERIA=PIN(.05) POUT(.10) |
| | | /NOORIGIN |
| Resources | | /DEPENDENT Organization performance |
| | | /METHOD=ENTER Value addition. |
| | Processor Time | 00:00:00.02 |
| | Elapsed Time | 00:00:00.02 |
| | Memory Required | 1876 bytes |
| | Additional Memory Required for Residual Plots | 0 bytes |

Variables Entered/Removed

| Model | Variables Entered | Variables Removed | Method |
|-------|-------------------|-------------------|--------|
| 1 | Value addition | . | Enter |

a. Dependent Variable: Organization performance

b. All requested variables entered.

Table 4.9 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .883 ^a | .780 | .774 | .123 | .780 | 127.959 | 1 | 36 | .000 |

a. Predictors: (Constant), Value addition

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|---------|-------------------|
| 1 | Regression | 1.944 | 1 | 1.944 | 127.959 | .000 ^b |
| | Residual | .547 | 36 | .015 | | |
| | Total | 2.492 | 37 | | | |

a. Dependent Variable: Organization performance

b. Predictors: (Constant), Value addition

Table 4.10 Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | |
|----------------|-----------------------------|------------|---------------------------|--------|------|---------------------------------|-------------|
| | B | Std. Error | Beta | | | Lower Bound | Upper Bound |
| (Constant) | .439 | .170 | | 2.585 | .014 | .095 | .784 |
| Value addition | .505 | .045 | .883 | 11.312 | .000 | .415 | .596 |

a. Dependent Variable: Organization performance

The regression results in table 4.10 also shows that Value addition strategies had a strong relationship with organizational performance in that it improves organization performance by 50.50 percent, ($\beta = 0.505$, $p=0.000$). Further, the regression analysis results indicated that any change in the independent variables (value addition strategies), causes a change in the dependable variable (organizational performance). Increase in value addition strategies

therefore causes an increase in organisational performance in the tea exporting companies. Arising from the results in Table 4.10, the following simple regression equation that may be used to estimate organizational performance of tea exporting companies in Kenya given level of value addition strategies can be stated as follows;

$$OP = 0.439 + 0.505VA + \varepsilon$$

Where:

OP= is the Organization Performance

0.439 is the constant intercept of the term ($\alpha = 0.439$), or the slope coefficient

0.505 is the beta or the slope coefficient, (estimates of the expected increase in organization performance corresponding to an increase in use of value addition strategies).

VA is the value addition strategies (tea blending, tea packing, tea branding, tea flavouring and tea bagging)

ε is the error term- random variation due to other unmeasured factors.

4.5 Discussion of Findings

The research findings indicated that majority of Kenyan tea exporters were locally owned and had enough experience in the trade as they had been in operation over 3years.

The study findings indicated that even though majority of the companies had been in operation for more than 3 years, the external environment which they were operating in was continuously changing. This change of external environment had led to adoption of various strategies that could enable these companies to deploy sustainable processing technologies to increase product efficiency and competitiveness. The study revealed that for more than 5 years, majority of tea exporting companies have been carrying out value addition strategies. Tea packing was the most preferred value addition strategy as the respondents indicated

that it was a flexible and most of their clients preferred it to any other strategy. The research further found out that majority of Kenya tea exporting companies thought that value addition was important for the future survival of their companies.

Performance is a multi-dimensional construct, which permits value to be created on differing dimensions. Organizational performance can be measured using indicators of efficiency, effectiveness and financial viability. The research sought to determine if value addition strategies influence performance. From the findings the key performance indicators of were profit, sales volume, purchases, customer relations, environmental change and teamwork. Value addition positively influences the performance in the tea exporting companies in Kenya. The regression analysis was conducted to establish if there existed any relationship between tea value addition strategies and organisational performance. Value addition strategies being the independent variable and organisational performance being the dependent variable, the results indicated that there existed a strong correlation between the two with a value of $R^2=0.780$. The results further indicated that tea value addition strategies improve organizational performance by 50.50%.

