

**RELATIONSHIP BETWEEN VALUE ADDITION STRATEGIES  
AND PERFORMANCE OF KENYA TEA DEVELOPMENT AGENCY  
MANAGED FACTORIES IN MERU COUNTY**

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**DECLARATION**

This research project is my original work and has not been submitted for a degree in this or any other University.

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This research project has been submitted for Examination with my approval as the University Lecturer.

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## **DEDICATION**

I dedicate this project to my adoring family-my wife Margaret and children Daisy, Jesse and Tracy for their unfailing love and encouragement.

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## **ABBREVIATION AND ACRONYMS**

RBV - Resource-Based View

KTDA - Kenya Tea Development Agency Limited



## ABSTRACT

Fierce competition is the hallmark of today's global economy. In such an environment, Agricultural producers cannot afford to merely produce primary agri-based products and hope to get any decent returns from the market without being pushed out by the competition. 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. Firms can diversify into value added production so as to infuse more value into the product supply chain. The objective of the study was to determine the relationship between value addition strategies and performance of Kenya Tea Development Agency Managed Factories in Meru County. The research adopted a descriptive research design and used primary data which was collected through a self-administered questionnaire. The data collected was analyzed by the use of mean and standard deviations while presentation was done using tables, and percentages. The study found out that branding of tea delivered to these factories being undertaken and it enabled the factories to create a distinctive image thus differentiating their commodity products. The study also found that blending was way in which the factories could add value to the tea, which could enable the tea factories to come up with better tasting tea created through a well-balanced flavor using different tea grades, seasonal productions and characters. It also allowed for changes in tea leaf quality and seasonal differences to be smoothed out. Further, the study established that through value addition strategies, the factories can differentiate themselves from other factories and organizations by producing and providing superior or premium quality goods. Tea flavoring imparts attractive taste and aroma to the tea thus maintains the sensory attributes of the tea a long period of time thus extending the shelf life and keeping quality of the tea and hence the factory's product is differentiated on this aspect. The KTDA factories in Meru County have however not engaged in any considerable tea flavoring undertaking. In conclusion, the study found that value addition has been undertaken by the factories and the multinational companies in order to increase the value of the produced tea and also be competitive in the market. Consequently, the study recommends that the government should put in place policies that ensures that all the factories managed by KTDA adds value to the tea produced by the small scale farmers so that there is higher returns to the farmers.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The global economy being a fiercely competitive one than ever before, no agricultural based producer can afford to rely singularly on primary commodity production and anticipate good returns. Humphrey and Schmitz (2011) note that as a way of mitigating the dwindling net farm income in such an environment, engagement in value addition activities is being prescribed as a solution to ensure survival. This may however be a solution only to the already existing firms to increase their net incomes. For new enterprises, which are always risky to start, a careful analysis must be done so as to pick out the option for a given producer (Stanton, 2010). Presently, there is rapid growth in the global tea market with new customer requirements. Value-added tea products fetch superior prices compared to bulk tea in the global tea market. Hence to remain competitive in the world tea market, increasing the proportion of value added tea is a key requirement. This would also enhance the share of contribution to the national economy by the tea industry (Matthyssens & Vandenbempt, 2008).

Resource-Based View (RBV) theory opines that firms create value by bringing together physical and none physical resources. How valuable one resource is may be dependent on the presence of other resources that are typically used in combination and one of them may not have much value without the other (Mohd, 2009). RBV theory attempts to differentiate between three types of capital resources: physical, human and organizational capital resources. One of the physical capital resources is information technology, which mirrors and supports the structure of a firm. Information technology also defines a firm's

information technology systems also define the relationships that exists between firms which involves sharing of information on digital platforms as well as systems integration between organizations. Firms are said to create value if they surpass the ability of their rivals in providing desired solutions to address the myriad needs of their customers and at the same time maintaining their fiscal achievements and thus improving the wealth of the shareholders. (Morrow, Sirmon & Holcomb, 2010). As such, managers are expected to make good choices when identifying the main resources that will create value in their organizations such as technology, strategic planning as well as linking with the right markets so as to create value to the organization.

The tea industry in Meru County has been of vital importance to the county residents. The competitive advantage of Kenya's agricultural produce in the global market is influenced by value addition. 91% of all Kenya's agriculture related exports are in semi processed form which fetches equally low value returns. The tea factories in Meru County have a limited ability to value add tea. Production costs are also very high and these factors make their tea products exported by Meru County uncompetitive in the global market. and hence the need to value add tea in order to increase income to the farmers, reduce wastage that is occurring in the value chain and make Kenyan tea products competitive in the market.

### **1.1.1 Value Addition Strategy**

A strategy is the way an organization relates its resources and skills with the available opportunities against the risks it encounters and the objectives it sets out to achieve (Linn, 2007). Strategy therefore serves to provide guidance to the organization in a manner that enables it to achieve its set objectives by taking advantage of the opportunities and

avoiding threats in the environment. For agriculture commodities, value addition refers to the processes of changing the raw agricultural commodities that are ready for consumers to use. This can be achieved through further secondary processing, packaging, or marketing, which increases the value of raw agriculture products (Humphrey & Schmitz, 2011). Value addition is the process of positively changing the economic value and economic attractiveness of a commodity. Value is added by altering the commodity's appearance, form, color, taste and other such methods to elongate the keeping life of perishable agricultural products (Anderson & Hall, 2013).

Value addition is usually done initially by primary production procedures. Various value addition strategies are used in the tea industry, among them include: Packing, where tea is put into bags in many forms. Normally this by breaking bulk, where tea is put in smaller packs as opposed to bulk packing. One of the best indicators of good quality during bulk breaking and packing is packaging, which must help to communicate the expectations quality of the product, and not just the text promises, to the customer (TBK, 2014) Sophistication, value and class are best communicated by value packaging. It is an easy to use strategy for putting across a premium product position and a good option to use to upgrade a product or revitalize a brand. Classy packaging makes an excellent choice for gifts as well. Blending of tea refers to the art of mixing together a variety of teas in different proportions with the objective of creating an optimally balanced quality product that is not possible to achieve from the primary processing. The primary ingredients could be differentiated by origin, season and manufacture styles all of which in turn influence the quality character of the final product. The main reason for blending is to allow the combination of the different attributes of different teas into one product. This

therefore allows the blender to smooth out seasonal and other variances in the tea. The most important thing to guard is that once a blend has been formulated, it should remain stable in its character and not vary from one time to another (Amarakoon, 2012).

Tea flavoring as a strategy is the process of introducing new or altering the taste and aroma of tea after primary processing. There are many ways of flavoring tea, but the most common ones are through the use of either herbs, berries, fruits or spices which could be in their natural form or in processed state. Essential oils and extracts are used. Different combinations of ingredients can also be used to formulate a flavor. Banana and green mango extracts are for instance, combined to make an apple flavor (Modder & Amarakoon, 2012). A brand refers to a unique name, symbol, statement or tagline that evokes a certain identity for a product in the mind of the customer. A brand name proposes a value to the customer. Tea branding strategy therefore is the attempt to create a unique and differentiated image by use of either a logo, name tagline or all of these so to create a presence and impact in the mind of the customer so as to attract their interest in the product and retain them. Effective branding has the impact of sustaining market share which is as a result of its influence on customer loyalty. The perceived value of the brand attracts such a consumer loyalty that readily accepts a premium (Pathania-Jain, 2011).

