THEORETICAL REVIEW OF THE FACTORS AFFECTING EXPORT PERFORMANCE OF KTDA MANAGED FACTORIES IN KENYA

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Review Paper

Theoretical review of the factors affecting export performance of KTDA managed factories in Kenya

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International tea business is both lucrative and competitive. Kenya and in particular Kenya Tea Development Agency is a major player in the global tea market. Tea in Kenya is primarily an export product and without export, it will affect the living standards of the people negatively. This theoretical review is intended to unearth the complexity of the determinants of export performance in the tea industry and especially within the KTDA managed factories in Kenya. This study has its foundations on theories and models of export entry modes and theories that support international business. In conclusion, export performance is determined by an array of factors ranging from value addition and international market conditions among others.

Key words: Bulk tea, liberalization and value addition

INTRODUCTION

This study will look at the various literatures that covers the determinants of export performance of KTDA managed factories in Kenya. This research paper will highlight the theories and models of international business that support export performance. The theories are Product Life Cycle, Uppsala model, Driscoll’s model, Dunning’s eclectic model and Resource Based View. The goal of any export development program is to improve the firm’s capabilities, resources, strategies and attractiveness, which in turn should improve export performance (Zou and Stan, 2006).

Defining and understanding performance is problematic, especially in terms of identifying uniform, reliable and valid performance measures (Katsikeas et al., 2000). Export performance, can be defined as outcome of a firm’s activities in export markets. Two principal ways of measuring export performance are: Economic (financial measures such as sales, profits and market share) and noneconomic (nonfinancial measures relating to product, market and experience elements).

Market entry strategies affect business performance in the context of manufacturing industries (Kirca, 2005). Choosing the right entry strategies is one of the key points in international marketing.

Entry mode performance is defined in terms of efficiency or profitability. Some researches indicate that entry strategies affect export performance by determining the control, risk level and company share in foreign markets and end up with the success or failure of the company (Kouck 2003, Karkkainen, 2005; Shi et al., 2002).

Westhead (2001) found out that exporting firms recorded significantly higher levels of absolute growth since the business had received their first orders than did non exporting firms. Sadaghiani, Dehghan and Zand (2011) proposed a model of entry strategy and export performance (figure 1).

Selling tea into the international markets in bulk without adding value through branding and packaging limits earnings from exports and it is estimated that earnings could be increased up to six times if this were done (Nyangito, 2000).

Guiding theory and model of international business

International marketing has its foundations in a number of models and theories including the Product Life Cycle Model, Uppsala Model, Driscoll’s model, Dunning’s Eclectic model and Resource Based View. These are discussed below.

Product life cycle theory

This theory on international trade was developed by Raymond Vernon in the 1960s. It stresses that a company will begin to export its product and later take on
foreign direct investment as the product moves through its life cycle. The theory has five stages namely, introduction, growth, maturity, saturation and decline. Companies are forced to introduce their products in many different markets at the same time to gain cost benefits before its sales decline.

The theory recognizes five stages in product’s life cycle namely introduction, growth, maturity, saturation and decline. At introduction it involves tailor marketing mix to spark interest and educate potential customers. At growth phase, efforts shifts to secure a wider audience by building brand loyalty, a stable supply chain and additional distribution channels as defenses against competition enter the market.

Maturity stage witnesses weaker players driven out and there is little differentiation among competitors. This leads to saturation of the product in the market leading to eventual decline of the product’s market share. Marketing at this stage shifts to incentives, advertising, in-store promotions and volume discounts.

The Uppsala Model
Johanson and Wieldersheim (1975) introduced the internationalization model referred to as Uppsala model. The model was based on the assumption that internationalization is the consequence of a series of incremental decisions and the most important obstacles to internationalization are lack of knowledge and resource. The model identified four sequential stages of the internationalization process namely; regular export activities, export via independent representation (agent), sales subsidiary; and production/manufacturing. This model was later modified by suggesting a dynamic international model that was referred to as the basic mechanism of internationalization (Johanson and Vahlne, 1977/1990). The dynamic model assumes that the market knowledge and market commitment affect both commitment decisions that influence market knowledge and market commitment.

This revision of the Uppsala model however emphasizes that internationalization is a process and follows a stage approach. The Uppsala Model is not without criticism as some scholars have taken a contrary view (Turnbull, 1987; Andersen, 1993; Bell, 1995 and Gurau, 2002). These criticisms led to the Uppsala model revised as shown in figure 2.

