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# AN EMPIRICAL STUDY ON TEA EXPORT COMPETITIVENESS IN SRI LANKA: BASED ON PARTIAL LEAST SQUARES STRUCTURAL EQUATION MODEL (PLS-SEM)

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## ABSTRACT

Export development plays an important role in promoting economic growth and development. Understanding of export competitiveness has primarily been pursued in terms of economic variables and market conditions. The study involved an investigation into the determinants of export competitiveness of tea industry in Sri Lanka and to develop a framework to enhance the competitiveness of tea industry. Quantitative research approach was used and Porter's diamond model with some adaptations was taken as proposed model of this study. E-mail survey compromised with the structured questionnaire was used to collect primary data from the sample. Key managers of tea exporting firms were considered as the respondents. Partial least squares structural equation model (PLS-SEM) was utilized to analyze the contribution of each factor on tea export competitiveness. The data obtained from the firm level survey were analyzed using Smart PLS version 2.0 statistical packages. Supported by the empirical evidences this study found out that factor conditions have the most significant influence of export competitiveness of tea industry and the second important is government support. Followed by government support, demand condition and brand loyalty have also made positive impact on export competitiveness of tea industry in Sri Lanka. While identifying important elements, results indicated that raw material, technology, physical infrastructure, information infrastructure, related industries, and firm characteristics have significant impact. Giving priority to those elements strategies should be developed to enhance competitiveness of Sri Lankan tea export. By creating favourable conditions, Sri Lanka can remain competitive position in the global tea industry for many years to come.

## KEYWORDS

Tea industry, Competitiveness, Porter's diamond model, Partial least squares structural equation.

## 1. INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

The process of economic integration, globalization and technological advancement strengthen export development of nations. Export development plays an important role in promoting economic growth and development. It contributes significantly to enhance capital inflow, reduce trade balance deficits, make balance of payment (BOP) surplus, increase employment and expand the production base of a nation. As a result of increasing size of international trade, the concept of export competitiveness plays a vital role in international trading system. Export competitiveness has been paid more attention in order to develop export portfolio of nations. To promote economic development and survival in the global competitive market, export competitiveness is an essential component of a country.

The nation's long-term survival depends on how it compares with other countries which produce similar products. For small economies, export is substantial in sustaining growth and vitality (Saboniere, 2009, p.49). Considering the time period; in 1950, share of export of GDP was 28 percent in Sri Lanka, 1970 it was 20 percent, in 2000 it was 33 percent, 2005, 26 percent, 2007, 24 percent, 2009, 17 percent, 2010, 18 percent, 2011, 18 percent and last recorded in 2012 it was 16.67 percent (Central Bank Reports). There is no significant expansion of foreigners' demand for Sri Lanka's products. Since 2005, economic growth has recorded above 6 percent and last two years (2010 and 2011) it reached to 8 percent. Declining tendency of export share of GDP indicates that Sri Lanka was unable to raise its export at least at the same rate as GDP growth. Depending on domestic market is not a good development signal for a country like Sri Lanka because it does not have a strong domestic market compared to India and China. Sri Lanka being a tiny economy has an insignificant share of exports in the world exports. It is even less than 1%. Sri Lanka's share in the world total export has declined drastically from year 2000 to 2012. Based on the International Trade Center (ITC) statistical data, Sri Lanka's share in world export; 2000 – 0.08 percent, 2005 – 0.06 percent, 2009 – 0.05 percent, 2010 – 0.048 percent 2011 – 0.04 percent and 2012 – 0.055 percent. It depicts that when the world exports have been rising, Sri Lanka has failed to keep pace with the global growth trends. It demonstrates the existence of a serious structural problem relating to Sri Lanka's export sector and immediate measures must be applied to correct those structural issues. To sustain high economic growth, it has to sustain its export market share. Considering the above mentioned situation, it can be identified that Sri Lanka has to expand its export sector.

### 1.2 TEA INDUSTRY

Among the export composition, tea, as the highest net foreign earning sector, provides significant contribution to the country's economy. The study focused on Sri Lankan tea industry because of its long history and its position as one of the key player in the global market. It is the third largest agricultural industry and second largest exporter in Sri Lanka. Sri Lanka tea industry celebrates 146 years of commercial history in 2013. The tea industry initiated by the British played an important role in the economy during pre and post-independence Sri Lanka. Since independence in 1948, tea along with rubber and coconut contributed more than 92 percent of total export earnings of Sri Lanka. Since 1867, tea has become the key industry in economy of Sri Lanka. As the highest net foreign exchange generator, tea is considered to be the most important agri business in the country. It also accounts nearly 10 percent contribution to national output and generates more than 10 percent employment opportunities directly and indirectly (nearly 2 million employed) (SL Tea Board, 2013). Sri Lanka is one of the leading tea exporting country in the world. Since the global tea market is very competitive, the tea industry in Sri Lanka has not performed well in the global market, especially concerning about the global market share, compared to other tea exporting countries like; Kenya, China and India. During the last decade, the country's relative position in terms of export market share shows a considerable decline (Table: 1.1).

