

**STRATEGIES THAT ARE USED BY THE HORTICULTURAL  
CROPS DIRECTORATE (HCD) IN KENYA TO  
INCREASE EXPORTS**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS  
UNIVERSITY OF NAIROBI**

**OCTOBER, 2015**

## DECLARATION

I, the undersigned, do declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

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This is to declare that this project has been submitted for examination with our approval as the University Supervisor.

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## **ACKNOWLEDGEMENTS**

First of all, I am very thankful to God Almighty Jehovah, who has been my source of strength and belief throughout my life. This course would not have been successful had it not been for the valuable support, assistance and guidance from my family members, friends and colleagues. I would like to further appreciate my husband Patrick Irungu, for being the wind beneath my wings and for pushing me to start and complete the MBA programme.

I would like to offer my gratitude to my supervisor Dr. John Yabs for giving me valued guidelines. Without his kind supervision, I would never have had the chance to complete my research work on time. I would also like to say special thanks to my family members, especially my parents George Mwai and Mary Mwai, my mother-in-law Ruth Irungu and my two sisters Naomi Mwai and Gladys Mwai.

I am forever grateful to Jehovah Ebenezer for thus far He has brought me.

## **DEDICATION**

My study is dedicated to my babies Reggie Irungu Ndegwa and those yet to come. I have scaled great heights so that you may aim higher. May the Lord grant you a long, healthy and fulfilled life. I love you all.

I also dedicate this degree to all the working mothers all over the world and their support system at home and at work. It can be done, never give up.

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## **ABSTRACT**

The objective of the research is to identify strategies that are used by the Horticultural Crops Directorate to increase horticultural exports from Kenya. As the environment and market conditions changes with time, organizations need to formulate new strategies for them to remain competitive. In the case of international business an organization or government must make a commitment to keep pace with its competitors with an aim of increasing its market share. This is achieved by continual review of a firm's strategies. Successful strategy implementation requires the input and cooperation of all players in the company; it requires linkage in two dimensions both vertical and horizontal. Over the last decade the agricultural industry in Kenya has generally experienced low and declining productivity in terms of export earnings, employment creation, food security and household farm income. This is not the case in the Horticultural export sub sector that has continually experienced growth over the years. This study will serve to benefit management consultants, policy makers and future scholars who may wish to undertake further research in related aspects of horticultural exports in Kenya. The study employed a case study as its research design and primary data was used in the research. Data was collected using an interview guide. Qualitative data was analyzed using content analysis and was presented in prose form. The findings of the study suggest that the directorate had developed strategies that were geared towards accomplishment of its set objectives. The directorate has also realized that to achieve its objectives and also be competitive enough, they need well-established relations with countries that are the largest consumers of horticultural crops. As such one of the directorate's strategies involve liaising with commercial diplomats. Other strategies applied by the directorate to increase export of horticultural crops involve applying market standards, focusing on the capacity building of industry stakeholders and encouraging horticultural farming as a business in Kenya. Findings from this study noted as much as there have been an increase in the production and export of horticultural crops, the directorate should focus on employing strategies that will result in further reductions on the price of horticultural crops enabling horticultural products in Kenya to be priced competitively against other international exporters.

## **ABBREVIATIONS AND ACRONYMS**

|               |  |
|---------------|--|
| <b>HCD</b>    | Horticultural Crops Directorate                        |
| <b>KBS</b>    | Kenya Bureau of Standards                              |
| <b>EU</b>     | European Union   |
| <b>GDP</b>    | Growth Domestic Product                                |
| <b>AgGDP</b>  | Agricultural Growth Domestic Product                   |
| <b>KES</b>    | Kenya Shillings  |
| <b>UK</b>     | United Kingdom   |
| <b>KEPHIS</b> | Kenya Plant Health Inspectorate Service                |
| <b>PCPB</b>   | Pest Control Products Board                            |
| <b>KALRO</b>  | Kenya Agricultural and Livestock Research Organisation |



# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

International business refers to business activities that involve the transfer of resources (raw materials, capital and people), goods (finished assemblies and products), services (management consulting, financial services, insurance and education, etc.), knowledge and skills (managerial skills, intellectual property rights), or information (databases and networks) across national boundaries. Indeed multinational companies are the beneficiaries of, as well as the reason for, this growing interdependence among nations. Daniels et al. (2004) defined international business as all commercial transactions (including sales, investments and transportation) - private and governmental - between two or more countries. Moreover, international businesses require its proprietors to choose the countries in which to sell their goods and from which to buy inputs. Also international businesses must coordinate the activities of their foreign subsidiaries, while dealing with taxing and regulatory authorities of their home country and all other countries in which they do business (Griffin and Pustay 2010).

Organization's ability to increase its profits is dependent on its ability to outwit, out bluff and out maneuver its competitors. Pearce & Robinson (1991) define a strategy as a set of decision and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. He states that a strategy is a game plan which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. This means in order to formulate suitable strategies, top management must consider all aspects of dynamic environments and understand the needs to take the future into account and establish capable strategy to deal with the changes that are taking place in the environment to meet an organisation's objective.