The Uppsala Model gives rise to a simple export model but in reality export is not a stage-wise process. In the tea sector, export of tea takes place through a multifaceted approach without necessarily being sequential. The export performance of firms in the tea sector largely depends on the long standing relationship with customers over a period spanning in some cases 30 years and beyond. It is also based on trust which is one of the building blocks of international business and these two have been captured in the Uppsala Model. The model has however, not captured the role of Joint Venture which is one form of international business through which firms in the tea sector increases export performance. The process did give rise to research in the area of international.

Driscoll’s Model
Driscoll’s model has specific contribution to a range of variables including government policy and liberalization.
The model introduces a comprehensive foreign market entry decision framework which identifies export, contractual and investment as the main foreign market entry modes (Driscoll, 1995). The contractual entry modes include a variety of arrangements such as licensing, franchising, management, contracts, turnkey contracts, non-equity joint ventures, and technical knowhow or co-operation arrangements. The investment entry mode includes acquisitions, joint venture and start up investment.

Driscoll also analyzes the characteristics of export contractual and investment entry modes from five aspects namely control dissemination risk, resource commitment flexibility and ownership (table 1). Driscoll made a major contribution in international business by coming up with different modes of market entry. Export mode has high flexibility that in effect appeals to the exporters to utilize as it also requires low resource investments. Besides, control, dissemination and ownership are low and these advantages are critical for startup firms that plan to engage in international export business.

Dunning’s eclectic model
John Dunning’s Eclectic Model was introduced in 1976 and refined by him several times since then become a key contributor to the separation of international business studies (IBS) from international economies and trade theory and to the development of global strategy. Dunning’s Eclectic model by its inclusive nature opened up the study of multinational firms to broader influences from organizational studies and business strategy. It is therefore a key to national differences and case-based analysis of industry effects into theoretically grounded studies of business organizations functioning in extra-national markets.

While Dunning himself makes the point that the eclectic model is aimed at the study of multinational firms not at evaluating individual firm decisions. It does provide a framework for both descriptive and normative studies of individual firms. Dunning’s Eclectic theory of FDI has three components, which are ownership, location and internationalization advantage. It is simply referred to as OLI model. Firstly, there is the ownership advantage whereby the foreign firm must own some unique competitive advantage that overcomes disadvantages of competing with the local firms on their home turfs. Secondly, there is a location advantage where undertaking the business activity must be more profitable in a foreign location than undertaking in a domestic location and thirdly is the internalization advantage in which the firm must benefit more from controlling the foreign business activity than from hiring an independent local company to provide the service.

Capital account liberalization and neoclassical growth model
The two models that are associated with this are the Cobb-Douglas Production Function and the Computable General Equilibrium (CGE). In particular the CGE are
Table 1: The Characteristics of Driscoll's foreign entry mode

<table>
<thead>
<tr>
<th>Entry Method</th>
<th>Control</th>
<th>Dissemination Risk</th>
<th>Resource Commitment</th>
<th>Flexibility</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Contracts</td>
<td>Medium</td>
<td>Med-high</td>
<td>Med-high</td>
<td>medium</td>
<td>Med-high</td>
</tr>
<tr>
<td>Exports</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Driscoll (1995)

simulations that combine the abstract general equilibrium structure formalized by Arrow and Debreu. CGE models are a standard tool of empirical analysis and are widely used to analyze the aggregate welfare and distributional impacts of policies whose effects may be transmitted through multiple markets or contain menus of different tax, subsidy, quota or transfer instruments (Suewing, 2004).

The CGE is one of the most rigorous cutting edge quantitative methods to evaluate the impact of economic and policy shocks, particularly policy shocks in the economy as a whole. CGE analysis captures a range of economic impacts derived from implementation of a specific policy reforms. CGE models are the best choice if the economic or policy shock to be evaluated is expected to have significant impact throughout the economy.

Critical theory of technology
This theory was developed by Andrew Feenberg. The Critical theory of technology argues that the real issue is not technology or progress per se but the variety of possible technologies and paths of progress among which we must choose. Technology therefore is characterized with arguments about the “trade-offs” between efficiency and substantive goals such as participation or environmental compatibility.

This theory argues that the liberation of humanity and the liberation nature are connected in the idea of a radical reconstruction of the technological base of modern societies.