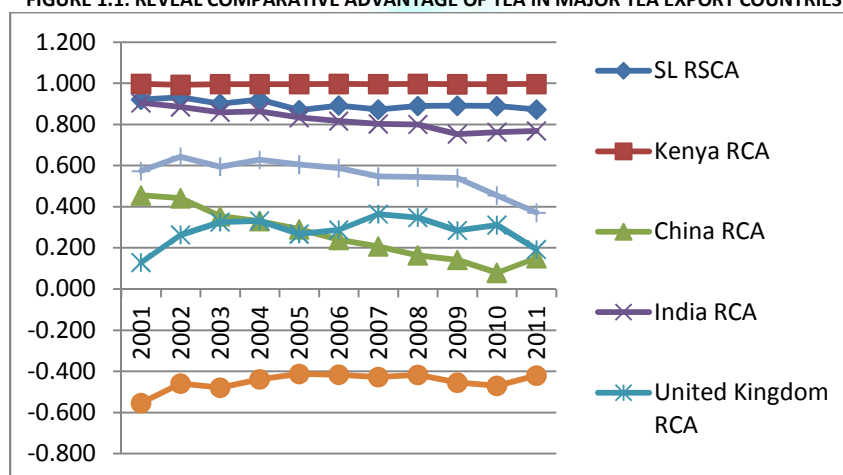
TABLE 1.1: MARKET SHARE OF THE MAJOR TEA EXPORTING COUNTRIES

Share of world export (tea) %	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sri Lanka	26.1	25.7	22.5	21.6	22.1	20.9	22.6	22.9	21.6	20.4	20.3	20.0
Kenya	15.2	5.6	16.1	13.7	15.6	15.8	15.5	16.9	16.4	18.2	18.5	18.9
China	11.6	13.1	12.3	12.9	13.3	13.1	13.4	12.4	12.9	12.3	14.4	16.5
India	14.4	12.8	10.5	11.3	10.6	9.9	9.6	10.2	10.2	10.9	12.9	12.9

Source: International Trade Centre (2013)

The highest tea export share, nearly 18 percent, goes to Russia and nearly 12 percent goes to United Arab Emirates (UAE). Other countries like Iran, Syria, Iraq and Turkey share is less than 10 percent of total tea export. Analyzing major tea exporters, the amount of tea exported to Russia and UAE, it is clearly identified that export share of those countries fluctuated from time to time (from 2001 to 2012). For an example, considering Russia, export share reduced from 20 percent to 16 percent and in UAE it declined from 13 percent to 6 percent. While considering export destinations of Kenya, export share of UAE and Russia has increased significantly. An amount of tea that Russia imported from Kenya has increased from 5125 metric tons to 11821 metric tons during the time period from 2002 to 2011. The revealed comparative advantage of the competitors, especially Kenya, has significantly increased which adversely affects the tea industry of Sri Lanka (Figure: 1.1). This clearly highlights that Sri Lanka is losing its tea export competitiveness compared to other major tea exporters.

FIGURE 1.1: REVEAL COMPARATIVE ADVANTAGE OF TEA IN MAJOR TEA EXPORT COUNTRIES



Source: Compiled by authors based on International Trade Centre (ITC) statistics

### 1.3 PROBLEM STATEMENT OF THE STUDY

The main problem of this study is why Sri Lankan tea industry lost its export competitiveness? To address the main research problem, it is necessary to identify the factors which affect on export competitiveness in Sri Lankan tea industry. Therefore, the specific research question is; what are the determinants of export competitiveness as pursued by the firms in tea industry in Sri Lanka?

### 1.4 OBJECTIVES OF THE STUDY

The primary objective of this study is to identify the factors which affect export competitiveness of tea industry in Sri Lanka. It is required to develop a model in order to answer the question, what are the determinants of export competitiveness of tea industry in Sri Lanka.