Over the years, there has been increased competition in the horticultural sector worldwide that have resulted in firms engaging in the horticultural sector facing intense pressure while undertaking business activities. This has mainly been contributed by the fact that European markets have high performance standards that are greatly affecting Kenya's the horticultural export. In addition, it has become essential for EU importers to receive supplies from known sources and to be able to check agricultural practices and handling standards on the farms. These requirements affect Kenya's horticultural industry due to a lack of technological expertise affecting many small-scale firms.

### **1.1.1 Concept of strategy**

According to Johnson & Scholes (1999) strategy is the direction and scope of an organization over a long-term which achieves advantage for the organization through the configuration of resources within a changing environment to achieving the objective of meeting the needs of markets and to fulfill stakeholders' expectations. Quinn (1980) believes that the strategic process which allows for strategies to emerge, allows organizations to respond more effectively to the changes in the environment. Managers need to take into consideration the situation of change for the organization. As the environment and market conditions changes with time, organizations need to formulate new strategies for it them to remain competitive. Pearce & Robinson (2002) point out that, strategy implementation is not only affected by environmental forces and resources available but also by the values and expectations of those who have power in and around the organization.

In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those who have most influence on the organization. Successful strategy implementation requires the input and cooperation of all players in the company; it requires linkage in two dimensions both vertical and horizontal. Vertical linkages are those tying together the organization from top to bottom, from corporate to division to department (Sterling, 2003).

Robert (1993) argued that the real issues in strategy are strategic management and thinking critically. He sees these as decisions pertaining to products and services, customers, market segments and geographic areas and claims that decisions about which products and services to offer, the customers to be served, the market segments in which to operate and the geographical areas of operations should be basis of a simple driving force.

### **1.1.2 Concept of international business**

Domestic businesses are commercial business activities conducted within a nation or a commercial entity that conducts economic transactions inside the borders of its home nation.

International business differs from domestic business in that: the countries involved may use different currencies forcing at least one party to convert its currency to another; The legal systems of the countries may differ forcing one or more parties to adjust their practices to comply with local law; The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectation of the other; and The availability of resources differs by country with one country being rich in natural resources and another may enjoy a productive work force (Griffin and Pustay 2010).

International business is mainly undertaken in situations where an organization or government is interested in acquiring resources from foreign countries, or wishes to diversify its activities (Anderson 1993). This represents a business' commitment to keep pace with its competitors by taking up strategies that enable them to keep abreast with the latest business

techniques and tools, because no single country has a monopoly on good ideas/ resources. Griffin and Pustay (2010) state that managers who chose to remain ignorant of the innovations of their international competitors are bound to fail in the global marketplace. International business requires managers to be sensitive to changes that are taking place in the global marketplace and to adopt dynamic strategies that can adapt to these fast-paced environment.

### **1.1.3 Export trade**

Exporting is the sale of goods from one's own country to another country for use or resale. Daniels et al. (2004) defined exporting as the sale of goods or services produced by a firm based in one country to customers that reside in another country. Leonidou (1995) argues that main stimuli to export are: the personal characteristics of decision makers; company objectives and resources; and availability of export facilities and government support. When a firm decides to engage in the export of commodities, this sets them apart from other local businesses that take part in domestic trade. A business is motivated to engage in export trading to reduce the steep prices of product development and production, to meet the needs of countries abroad and companies that are not domestic leaders may export to counter the volume advantage commanded by the industry leader (Daniels et al., 2004).

Leonidou et al (2002) states that at the firm level, exporting allows firms to expand into new markets that serve as catalysts for significant growth opportunities as well as to safeguard the firms' market position and ensure survival in the long term. Daniels et al. (2004) references that the three dimensions that drive export are increased profitability, improved productivity and diversification of activities. Therefore, companies have to continually look into these three dimensions when a making a decision to export its goods or services. Ultimately all companies are always looking into opportunities to diversify through export.

Many countries strive to have a favourable balance of trade, which simply means that the value of items that are exported is more than the value of items that are imported. Thus, the balance of trade denotes the differences of imports and exports of a merchandise of a country during the course of the year. As such, increasing export ranks among the highest priorities of any government in both developed and developing countries. Czinkota (1994) states that exporting activity is important for governments because it contributes to the economic development of nations, helps national industries to develop, improves productivity and creates new jobs. Exporting is a particularly appropriate mode of entry for small and medium-sized firms (SMEs) to enter a foreign market as it offers a greater degree of flexibility, minimal resource commitment, and limits the firms' risk exposure (Young et al., 1989).

#### **1.1.4 Agriculture sector in Kenya**

The agricultural sector in Kenya, like in most other countries in sub-Saharan Africa, is a major backbone of the economy and is central to its overall growth and development. Kenya's agricultural sector comprises six subsectors: industrial crops, food crops, horticulture, livestock, fisheries, and forestry. Horticulture has grown remarkably to account for the largest share of Agricultural Growth Domestic Product (AgGDP), which accounts for about 33 percent and contributes an impressive 38 percent of export earnings from agriculture. The food crops subsector contributes 32 percent of AgGDP and only about 0.5 percent of exports, whereas the livestock subsector is responsible for 18 percent of AgGDP and a mere 7 percent of agricultural exports (World Bank Agribusiness Indicators, 2013).