M Benny (2005), on his study on value added products on green tea concluded that value added products give better results and provide better handling thus increases export potential as well as sells in the Indian domestic market. Further study by Merete (2010), on value chain analysis and organizational performance of beer manufacturing companies, he concludes that understanding value chain relationships and their various impacts to the value of an organization's products and services is a critical ingredient to the performance of the organization.

From the findings of the research presented above, it was noted that Exporters have now realized the difference between trading a commodity (black tea in bulk) and marketing a consumer product (value added tea). Kenya exporters were conscious of the need to bring about vertical integration to their traditional tea bulk exports and were now into converting a major portion of tea exports to consumer packs and other forms of value added exports, meeting the requirements of more sophisticated market. These findings explained why there was a relationship between value addition strategies and organizational performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of findings as discussed in chapter four and interpretations of the data analysis, conclusions and recommendations based on the findings. The conclusions and recommendations made on this study were related to the purpose of the study which was to establish the relationship between value addition strategies and organization performance of Kenyan tea exporting companies.

5.2 Summary of the Findings

5.2.1: Value Addition Strategies used in Kenyan Tea Exporting Companies.

The first objective of the study was to the value addition strategies used in Kenyan tea exporting companies, the findings indicated that majority the firms have been in the business long enough and thus were familiar about the value addition strategies in the tea industry. From the study findings it was deduced that the main value addition strategies in the Kenyan tea industry are tea flavoring, branding, packing, bagging and blending. Tea packing as a value adding strategy was most preferred strategy used by many companies. The study established that value addition in the tea industry enables the companies to create good image and promote the reiterate purchase of the product or service, create large market segment which leads to the development of larger market, maintain superior stand in the industry, establish good relationship with potential customers and reduce consumer dissonance.

5.2.2: Relationship between Tea Value Addition Strategies and Performance

The second objective of this study was to establish the relationship between value addition strategies and organization performance of tea exporting companies in Kenya. The study found out that value addition plays a key role in the Kenyan tea industry and highly influences sales volume of these companies. Performance of Kenyan tea exporting companies is influenced by value addition and enables the companies to achieve set goals and objectives. In summary the study found out that there is a positive relationship between value addition strategies and all the organization performance measures in the tea exporting companies in Kenya. This is indicated by the value of $R=0.883$. The results further show a strong correlation between the value addition strategies (independent variable) and the organization performance (dependent variable) as shown by the values of $R^2=0.780$. The study further found that Value addition strategies had a strong relationship with organizational performance in that it improves organization performance by 50.50 percent, ($\beta = 0.505, p=0.000$).

5.3 Conclusion

The study concludes that value addition strategies used by tea exporting companies in Kenya are tea packing, blending strategy, tea branding strategy, tea bagging strategy and tea flavoring strategy. The study further concludes that the strategy most applied by tea exporting companies is tea packaging. From the research findings presented in chapter four and above summary of findings, the study concludes that Value addition to products is the best strategies organizations employ to improve net profitability. Value-addition strategies open new markets, enhance the public's appreciation for the organization and extend the

marketing season thus they offer organizations the potential to capture a larger share of the market.

Regarding the relationship between value addition strategies and organization performance the study concluded that there is a strong relationship between value addition and organization performance of tea exporting companies. While innovation is fundamental in gaining competitive advantage, combining the innovative efforts with appropriate strategy was found as vital for winning the competitive markets. The unseen force that brings innovation and strategy together is the leadership of the pioneers of the organizations. Companies involved in product value addition attain higher returns because of the limited number of players in the marketing chain. In addition, they employ good business practices and high level of management. From the research findings value addition strategies in the Kenyan tea exporting companies influence organizational performance.