#### 1.4.1 SUB-OBJECTIVES:

To study the current status of tea industry in Sri Lanka

To suggest strategies to increase the strength of tea industry's international competitiveness

### 1.5 SIGNIFICANCE OF THE STUDY

The study attempted to develop a model in order to answer the question, what are the determinants of export competitiveness of tea industry in Sri Lanka by drawing attention on Porter's theory of the competitive advantage of nations. This study also introduced partial least square structural equation model (PLS-SEM) to quantitatively analyze the contribution of each determinant to tea export competitiveness. The framework, which developed in this study, should help policy makers and industry associations to assess their export competitiveness. It will also help to promote certain industries by directing scarce resources to sectors where they may count the most. The findings of the study can also be useful to identify industries which have fast growing behavior.

### 1.6 STRUCTURE OF THE PAPER

The study has five major chapters. After the introduction, the second chapter provides a conceptual review of literature which assists the theoretical foundations for the development of the conceptual framework of competitiveness. Thereafter, chapter three provides the description and justification of the methodology of approach to the study. Data analysis and findings are illustrated in chapter four. Chapter five carries out the discussion of the findings.

## 2. LITERATURE REVIEW

### 2.1 COMPETITIVENESS

The global economies have five basic characteristics (Prokopenko, 2000); intensified global competition and emergence of new production, innovative technological environment, proliferation, spread and restructuring of transnational corporations, diversified global financial system and changes in the state's role in domestic and global economic affairs. Competitiveness can be applied to economies, countries, regions, industries, individual firms and individual product or service (Shafaei, 2009). At the level of individual firms, competitiveness is the ability of a firm to survive and prosper, given the competition of other firms for the same profits. Creating and sustaining competitive advantage required that a firm always stay ahead of its competition. According to Hoeffter, 2001, a nation's industry is competitive relative to other nations' industries if the industry as an aggregate has a competitive advantage that allows it to consistently create higher value and higher profits than rival industries in other nations. At the level of national competitiveness, the term is typically used to describe either a nation's ability to sustain high productivity, leading to higher standards of living for its citizens.

In scientific literature, competitiveness is discussed under two basic approaches, namely; classical approach and neo-classical approach (Bruneckiene and Paltanaviciene, 2012). The classical approach considers competitiveness as a dynamic contest process, whereas in the neo-classical approach, as a specific structure of the market. Taner, Oncu and Civi (n.d) regarded international competitiveness as the fuel for the engine of growth because it is the instrument that empowers the engine. To improve productivity and competitiveness, nation should compete in creating the policy, structure and institutional framework. Competitiveness is the name to describe the economic strength of a nation, industry or individual firm (Srivastava, Shah and Talha, 2006,). The concept of competitive advantage is widely used in modern economic literature to evaluate the patterns of trade and specialization of countries in commodities which have a competitive advantage (Saboniene, 2009).

According to the International Institute for Management Development (IIMD), "competitiveness is the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people' (IIMD, 2009, p.475)



As Porter (1990(a), p.73) mentioned, "competitive advantage created and sustained through a highly localized process. Differences in national values, culture, economic structures, institutions and histories all contribute to competitive success"

Considering the above definitions, competitiveness can be referred as a country's ability to create, produce and distribute products in international trade while increasing returns on its resources.

## 2.2 EXPORT COMPETITIVENESS

Export is often associated with competitiveness of the country at the international level. As Bruneckiene and Paltanaviciene (2012) mention, in scientific literature, international competitiveness is often identified with exports. Krugman (1994) argued that, export is obviously important for the country competitiveness. Export expansion within external market increase export revenue and diversity of export structure can be considered as the country with necessary competitiveness. The competitiveness of export causes the nation to command greater market shares sustain the level of revenue, income, and employment created in the various sector of economy. Export competitiveness involves, measuring international share, diversifying export baskets, sustaining high rate of export growth, upgrading the technology, and skill content of export activity and expanding the base of domestic firms to compete internationally (Nogami, 2008).

Considering the above mentioned factors export competitiveness is identified as the reflection of national competitiveness. Then why a country needs to identify the determinants of export competitiveness? As Bruneckiene and Paltanaviciene (2012) mentioned, without identifying factors affecting on competitiveness, it cannot be improved. The academic understanding of export competitiveness of a country is still forming and determinants of export competitiveness are still being identified.

## 2.3 PORTER'S DIAMOND MODEL

Competitive advantage was coined by Michael Porter in 1990, assessing that competitive advantage was created and sustained by firms' ability to innovate and improve the quality of products and production process through technological advancements (Porter, 1990b). "Porter's diamond framework is not a new theory that explains the competitiveness of countries, but rather a framework that enhances the understanding of the international competitiveness of firms" (Smit, 2010, p.105).

