Analysis of Diversification Strategies Adopted by Tea Plantations

B.P. Madhusankha *and* M.G.P.P. Mahindarathna
Uva Wellassa University, Badulla.

Introduction

Sri Lankan plantation crop industry mainly consists of Tea, Rubber and Coconut while tea plays a dominant role in Sri Lankan economy being the plantation crop with extent of 80,185 ha. Plantation crop industries have been listed under 23 Regional Plantation Companies. In a new competitive era, organizations try to improve its performance by applying different strategies namely crop diversification strategies and non-crop diversification strategies. Crop diversification strategies would be diversification out of core crop strategies while non crop diversification seems to be focused on core crop to utilize under - utilized resources to gain maximum efficiency out of them or diversification with non-related business activities (Daud *et al*, 2009). Ultimately, these strategies are applying to boost the performance and stay competitive in the market. But the question here is whether these crop diversification strategies and operations are really improves the company performance. If yes what will be the optimal level which will maximize the performance of the company?

Hence, the main objective of the study is to evaluate the effectiveness of the diversification strategies adopted by Kahawatte Plantations PLC in different perspectives. Other objectives include identification of the impact and relationship of diversification strategies on the performance of the listed diversified estates comes under Kahawatte Plantations Company and determination of the optimum level of crop diversification which maximizes performance of listed diversified estates of Kahawatte Plantations Company.

Methodology

Agricultural farm efficiency measures, namely financial and physical measures were taken into consideration as dependent variables. Both ratio measures and aggregate measures from financial and physical were considered. As financial ratios Operating Cost Ratio (OCR), Fixed Cost Ratio (FCR), Gross Ratio (GR), Benefit Cost Ratio (BCR), Break Even Productivity (BEP), and Cost per Hectare (CPH) were selected while for financial aggregates Gross Expenses (GE), Gross Profit (GF), Gross Income (GI), Gross Margin (GM), and Net Income (NI) were selected. For physical ratios, Yield per Hectare (YPH), Crop Yield Index (CYI), Intensity of Cropping (IOC), Crop Hectarage per Man Equivalent (CHME), and Productive Man Work Unit (PMWU) were taken into consideration, while for physical aggregates Total Area Cultivated (TAC) and Total Production (TP) were selected.

As dependent variable, the Specialization Ratio (SR) was used. It was introduced and used by previous researcher Rumelts (1982) and other researchers have also used modified criteria. This research also used modified criteria which suit for the Plantations Company as Very Highly Diversified, Highly Diversified, Moderately Diversified, Low Diversified, and Very Low Diversified. Then the correlation between the Specialization Ratio and the parameters explained above were tested.

The sampling frame was nine estates of Kahawatte Plantations PLC in the same elevation category in same region. The data collected in the recent past five years from 2007 to 2011 were used in this study. For the analysis, descriptive, correlation and simple regression methods were used.

Table 1: Specialization Ratio (SR) Classification

Category		Criteria
Very High Diversification	40<SR≤52	Sales proportion from the core product is equal or lower than 52% larger than 40% (40<SR≤52)
High Diversification	52<SR≤64	Sales proportion from the core product is more than 52% and less than 64% (52<SR≤64)
Moderate Diversification	64<SR≤76	Sales proportion from the core product is more than 64% and less than 76% (64<x≤76)
Low Diversification	76<SR≤88	Sales proportion from the core product is more than 76% and less than 88% (76<x≤88)
Very Low Diversification	88<SR≤100	Sales proportion from the core product is higher than 88% (88<SR≤100)

Results and Discussion

According to descriptive statistics (Table 2), it was revealed that plantation company performance in different perspective is diverse even the same level of diversification is maintained. In total, Plantations Company positioned in a level of moderate level of diversification which valued SR as 0.73 according to researcher criteria.

Table 2: Descriptive statistics results of degree of diversification

Dimension	Performance Indicator	Mean	Minimum	Maximum
Degree of Diversification	Specialization Ratio (SR)	0.7300	0.5800	0.9900

Table 3: Pearson Correlation Results

Dimension	Indicator	Correlation Coefficient	Status of Correlation
Financial Ratio	OCR	0.658	Strong Positive
	FCR	-0.290	Weak Negative
	GR	0.230	Weak Positive
	BCR	0.086	Weak Positive
	BEP	-0.004	Weak Negative
	CPH	0.497	Strong Positive
Financial Aggregate	GE	0.640	Strong Positive
	GP	0.214	Weak Positive
	GI	0.285	Weak Positive
	GM	0.497	Strong Positive
	NI	0.236	Weak Positive
Physical Ratio	YPH	0.342	Weak Positive
	CYI	0.328	Weak Positive
	IOC	0.592	Strong Positive
	CHME	-0.255	Weak Negative
	PMWUPMEF	-0.124	Weak Negative
	PMWU	0.827	Strong Positive
Physical Aggregate	TAC	0.512	Strong Positive
	TP	0.579	Strong positive

Simple Linear Regression Model yielded following results.

Table 4: Regression Results

Dimension	Indicator	Coefficient	P-Value
Financial	OCR	0.303	0.000*
Ratio	FCR	-0.140	0.050*
	GR	0.119	0.129
	BCR	0.185	0.575
	BEP	-20	0.977
	CPH	480842	0.001*
Financial	GE	1.9218	0.000*
Aggregate	GP	27689946	0.159
	GI	83269526	0.058**
	GM	7406877	0.651
	NI	62986457	0.119
Physical	YPH	1865	0.021*
Ratio	CYI	1.09	0.028*
	IOC	0.265	0.000*
	CHME	- 0.345	0.091**
	PMWUP	- 38.6	0.417
	MEF		
	PMWU	6117	0.000*
Physical	TAC	321	0.000*
Aggregate	TP	841110	0.000*

*Significant at 0.05 or less, **Significant at 0.10 or less

Conclusions

According to the findings of the research, overall diversification strategy of the company maintained at a moderate level of diversification considering aggregate financial measures. In different level of diversification, performance also varies while diversification is better-off and also worse-off in different perspectives. Therefore the level of diversification should maintain at a level where company is most preferably looking at. Further modification and improvements towards methodology will be facilitating researchers to generalize these in to Sri Lankan Plantations industry as a whole.

References

Daud, W.M.N.W., Salamudin, N.B., and Ahmad, I.B., 2009. Corporate Diversification And Performance, IBEJ Vol.2 Issue No.1

Pandya, A. M., and Rao, N. V., 1998. Diversification and Firm Performance: An Empirical Evaluation, Journal of Financial and Strategic Decisions Vol.2 Issue No.1

Rumelt, R. P. 1982. Diversifcation Strategy and Proftability. Strategic Management Journal, Vol.3 Issue.4, pp 359-369