

Analysis of Factors Affecting for Tea Exporters' Perception on Value Addition

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Introduction

Sri Lanka is a country which is having a predominant agricultural economy. With the effects of globalization, the country is looking forward to strengthen the economy through the export expansion. Tea is one of major exporting crops in Sri Lanka which contributes to the growth of country's economy. Sri Lanka is recognized as one of the largest tea exporter in the world. Ceylon tea enjoys a reputation as world's superior quality tea due to its unique flavor and aroma. Though the Ceylon tea having the best recognition in the world market, it is gradually losing the market share due to escalating cost of production and continuous focus on undifferentiated bulk tea exports.

The term "value added" in contemporary use means additional domestic processing of primary commodities, though it is a concept derived from national income accounting, which literally means the return to the factors land, labor, and capital employed (Mauldon, 1991).

In general, the earnings from value added forms are about 2.5 times higher than that of bulk form. World is moving towards the value addition and Sri Lanka exports only 42% of teas as value added tea. This implies that the large quantity of tea is exported in bulk form and it could further reduce the market share. Further, because of uncompetitive definition adopted for value addition, even all the exports below 2kg pack size go as value added tea. On the other hand, the benefits from value addition are automatically goes to our competing countries that import our bulk or primary value added tea for value addition and re-export purposes. To retain those earnings within the country and to consolidate our position as leading tea exporter, the focus on value addition should be promoted among the tea exporters.

The research study was carried out to ascertain the factors affecting the tea exporters' perception on value added decision and it is also aimed at finding out the gaps between responsible authorities for value addition like Sri Lanka Tea Board (SLTB) and Export Development Board (EDB) and the tea exporters in the course of value addition.

Methodology

The research study was carried out with main tea exporters in Sri Lanka. There are 50 main tea exporters in Sri Lanka according to the Tea Board statistics. Almost all the exporters are concentrated to Colombo district. Out of which, 30 exporters were selected to carry out the research. Random sampling technique was used in selecting exporters for the research. For obtaining data, questionnaire survey method and key informant interviews were used. Descriptive statistical techniques were used in summarizing and describing sample population data in an abbreviated form and a multiple regression model was adopted in determining the extent to which the identified variables affect to the dependent variable.

Results and discussion

The decision for value addition in tea is affected by several factors and the regression model developed in presented in Table 1.

Table 1: Factors affecting on tea exporter's value added decision – Multiple regression analysis

Variables	Coefficient	P
Constant	- 46.6775**	0.0433
Attitudes - X ₁	1.47349**	0.0172
Market - X ₂	0.87441***	0.0006
Technology - X ₃	-0.05562	0.7703
Support services - X ₄	2.28835***	0.0089
Framework conditions - X ₅	1.72000**	0.0427
Quality - X ₆	4.11341	0.0862
Financial factors - X ₇	-3.00869	0.1230
Inputs - X ₈	1.54036	0.2738
Branding - X ₉	2.26647**	0.0365

$$R^2 = 0.8114$$

$$\text{Mean Square (MSE)} = 19.2008$$

$$\text{Adjusted } R^2 = 0.7266$$

$$\text{Standard deviation} = 4.38187$$

* Indicates statistically significant at 90 percent level ($P < 0.1$)

** Indicates statistically significant at 95 percent level ($P < 0.05$)

*** Indicates statistically significant at 99 percent level ($P < 0.001$)

The variables like attitudes, market, support services, framework conditions like government policies and branding are significant under 5% significance level and only market and support services are significant under 1% significance level. This implies that above mentioned variables are heavily affecting the dependent variable, the production of value added tea.

According to the calculations, R^2 is 0.8114 and adjusted R^2 is 0.7266; this indicates that 81% of dependent variable is explained by the above variable combinations and the narrow gap of 0.0848 between the R^2 and adjusted R^2 indicates that double counting of the affect of variables is minimized in this model.

The result indicates, the attitudes factor towards the production of value added tea is significant under 0.05 significant levels and the coefficient is 1.47349. For value added decision, it is a must to have positive attitudes and almost all the exporters having those positive attitudes. Market also a main factor which pushes the exporters towards the value addition which is significant under 0.001 significant levels and the coefficient is 0.87441. This implies that higher market demand and the market accessibility facilitate the value addition. Support services are another important factor which encourages the exporters towards value addition which is significant under 0.001 significant levels and the coefficient is 2.28835 and it implies that there is strong effect on support services on value addition. Framework conditions are also a depending factor on value addition which is

significant under 0.05 significant levels and the coefficient is 1.720. This emphasizes that, if there are strict government rules and regulations on value addition it could improve the production of value added products. Branding is the essence of the value addition which is significant under 0.05 significant levels and the coefficient is 2.26647. This signifies that strong branding procedure motivate exporters towards the value addition. Quality of products and the inputs are not significantly affecting on value added decision, because Ceylon tea always maintains the superior quality and all the inputs used for tea manufacturing is strictly monitored and those should be certified by the SLTB. Technology and the financial factors are not significant to the value added decision this may be because of exporters are keen in acquiring those factors by various mean as the returns are very much high.

The main gap between the SLTB and EDB with the exporters is the market facilitation. Both SLTB and EDB have stopped the sponsoring for trade shows for exporters and they only act as facilitators. Further, the authority mediation to ease out the procedures for importing new machineries and some inputs needed for value addition are not at the satisfactory level of the exporters.

The study further revealed that the government has increased the tax imposed on bulk tea exportation and it is prohibited the importation of any black tea with the sole intention of motivating the exporters towards the value addition. The quality of the Ceylon tea and the strong branding is very much favorable for value addition as SLTB strictly monitored the quality of products to capture the market and the brand loyalty.

Conclusions

Perception towards value addition is governed by number of factors where the factors like attitudes, market, support services and framework conditions very significant. Quality would not be a significant factor in value added decision as all most all the exporters have acquired quality certifications and required technology by now. Realizing the benefits of the returns, exporters are not considered the financial factors as very significant factors given the condition of government due support and facilitation.

References

- Mauldon, R. G. 1991. Concluding Comments. In: Copeland, L., Ahmadi, F.(Eds.), *Product Processing Marketing: Proceedings of the Grain Research Symposium 1991*, Faculty of Agriculture, University of Sydney. 99-104.