In a country where a large share of the population relies on agriculture as the main source of employment and sustainable livelihoods, the strong correlation between growth in the agricultural sector and growth and development in the overall national economy clearly indicates that agriculture is the engine of Kenya's economic growth. Development of the sector is a prerequisite for fighting poverty, reducing food insecurity, and improving the general economic wellbeing of the entire population. Although the agricultural sector has shown remarkable growth, its inconsistent progress has been a major source of concern for the Government of Kenya. In the first two decades after independence, the agricultural sector and thus the national economy recorded the most impressive growth in sub-Saharan Africa, achieving average growth rates of 6 percent for agriculture and 7 percent for the national economy (GoK 2010). It has been argued that this growth occurred in response to the government's call to the people to return to the farms - *rudini mashambani* (HCD, 1999).

Cultivated area expanded greatly, with farmers making use of the best technology available at the time. Unfortunately, agricultural growth could not be sustained. It declined in the following decade, and between 1980 and 1990 agriculture grew by only 3.5 percent per year on average in Kenya, compared with agriculture in Uganda (3.7 percent), China (4.1 percent), and Vietnam (4.8 percent). Official reviews of the sector's performance during this period largely held low public investment to be responsible for poor performance; at the time, agriculture accounted for just 2 percent of the national budget. Growth in the agricultural sector resumed in 2000 and in 2007 and peaked at 6.9 percent, in response to a larger budget allocation, policy reforms, and the revitalization of agricultural institutions to be more responsive to farmers' needs. These gains slipped away following the violence surrounding the 2007 general elections. In 2008, the sector recorded its worst performance in recent memory as the growth rate plummeted to - 4.1 percent (GoK 2010; MoA 2010).

### **1.1.5 Horticultural Crops Directorate (HCD)**

The Horticultural Crops Directorate (HCD) which was formerly known as Horticultural Crops Development Authority ('HCDA') was established under the Agriculture Act, Chapter 318 of the Laws of Kenya, through Legal Notice No. 229 of 1967. The statutory objective of the Directorate is to promote, develop and coordinate the production and marketing of horticultural produce. At the time of its establishment, the horticultural sub-sector was seen as a viable solution for the country's need for cash crop diversification, enhanced food nutrition, income generation, employment creation and foreign exchange earning in addition to providing raw material for agro-processing industries.

The focus of the Directorate at inception was mainly the small -holder farmers who had the potential to utilize their own labour, as the production processes were labour intensive, with a view to getting high return for their limited land. The sub-sector has been the focus of most government policies. The Government has developed a National Horticultural Policy that outlines key policy interventions to revamp and reposition the sub-sector. Over the years, HCD's functions have evolved with the changing Government policies and sub-sector demands. Initially, the focus was on development and marketing, product value-addition, opening up new production areas and markets, undertaking market promotions and marketing produce on behalf of the farmers. However, with liberalization and reduced Government involvement in direct trading, HCD's role has been re-engineered to regulating, promoting, coordinating, developing and facilitating operations of the horticultural sub-sector to ensure smooth production and marketing environment and to advocate for policies that favor investment and enhanced performance of the sub-sector.

([www.agricultureauthority.go.ke/?portfolio=horticulture](http://www.agricultureauthority.go.ke/?portfolio=horticulture)).

## **1.2 Research problem**

Ansoff (1990) brought out the need of organizations to match their strategies to the level of competitiveness in the operating environment. The environment in which businesses operate faces stiff competition due to the existence of other firms producing and/or selling the same products or services. Organisations have as a result, to cope with competition and to adopt response strategies to it or risk being thrown out of the market by the same competition. An organization can adopt different response strategies in order to beat competition challenges.

Kenya is now by far the largest exporter of vegetables to the European Union (Dolan and Humphrey 2000). The global horticulture industry is being fuelled by increasing consumer demand for high quality products along with soaring seed demand to cater to a rapidly expanding global population. Consumers are demanding quality for money, especially when it comes to flowers. Commonly used for day-to-day home decoration in the past, flowers are playing an increasingly important role in the occasion's sector, with increasing numbers of consumers opting to give flowers to mark celebrations such as anniversaries or retirement parties (National Seeds Corporation Ltd Company Report for Year 2012). This is fueling demand for horticulture industries to adjust accordingly due to challenges that come with increased demand and quality checks for them to compete effectively both locally and internationally. Horticultural exports in Kenya have been increasing where total value horticulture exports was KES 43.5 billion, compared to KES 40.5 billion in 2012 (KBS, 2013). However, there has been scanty study that has focused on strategies that can be used by the Horticultural Crops Directorate (HCD) to increase exports.



Locally, studies have focused on determinants of the export performance of Kenya's horticultural industry. For instance, Muriira (2006) carried out a study on determinants of export performance of the Kenyan horticultural industry and found that foreign income, air-cargo space availability, the real exchange rate and the concessions under Rome Conventions all positively influence the volume of horticultural exports from Kenya. Whereas, Nzomoi, Byaruhanga, Maritim and Omboto, (2007) carried out a study on determinants of technology adoption in the production of horticultural export produce in Kenya.