### **1.1.2 Organizational Performance**

The ability and extent to which an organization succeeds its own needs to remain as a going concern and the needs of its stakeholders is referred to as organizational performance (Griffin, 2013). It has also been described the totality of goods and services that are end result or productive output of a firms system (2010). This can therefore be

categorized into three, thus (i) Profit which is financial performance, and usually the key focus of private of the private sector firms, (ii) Productivity, describing internal non-financial performance and (iii) Customer satisfaction which describes the external non-financial performance. Organizations in the public sector will strive more at achieving at non-financial objectives such as good public service delivery to the public. Good performance can only be achieved through proper use of the resources available to the organization. One of the key assets that are used for this purpose is the human capital or the employees of the organization. Employees must be treated with consideration and attention so that they become motivated and productive. A number of indicators are used to measure organizational performance and one of the most common is the balanced score card which offers both qualitative and quantitative measures of performance in a manner that captures the expectations of the varied stake holders and at the same time helps in assessing the score in the strategic choice. By so doing, there is a linkage of both short term outputs and process management (Johnson *et al.*, 2006).

The strategic choices of any organization affects its performance. Organizational performance may also mean different things depending on focus and who is interested in the measurement. Richard *et al.*, (2009) opines that three key areas of an organizations outcomes are the key focus of organizational performance. These are, one, financial performance which is measured by the profits, return on assets and return on investment. Two is product market performance expressed by the sales and market share and the third one is shareholder return in terms of total return to the shareholder and the added economic value. Financial measures are commonly used to express organizational performance. Thompson *et al.*, (2007) argues that there is an inherent risk in using

financial measures alone as they overlook other nonfinancial but critical components that are key thrust in enabling the company achieve its strategic objective (Thompson *et al.*, 2007). These non-financial measures include but not limited to innovativeness and market standing (Griffin, 2013).

### **1.1.3 Kenya Tea Development Agency (KTDA) Managed Factories in Kenya**

The Companies Act incorporated KTDA in 2000. It is an independent, private enterprise and its ownership is by the small scale tea growers in the country through corporate shareholding via their respective tea factory companies, which are by themselves independent legal entities. As per Tea Board of Kenya (TBK) (2011) KTDA manages 65 tea factories in the smallholder subsector. Over 560,000 small scale tea farmers cultivate over 115,000 hectares of tea. Small scale tea growing in Kenya is spread in 16 counties. These are broadly categorized into two depending on their location relative to the Rift Valley, hence in the East of Rift we have Meru, Kiambu, Murang'a, Nyeri, Kirinyaga, Embu, Tharaka-Nithi while in the West of the Rift there is Kericho, Bomet, Nakuru, Kisii, Nyamira, Nandi, Kakamega, Vihiga and Trans Nzoia. For effective and efficient management, KTDA has divided these tea growing counties into seven regions. Each region is further subdivided into zones, and there are twelve KTDA Zones in total. The tea farmers at each factory elect a board of directors to formulate policy guidelines for the factory company. From each zone, the factory directors elect one of them who represents farmers' interest at the helm of KTDA Ltd Board. The elected board members at both levels are non-executive.

Although KTDA is owned indirectly by farmers through their factories, the factories have in turn appointed KTDA as a managing agent to run the day to day affairs of the factories on their behalf. This has been effected through a management agreement between KTDA and each of the tea factory companies. The factories pay KTDA 2.5 percent of the proceeds of total sales as a management fee (TBK, 2010).

Kenya is the single largest exporter of black CTC (cut, tear and curl) teas and it accounts for over 20% of the global teas. Over 95% of the Kenyan tea is exported and about 5% is locally consumed. The majority of the Kenyan teas production is marketed through Mombasa auction, with Pakistan, United Kingdom (UK), Egypt, Afghanistan and Sudan being the biggest buyers (TBK, 2014). Value addition is a key challenge area of focus of the Kenyan tea sector including KTDA teas because of increasing competition worldwide and entrants of substitute products into the market. Other challenges facing tea industry in Kenya which have impacted on the operations of the tea sector players include vagaries of weather, increased cost of production (fuel, electricity & fertilizer costs) and reduction of small-scale holder farm sizes. KTDA Ltd is an umbrella organization managing the operations of the 67 small holder Tea factory companies spread all over tea growing regions in Kenya. The company is managed by a board of directors made of a representative from each of the twelve zones that represent the tea growing regions of Kenya. Each zone has a collection of Factories. A factory has six (6) directors that are elected by respective tea farmers. The elected directors make policies and oversee the operations of these factories on behalf of the farmers. Each factory company also has at least six (6) members of management staff seconded by K.T.D.A Ltd, who run and manages the operations of their respective factories. The elected directors meet at the



zonal level to elect a board member to KTDA Ltd. All KTDA factories are managed in a similar business model. The company has a responsibility of buying tea leaves from small scale farmers, processing of the tea and ensuring the same is market appropriately (KTDA, 2014).

Kenya Tea Development Agency (KTDA) Ltd impacts in quite a big way, the livelihoods of many Kenyans. Over 560,000 tea farmers spread across the rural Kenyan landscape sell green leaf to the 65 tea factories that KTDA manages, and each farmer receives an initial payment of the green leaf delivered every month! Beyond the farmers, the supply chain has more than 10,000 people who have direct employment in the small scale tea sector managed by KTDA and these impact indirectly on over four million people who rely on tea. Locally, KTDA and its managed factories employ the services of many transporters, tens of broking houses, warehousemen as well as thousands of small and large scale business organizations supplying plant and machinery, vehicle and machinery, spare parts, fuel and other operational and maintenance services. Globally, tea machinery and plant is imported from various countries but mostly India and Sri Lanka. It is also notable that among the many of Kenya's export crops, tea is one of those crops that have maintained an upward trend in production and export earnings (Nguyen, 2009). However the tea Kenya tea industry has had to contend with high costs of production, adverse weather conditions and erratic global tea prices that threaten its survival. There is need for immediate interventions to manage the vices. The key challenges have been the ever rising cost of production fuelled mainly by expensive labour and energy.

Suffice it to say therefore that KTDA is a premier tea managing agent, whose mission is to provide effective management services in the production, processing as marketing of high quality tea to the small scale holder tea sector (TBK, 2010). KTDA aspires to the leader in management and marketing of high quality tea products world over, with a promise to offer effectiveness in managing the small scale tea sector ensuring efficiency in the production, processing and marketing of high quality teas and investing in related profitable ventures in a coordinated manner to realize maximum benefit for all stakeholders in the value chain.

#### **1.1.4 Kenya Tea Development Agency (KTDA) Managed Factories in Meru County**

There are Seven (7) small scale tea farmers' factory companies managed by KTDA in Meru County, namely Kiegoi and Igembe (one company), Michimikuru, Githongo, Imenti, Kionyo, Kinoro and Weru Tea factories. Weru Tea Factory is actually in Tharaka-Nithi but in terms of KTDA administration, it is considered to be in Meru County. As such, these factories in Meru make KTDA Zone 4 and also KTDA Region 4.

In this region, just like in other tea growing regions, the net returns for the tea factories in the last seven years have remained so low that farmers are now shifting their focus to other crops for survival. Many small-scale tea farmers are slowly substituting tea farming with other agricultural practices such as banana, fish and livestock farming. All the small-scale tea farmers are shareholders of KTDA Factories and therefore, when such factories report low profits, the farmers also get low returns. The pressure of reduced earnings from tea pushes KTDA to look alternatives to increasing returns to the farmer. The farmers get part payments (interim dividends) on monthly basis after the KTDA sells the tea produce.

## **1.2 Research Problem**

To gain competitive advantage organizations carry out activities that add value to their services and or products that they offer. These activities must be undertaken optimally for this to happen. Offering greater value to customers is the only way through which a business can hope to gain or even retain a bigger market share over the competition. The options available to achieve this are narrowed down to either lowering the price of the products or services; giving additional benefits or offering exceptional service. (Marco and Castle, 2011). 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 branching out into value-adding operations. 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 (Kedere, 2011).

