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Performance of the Sri Lankan Value-Added Tea Producers: An Integration of Resource and Strategy Perspectives

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Abstract

This research examined the status of sources of competitive advantage and their influence on the performance of value-added tea producers in Sri Lanka using the strategy and resource perspectives of the competitive advantage paradigm. It aimed to extend the literature on competitive advantage by examining whether these perspectives influence firm performance within an agribusiness sector of a developing country.

Both strategy and resource perspectives and the relationship between them were considered in the analytical framework. Primary data came from 40 of the 47 value-added tea producing firms registered at the Ceylon Chamber of Commerce in 1999. Initial assessment of firm characteristics revealed high heterogeneity among the firms in experience, involvement with businesses other than tea, market focus, managerial talent, involvement in the overall tea industry and branding.

Multi-method, multivariate statistical techniques were performed based on the value-added tea industry segment-specific sources of competitive advantage. Core resources based on the dimensions scale, skill, brand equity, managerial talent, experience effects and backward integration, and core strategies based on the dimensions production, marketing, promotion, product development, quality and competitive strategies were selected. Initial factor analyses revealed four distinctive resource and six distinctive strategy patterns. Strategic groups formed based on both these patterns showed that Ward's method outperformed both average linkage and centroid methods. Three groups were identified: *private labelling oriented* (strategic group one), *niche market oriented* (strategic group two) and *mass market oriented* (strategic group three) based on the nature of the firms comprising the groups.

Discriminant analysis showed that the three strategic groups differ significantly in their resource and strategy patterns, with the third group being the strongest with respect to both. Kruskal-Wallis one-way analysis of variance and chi-square procedures indicated that this group was associated with strong mobility barriers and the greatest performance differences. No performance differences were apparent between the first and the second groups. The significant differences across these three strategic groups in

terms of both resource — and strategy-based sources of competitive advantage — demonstrated the importance of incorporating a mix of variables in strategic group formation.

Although canonical analysis revealed a significant relationship between strategy and resource patterns, resource patterns explained only 21 per cent of the variance of the strategy patterns. The analysis indicated that the Sri Lankan value-added tea producing firms' choice of, and ability to perform, a particular strategy are weakly associated with their core resource strength. Factor analysis regressions indicated that both resource and strategy perspectives contribute to explaining firm performance. However, the explanatory power of the model based on the strategy perspective was shown to be weaker than that of the models based on the resource and integrated resource and strategy perspectives. The integrated model based on resource and strategy perspectives outperformed the other models.

Resource-based sources of competitive advantage — skill, managerial experience, size of firm, brand awareness and backward integration — showed a positive influence on firm performance. Of the strategy-based sources of competitive advantage — tea imports, outward foreign direct investments, high perceived competitive advantage, proportion of tea exports, adoption of the Lion logo and the use of trade fairs — showed a positive influence on firm performance. Although prior research and theory have emphasised brand marketing, advertising and product development strategies in creating a unique position and meeting competitive challenges, none explained firm performance.

Derived regressions of the three strategic groups revealed that resource patterns have more consistent relationships with firm performance across the groups than do strategy patterns. The level of influence of resource and strategy patterns on firm performance of these three strategic groups was shown to be different. These revealed that any assistance programmes that aims at developing sources of competitive advantage and enhancing firm performance should be created by considering strategic group differences.

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Glossary

ANOVA	Analysis of variance
ASEAN	Association of South East Asian Nations
CIS	The Commonwealth of Independent States
CTC	Cut, tear and curl tea
FDI	Foreign direct investment
FOB	Free on board prices
GDP	Gross domestic product
ISO	International Organisation for Standardisation
ITC	International Tea Committee
MNCs	Multinational companies
MT	Metric tonnes (1 MT = 1,000 Kg)
NIEs	Newly industrialised economies
RBV	Resource-based view
Rs	Sri Lankan Rupees
RTD	Ready-to-drink tea
SCP	Structure- conduct- performance
SBV	Strategy-based view
TRI	Tea Research Institute
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
US$	United States dollar
USSR	Union of Soviet Socialist Republics/Soviet Union
VAT	Value-added tea