Internationally, Anderson, Ayala, Bird, (2005) carried out a study on the factors influencing export of horticultural products in UK and found that basic comparative advantage in horticultural commodities, improved market access increases agricultural exports as long as domestic barriers to trade are not so high as to remain prohibitive, and at least some factors of production are able to move into the exporting sectors from other sectors of the economy. The size of the response will vary however, depending on the rate at which diminishing returns set in as production in the exporting sector expands. Gereffi (2009) noted that fresh vegetable export to UK from African countries such as South Africa and Zimbabwe is influenced by high demand for the products international restrictions, global competition, lengthy procedures and formalities.

To survive in a competitive environment requires the Horticultural Crops Directorate (HCD) has to be astute and learn how to not only maintain Kenya's market share in horticultural export but to expand as well. This study sought to fill the existing knowledge gap by seeking to identify strategies that the Horticultural Crops Directorate (HCD) is using to increase exports.

### **1.3 Research objective**

The objective of the research is to identify strategies that are used by HCD to increase horticultural exports from Kenya.

### **1.4 Value of the study**

The findings of this study will identify the strategies employed by HCD to increase horticultural exports in Kenya. It serves to benefit management consultants who endeavor to provide assistance to the successful running of agricultural organisations. In addition, policy makers who focus on the protection of competition in international trade will obtain documented information on the strategies they can employ to further open up Kenya to the export of horticultural crops. The academic fraternity and researchers in this major agricultural sector will find a new body of knowledge for possible application in their respective fields. Further, the study may stimulate interest that may lead to further research in related aspects of horticultural exports in Kenya.

The recommendations of this study will form part of the action plan that will help in enhancing increased exports of horticultural products in Kenya. This is because HCD management and the government will make informed decisions on issues of implementation of strategies. The study will assist HCD in formulating policies on areas that necessitate strategic implementation with a sole purpose of gaining a competitive edge over other countries production of horticultural products. It will also encourage management to be more proactive in preparing and dealing with the challenges they face in the export of horticultural products. This study will also be of importance to future scholars in the field of agri-business, which is currently gaining popularity among a majority of companies.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The chapter provides a discussion on theoretical foundation of export trade, export trade of agricultural products and factors influencing export trade. The review has been undertaken specifically based on export trade of horticultural products in Kenya.

### **2.2 Theoretical Foundation**

International trade comprises of various theories that support effective management practices as relates to the trade of commodities internationally. Some of the theories that have been formulated include.

#### **2.2.1 Theory of Comparative Advantage**

Adam Smith (1776) laid a foundation for substantial developments in the theory of international trade by stating that if countries specialise in producing goods where they have a lower opportunity cost, then there will be a subsequent increase in economic welfare. According to the theory, an organization or country is said to have comparative advantage over another in producing a particular good if it can produce that good at lower relative opportunity cost compared to its competitors. The theory of comparative advantage is an economic theory about the work gains from trade for individuals, firms, or nations that arise from differences in their factor endowments or technological progress (Andrea, 1998). The closely related law or principle of comparative advantage holds that under free trade, an agent will produce more of and consume less of a good for which he has a comparative advantage (Dixit et al, 1980).

The most important conclusion from the model is that advantages from trade do not disappear just because another country has lower wages; nor do they disappear just because another country is more productive in everything. Ricardo (1817) demonstrated that by specializing in producing the products that one has a comparative advantage, the world can expand total world output with the same quantity of resources. The expansion of output is the realization of increased economic efficiency (Steedman, 1991). Echevarria (2008) argues that in the long-run comparative advantage is mostly driven by total factor productivity which measures the output of an economy relative to the size of its primary factor inputs and this explains why most less developed countries are likely to export primary products because of lack of factor inputs in production process. Trade benefits however come with increased specialization where a country produces according to its comparative advantage. Some literature argue that the growth of an economy may be reduced permanently by wrong specialization where a country does not produce according to its comparative advantage (Imre Ferto and Karoly Attila Soos, 2006)

As explained in Markandya et al. (1999) and Asfaw et al. (2007), Kenya has comparative advantages in horticultural production compared to other African countries in that: (i) Nairobi's role as an African hub for air transport, (ii) Preferential treatment under the Lomé Convention between African Caribbean Pacific (APC) countries and the EU, and (iii) A critical mass of export firms with world-class management skills. Another advantage Kenya has is the existence of a large group of African Asians who have become United Kingdom residents. These Asians have become skilled export agents who collect the produce from farmers thereby arranging its transport and sale abroad thus enabling such perishable products as flowers and French beans to reach European shops within 48 hours of being picked in Kenya.

### **2.2.2 Factor Endowment Theory**

Eli Heckscher (1919) and Bertil Ohlin (1933) laid the groundwork for substantial developments in the theory of international trade by focusing on the relationships between the composition of countries' factor endowments and commodity trade patterns as well as the consequences of free trade for the functional distribution of income within countries. The potential to trade according to the factor endowment theory occurs when relative prices differ between countries. According to this theory, the pattern of specialization and trade depends on relative costs; therefore cost of production is an important determinant of export growth. Countries that produce at lower costs will sell cheaper than economies where cost of production is high. Similarly, economies that produce at higher costs will sell at a high cost. Thus according to the model a country will export a product that uses low production cost where factors of production are abundant.