Agriculture plays a crucial role in the aggregate progress of, not only the Kenyan economy but that of sub-Saharan Africa in general. In Kenya, agriculture is recognized as one of the pillars necessary to support economic recovery. Tea factories in Meru County are faced by many threats and opportunities emanating from both local and global business environment. They experience high degree of competition from other advanced

world tea producing countries as well as local competition. The limited uptake of value addition to tea coupled with high costs of production makes Kenyan agricultural exports disadvantaged in the global markets. The KTDA managed factories in Meru County recognizes that their competitiveness in the local and international market can only be found in the export of their agricultural products and therefore they have to target to increase their capacity for value addition of these products. To achieve this, the tea factories in the County need to first and foremost enhance the quality of their products and brand them for premium markets. Increasing the proportion of value added products in the product portfolio would substantially increase their returns.

International studies undertaken on value addition include Mapiye, Chimonyo and Muchenje (2011) studied the Nguni cattle as reared in the communal rural areas of South Africa. Their focus was to find out whether Nguni cattle products could be value added. They found out that in order to increase value addition in the rural areas, there is need to provide the right kind of incentives to encourage agro-processing industries to be set up and promote of partnerships between communal farmers and agribusiness. Lundy, Ostertag and Best (2012) study on value adding, agro-enterprise and poverty reduction established that farmers in Peru, through differentiation and group participation managed to achieve 20% more in prices for black pepper.

Local studies that have been undertaken on value addition include Mbithier (2012) study on factors influencing mango value addition in Kenya in Makueni County. The study found out that although mango farmers in Makueni growing them for export, most of them had no basic knowledge of how to value add the Mango fruit. The study also found that the extension services from government was not accessed by most of the farmers and

the farmers lacked organization into groups that could aide them pursue value addition more sensibly. The study also established that the mango farmers in Makueni lacked financial education, facilities and opportunities and this hindered their mango value addition effort. Otieno (2013) studied the impact of value addition efforts on retail prices of peanut in retail supermarkets in Nairobi, Kenya. The study found out that in the value addition spectrum of peanuts, there existed eight different levels with prices differing to a significant extent across spectrum. Product packaging, brand and product weight significantly influenced peanut product prices. Of significant impact on the price was the packaging, the brand and product weight. After reviewing the studies that have been undertaken on value addition strategies, there is no known study that has been undertaken on the relationship between value addition strategies and performance of Kenya Tea Development Agency managed factories in Meru County and thus the study would fill the gap by answering the question; what is the relationship between value addition strategies and performance of Kenya Tea Development Agency managed factories in Meru County?

### **1.3 Research Objective**

The objective of the study was to determine the relationship between value addition strategies and performance of Kenya Tea Development Agency managed factories in Meru County

### **1.4 Value of the Study**

This study will help Kenya Tea Development Agency managed factories in Meru County in assessing the effectiveness of tea value addition and make recommendations on the value addition strategies which have worked and which should be strengthened and those which should be changed or abandoned altogether. Other tea factories would gain from

the findings of the study for they will know the value addition strategies that would enable them to improve their performance. Information gathered and the recommendations that will be made out of the study will help to inform the creation of a more complete and efficient chain and hopefully enhance economic as well as social benefits of the tea industry to the country.

Information generated by the study will guide the policy making process in line with the achievement of vision 2030, which seeks to enable the transition of small scale farms into commercially oriented and modern production units. This will facilitate increased market access through value addition bulk products. This can be done through processing then, packaging and branding of the bulk agricultural commodities.

The policy makers will obtain knowledge of the tea industry dynamics and the influence of value addition on the performance of tea factories and therefore they can get information from this study to help them to design the right policies for industry regulation. Other researchers and scholars wishing to undertake further studies in this area will also get background information from this study. It will enable the identification of gaps in current research by individuals who wish to carry out research to fill those gaps. Students who want to study this area will use it as a complement to their studies to be able to draw conclusive arguments with regard to strategies for value addition.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical framework, value addition strategies, value addition strategies and performance.

#### **2.2 Theories Underpinning the Study**

The debates on the value addition concept can be discussed on the basis of three theories namely competitive advantage theory, resource based theory and value chain theory.

##### **2.2.1 Competitive Advantage Theory**

An organization is said to have a competitive advantage over its counterparts when it develops or possess a set of characteristics or it puts into effect some actions that make it outperform the others. Grant (1991) opines that can organization must possess some resources which enable it to have certain capabilities and in turn, the capabilities become the source of competitive advantage. Amit and Shoemaker (2013) held a similar argument that it is the capabilities of a firm, and not its resources that enable a firm have a sustained competitive advantage over the rivals. Haas and Hansen (2005) upheld the same postulation.

It would be alright to equate successful organizational performance to effective creation of value for the 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 in the face of the variables shape industry competition. Alchian and Demsetz (2012) assert that an organization is the free

interaction of the productive factors which are of human, physical or capital nature so as to achieve a common shared goal of profit. Essentially therefore, the overall criteria for performance for any organization is value creation. As organizations continued to seek improvements in performance, it occurred to them that by having firms forge closer working relationships with their customers and suppliers, more improvements in performance and system design were realized. Out of this, the value chain concept was realized. By having closer strategic relationships with customers and suppliers a firm learns and adapts more successfully than if operating unilaterally.

### **2.2.2 Resource Based Theory**

According to this theory, it is the unique catalogue of a resources owned by the firm that confers to it a sustained competitive advantage (Barney, 2001). The resource-based view explains how entrepreneurs build their businesses resources and capabilities that they already have or are able to procure. It attempts to explain how firms internally develop sustained competitive advantage (Kraaijenbrink, Spender & Groen, 2010). The resource-based view is basically an identification of characteristics that resources owned by a firm ought to have so as to yield returns and stability (Sheehan & Foss, 2007).

The resource based view provides that the differences between one competitive market and another arises from variations in the characteristics of the resources and capabilities owned by the competitors in these markets (Scheepers, Houg & Bloom, 2008). The resource based theory proponents are of the position that the assets and resources owned or controlled by an organization could mitigate the differences in performance between organizations. Companies acquire resources and harness them into strengths and/or weaknesses which in turn determines their competitive advantage or lack of it. Resources



could either be tangible or intangible. According to the resource based view therefore, as concerns strategic management, the key source and driver to the competitive advantage and superior performance of a firm emanate from the attributes of the resources the firm controls which are inimitable (Mills, Platts & Bourne, 2013). Merely owning the resources does not confer a competitive advantage or creation of value. Organizations must successfully optimize their resource usage to develop inimitable capabilities to gain advantage and achieve value creation.

Firms create value if they are able to surpass their competitors capacity in providing the solutions sought after by customers, while at the same time sustaining or improving the wealth of their shareholders (Morrow, Sirmon & Holcomb, 2010). Thus, managers should identify key resources that will create value in their organizations such as technology, strategic planning as well as linking with the right markets so as to create value to the organization. In fact, Scheepers, Houg and Bloom (2008) who described a firm as “bundle of resources” the disposal of which between different uses and over time is determined by management decision making. Expectedly an organization controlling plenty of resources would have a greater influence on the value addition of their products. This theory is also relevant to the study as it explains the importance of the firm's resources and how pivotal a factor they and should be factored when implementing value addition strategies for export markets.

### **2.2.3 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 explains the value chain concept as an interdependent system or an interlinked network of activities, 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 a firm's competitive advantage.

The internal processes that a company puts in place to design products, produce them, carry out marketing activities and support the product is what is referred to a Value chain. The value chain of a firm is the reflection of the firm's past, the manner in which it implements strategy, and the true economics of activities themselves (Wal, 2010). In almost all industries and organizations today, the increasing level of global economy integration has presented the chance opportunity for greater performance and increased profitability. A firm's overall performance is the variance between the value offered to the customers and the cost outlay for creating that value. According to Agarwal and Barone (2005) value chain analysis helps firms assess performance in three areas; First, by identifying where their profitability comes from and having a clear view of what it takes to run their internal processes; Secondly, by identifying opportunities for creating and sustaining superior differentiated products and finally understanding the engagements that exist and associated costs among external clients.