There are rich literatures on Porter's diamond model, Watchravesringkan *et al.*, (2010), Jin and Moon (2006), Bakan and Dogan (2012), Prasad (2000), Prasad (2004), Dunning (1993), Sun *et al.*, (2010), Ariyawardana (2001). Porter's diamond model revealed that a nation cannot succeed based on the isolation of industries. A nation's success in a particular industry is driven by four interrelated determinants, namely; factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries. The model also suggested that the government should act as a challenger for industry to aspire higher level of competitive performance.

Factor conditions determinants include the production factors necessary to compete in a given industry (Porter, 1990b), such as; human resources, physical resources, knowledge resources, capital resources and infrastructure. Demand conditions are the pressures based on buyers' requirements about quality, price and services in a particular industry. Demand conditions make the direction of innovation and product development. Firm strategy, structure and rivalry refer to the conditions in the nation governing how industries are created, organized and managed, as well as the nature of domestic rivalry. Related industries are those in which organization can allocate production activities in the value chain. Supporting industries create potentials for competitive advantage by producing inputs, providing new technologies and opportunities to utilize new technology and transferring of knowledge. Apart from the main four factors, Porter argued that there are two other determinants of national competitiveness, chance and government role. A government can positively or negatively influence each determinant which contributes to nation's competitive advantage.

It is clear from literature that Porter's diamond model is not about trade, patterns of trade gains from trade, but it is rather a general framework for analyzing the determinants of advantage that enhance the international competitiveness of firms (Smit, 2010). Esterhuizen and Rooyen (2006) determined the factors influencing the competitiveness of agricultural exporting firms in South Africa. Porter's diamond model is used to identify the key factors that influence competitiveness of agriculture exports. Hoeft (2001) applied quantitative model on Porter's diamond model. The quantitative model included 17 elements and each is related to one of the determinants of Porter's diamond model. Korean textile industry's competitiveness investigated by Jin and Moon (2006) using Porter's diamond model framework. Shafaei (2009) emphasized that, Porter's diamond model of competitive advantage provides a good basis for identifying the determinants affecting the competitive performance of the synthetic fiber industry in Iran. Thailand apparel industry's competitiveness was studied by Watchravesringkan *et al.*, (2010) drawing attention on Porter's theory of the competitive advantage of nations. J.E Austin Association Inc. and Sri International (1998) developed the Porter's diamond framework for Sri Lanka (cited on Ariyawardana, 2001).

The most of empirical studies on determinants of export competitiveness [(Watchravesringkan *et al.*, (2010), Jin and Moon (2006), Prasad (2000), Prasad (2004), Dunning (1993), Ariyawardana (2001), Olmenda and Varela (2012)] are based on qualitative approach. There are limited numbers of studies (Shafaei (2009), Hoeft (2001) which applied both quantitative and qualitative model to identify the factors affecting on export competitiveness based on Porter's diamond model. To develop a model to analyze the interactions among the competitiveness factors of the real estate industry in Beijing and Tianjin Sun *et al* (2010) used Porter's diamond model. This study utilized structural equation modeling (SEM) to analyze the factors affecting on real estate competitiveness. In the model of Sun *et al* (2010), competitiveness factor was used as variable of firm's strategy, structure and rivalry of Porter's diamond model. The researchers argued that firms need a strategy to set direction for themselves and to outsmart competitors. Strategy enables the firm to concentrate its resources and exploit its opportunities and its own existing skills and knowledge to very fullest. By inspiring the work done by Sun *et al* (2010), Bakan and Dogan (2012) studied the main factors that affect the competitiveness of textile, food, and jewellery sectors of Kahramanmaraş using Porter's diamond model. To measure competitiveness firm's strategy, structure and rivalry was used in the diamond model. Therefore, it is more vital to apply quantitative approach to identify determinants of export competitiveness of tea industry in Sri Lanka.

In addition to main determinants of export competitiveness introduced in Porter's diamond model, there may be many factors affecting export competitiveness. As Porter (1990(a)) mentioned differences in national values, culture, economic structures, institutions and histories all contribute to competitive success. While analyzing respondents' ideas in pilot survey relating to the influencing factors on tea export competitiveness in Sri Lanka, branding Ceylon tea; as high quality tea, make great impact to gain competitive advantage to tea industry. The concept of brand loyalty is comparatively more important for tea industry, especially for those who provide product with little differentiation and compete in dynamic environment. And also Sri Lankan tea is world famous for its rich aroma and taste. Then it is important to identify whether brand loyalty is a determinant of competitiveness of tea industry in Sri Lanka.

## 2.4 BRAND LOYALTY

"Brand has become so strong that hardly anything goes unbranded, even fruits and vegetables" (Wickramasinghe and Liyanage, 2009, p.58).