The basic insight of the Heckscher- Ohlin (H-O) theory is that traded commodities are really bundles of factors (land, labour and capital). In Kenya's case the exchange of horticultural commodities internationally is due to its climatic and geographical advantage and low cost of labour enabling it to price its horticultural products competitively. However, production costs are also affected by the cost of transportation of goods to their markets. Krugman (1979) looks at geographical location, monopolistic competition, capital and labour migration, transport costs and differentiated products with increasing returns to scale as important determinants of trade.

Domestic infrastructure is also a major determinant of export performance in many developing countries especially in the initial stages of export sector development (UNCTAD, 2005). Poor transport infrastructure characterizing most developing countries is a major obstacle to trade and competitiveness (Mbekeani, 2007; Bacchetta, 2007). Poor transport infrastructure leads to high transport costs leading to uncompetitive and expensive exports (Grater and Krugell, 2007) and this reduces foreign exchange from exports. Infrastructure development in developing countries can lead to improved export performance.

### **2.3 Export trade of agricultural products**

World exports of agricultural products increased by almost 6 per cent to US\$ 1,745 billion in 2013 following stagnation in 2012. The growth rate is three times higher than the world average for all goods (2 per cent in 2013). Exports of food increased more markedly (6 per cent) than exports of non-food agricultural products (3 per cent). Prices of food and agricultural raw materials remained fairly stable compared with the previous year. (WTO, International Trade Statistics, 2014). The global economy, including agriculture, is integrating rapidly through trade. At the same time, the exports of developing countries are becoming increasingly diversified, so that these countries are less dependent on agricultural exports than they were in the past. Moreover, developing countries are rapidly becoming their own best markets for agricultural products (State of food and agriculture, 2005).

Africa has turned from a net exporter of agricultural products to a net food importer. In 1980, agricultural trade was balanced with both exports and imports at about \$14 billion. In 2007, imports reached a record high of \$47 billion, yielding a deficit of around \$22 billion. By 2023, Africa's trade deficit in volume terms will increase to 44 million tonnes for wheat and 18 million tonnes for rice. Asia is expected to exhibit a trade deficit for all commodities except rice, vegetable oils and fish (Agriculture & Rural Development, 2014-1)

Mwega (2000) on 'aid effectiveness in Africa' further asserts that, under the Rome Agreement such as the EU states, performance of non-traditional exports is attributed to removal of restrictive trade policies by importing nations. FAO (2003) on 'state of World food insecurity' argues that Least Developed Countries (LDCs) may not import food grains, even though they are not available at competitive prices, due to their limited foreign exchange reserves, poor supply chain network, political instabilities, import quotas and other trade restrictive measures. Likewise, LDCs repeatedly have a tight fiscal budget. This worsens in cases where the international food prices are uncertain.

The past four decades have also seen major changes in geographical patterns of agricultural trade. An increasing share of global agricultural exports originates from developed countries. The European Union (EU) countries account for most of this growth; their share of total agricultural exports has increased from slightly more than 20 percent in the early 1960s to more than 40 percent today. A large portion of this increase is accounted for by intra-EU trade, which represents around 30 percent of world agricultural trade (State of food and agriculture, 2005).

The role of agricultural trade in the overall trade patterns has changed in both developed and developing countries. Over the past four decades, the developing countries have seen a major decline in the share of agricultural exports in their total merchandise exports, together with a slower decline in the share of agriculture in their total imports. They have moved from a positive net agricultural trade position, with exports exceeding imports by a significant proportion, to a situation in which agricultural imports and exports have been roughly balanced in recent years (State of food and agriculture, 2005).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter explains the methodology that will be used to carry out the study on strategies that can be used by the Horticultural Crops Directorate to increase exports. It includes the research design, population, data collection method and instruments and data analysis.

### **3.2 Research Design**

The study employed a case study as its research design. According to Cooper, and Schindler (2006) a case study is a powerful research methodology that combines individual and (sometimes) group interviews with record analysis and observation. It is used to understand events and their ramifications and processes. Mugenda, and Mugenda (1999) describe a case study as an in-depth investigation of an individual, group, institution or phenomenon. A case study approach is suitable to determine the factors that make a particular strategy favourable for the organisation under study.

### **3.3 Data collection**

Primary data was used in the research. The data was collected using an interview guide. According to Cooper, and Schindler (2006) an interview guide is a list of topics to be discussed in an unstructured interview. Mugenda and Mugenda (1999) describe an interview guide as a set of questions that the interviewer asks when interviewing the respondents. We interviewed 6 managers of the Horticultural Crops Directorate in the General Marketing Manager, Technical and Advisory Services Manager, Compliance Managers and Production Managers. It was felt that these managers would be better placed to know what export strategies the HCD employed.