5.4 Limitations of the Study

In this study the researcher had some limitations in data collection. Most of the respondents who were interviewed did not have a clear sense about value addition strategies and it was a bit difficult to explain the target of this research to the respondents. Some of them viewed the requested data as confidential for them and somehow unreachable. Not all respondents answered the questionnaire hence the result could be more realistic if the researcher got responses from all respondents. The limitations however did not affect the data collected to undertake the study

5.5 Recommendations

The study recommends that with rising global competition in the value added market, and particularly for the value added black tea, factors such as quality, standards on food safety, maximum residue levels, and labeling rules are expected to have a major effect on price realization. Kenya exporters should be conscious of the need to bring about vertical integration in its traditional tea bulk exports and are now into converting a major portion of tea exports to consumer packs and other forms of value added exports, meeting the requirements of more sophisticated markets. Creating a stable position in the market place and coping successfully with the competitive forces should define Kenya exporter's competitive strategy in the global tea industry.

5.6 Suggestions for Further Study

The findings of this study and application therefore are limited to Kenyan tea exporting companies in Kenya. They may not be applicable directly to other organizations operating outside the Kenyan tea industry.

A further research should be undertaken to further explore the relationship of value addition to the tea industry employing bigger samples and carrying out a more detailed analysis of firms. This would, in turn, help us get more insight into value addition and informing various stakeholders on the benefits or otherwise of spending large sums of money on advertising. A study further needs to be undertaken to determine the medium that is mostly used by the cosmetic companies to advertise their product

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APPENDICES

Appendix I: letter to the Respondents

UNIVERSITY OF NAIROBI,

SCHOOL OF BUSINESS

MBA PROGRAM

Dear Sir / Madam,

I am a student at University of Nairobi pursuing degree in Masters of Business Administration. As part of course requirement I am expected to carry out a research project work of which I am researching on “relationship between tea value addition and organizational performance of Kenyan tea exporting companies. The purpose of this letter is to request you to assist me by responding to the questionnaire.

Yours faithfully,

Vasborn Omete.

Appendix II: Questionnaire

Section 1: Company Data

1. Name of organization:
2. When was the company started?
3. Kindly indicate your job title:
4. Kindly indicated the ownership structure of the company? Please tick as appropriate
 - i) Full local ownership ()
 - ii) Full foreign ownership ()
 - iii) Partly local/partly foreign ()
 - iv) Others (please specify):

Section 2: The Business Environment

5. How can you explain the developments in the external environment you are operating in the last five years?
 - i) Relatively stable ()
 - ii) Continuously changing ()
 - iii) Always surprising us with new issues ()
 - iv) Any other (please specify).....

Section 3: Value Addition Strategies

6. Do you carry out value addition in your company?
Yes () No ()

7. If yes, how long have these strategies been in place?

2 years ()

5 years ()

Over 5 years () 64

8. Which of the following value addition strategy is used in your company? (On a scale of 1-5, being least used while 5 most used -please tick as appropriate)

a) Tea Flavoring 1 2 3 4 5

b) Tea Blending 1 2 3 4 5

c) Tea Packing 1 2 3 4 5

d) Tea Branding 1 2 3 4 5

e) Tea bagging 1 2 3 4 5

f) None ()

f) Others (please specify) -----

9. Between value added tea and bulk tea which do you export more?

a) Value added tea ()

b) Bulk tea ()

10. In your view, how important/critical is value addition to the future of your company?

(In a Scale of 1-5, 1 being least important while 5 Most important)

i. Most important

ii. Important

iii. Neither

- iv. Not important
- v. Strongly unimportant

SECTION 4:

To establish the relationship between tea value addition strategies and organizational performance

11. How often do you evaluate your organizational performance for deviations and improvement?

- i) Continuous ()
- ii) Weekly ()
- iii) Monthly ()
- iv) Quarterly ()
- v) Semi-annually ()
- vi) Annually ()

12. In your view, what factors does your organization consider in adopting a given value addition strategy? (Kindly rank them on a scale of 1-5. Number 1 being the least important factor while 5 being the most important factor)