Brand loyalty brings competitive advantage to the firm. It is based on thorough understanding of the firms' customers' behaviour and business environment. There are two components that affect brand loyalty namely; buying behaviour and attitudes behind the purchase. Consumer satisfaction is integrated as a dominant factor of purchase intentions of the customer. A brand needs to concern about a customer in terms of satisfaction. Trust in the brand derives attitude behind purchase of product. A consumer who trusts a firm is likely to trust its brand. Firm's experience and quality of the product are concerned as influential factors on trust in the firm.

As Panyachokchai (2013) mentioned, brand loyalty is an important factor to keep long-term customers to use a product and also it is very important for firms to make a business plan and gain competitive advantage. Brand loyalty represents a favourable attitude towards a firm resulting in consistent purchase of the product over time and it is the result of consumers' learning that one brand can satisfy their needs (Assael, 2001). According to the study of Wignaraga (2008), there is a positive relationship between orders from leading buyers and export performance of the firm. To support Wignaraga (2008) argument, Brenic, Ekar and Virant (2001) explored the influence of buyers' behaviour on export performance in Slovenian international firms. Nawaz and Usman (2012) attempted to provide a broad view of brand loyalty by proposing a model. The key findings of the study revealed that consumer satisfaction, organizational commitment and trust are major antecedents of brand loyalty. In addition to satisfaction they revealed that there is a connection between trust and brand loyalty. Selnes (1998) explained that firm's reputation and customer's satisfaction has positive relationship with brand loyalty. Trust in the brand is outcome of the trust in the firm.

The characteristics of the firm can influence the degree to which consumers trust in the brand (Lau and Lee, 1999). A consumer's knowledge about the firm's characteristics is likely to affect his or her assessment of the brand. The characteristics of the firm proposes to affect a consumer's trust in a brand are the consumer's trust in the firm. Lages and Montgomery (2004) emphasized that there is a significant relationship between firm characteristics and export performance. As firm characteristics, they considered; export commitment, international experience, firm size and quality certificate obtained. Panyachokchai (2013) revealed that trust in terms of credibility was the most influencing factor on brand loyalty.

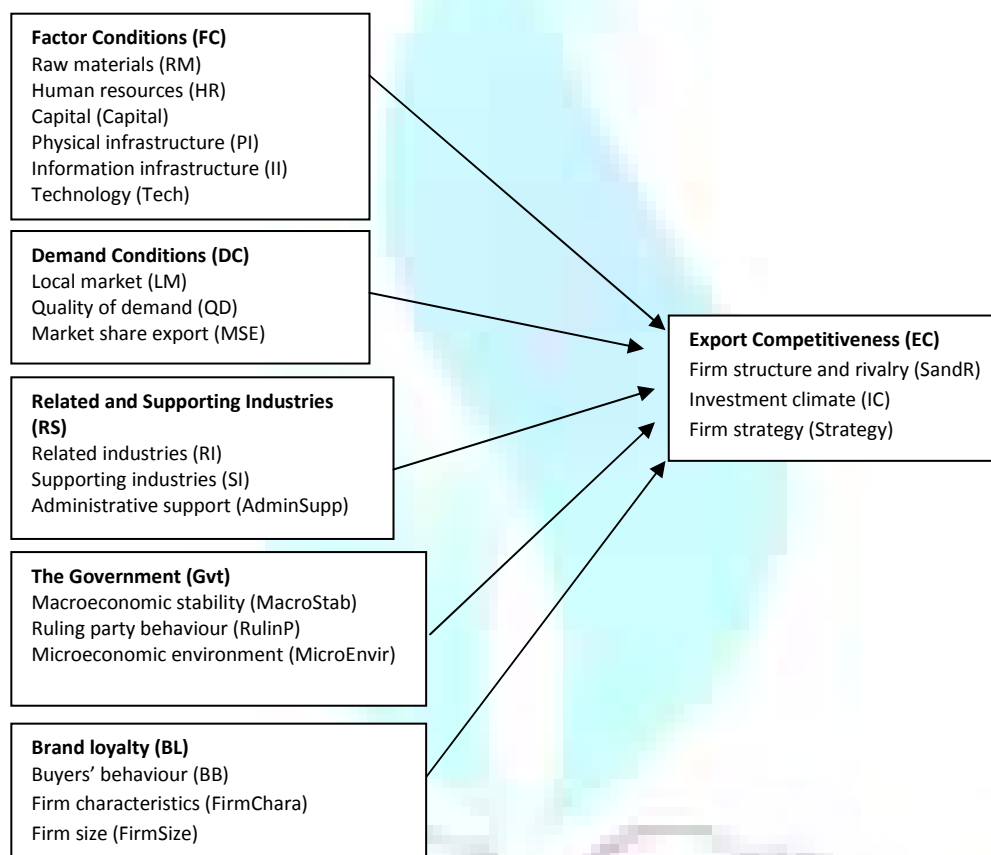
### 3. RESEARCH METHODOLOGY

This study used quantitative approach to investigate determinants of tea export competitiveness in Sri Lanka. As Amaratunga *et al.*, (2002) mentioned primary goal of the quantitative research is to describe and understand the strength of relationships in order to establish causal associations among objectively specified variables through testing hypotheses derived from predictive theories.