### **3.4 Data Analysis**

Data collected was analyzed using content analysis because the study solicited for data that is qualitative in nature, and given that it a case study where respondents are drawn from a single organization. Mugenda & Mugenda (1999) describes content analysis as the systematic qualitative description of the objects or materials of the study. In other words content analysis involves observation and detailed description of objects, items, or things that comprise the sample. The main purpose of content analysis is to study existing documents in order to determine factors that explain a specific phenomenon.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

The objective of the study was to identify the strategies used by HCD to increase their horticultural exports from Kenya. To achieve the stated research objective, primary data was collected by the researcher through the conduct of personal interviews with a total of 6 members of the HCD management team which included the General Marketing Manager, Technical and Advisory Services Manager, Compliance Managers and Production Managers.

To capture the required information, the data was recorded by documenting the responses as provided by the respondents during the interviews, after which it was analyzed using content analysis. This chapter presents the data analysis, results and discussions as pertaining to the collected data.

### **4.2 Firm Characteristics**

In this section key respondent opinions throughout the interviews were taken into account. The researcher sought to know the level of education the respondents had attained and the number of years they had worked in HCD. According to the respondents, all of them had at least a University degree and had worked for a minimum of three years. The researcher found out that the respondents were well versed with the operations of the firm, reason being that they are the managers responsible for various departments within the firm and are well aware of strategies that were being implemented by the firm to increase exports from Kenya. The respondents described The Horticultural Crops Directorate (HCD) which was formerly known as Horticultural Crops Development Authority ('HCDA') as being established under the Agriculture Act, Chapter 318 of the Laws of Kenya, through Legal Notice No. 229 of 1967. In 2013, the Agriculture, Fisheries and Food Authority (AFFA) a state corporation was

established through an Act of parliament. The Act consolidated the laws on the regulation and promotion of agriculture and made provision for the respective roles of the national and county governments in agriculture and related matters, in line with the provisions of the Fourth Schedule of the constitution of Kenya. The Authority is a successor of former regulatory institutions in the sector that were merged into Directorates under the Authority, with the commencement of the Agriculture, Fisheries and Food Authority Act, 2013 and the Crops Act, 2013, including, Coffee Board of Kenya, Kenya Sugar Board, Tea Board of Kenya, Coconut Development Authority, Sisal Board of Kenya, Pyrethrum Board of Kenya and Horticultural Crops Development Authority.

As an Authority that began its operations in 1967 its operations have grown, with horticultural crops currently contributing 10% in Kenya's GDP. The export figures have grown over the years with total horticultural production of 8.4 metric tonnes in 2014 and total exporting figures of KES 83 Billion in 2014. HCD's primary mandate is to facilitate and regulate the export of horticultural produce in Kenya. HCD facilitates the sale of fruits, vegetables and flowers to its main markets in Europe, UK, Middle East, Regionally to Uganda and Tanzania and also creates liaisons with prospective exporting countries. The respondents indicated that HCD's primary strategy to increase horticultural production was through the use of diplomacy between Kenya and other exporting countries. They felt that through diplomacy, Kenya is able to forge partnerships and relations that make it quick and easy for our horticultural crops to penetrate the horticultural industry abroad.

### **4.3 Description of Strategies**

The objective of this study was to identify the strategies used by HCD to increase their horticultural exports from Kenya. To achieve this objective, respondents were asked to provide a description of the organization's stakeholder engagement strategies. From the interviews conducted, HCD has endeavored to adopt various strategies that have successfully enabled them to regulate the horticulture industry as well as increase Kenya's horticultural exports to the international markets. When asked about the export growth in Kenya, the respondents gave positive feedback whereby most of them believed that the impact of the firm in the export of horticultural products in Kenya was consistently growing. The findings and discussions that follow focus on the strategies adopted by the Horticultural Crops Directorate.

#### **4.3.1 Use of Commercial Diplomacy**

Respondents indicated that with an aim to increase the export of horticultural produce from Kenya, one of HCD's strategies involves the employment of commercial diplomacy. Whereby, state representatives with diplomatic status are used to promote business between Kenya and a host country with an aim of encouraging business development through a series of business promotion and facilitation activities. The spectrum of actors in conducting commercial diplomacy range from: (i) high-policy level (head of state or a minister) and (ii) ambassador and the lower level of specialized diplomatic envoy.

Commercial diplomats located abroad undertake business facilitation activities in the field of trade and investment marketing Kenya's stellar products in the field of agriculture. These Commercial attaches forge relationships and encourage trade and business promotion within the country. It is due to such commercial diplomacies that the UK remains one of Kenya's leading exporters of vegetables and flowers.

### **4.3.2 Promotional Activities**

HCD has recognized the importance of creating a platform whereby Kenya is marketed as a world player in the export of horticultural products while linking the buyers and sellers of horticultural crops. HCD takes part in promotional activities both locally and internationally. Since 2012, HCD has organized and conducted a horticultural exhibition in Kenya, where its main participants are horticultural industry stakeholders, international exporting firms and exporting governments. This exhibition provides an opportunity for stakeholders to market themselves to potential exporting firms and also plays a part in the promotion of horticultural export. In addition, HCD attends various horticultural exhibitions all over the world with an aim of exhibiting Kenya as a horticultural hub. In the recent past, Kenya had attended exhibitions in Europe, Dubai and in Asia. By attending these international exhibitions, Kenya is able to gain knowledge on new horticultural produce, marketing standards and techniques. Information that they further disseminate to their stakeholders through trainings and workshops.