## **2.3 Value Addition Strategies**

Agricultural products, especially originating from developing countries contributes significantly to job creation and export earnings. However, when sold in raw form, the prices of these products in the international market is low. Hence, different countries have adopted varying value addition strategies to increase the prices of their commodities. The following strategies that include branding, blending and packaging are implemented in an endeavor to enhance value of the products.

### **2.3.1 Branding Strategies**

Branding strategies identifies a producer's goods and services through names, design, graphics and other features of labeling, packaging, and advertising. Product identification reflects on and mirrors the producer's farm or processing location, the farm or company identity and history, as well as telling stories that help customers better understand the company and its products (Herath & De Silva, 2011). By building a unique identity for the producer, good branding strategy potentially adds value to the producer's entire product line, including innovative products that are unfamiliar to customers. Branding strategy involves significant thought and planning, including company and product names, logo, and the personality of text and imagery. It is costly and time consuming to change these once they have been established.

Bigliardi and Dormio (2012) noted that branding strategy of value added products should tie into the products strengths for a given markets. Thinking ahead from the outset to a diversified product line is wise. For a small company with limited resources, having a common identity across a product line seems to work best. In other words, a company's reputation can add value to future product offerings by association with a brand. How one

uses branding to differentiate a product from others depends upon the product strengths that are emphasized for a given market. Customers looking for organic produce are probably also concerned about non-bio degradable packaging, so it makes sense for an organic farm to package in biodegradable or easily recyclable materials (Lines, 2006).

Geographical origins of a product can also be used to differentiate agricultural commodity products. Geographical Indications (GI's) do provide with producers brand name equity. Geographical indications, unlike commodity products are protected against infringement. This protection commands premium prices for producers more so if there is perceived or real quality prevails especially if that difference is due to their unique geographical origin as opposed to differences in product variety (Agarwal & Barone, 2005). Sri Lanka has used geographical indication as a branding strategy based on elevation and administrative boundaries. These are based on seven differentiated regions which ride on the National Ceylon trademark which has also been registered as a geographical indication in addition to its initial registration as a Trademark (Ganewattaa et al., 2005).

### **2.3.2 Blending Strategy**

Present day consumer demand however has shifted towards specialty products and the markets have become more competitive with varieties of value added products (Luck & Prell, 2011). In view of this shifting demand in the global market, several innovative Sri Lankan firms have taken up the challenge and ventured into value added agricultural production and exports with the vision of winning the competitive edge through value addition and branding. Although single firm products are available, almost all agricultural products in bags exported to the West are blends. Single origin as well as multi origin

products can be blended. The purpose of blending is to achieve a better taste or a higher value or both. Agricultural products, such as coffee, are highly receptive of various aromas, a character that can be a challenge when processing and particularly when transporting or during storage. However on the other hand, it also affords for the design of a large range of flavored blends (Morrow, Sirmon & Holcomb, 2010).

Generally, agricultural products are have been exported to the more developed countries after only primary processing and the subsequent activities such as blending and packaged take place in those countries. Since blending is the most lucrative part of this process, it means that the largest share of profits ends up abroad (Lines, 2006). Although many producers have tried to value add their products before export, this is hindered to a large extent by lack of enough money that is required for the marketing, selling and distribution strategies abroad. Popular blended brands dominate these consumer markets. Over 70% of the UK market for example is made up of these blends (CBI). A blend can made up of to 36 different product types (TCC) blended in the consuming country. They are made to keep their taste constant. By continuing to export agricultural products in semi processed bulk form, a big chance for increased earnings from exports is lost by the developing countries. Sri Lanka is an exception though. The economy has been able to fetch more value from the tea supply chain producing and exporting value added tea. (Ceylon tea) (Lines, 2006).

### **2.3.3 Packaging Strategy**

Packaging refers to the design and production of a container or a wrapper for a product. Packaging plays an important role in determining the product. The value of a package that a product has defines the function that packaging services gives in achieving

production quality (Luck & Prell, 2011). Through packaging also, the uniqueness of a product is communicated. Packaging also helps in marketing the product. Sheehan and Foss (2007) noted that how a value-added product is packaged plays a key role in sales to different markets. The importance of quality in selling applies to the raw agricultural product, the processed products produced from it, and, equally important, the packaging. It does not matter if the package contents are far superior to competing versions, if the presentation or packaging is unattractive, inappropriate, or impractical, customers will fail to appreciate the added value.

The art of packaging involves beauty and functionality, while the science of packaging involves materials and chemistry (Amarakoon, 2012). Generally, for value added products, the artistic fullness of the packaging (and labeling) receives much greater emphasis than for mainstream products. The packaging must correspond to the real and perceived value of the product to the intended customer. Packaging cost can also be a large factor in choosing materials and portion size. For example, custom packaging can differentiate a product, but the value added to the product may be less than the custom manufactured packaging. Packaging, if well implemented enhances sales and market share and mitigates market and promotional costs.

For Sri Lanka, marketing of value added tea by local companies has been very difficult because multinational companies who buy the tea in bulk, semi -processed form at low prices then carry out secondary processes (blending, flavoring, branding and so on ) have been controlling the tea markets. These multinationals then sell the tea products at much higher prices and realize better value than the local primary producers. This is the case even in other tea producing countries Kenya included. In Sri Lanka however, the local tea

packaging industry has seen new growth and the entrance of new players who are now able to compete with the multinationals at the global level. (Humphrey and Schmitz, 2011). Sri Lanka companies such as Euro Scan Exports (Mlesna) and Ceylon Tea Services (Dilmah) and are effectively staking it out in the value added tea global market. A case in point is Dilmah, who is the preferred supplier to McDonalds, (who has presence in many countries of the world) in more than 18 countries. These include Australia, and Singapore Airlines, Emirates Airlines and Egypt Air (Fonseka, 2011).

#### **2.3.4 Flavoring Strategy**

The taste and favour of agricultural products is dictated by certain key chemical elements which are polyphenols, caffeine, organic acids and volatile terpenes (Borse, Rao, Nagalakshmi & Krishnamurthy, 2002). Tea, (and indeed other agricultural commodities), is popularly flavoured by using a variety of flavouring, natural and artificial agents such as spices and herbs in either liquid, granulates or powder forms. More often, when artificial flavours are used, these are strong enough to ensure that only small amounts are used to safeguard the health of tea drinkers.

Luck and Prell (2011) noted that proprietary technology can be used to apply spray dried flavors to tea leaves and coating them. To protect the flavor, elongate the lifetime of the sensory profile over a very long period of time and extends shelf life of the product, double coating is done. Besides flavoring and coating, customization of particle size can also be done to make them more dispersible. This is a very good way of delivering flavor, especially when used with tea bags. This process is easy to fill and dust-free thus, minimizing the need for frequent cleaning in production areas. The visible flavor granules within the tea are also eliminated since the flavor particles are directly attached to the tea leaves. If necessary adjustment of the leaves color can also be done.

## **2.4 Value Addition Strategies and Performance**

The tea industry can locate its sources of innovation for competitive advantage in the modification of the demand or a new demand and in the new segment for tea. Because, value-added tea is having growing demand in the international tea market. Although Sri Lanka has introduced value added tea to different international markets, the quantity and the extent of value addition is not considered to fulfill the present requirement of the global market and thus Sri Lankan tea producing firms have to enhance the core resources to achieve the competitive advantage (Ariyawardana & Bailey, 2002).

Value added tea has captured a significant position in the global tea trade because of the sophistication of tea consumption patterns. Consumer preference for loose tea has been on the decline replaced by bagged tea for convenience, while demand for tea bags and ready-to-drink teas has been increasing over the years (Ariyawardana, 2011).