#### 3.1 CONCEPTUAL FRAMEWORK

The proposed model in this study is based on Shafaei's (2009) approach, Sun *et al* (2010) and Bakan and Dogan (2012) model which are adopted from Porter's model. To develop a model to analyze the interactions among the competitiveness factors of the real estate industry in Beijing and Tianjin Sun *et al* (2010) used Porter's diamond model. In this study researchers argued that three variables of the diamond model; factor conditions, demand conditions and related and supporting strategy, affect the competitiveness factor. As competitiveness factor, firm strategy, structure and rivalry of the diamond model was used. Researchers used structural equation model (SME) to support their arguments. Firm's strategy, structure and rivalry explains how a firm or industry is originated, systemized and managed the domestic competition that could support a firm or industry to achieve a sustained competitive advantage internationally. The conceptual framework of the study is illustrated in Figure 3.1.

FIGURE 3.1: CONCEPTUAL FRAMEWORK OF THE STUDY



Source: Porter (1990, p.60) with adaptations Shafaei's (2009) and Bakan and Dogan (2012)

#### 3.2 POPULATION AND SAMPLE

Target population of the study consisted with individual firms which are engaging in tea export in Sri Lanka. According to industry statistics there are 177 firms engage in tea exporting (Sri Lanka Export Development Board, 2012). To fulfill the theoretical requirements of sample size, 177 firms were taken as the sample of this study.

#### 3.3 DATA COLLECTION

In Sri Lankan context, it is difficult to gather relevant data which suite to measure the desired model. To overcome the difficulty of collecting data from secondary data sources, this study decided to rely on primary data sources to achieve the main objectives. The data were obtained by using structured questionnaires. Questions in the questionnaire were designed as structured questions in terms of gathering information on ordinal scale form. The ordinal scale is ranging from 1 (strong disadvantage) to 5 (strong advantage) with the neutral point of 3 (neither competitive advantage nor competitive disadvantage). Responders' ideas and views related to the tea industry and influencing factors on export determinants were asked with the open-ended question in the questionnaire. Key managers in the tea exporting firms in Sri Lanka were chosen as the respondents of this study. Electronic mail (e-mail) survey was used to collect information.

#### 3.4 STATISTICAL METHOD

To identify the importance of particular factors for the competitiveness of tea export in Sri Lanka, structural equation modeling (SEM) is an appropriate technique. SEM is a very general statistical modeling technique which represents factor analysis, path analysis and regression analysis. With the arising of issues related to data characteristics (non-normal data) and sample size in SEM, partial least squares structural equation model (PLS-SEM) was introduced. According to Monecke and Leisch (2012), depending on the researcher's objectives and the view of data to theory, properties of the data at hand or level of theoretical knowledge and measurement development, PLS-SEM path modeling is more suitable. PLS-SEM application has expanded in recent years with various disciplines. PLS-SEM works particularly well with small sample sizes. As a popular rule of thumb for this model estimations (Hair *et al.*, 2012), sample size should be ten

times the maximum number of path in the constructed model. Smart PLS version 2.0 statistical package was employed to perform PLS-SEM application of this study.

### 3.5 HYPOTHESES DEVELOPMENT

According to the model, the following research hypotheses are defined;

H1: The factor conditions have a positive effect on the export competitiveness of tea industry in Sri Lanka

H2: The demand conditions have a positive effect on the export competitiveness of tea industry in Sri Lanka

H3: The related and supporting industries have a positive effect on the export competitiveness of tea industry in Sri Lanka

H4: The government has a positive effect on the export competitiveness of tea industry in Sri Lanka

H5: The brand loyalty has a positive effect on the export competitiveness of tea industry in Sri Lanka

## 4. RESULTS AND DISCUSSION

The main survey was conducted using 177 tea exporting companies. Of the 177 tea exporters, 129 responded. 6 questionnaires were not completed properly therefore those 6 questionnaires were removed from statistical analysis. Finally, 123 questionnaires were taken to conduct statistical analysis of this study. By conducting a statistical analysis based on partial least squares structural equation model (PLS-SEM) using Smart PLS version 2.0, the study attempted to identify the impact of factor conditions, demand conditions, related and supporting industries, government support and brand loyalty on export competitiveness of tea industry. Validation of measurement properties were tested through factor analysis, composite reliability, latent variable correlation, cross loading and multicollinearity analysis. All are satisfied with the threshold values.