### **4.3.3 Applying Market Standards**

Respondents indicated that HCD recognizes the importance of emphasizing to horticultural firms the importance of upholding high and consistent product quality, especially due to the stringent standards set by the European markets. One of the most important reasons why horticultural products lose part of their value is due to lack of product quality. This is mostly caused by not fully taking the logistical and cool chain requirements into account. HCD has adopted a strategy of consistently emphasizing and testing for horticultural product quality by liaising with other agricultural boards such as KEPHIS, PCPB and KALRO to ensure that chemical, pest and disease requirements stipulated by international markets are adhered to.

Before exporting, firms have to undergo stringent quality control checks thus ensuring that all agricultural systems are excellent. Due to the careful planning procedures used to certify exporting firms, HCD is able to facilitate a large volume of horticultural exports which respond to market demands. Superior quality is ensured through optimal produce grading, excellent post-harvest management and use of coolers with the newest technology to preserve products in the best conditions.

#### **4.3.4 Capacity Building of Stakeholders**

As part of its strategy, HCD conducts capacity building of various exporting firms so as to empower its stakeholders with techniques, knowledge and skills that they can employ while growing their produce and engaging international exporting firms respectively. To reliably produce high quality horticultural produce in consistent quantities requires optimum production management and use of modern, cost cutting techniques. More so by encouraging the use of modern cost effective technology, results in a decrease in the cost of production enabling Kenyan exporters to price their horticultural produce competitively. Production management strategies for implementation and training of personnel are different for different types of production operations. For each of these types of production operations, dissemination of pertinent information is needed to manage production. Therefore, a key factor to realizing production opportunities is education. Thus to ensure continued product quality, HCD has undertaken to raise awareness of the importance of best production practices and quality control within the exporting firms through regular seminars held once or twice in a year for its key exporting firms.

In addition, customer engagement is key in attracting and sustaining an increase in exports. As such, to ensure that these exporting firms are fostering and successfully nurturing such a relationship, HCD has undertaken to conduct seminars whereby, exporting firms are trained and equipped with soft skills that they can ultimately use to attract and such relationships.

#### **4.3.5 Encouraging Horticultural Export as a Business**

HCD with the help of the government has launched various campaigns to encourage Kenyans and farmers as a whole to take up horticultural farming this being a core part of the agriculture industry in Kenya, which has experienced growth of about 15% each year. More so, the importance of growing horticultural produce is encouraged due to it being a key export earner for the country with the economic benefits being felt all over the country. In the past, horticultural produce was grown mainly in Nairobi and its environs but due to HCD's marketing activities, horticultural produce is now being grown all over the country. A few years ago, only farmers who were able to adapt the greenhouse technology, which is very expensive, undertook horticultural farming. However, due to various awareness campaigns conducted by HCD the public is now aware of technologies such as drip irrigation, which are inexpensive in undertaking horticultural farming. This has led to an increase in horticultural farming all over the country. In addition to encouraging horticultural export, HCD has raised awareness to the masses on the health benefits of consuming vegetables and fruits which were in the past only for export. As a result, in 2014, horticultural consumption locally was at an all time high of KES 217. This has led to horticulture farming not only being viewed as a viable business for export but also for local consumption.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the findings, conclusions and recommendations the researcher has drawn, as well as, ideas for further research.

### **5.2 Summary of findings**

Generally HCD, is a directorate that has been set up under the Agriculture, Fisheries and Food Authority Act, 2013 and the Crops Act, 2013 with over 48 years of horticultural export regulation. With regards to the strategies adopted by HCD to increase exports in the study, several findings can be summarized. The findings of the study indicated that the most frequently used export strategies employed by HCD include the employment of commercial diplomacy, organizing and attending promotional activities both locally and internationally, applying market quality standards, capacity building of industry stakeholders and encouraging horticultural farming in Kenya.

Overall, reliance on commercial diplomacy as a method to increase horticultural export is most relied upon strategy by HCD. Encouraging horticultural farming has also been key to increasing the export of agriculture by encouraging Kenyan farmers to use the naturally available resources of geographic location and great climatic weather to undertake horticulture. Most respondents were well aware of the current strategies that were being employed by HCD but stated that HCD should look to creating a centralized information center preferably using digital media where exporters could easily link with horticultural suppliers.



### **5.3 Conclusion of the study**

According to the factor endowments theory, the pattern of specialization and trade depends on relative costs; therefore cost of production is an important determinant of export growth. Countries that produce at lower costs will sell cheaper than economies where cost of production is high. Overall, cost of production forms a key basis of the horticultural export industry performance hence cannot be underrated or ignored. The environment is very dynamic and the strategies that give exporters an advantage today may be irrelevant tomorrow hence the need for constant changes. This advantage will only be generated by strategies that are not easily copied by the competition. Through the study it was clear that the use of commercial diplomacy, applying market standards and a focus on the capacity building of industry stakeholders were deemed to be the most effective strategies in increasing the export of horticultural produce in Kenya.