The global tea arena is getting more and more competitive each coming day. One of the stand out attribute of the global tea scene is the undisputable fact that value added tea realizes better returns than the bulk tea. This means therefore that by exporting more and more of the value added teas, a firm will enhance its competitiveness in the global tea market arena. Value added tea here refers to all bulk tea that has been taken through further (secondary) processing and is available in tea packets, tea bags or as instant tea or any other form, excluding the bulk tea (Ganewatta, 2012). To achieve this competitive edge, an organization will require to have a unique, not easy to copy strategy for value addition, market entry, growth and sustainability. In this aspect, Sri Lanka has posted a sterling performance by increasing value added tea exports from 0.8% of total tea exports in 1962 to 57.4 % in 2012 (SLTB Annual Report, 2013). Nonetheless, this trend has not



sustained in the last few years. All the same, Sri Lanka is seen as the pace setter in the export of value added tea into the global market.

Benny (2009) 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. Lines (2010) noted that leading companies dedicate a great deal of expenditure on promotion of their products. Advertising expenditure in Japan was 8%, in the US 4% and 2.5% in the UK. A lot of money is also channeled to trade promotions to retail outlets particularly by smaller companies to persuade them to carry their brands. He further adds that branded tea fetches prices six times higher than bulk exports. Despite the increase in prices that branding could bring, most producing countries export tea in generic form.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the methodology which was used in the study in so as to achieve the research objectives is discussed. It covers research design, population of the study, data collection procedures and data analysis.

#### **3.2 Research Design**

A research design is a strategic blueprint that guides the study. It spells out how data is to be collected, how it will be measured and analyzed. The choice of research design is dependent on how advanced the knowledge about the research topic is (Sekaran & Bougie, 2010). The study adopted a cross sectional descriptive survey design. This design was chosen because it afforded the researcher the opportunity to collect data by obtaining opinions, attitudes, behaviors, beliefs or answers from selected respondents in order to understand the group or population represented.

#### **3.3 Population of the Study**

Population refers to the entire group of individuals or companies that are targets of the study (Sekaran & Bougie, 2010). The definition of the population of the study is in terms of availability of elements, time frame, geographical boundaries and topic of interest. The population of the study comprised of all the Kenya Tea Development Agency Managed factories in Meru County. According to Kenya Tea Development Agency (2016) there are Seven (7) managed tea factory companies in Meru County and all of them participated hence the study was a census.

### **3.4 Data Collection**

Primary data was collected by means of a semi structured questionnaire. The questionnaire consisted of a mix of open and closed-ended questions. The closed-ended help respondents to answer questions quickly while the open ended ones allow them to respond in their own way. Walliman (2011) notes that use of questionnaire ensure that confidentiality is upheld, saves on time and is very easy to administer. The respondents were managers in all the tea factories in Meru County since they understand the need for their factories to add value to the tea delivered to the factories in order to increase their returns.

### **3.5 Data Analysis**

The filled questionnaires from the respondents were edited for accuracy, consistency and completeness. Cleaning of data was done to eliminate discrepancies. Data was then classified on the basis of similarity and then tabulated. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance). Analysis of data was done using the statistical package for social sciences based on the questionnaires. In particular mean scores, standard deviations, percentages and frequency distribution was used to summarize the responses and to show the magnitude of similarities and differences. Results were presented in tables and charts.

To establish the relationship between value addition strategies and performance, a regression analysis was done. For each value addition strategy, an overall mean was determined and matched with the overall mean of performance. From this a regression model was generated to determine the relationship.

The regression model took the following form

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon,$$

Where: Y is Organizational Performance

$\alpha$  =Constant term,

$\beta$ =Beta coefficients,

$X_1$ = Branding strategy,

$X_2$ = Packaging Strategy

$X_3$ = Flavoring strategy

$\epsilon$  = Error term.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter dwells on the research findings, analysis of data, its presentation and interpretation of the findings. The data response rate, information on background of the respondents and findings against each individual objectives of the study are presented and discussed. This is based on responses the items in the questionnaire. Descriptive statistics was used in analyzing the findings of this research project. In total 42 questionnaires were sent out and 33 were returned representing 79% a response rate.

#### 4.2 Demographic Characteristics

The demographic characteristics analyzed in the study was the respondents educational level, length of service with the tea factory, duration of tea factory operation in Kenya as well as the number of employees in the tea factories.

##### 4.2.1 Level of Education

The level of education the respondents has determines how they understand and responds to different opinions. The results were presented in Table 4.1.

**Table 4.1: Level of Education**

<b>Years</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Tertiary college	4	12.1	12.1
University	22	66.7	78.8
Post graduate level	7	21.2	100.0
<b>Total</b>	<b>33</b>	<b>100.0</b>	

**Source: Research Data, 2016**

The findings above show that majority of the respondents 66.7% had attained university education level; 21.2% had attained post graduate qualification level while 12.1% of the respondents indicated that tertiary qualification was their highest level of education. This implies that majority of the respondents had university education and this means that, they are knowledgeable enough to understand and answer the questions in the questionnaires appropriately on the importance of value addition strategies to the tea factories.

#### 4.2.2 Length of Continuous Service

This indicates the duration of continuous service that the respondents have worked in the KTDA managed tea factories in Meru. The number of years the respondents have worked within the factories gives understanding about the inner workings of the factories.

**Table 4.2: Length of Continuous Service**

<b>Years</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Less than 5	5	15.1	15.1
5 – 10	15	45.5	60.6
Over 10	13	39.4	100.0
<b>Total</b>	<b>33</b>	<b>100.0</b>	

**Source: Research Data, 2016**

The results indicates that 45.5% of the respondents have been working in the KTDA managed tea factories for a period of between 5 and 10 years; 39.4% of the respondents indicated that they have worked in the tea factories for more than 10 years while 15.1% of the respondents said that they have worked in the tea factories for less than 5 years. This show that majority of the respondents have worked in the tea factories for more than 5 years and have enough understanding of the tea factories working and operations.

### 4.2.3 Duration of Tea Factories Operation

The duration of Tea Factories operation in Kenya was important for the study as this helps the factories to understand the market dynamics thus adopting appropriate value addition strategies. The results were presented in Table 4.3.

**Table 4.3: Duration of Tea Factories Operation**

<b>Years</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Percent</b>
6 – 10	6	18.2	18.2
16 – 20	10	30.3	48.5
Over 25	17	51.5	100.0
<b>Total</b>	<b>33</b>	<b>100.0</b>	

**Source: Research Data, 2016**

The results on the duration of tea factories operation indicate that 51.5% of the respondents said that the tea factories have been in operation for over 25 years, 30.3% of the respondents indicated that the tea factories have been in operation for a period of between 16 and 20 years while 18.2% of the respondents said that the tea factories have operated for a period of between 6 and 10 years. The results indicate that majority of the tea factories have been in operation for more than 10 years and therefore they understand the local market trends and the need of value addition in order to improve their performance and compete in both local and international market.

### 4.2.4 Number of Employees

The number of employees in the tea factories, including those employed to pluck leaf in the farms, indicates the size of factories in terms of tea delivered by the farmers. The results were presented in table 4.3.

**Table 4.4: Number of Employees**

<b>Employees</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative Percent</b>
400 – 599	10	30.3	30.3
Above 600	23	69.7	100.0
<b>Total</b>	<b>33</b>	<b>100.0</b>	

**Source: Research Data, 2016**

The results on the number of employees show that 69.7% of the tea factories have more than 600 employees while 30.3% of the tea factories have between 400 and 599 employees. The results indicate that the tea factories have employed many employees and this can be attributed to the amount of raw tea delivered to the factories by farmers thus the need to have a high number of employees so that the process of value addition takes place.

#### **4.3 Value Addition Strategies**

Value addition strategies enables the tea factories to increase the value of tea they process in the factories thus increasing the returns the factories receive. Strategy therefore serves to provide guidance to the organization in a manner that enables it to achieve its set objectives by taking advantage of the opportunities and avoiding threats in the environment. The respondents were asked to indicate the extent to which they have adopted value addition strategies in the tea factories they work. The range was ‘Strongly disagree (1)’ to ‘strongly agree (5)’. The scores of respondents’ low level of strategy usage represent a variable which had a mean score of below 3.0 while the scores of above 3.0 represent respondents’ agreement with the usage of value addition strategy. A standard deviation of  $>1.0$  implies a significant difference on the impact of the variable among respondents.