- i) Income/gain associated with the strategy
- ii) Possible profit losses associated with the strategy
- iii) Resources needed for adoption
- iv) Time span of associated consequences

13. How can you describe the prevailing mode of making urgent and critical decisions in your company?

- i) Tendency to centralize decisions to top managers ()
- ii) Tendency to delegate decisions to lower managers ()
- iii) Tendency to use interdepartmental committees/task force ()

14. Which of the following factors delay managers in making decisions

- i) Time taken in discussing and verifying details ()
- ii) Time taken by individual managers trying to manage the crisis alone ()
- iii) Time taken to study the unfamiliar/new challenges ()
- iv) System delay in information flow ()
- v) Any other (please specify).....

15. Please indicates whether the various tea value addition strategies adopted by your firm impact the various aspects of organizational performance. (In a scale of 1-5.Number 1 being least impact while 5 being most impact.)

| Organizational Performance Indicators | 1 | 2 | 3 | 4 | 5 |
|--|----------|----------|----------|----------|----------|
| It helps increase the profits of the organization | | | | | |
| It affects company sale volume | | | | | |
| It enhances purchase of company products by consumers | | | | | |
| It helps increase sales volume and market share of the company | | | | | |
| It enhances the organization relationship with its customers | | | | | |
| Firm adopts well to changes in environment | | | | | |
| Team work exists within the organization | | | | | |

Appendix III: Kenya Tea exporters/Members of EATTA

1. Abbas Traders Ltd
2. Ace Commodities
3. Afribridge Trade Exporters Ltd
4. Africa Tea and Coffee Company Ltd
5. Afro Teas Ltd
6. Aimco Enterprises
7. Akaba Investments Ltd
8. Alanwood Ltd
9. Al-Emir Ltd
10. Alibhai Ramji (Msa) Ltd
11. Al-Itihad (1998) Ltd
12. Apt Commodities Ltd
13. Black Dew Ltd
14. Cargill Kenya Ltd
15. Chai Trading Company Limited
16. Chamu Supplies
17. Cofftea Agencies Ltd
18. Cropwell Commodities Ltd
19. Devchand Keshavji (Kenya) Ltd
20. Diamond Tea Exporters (K) Ltd
21. Gacal Merchants Ltd
22. Global Tea &CommoditieS
23. Gokal Beverages (EPZ) Ltd
24. Gokal Trading (Kenya) Ltd

25. Green Leaf Trading Co. Ltd
26. Highland Taste Ltd
27. Hydery (P) Ltd
28. Imperial Teas (EPZ) Ltd
29. Impulse General Supply Ltd.
30. Indo-African Tea Company (Kenya) Ltd
31. James Finlay Mombasa Ltd
32. Janish Tea Ltd
33. Juja Coffee Exporters Ltd
34. KenteaGrinline Ltd
35. Kirindo Traders Ltd
36. L.A.B. International (K) Ltd
37. Lindop& Company (Kenya) Ltd
38. Lula Trading Co.
39. Lutex Limited
40. M.J. Clarke Ltd
41. Maymun Enterprises
42. Mombasa Advance Logistics Limited
43. Mombasa Coffee Ltd
44. Mombasa Packers Ltd
45. Mombasa Tea Traders Ltd
46. Oriental Tea Expo Ltd
47. Pangea Trading Company limited
48. Peace Business Limited
49. PwaniHaulier

50. Ranfer Teas (Kenya) Ltd
51. Rauf Coffee & Tea Exporters Ltd
52. Riotana Trading Limited
53. Sardia International Co. Ltd
54. Sasini Limited
55. Shakab Imports Exports Co. Ltd
56. Stansand (Africa) Ltd
57. Summer Liners Company Ltd
58. Suwad Enterprise Limited
59. Tanjal Tea Company Ltd
60. Tea Rose Ltd
61. Tropical Crops & Commodities
62. Trust Tea Traders Ltd
63. United (E.A) Warehouses Ltd
64. Van Rees

Source: EATTA Membership List, June 2015