### 4.1 PATH COEFFICIENT

The individual path coefficients of the PLS-SEM can be interpreted just as the standardized beta coefficients in the regression model. These coefficients represent the impact of the endogenous construct on the predictor construct. Table 4.1 shows the results of path coefficient the model.

TABLE 4.1: PATH COEFFICIENT

	BL	DC	EC	FC	GVT	RS
BL			0.1755			
DC			0.1769			
EC						
FC			0.2819			
GVT			0.2759			
RS			0.1503			

Source: Compiled by authors based on empirical data

All the drive constructs in this model have positive impact on export competitiveness. Considering the relative importance of the exogenous driver constructs in predicting the dependent construct, factor conditions is most important followed by government support and demand conditions. Brand loyalty provides 0.1755 impacts on export competitiveness and a related and supporting industry has least impact on export competitiveness. The given model of this study does not have moderating variables. Total effect and path effect of this model is equal and there is no indirect effect on the constructs. As next pace in the data analysis, it is required to identify the actionable strategies based on size of exogenous construct weights. Then outer weights of constructs calculated and results are displayed in table 4.2.

TABLE 4.2: OUTER WEIGHTS

	BL	DC	EC	FC	GVT	RS
AdminSupp						0.2105
BB	0.3806					
Capital				0.1727		
FirmChara	0.3865					
FirmSize	0.3376					
HR				0.2036		
IC			0.3687			
II				0.2134		
LM		0.2324				
MSE		0.3418				
MacroStab					0.3886	
MicroEnvir					0.3757	
PI				0.2245		
QD		0.2809				
RI						0.2665
RM				0.4171		
RulingP					0.3285	
SI						0.2124
SandR			0.3766			
Strategy			0.3473			
Tech				0.2878		

Source: Compiled by authors based on empirical data

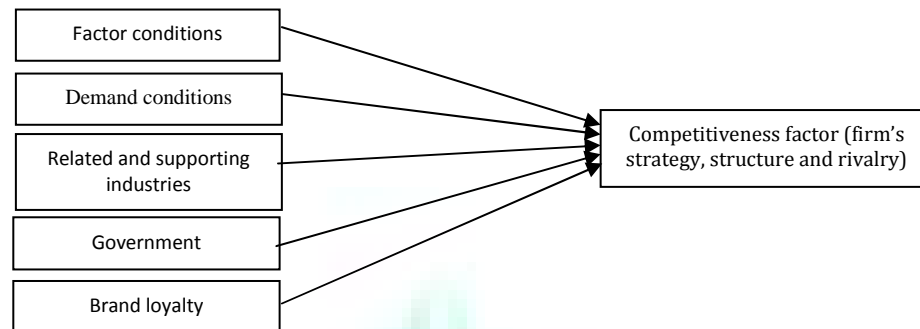
By examining the outer weights of construct indicators, it is possible to identify which specific element of export competitiveness needs to be addressed. As per that raw material is the highest out weight in factor conditions while macroeconomic stability to the second in government support. From the brand loyalty, firm characteristics has the highest outer weight and export market share has the highest value in demand conditions. The results shows in table 4.3 verified that all the determinants have positive path coefficients and are statistically significant (P value is less than 0.05 and t-value is higher than 1.96). Therefore, all the hypotheses developed in this study can be accepted.

TABLE 4.3: HYPOTHESES MEASUREMENTS

Variables	Path coefficient	Standard deviation	t-value	P-value (Sig.)
Factor conditions	0.2819	0.0381	7.4052	0.000
Demand conditions	0.1776	0.0365	4.8434	0.003
Related and supporting industries	0.1503	0.0338	4.4486	0.012
Government support	0.2741	0.0393	7.0296	0.000
Brand loyalty	0.1749	0.0437	4.0163	0.010

The proposed model for determinants of tea export competitiveness in Sri Lanka illustrated as follows (Figure 4.1).

FIGURE 4.1: PROPOSED MODEL OF THE STUDY



Source: Compiled by the author based on empirical evidence

## 4.2 DISCUSSION

Supported by the empirical evidences this study found out that factor condition has the most significant influence of tea export competitiveness followed by government support and demand condition. The prior studies also confirmed that findings. The study of Shafaei (2009) revealed that among the five determinants, factor conditions contributed the most to the performance while demand conditions contributed the least to the performance of the firms. Confirming the same findings, Esterhuizen and Rooyen (2006) identified that factor condition is the most important determinant in South African agro-food industry.