Resource based view model
Resource Based View (RBV) pays attention to the internal resources that a firm (i.e., the heterogeneous resources that a firm possesses). Considerable emphasis has been given to a firm’s competitive environment and its competitive position (Das and Teng, 2000). The RBV suggests that the resources possessed by a firm are the primary determinants of its performance and these may contribute to a sustainable competitive advantage of a firm (Hoffer and Schendel, 1978; Wernerfelt, 1984).

The Resource Based view is relevant to the proposed study as it focuses directly on market strategy and firm size both of which constitute independent variables of the proposed research. The main emphasis of the model is strategy, internal resources, internal management structures, processes and procedures, all of which are among the sub variables to be measured.

According to Barney (1991), the concept of resources include; all assets, capabilities, organizational processes, firm attributes, information and knowledge among others controlled by a firm that enable it to conceive and implement strategies that improve its efficiency and effectiveness (Barney, 1991; Draft, 1983). Dierickx and Cool (1989a) describe how the sustainability of a firm’s asset position hinges on how easily its resources can be substituted or imitated and imitability is linked to the characteristics of the asset accumulation process; for example time compression diseconomies, asset mass efficiencies, inter-connectedness, asset erosion and casual ambiguity. Barney (1991) highlighted four conditions under which a firm produces competitive advantage. They include resources must be valuable, resources must be rare, resources must be immutable and finally resources must be non-substitutable (VRIN).

Agency theory
The agency theory is a concept that originated from the works of Adolf Augustus Berle and Gardiner Coit Means in 1932 when they explored its application towards the development of large corporations. The theory explains the relationship between two parties namely the principal and the agent. The principal (owner) delegates work to the agent (worker). The two parties have different roles and goals.

In the 1960s and 70s, Michael C. Jensen and William Meckling shaped the works of Berle and Means when they argued that corporations are structured to minimize the costs of getting agents to follow the direction and interests of the principals.

Agency theory uses the rule of delegation in which case the principal delegates duties to the agent. Delegation is beneficial because it overcomes personal limitations given each one of us has limited time, energy and talent (Lupia, 2001). The structure of an organization is an example of delegation as each staff is given tasks to perform in the organization.

Organization structure is the way responsibility and power is allocated inside an organization and the work procedures by employees and members of a given organization. The basic elements of organizational structure are hierarchy, authority, division of labour and procedure. Organizational structure divides tasks and ensures coordination, it trades off, specialization and integration and provides basis for either centralization or decentralization (Isao et al 2013).

This theory best explains the organogram of KTDA and
the same is cascaded to the tea factories that it manages.

Internationalization
The process of internationalization is an outward movement of a firm’s operations from local markets to a wider market (Turnbull, 1985). Firms enter international market through either non-equity modes (exporting) or equity-based modes such as Foreign Direct Investment (FDI). The most important choice in any entry strategy is the selection of the foreign markets that will become the export destinations (Root, 1974; Sarkar and Cuvusgil, 1996).

The process of globalization represents one of the most significant trends that accelerate rapid growth of global strategy. Firms that want to internationalize must decide on a fitting mode of entry into a foreign market in order to make the best use of their resources (Zekiri and Angelova, 2011). They pointed out that companies enter international markets due to the following motives: Foreign markets are growing faster than domestic markets, protecting themselves by counterin

profitability and volume in order to achieve low cost.

John Young, CEO, Hewlett-Packard (in Zekiri and Angelova, 2011) avers that there is no longer any such thing as a purely national economy. The rest of the world is just too big to ignore, either as a market or as a competitor. If business schools do nothing other than to train their students to think internationally, they would have accomplished an important task.

Czinkota and Ronkainen (1995) have divided the motives for entering a new market into proactive and reactive motives including profit and growth, tax benefits, managerial motives and economies of scale, foreign market opportunities. The reactive factors are Small and saturated domestic market, Proximity of international customers/psychological distance, (Medinet, Muchai and Odiyo, 2009), Competitive Pressure, overproduction/excess capacity and unsolicited foreign orders:

Westhead et al., (2002) in their study of small UK firms' motives for going abroad found the following main reasons for exporting their products/services: Being contacted by foreign customers that place orders, one-of-order (no continuous exporting), the availability of foreign market information, part of growth objective of the firm and export markets actively targeted by key founder/owner/manager.

CONCLUSION
Export performance is a critical component of a firm’s performance. The above studies have clearly demonstrated that exporting improves the firm’s profitability and volume of business. Export performance is determined by a number of factors including marketing, firm size, technology and liberalization. Export market is a competitive field that might mean the extinction of brands if we borrow the five forces of Porter’s model.

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