### 4.3.1 Branding Strategy

Branding strategy enables the customers to distinguish the product of different companies thus the branding of tea by the factories enables them to add value to the producer's entire product line, including innovative products that are unfamiliar to customers.

**Table 4.5: Branding Strategy**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
It helps in attracting and keeping customers by promoting the value, prestige and a lifestyle	3.8947	1.0485
It helps in establishing a new market segment, or to create a distinctive image	3.8783	1.1672
It provides a basis for differentiating commodity products	3.8421	.8983
It helps in the identification and brand awareness of the factory tea	3.6989	.8698
It helps create loyalty among customers	3.6072	.7916
It offers factories with better opportunities for their growth and performance irrespective of their size	3.5846	.9173
Branding strategy is used to get strengthen, expansion or extension an already existing tea brands	3.4211	.7213
It helps the factories charge a premium pricing that is acceptable by the consumer because of the perceived value of the brand	3.2943	.9462
<b>Overall Mean</b>	<b>3.6527</b>	

**Source: Research Data, 2016**

The results on the use of branding strategy by the factories was that it helps in attracting and keeping customers by promoting the value, prestige and a lifestyle (M=3.8947); helps in establishing a new market segment, or to create a distinctive image (M=3.8783) and that it provides a basis for differentiating commodity products (M=3.8421). The respondents further said that branding strategy helps in the identification and brand awareness of the factory tea (M=3.6989); helps create loyalty among customers (M=3.6072) and that it offers factories with better opportunities for their growth and performance irrespective of their size (M=3.5846). In addition, branding strategy is used

to acquire and or strengthen, expand or extend already existing tea brands (M=3.4211) and that it helps the factories charge a premium pricing that is acceptable by the consumer because of the perceived value of the brand (M=3.2943). The results show that branding strategy enabled the tea factories to differentiate their products from others thus creating brand awareness and loyalty among customers.

### 4.3.2 Packaging Strategy

Packaging refers to the design and production of a container or a wrapper for a product. Packaging plays an important role in determining the product. The value of a package that a product has defines the function that packaging services gives in achieving production quality. The results on the packaging strategy employed by the Tea Factories are presented in Table 4.7.

**Table 4.6: Packaging Strategy**

<b>Packaging Strategy</b>	<b>Mean</b>	<b>Std. Deviation</b>
Packaging appeals consumer's attentiveness towards the brand	4.0148	.7741
It helps consumers to decide the product from wide range of parallel products	3.9250	.6839
Packaging enables the company to come up with different sizes for different markets	3.7531	.9176
Packaging of blended tea plays a key role in sales to different markets	3.6895	.9643
It stimulates consumer's perceptions about the product	3.6579	.8983
Packaging stimulates customer's buying behavior	3.5704	1.0538
Packaging helps a product in communication of its uniqueness	3.4875	.9572
Packaging of value added tea works as an instrument for differentiation	3.3625	1.024
It helps in reducing transit damages	3.1562	1.093
<b>Overall Mean</b>	<b>3.6241</b>	

**Source: Research Data, 2016**

The results indicate the distribution of responses on the use of packaging strategy in order to increase tea factories performance. The results indicate that packaging strategy appeals to consumer's attentiveness towards the brand (M=4.0148); helps consumers to decide the product from wide range of parallel products (M=3.9250) and that it enables the company to come up with different sizes for different markets (M=3.7531). In addition, the respondents said that packaging of blended tea plays a key role in sales to different markets (M=3.6895); stimulates consumer's perceptions about the product (M=3.6579) and that it stimulates customer's buying behavior (M=3.5704). The respondents also said that packaging helps a product in communication of its uniqueness (M=3.4875); packaging of value added tea works as an instrument for differentiation (M=3.3625) and that it helps in reducing transit damages (M=3.1562). From the results, packaging strategy enables the tea factories to come up with different sizes for different markets that appeal to consumer's attentiveness towards the brand from wide range of parallel products. It also helps in differentiating the factories products and reducing transit damages.

#### **4.3.3 Flavoring Strategy**

Tea flavoring enables the tea companies to change the taste of tea. This is important for the study in order to determine the extent to which the tea factories use tea flavoring strategy to increase their performance.

**Table 4.7: Flavoring Strategy**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
It maintains the sensory profile over a very long period of time and extends shelf life	2.1864	.6681
It imparts attractive taste and aroma to the tea	2.0352	.9535
It helps in differentiating the product of the company	1.9126	.6683
It is easy to fill and dust-free, reducing the need for cleaning in production areas	1.8303	.8342
It affect how the customers perceive the tea products of the company	1.7182	.9562
It enables company products to be competitive in the market	1.5049	.9318
<b>Overall Mean</b>	<b>1.8646</b>	

**Source: Research Data, 2016**

The respondents indicated that to a lower extent, flavoring strategy enable the tea factories to maintains the sensory profile over a very long period of time and extend shelf life (M=1.1864); impart attractive taste and aroma to the tea (M=1.0352) and that it helps in differentiating the product of the company (1=3.9126). In addition, the respondents said that is easy to fill and dust-free, reducing the need for cleaning in production areas (1.8303); affect how the customers perceive the tea products of the company (M=3.7182) and that it enables company products to be competitive in the market (M=3.5049). From the results, the respondents, to low extent appreciated the role of flavoring as a value addition strategy. This can be attributed to the fact that all the tea firms do not undertake any prominent flavoring process and therefore the respondents were not conversant with the operations of the strategy. Tea flavoring imparts attractive taste and aroma to the tea thus maintains the sensory profile over a very long period of time and extends shelf life and differentiating the product of the factory. This enables the factory tea to be competitive in the market.

#### 4.4 Performance Measures

The respondents were requested to indicate the effect of value addition strategies on performance of tea factories. This was important for the study as it enables the factories to know whether the value addition strategies they have undertaken have enabled the factories to achieve its objectives. The results are presented in Table 4.8.

**Table 4.8: Performance Measures**

<b>Organizational Performance Measures</b>	<b>Mean</b>	<b>Std. Deviation</b>
Value added tea fetch better prices	4.4824	.9612
Increase the factories market share	4.3158	1.1081
Value added tea improves the competitiveness of the tea factory	4.2105	1.0316
Increased earnings	4.0789	1.2163
It enhances the organization relationship with its customers	3.9263	1.1722
Increased profits	3.8105	1.0841
Enhanced public appreciation for the factory	3.7211	.9612

The results on the influence of value addition strategies on performance indicate that value added tea fetch better prices (M=4.4824); increase the factories market share (M=4.3158); enhances the competitiveness of the tea factory (M=4.2105) and that it results in increased earnings (M=4.0789). The results further show that the strategies enhances the organization relationship with its customers (M=3.9263); increases factory profits (M3. 8105) and enhance public appreciation for the factory (M=3.7211). The results show that value addition as a strategy was important as it enabled the factories to fetch better prices, increase the factories market share, increased earnings, enhances the organization relationship with its customers, increased profits and enhanced public appreciation for the factory.

#### 4.5 Relationship between Value Addition Strategies and Performance

Linear regression was used to analyze linkage between value addition strategies and performance based on the regression model presented. The following show summary of the model, ANOVA and regression coefficients.

**Table 4.9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757 <sup>a</sup>	.573	.529	.63794

The results show that the coefficient of determination that is the percentage variation determination in the dependent variable is supported by the variation in independent variables. R square is 0.573 which implies that variance in performance of the KTDA managed tea factories can be explained by independent variables. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the results of the study, the value of adjusted R squared was 0.529 which indicates that the independent variable, explain 52.9% of KTDA managed tea factories performance.