The researcher established that although HCD was making great strides towards increasing the export of horticultural produce in Kenya, the public do not seem well aware of their existence as the authority directly deals with horticultural stakeholders only. In addition, due to dissemination of some of its tasks such as pest and disease control, to other statutory bodies not necessarily focused in the horticultural industry, there were cases of different information being provided to industry stakeholders. It can be concluded that HCD should market itself more to the Kenyan public through the digital platform to create awareness of their existence to the common citizen so as drive further up the farming of horticultural crops. In addition, HCD should look into performing joint activities with other statutory bodies and industry players to ensure that they are sending out the same message to the horticultural exporters to avoid cases where produce that does not meet export country's is produced and subsequently rejected in the international market.

#### **5.4 Limitations of the study**

The accuracy of the study was limited to the extent to which the respondents were honest in responding to questions. Given the sensitive nature of data collected, there may have been likelihood of answering questions in a certain way so as to avoid giving away crucial and confidential strategic secrets. This was despite the assurance that the information would be kept confidential. In addition, due to the limiting scope of the project, horticultural industry stakeholders whom HCD closely works with could not verify the responses received on the effectiveness of the strategies employed by HCD.

Major conceptual gaps in the current study are attributed to the fact that the study could not establish empirically the statistical relationship between the choice of a strategy and the financial performance of the horticultural export industry.

#### **5.5 Recommendations**

Based on the findings of the survey, it is important that in addition to marketing our horticultural produce, that HCD provide stakeholders with information on effective pricing of horticultural crops as it is important to be fairly priced in order to attract continued business given the strong competition. Through the study it was noted that emerging horticultural exporters especially Morocco and Egypt are pricing their crops competitively due to the cheaper freight costs to the European markets given that they are closer to Europe. Most of the managers stressed the importance of the government brokering a deal with freight companies to reduce transport costs ultimately enabling horticultural exports to be priced competitively.

Overall, HCD did not have a strategy where they worked closely with various ministries such as the Ministry of Trade and Agriculture that could be useful in the development of policy and interventions in the horticultural industry. More so, HCD should work closely with the Ministry of Trade to see how they can work together to reduce trade barriers with emerging horticultural markets that Kenya is yet to tap into such as Asia and the Middle East. In addition, the HCD needs to look at areas of cooperation with the industry stakeholders with an aim of spearheading policies to further facilitate competitiveness of the industry. Other countries mainly in the African, Caribbean and Pacific zones are continually becoming stronger competitors for the same markets.

#### **5.6 Suggestion for Further Research**

The researcher recommends that a replicate study be done on other horticultural directorates or authorities in other countries so as to find out what other strategies are being adopted to increase the export of horticultural crops. The researcher further recommends that another area of study would be to determine the challenges the HCD is facing in implementing its strategies. A swot analysis would also be conducted to determine the strengths, weakness, opportunities and threats that HCD is faced with.

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## **APPENDICES**

### **Appendix I: Letter of Introduction**

October 2015  
Head of the Directorate  
Horticultural Crops Directorate  
P.O Box 37962  
00200  
Nairobi  
Kenya

Dear Sir,

#### **RE: Request for Research Data at the Horticultural Crops Directorate**

I am a student at the University of Nairobi pursuing a Masters of Business Administration program. I am conducting a research project in partial fulfillment of the requirement for the degree of Master of Business Administration. My topic of study is “ Strategies that are used by the Horticultural Crops Directorate in Kenya to Increase Exports.”

I kindly seek your authority to conduct interviews in your organization with your key staff to gather the required data. This information will be treated in strict confidence and will be used purely for academic purposes and your name will not be mentioned in the report. Findings of the study, shall upon request, be avail to you. Your co-operation will be highly appreciated.

Yours faithfully,

Lillian W. Mwai  
MBA Student

## **Appendix II: Interview Guide**

### **Goals of the Interview process**

The objective of the study is to identify strategies that are used by the Horticultural Crops Directorate (HCD) to increase exports.

### **Introduction**

1. Position of Respondent:
2. Your department:
3. Level of education:
4. Number of years worked in the firm:

### **Section A: General Information**

1. Name and location of the organisation \_\_\_\_\_ Established in:  
\_\_\_\_\_
2. Size (Number of employees, Number of firms registered with HCD, Names of countries we export to)
3. Primary services of the firm
4. Secondary services of the firm
5. Firm's relevant geographic market for primary and secondary lines
6. Firm's share of market in primary and secondary lines:
7. State the core and adjunct activities of the business
8. How would you describe the company in 1 – 2 lines?
9. Any additional information relevant in describing the business and its market

### **Section B: Identify export strategies pursued by HCD**

1. Which are the major export countries for Kenya?
2. Which horticultural organisation does your maximum export output come from?
3. Do you think scope for export to the international markets has increased over the last 10 years?
  - a) Yes
  - b) No
4. If yes above, what export strategies has the firm used to increase the exports to the international markets?

5. Identify where the long-term profit and strategic potentials exists for the horticulture industry?
6. What is the government doing to promote the horticulture industry?

## **CONCLUSION**

1. What overall plan of action does the firm have for sustaining increased horticultural exports to the international markets, and for seizing export strategic potentials?
2. What are your suggestions and ideas for firms' intent on entering the international cut flower industry?