Watchravesringkan *et al.*, (2010) revealed that factor conditions, related to country's natural and human resources, are necessary to enhance the competitive advantage in the apparel industry. Making argument they revealed that Thailand government plays an important role in assisting the apparel industry to sustain its competitiveness. Satharasinghe (1998) identified the factors determining competitiveness of an industry as; internal and external factors. Internal factors include leadership capability, ability to reduce cost of production, and degree of differentiation. External factors include micro and macro level policies of a country. Land policy, labour policy, infrastructure, and incentive for export orientations were considered as micro level policies; whereas, macro level policies consist with fiscal and monetary policy, trade, wage and industrial policy. Hoeft (2001) identified that main factor driving the competitiveness of Ghana's industries is natural resources. Having good supplier network (backward integration), building own infrastructures, working with foreign management and training labour forces are other factors which have been able to build up a competitive advantage in the industry. Bezic, Vojvodic and stojic (2010) confirmed that use of internet and possessing quality certificates have significant impact on export competitiveness. The study of Ghosh and Ghosh (2013) tested the behavioural pattern of tea consumers considering the trait in mind like popularity of a brand, consumer satisfaction, brand loyalty, colour and price. The study evidently described the fact that brand loyalty is the dominating attribute that governs the decision making of the consumer while selecting particular tea brand.

## 4.3 MANAGERIAL IMPLICATIONS

The high cost of production becomes the enormous burden to tea industry. Labour shortage and low land productivity are the main factors affecting to have high production cost. To overcome the issue of labour shortage, social recognition of plantation workers need to be promoted. Making the facilities available to access to skill development will also be able to attract young generation to tea industry.

Tea plantation firms should increase soil fertility level by rehabilitating soils using compost. Research institutions should develop fast growing tea plants that could have a longer sustainable life span. In here assistance from related and supporting industries plays a key role. As an incentive provider, the government should provide subsidies for the cost of replanting and grant tax relief for replanting period.

Creating the strong competition in the local market is a vital strategy to enhance competitive. As a country which attracts one million tourists in 2013 and expects to have more than two million tourists in 2016, it is clearly noticeable that Sri Lanka should provide more places to promote Ceylon tea through tourists. The authorized parties like; Sri Lanka Tea Board, Export Development Board, Tea Exporters Association, should have responsibilities to promote a tea culture among Sri Lankans as well as among tourists visiting the country. The promotional campaigns must highlight the new trends in tea consumption such as; green teas, ice teas, cocktails and mocktails.

Consumers' trust towards the product and the firm helps to build brand loyal customers. To assure the customers of the best quality in keeping with international standards, tea manufacturing and tea exporting firms need to obtain international quality certificates such as; ISO 9001-2008 and HACCP food safety management system certification, JAS, GMP, KOSHER, NASAA and USDA Organic. It is also recommended to apply modern manufacturing practices such as Kaizan, 5S and JIT to tea processing centers.

Sri Lanka's present value added product range includes Green tea, flavored tea, organic tea, instant tea and ready to drink tea (RTD) in packets bags or other forms. Due to the improvements of research and developments, there are varies range of latest products introduced to value added product range of tea namely; T-bar, tea based soap, bath gel, shampoo and cosmetic products. Introducing the latest product range to tea export list will offer competitive advantage.

Further, the macroeconomic control functions should be strengthened and guiding function of government needs to be emphasized. In other words foreign exchange rate stability, tariff structure of the country, import-export policies and procedures of the country, and support given to expand the export destinations need to be strengthened to gain competitive advantage of tea exporting. On the other hand the government's support on promoting tea as brand rather than exporting tea in bulk is needed to be considered.

## 5. CONCLUSION

Given its current position, Sri Lanka has significant room to improve its competitiveness in tea industry through improving raw materials standard, applying technological innovation to production process, creating strong competition in the local market, stabilizing foreign exchange rate, and acquiring government support to build investment friendly environment, developing infrastructure facilities and export expansions. The findings of this study clearly emphasized that Sri Lanka's government has to play key role in providing an environment that would have allowed the development of competitiveness of tea industry. In addition to that the industry should be moved from short-term opportunities to long-term strategies. It should build up long-term competitive positions through quality and brand reputation. By analyzing the results and comments of respondents suggestions are given to improve the competitiveness of tea industry in Sri Lanka.

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