**Table 4. 10: ANOVA Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.884	4	3.721	8.170	.000 <sup>a</sup>
	Residual	12.752	28	.455		
	Total	27.636	32			

To test the significance of the coefficient of determination, the results were presented in ANOVA table. From the table it can be seen that at  $\alpha = 5\%$ , the value of  $F_{\text{stat}}$  obtained at 8.170

and 0.000 sig.  $F_{\text{tab}}$  value at  $\alpha = 5\%$  was 2.84. Thus  $F_{\text{stat}}$  value is greater than the  $F_{\text{tab}}$  value. These results demonstrate that the coefficient of determination is a significant value. That is, simultaneously model has a good fit.

**Table 4.11: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
1	(Constant)	1.226	.492		2.490	.200
	Branding	.051	.141	.052	.359	.022
	Packaging	.298	.117	.377	2.551	.016
	Flavoring	.234	.133	.263	1.763	.089

From the data, the generated table was

$$Y = 1.226 + 0.51X_1 + 0.348X_2 + 0.234X_3$$

From the above regression equation it was revealed that branding strategy, blending strategy, packaging strategy and flavouring strategy to a constant zero, performance of the KTDA managed tea factories would be at 1.226; a unit increase in branding strategy would lead to an increase in performance by 0.051 a unit increase in packaging strategy would lead to an increase in performance by 0.298 and a unit increase in flavoring strategy would lead to increase in performance by 0.234.

#### **4.6 Discussion**

The continuous shifting of the world to a global economy, the world market for value-added products is expanding. Due to the intervening dynamics in the market there are greater chances for product differentiation and added value to raw commodities thus the need for the factories to adopt strategies that enable them to achieve competitive advantage over its competitors as a result of value addition. The results of the study show

that the factories were branding its products and this enabled the factories to create a distinctive image thus differentiating their commodity products. Branding strategy further helps the factories to create awareness of their products, strengthen, expansion or extension an already existing tea brands and also in creation of customer loyalty. The results of the study were found to be consistent with Herath and De Silva (2011) findings that product identification reflects on and mirrors the producer's farm or processing location, the farm or company identity and history, as well as telling stories that help customers better understand the company and its products. By building a unique identity for the producer, good branding strategy potentially adds value to the producer's entire product line, including innovative products that are unfamiliar to customers

The declining income from sale of raw produce from the market in a fiercely competitive global market has seen many organizations and individuals engage in value addition in order to survive. The tea sector has not been left behind as value addition has become necessary for all organizations to compete in the market. Tea blending was found to have enabled the tea factories to come up with better tasting tea created through a well-balanced flavor using different tea grades, seasons and characters. It also allowed for variations in tea leaf quality and differences from season to season to be smoothed out. The results were in line with Morrow, Sirmon, and Holcomb (2010), the purpose of blending is to achieve a better taste or a higher value or both.

In recent times, consumer preferences have changed in favour of more convenient products which offer value. Luck and Prell (2011) said that packaging is an important as an aspect of achieving quality of a product because the value of package that a product has defines the function that packaging services offers in achieving production quality



product. Packaging helps a product in communication of its uniqueness. It also helps in marketing the product. Amarakoon (2012) noted that custom packaging can differentiate a product, but the value added to the product may be less than the custom manufactured packaging. Packaging, if well implemented enhances sales and market share and mitigates market and promotional costs. These findings were found to be consistent with the results of the study which established that packaging strategy enables the tea factories to come up with different sizes for different markets that appeal to consumer's attentiveness towards the brand from wide range of parallel products. It also helps in differentiating the factories products and reducing transit damages.

The need for value addition of products has become more necessary than before in order to provide the consumers world-wide with favored tea. Through value addition strategies, organizations can differentiate themselves from their competitors by producing and providing superior or premium quality goods. The study established that tea flavoring imparts attractive taste and aroma to the tea thus maintains the sensory profile over a very long period of time and extends shelf life and differentiating the product of the factory. This enables the factory tea to be competitive in the market.

Presently the world tea market is growing rapidly with emerging customer needs. As already opined earlier, Value-added tea products do realize better returns than bulk tea and it follows therefore that to continue having a competitive edge in the global tea arena, tea firms must export a higher proportion of value added tea. This way the contribution to the national economy by tea exports is enhanced. The tea industry is one of the oldest agro-based industries with huge direct employment numbers mainly in the remote rural areas. Value addition enabled the factories to fetch better prices, increase the factories market share, increased earnings,

enhances the organization relationship with its customers, increased profits and enhanced public appreciation for the factory. The results of the study was consistent with Ganewatta (2012) findings that exporting more of value added tea and less of bulk tea improves the competitive capacity of an organization and the industry at large. Benny (2009) concludes that value added products give better results and provide better handling thus increases export potential as well as sell in the domestic market.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS,**

#### **5.1 Introduction**

In this chapter, the researcher makes a summary of the findings from the study and discusses them in relation to the research problem and research objectives. The chapter is organized into summary of the findings, conclusions, recommendations, limitations of the study and suggestions for further research.

#### **5.2 Summary of Findings**

Agriculture plays a very vital role in the Kenyan economy not only due to its contribution to the growth of the economy but also as a source of employment and providing food, raw materials for agro-industries and export earnings. The tea sector is the main foreign exchange earner in Kenya and due to the changing dynamics in the world market tea value addition is seen as the way to achieve competitive advantage by the factories and countries. The study found out that branding the tea delivered to KTDA managed factories was being undertaken and it enabled the factories to create a distinctive image thus differentiating their commodity products. Branding strategy further helps the factories to create awareness of their products, strengthen, expansion or extension an already existing tea brands and also in creation of customer loyalty.

At present the world tea market is rapidly growing with emerging customer needs. The need to increase the proportion of value added tea products is emphasized so as overcome the challenges of a beverage market that is becoming increasingly competitive. Blending is one way in which the factories adds value to the tea delivered by the farmers and this enabled the tea factories to come up with better tasting tea created through a well-

balanced flavor using different origins and characters. It also enabled the elimination of tea leaf seasonal quality differences. The prices of exporting raw tea has been increasing in the recent past and this has seen the farmers receiving high returns and bonuses however the returns from value added products through packaging is higher. The study also found out that packaging strategy enables the tea factories to come up with different sizes for different markets that appeal to consumer's attentiveness towards the brand from wide range of parallel products. It also helps in differentiating the factories products and reducing transit damages.

Tea marketing is undergoing significant changes with emphasis on high value tea commodities increasing considerably. Through value addition strategies, the factories can differentiate themselves from other factories and organizations by producing and providing superior or premium quality goods. The study established that tea flavoring can impart attractive taste and aroma to the tea thus maintain the sensory profile over a very long period of time and extends shelf life and differentiating the product of the factory. This enables the factory tea to be competitive in the market. The adoption of some of the tea value addition strategies by the KTDA factories in Meru County was found to have enabled the factories to fetch better prices, increase the factories market share, increased earnings, enhances the organization relationship with its customers, increased profits and enhanced public appreciation for the factory.

Low per capita consumption of tea locally and the prohibitive high cost of investment required for value addition were some of the challenges faced by the factories who want to undertake value addition of tea. The KTDA managed tea factories export over 95% of the total teas produced in bulk, semi processed form (TBK, 2014). This tea is mostly

bought by multinational tea trading companies who use it for blending in the export markets. To venture into tea value addition for the export market would put the factories in direct competition for the overseas market with these multinationals who established themselves in these markets over a long period of time.

### **5.3 Conclusion**

Tea is an important commodity to the Kenyan economy. It is labor intensive and provides job creation opportunities particularly in remote rural areas. It is also important in terms of rural infrastructure development and export earnings. Tea has played an important and significant role in developing the Kenyan economy through employment creation, income generation and foreign exchange earnings. But even with all this, and despite the fact that Kenya has been a high quality tea producer in the world, there has been an observed decline in tea income due to low profit margin in world market. Further, there has been decline in Kenya's tea price in the international market, although it has increased in the recent years. The tea industry is largely controlled by multinational companies although there are also many small scale farmers who also deliver the tea leaves to the nearest factories which are mostly managed by the KTDA. Value addition on tea, though proven through the study to have the potential to fetch better prices for tea has been undertaken by the KTDA managed factories in Meru only to a small extent. Majority of the respondents (80%) indicated that less than 5% of the total tea sales was in value added form.

Even though black tea prices are currently at a peak, due to supply and demand conditions that are helping to reduce the operating losses for the Kenyan tea industry, the competitive position and long-term viability of the tea industry is largely based on value

addition. The management of factories in conjunction with KTDA has prioritized value addition and marketing in order to enable the farmers receive high returns. 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 get a bigger share of the market, enhances the organization relationship with its customers, increased profits and enhanced public appreciation for the factory.

#### **5.4 Recommendations**

Tea value addition was found to have enabled the factories to increase their returns and therefore it is recommended that the factories should partner with other companies so that the value of the tea can be increased so that it becomes more competitive in the global market. The government should put in place policies that ensures that all the factories managed by KTDA adds value to the tea produced by the small scale farmers so that there is higher returns to the farmers and also encourage those who had uprooted tea due to low market prices can replant them so that there is reduced unemployment in the country.

As the global competition for value added products, particularly tea, factors beyond product quality will have a critical play in determination of realizable prices. Such factors include food safety standards, maximum residue level concerns that are encompassed in good manufacturing and good agricultural practices among others. The study recommends therefore that the KTDA tea factories in Meru County, and in Kenya in general should bear in mind 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.

Research and development plays a critical role in transforming commodity agribusiness to value added products for local as well as export markets. These institutions provide new knowledge, skills and expertise not only in product development but also in agriculture extension services, market analysis and how to link local producers with the appropriate markets globally. This needs to be done to global standards that can withstand competition at that level if the KTDA factories in Meru County and Kenya as a whole are to effectively compete with any hope of success in the global market for tea. The same case should apply for the local market which is now highly liberalized. They should ensure that the quality of the products, the blending expertise, packaging and branding are in tandem with global consumer requirements so that these products are viable for entry into new or existing market opportunities globally.

### **5.5 Limitations of the Study**

The study used key informants from the KTDA managed factories in Meru County. This has a big constraint on the option of generalizing these results to other contexts and firms. The selected sample, being, limited to only one county may impose limitations as far as generalization of results to the overall population is concerned. Since the study focused narrowly and specifically to the KTDA managed tea factories in Meru County exclusively, the findings of the study may not translate to other industries either in Meru County or the national economy context.

Although the research methodology prescribed the use of qualitative and quantitative data collection methods, due to the lack of finances and time, more of qualitative analysis was done. The period of available for measuring the effectiveness of the performance of value addition strategies was also restraining. A period of more than a year is needed to monitor the activities of the strategies so that the different methods are given an equal consideration.

### **5.6 Suggestions for Further Research**

The study on the linkages between value addition strategies and performance was undertaken among the KTDA managed factories in Meru County and it is recommended that further study needs to be undertaken among all the KTDA managed factories operating in Kenya. Secondly a study should be done to establish the reasons for the little proportion of value addition in tea despite the high volume of tea produced in Kenya annually. Finally, the study should be undertaken in other sectors like dairy, cotton, and pea nuts and a comparison is made to determine whether the impact on relationships differs between sectors.



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## APPENDICES

### Appendix I: Questionnaire

Please answer all questions in the space provided or tick the appropriate box as required on the relationship between value addition strategies and performance of Kenya Tea Development Agency managed factories in Meru County.

#### Section A: Demographic Characteristics of Respondents

1. Name of the tea factory (Optional).....

2. What is your highest level of education qualification?

- a) Post graduate level ( )
- b) University ( )
- c) Tertiary College ( )
- d) Secondary ( )

3. Length of continuous service with the tea factory?

- a) Less than 5 years ( )
- b) 5-10 years ( )
- c) Over 10 years ( )

4. How long has your tea factory been in operation in Kenya?

- a) Under 5 years ( )      b) 6 – 10 years ( )
- c) 11 – 15 years ( )      d) 16 – 20 years ( )
- e) Over 25 years ( )

5. How many employees are there in your tea factory?

- a) Less than 199 ( )
- b) 200 – 399 ( )
- c) 400 – 599 ( )
- d) Above 600 ( )

**Section B: Value Addition Strategies**

6. Does your factory add value to the tea delivered by farmers?

Yes ( ) No ( )

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

- a) Less than 5 years ( )
- b) 5-10 years ( )
- c) Over 10 years ( )

8. Which of the following tea value addition strategies does your factory use:-(Please tick the ones that apply)

- a) Branding ( )
- b) Blending ( )
- c) Packaging ( )
- d) Flavoring ( )
- e) Any other (please write) -----

9. To what extent do you agree with the following statements on the usage of value addition strategies by your tea factory? Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree and 5-Strongly disagree.

<b>Branding Strategies</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
It provides a basis for differentiating commodity products					
It helps create loyalty among customers					
It helps the factories charge a premium pricing that is acceptable by the consumer because of the perceived value of the brand					
It offers factories with better opportunities for their growth and performance irrespective of their size					
It helps with the promotion of the factory blended tea					
It helps in the identification and brand awareness of the factory tea					
It helps in attracting and keeping customers by promoting the value, prestige and a lifestyle					
Branding strategy is used to get strengthen, expansion or extension an already existing tea brands					
It helps in establishing a new market segment, or to create a distinctive image					
<b>Blending Strategy</b>					
It enables the factory come up with better tasting tea					
It enables the tea factories create a well-balanced flavor using different origins and characters					
Blending allows for variations in tea leaf quality and differences from season to season to be smoothed out					
<b>Packaging Strategy</b>					
Packaging helps a product in communication of its uniqueness.					
Packaging of blended tea plays a key role in sales to different markets					
Packaging appeals consumer's attentiveness towards the brand					

It increases its image					
It stimulates consumer's perceptions about the product					
Packaging of value added tea works as an instrument for differentiation					
It helps consumers to decide the product from wide range of parallel products					
Packaging stimulates customer's buying behavior					
Packaging enables the company to come up with different sizes for different markets					
It helps in reducing transit damages					
<b>Flavoring Strategy</b>					
It helps in differentiating the product of the company					
It affect how the customers perceive the tea products of the company					
It enables company products to be competitive in the market					
It imparts attractive taste and aroma to the tea					
It maintains the sensory profile over a very long period of time and extends shelf life					
It is easy to fill and dust-free, reducing the need for cleaning in production areas.					

10 .What proportion of your total tea sales is in value added form?

- a) Less than 5%
- b) 5-15%
- c) 15-25%
- d) 25-35%
- e) Over 35%

**Section C: Organizational Performance**

11.To what extent has value addition strategies affected the following performance measures in your factory? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

<b>Organizational performance measures</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Increased earnings					
Increase the factories market share					
Value added tea fetch better prices					
value added tea enhances the competitiveness of the tea factory					
Increased profits					
Enhanced public appreciation for the factory					
It enhances the organization relationship with its customers					

12. What challenges does your factory encounter in undertaking tea value addition?

.....

.....

.....

**THANK YOU SO MUCH FOR YOUR TIME**



**Appendix II: KTDA Ltd Managed Tea Factories in Meru County**

	<b>Factory Co. Ltd</b>	<b>Year of Commissioning</b>	<b>Years in Operation</b>	<b>Remarks</b>
1.	Michimikuru Tea Factory Ltd	1963	53	Acquired by KTDA in 1984
2.	Imenti Tea Factory Ltd	1971	45	
3.	Githongo Tea Factory Ltd	1976	40	
4.	Kinoro Tea Factory Ltd	1984	32	
5.	Kiegoi Tea Factory Ltd	1992	24	
6.	Weru Tea Factory Ltd	2002	14	
7.	Kionyo Tea Factory Ltd	2002	13	
8.	Igembe Tea Factory	2009	7	Satellite of Kiegoi Company