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ARTICLE INFO	Adele Parmentola (2012). Is the fair-trade a driver for the internationalisation of less developed countries’ firms?. *Problems and Perspectives in Management*, *10*(3)
RELEASED ON	Wednesday, 17 October 2012
JOURNAL	"Problems and Perspectives in Management"
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

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Is the fair trade a driver for the internationalization of less developed countries' firms?

Abstract

For the firms coming from less developed countries internationalization does not appear as an alternative but as a necessary choice, because the internal market is able to absorb only a minimal part of their production. Moreover, the firms that operate in underdeveloped countries often have not suitable market, organizational and financial competences to implement complex entry modes so they prefer exporting to the foreign market with the intermediation of local trading company. Nevertheless, this mercantile way of internationalization makes the producers extremely vulnerable because it limits their increasing of market knowledge and exposes them to counterpart's opportunistic behaviors. Many authors have underlined that a solution of such producers' vulnerability could be the participation in alternative trade networks like fair trade. According to these considerations, the aim of this paper is to analyze if the fair trade may change the internationalization process of the south producers and to define what are the conditions required to south world's producers in order to participate in fair trade network.

Keywords: less developed countries, internationalization process, fair trade, fair trade tea industry, India, Kenya.
JEL Classification: O24, M16.

Introduction

Many authors have described the firm's international process and two main models can be identified: the Uppsala international model and the innovation related international model (Andersen, 1993). The former analyzes the additional nature of the internationalization process underlining that increased market knowledge will lead to an increasing market commitment (Johanson and Vahlne, 1977). The latter approach, instead, considers the international decision as an innovation for the firm and looks at the international process as a succession of different stages that require increasing resources control (Rugman, 1981; Cavusgil, 1980) or increasing market knowledge (Reid, 1981; Chang, 1995).

Both of these models are based on the idea that every firm may adopt or not an internationalization strategy and it can freely choose the entry market mode. Nevertheless these conditions are not always respected by the firms of developing and less developed countries (Dominguez-Sequeira, 1993). Actually, for such firms internationalization does not appear a strategic option, but a necessary choice, because the internal market is able to absorb only a minimal part of their production, so, in order to survive, they need to sell their products in foreign markets.

Moreover, firms' lack of financial and organizational competences represents a barrier to the adoption of complex modes of internationalization, such as FDI and joint ventures, and forces them to export to the foreign market with the intermediation of local trading companies. Nevertheless, this mercantile way of internationalization makes the producers extremely vulnerable, bounding their market knowledge and exposing them to counterpart's opportunistic behaviors. Many authors have underlined that a possible solution of such producers' vulnerability could be their participation in alternative trade networks like organic or fair trade, characterized by moral direct links between producers and consumers and by a more fair distribution of the value along the supply chain (Ponte, 2000; Bacon 2005; Raynolds, 2004). In particular, fair trade could be the most interesting alternative because, at least in theory, it is accessible also to poor producers. Actually, while for the participation in organic networks producers have to pay high costs in order to obtain a certification, the costs of fair trade certification are paid by consumers (Taylor, 2005).

Referring to the internationalization approach, fair trade allows south producers to decide if they want to export indirectly their production through the traditional network, or if they want to enter in an alternative network, through the intermediation of particular organizations, the Atos, that guarantee them a fair price. The firms that participate in fair trade networks do not adopt an innovative entry mode, because they continue to export indirectly their outputs, nevertheless they earn a series of specific material and non material benefits that could guarantee them, in the long term, an increase of resources that will eventually support the jumping on the next stage of the internationalization process. According to these considerations, the aim of this paper is to analyze if the fair trade may change the internationalization process of the south producers and to define what are the conditions required to south world's producers in order to participate in fair trade network. In particular, starting from the analysis of the existent literature, it is supposed that the participation in fair trade network depends on environment' and firms' characteristics. In the second part of the paper these hypotheses are analyzed, using the multiple cases study method, comparing the different cases of fair trade producers in the tea industry.

1. The influence of fair trade on the internationalization process of the south world's firms

Fair trade is defined as "a trading partnership based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trade conditions to, and securing the rights of, marginalized producers and workers especially in the South. Fair trade organizations are engaged actively in supporting producers, awareness raising, and in campaigning for changes in the rules and practice of conventional international trade" (IFAT, 2004). In short, fair trade involves the construction of alternative knowledge systems, as well as commodity networks (Raynolds, 2002).

The analysis of more relevant streams of fair trade shows two different approaches. The first one is typically macroeconomic and considers fair trade as a mechanism that regulates the relationship between the south and the north of the world in order to guarantee a more fair distribution of the world richness. This approach includes all the theories that discuss the efficiency of fair trade to regulate international trade as an alternative to free market mechanisms (Howse-Trebilcock, 1996; Winters, 2002; Renard, 2003).

The second approach is more microeconomic: it describes the fair trade network and the advantages and the disadvantages for alternative producers and consumers, it also analyzes the criteria to distribute the value along the supply chain and among the different stakeholders (Leclair, 2002; Raynolds, 2002; Browne et al., 2000). Alternative supply chain is composed of three main actors: the southern world producers, the Atos – importers (and in many cases also exporters) of fair trade products in the northern countries – and the world shops, that sell alternative products to final consumers. Leclair (2002), in particular, analyzes the role of Atos and it's support in sustaining producers by the guaranteeing fair price, pre-financing, market advice.

Other authors describe the characteristic of fair consumers and the way to extend fair trade market in developed countries (Goodman, 2004). Browne et al. (2000) include the fair trade in the more general movement of ethical trade and analyze the ethical consumption as a driver for the birth of the alternative movement. More interesting seems to be the researches concerning the producers, and particularly the works of Raynolds (2002), Raynolds et al. (2004) and Taylor (2002, 2004) that describe the advantages of fair trade for Mexican coffee producers.

According to Raynolds' and Taylor's assumption, it could be interesting to investigate if the fair trade benefits could change the internationalization process of southern producers.

1.1. Material and non-material benefits of fair trade for producers. The most visible benefit of fair trade comes from its pricing structure which guarantees a minimum floor price and pays a social premium that is largely retained by producers to be invested in their activity or in community projects, such as schools and health services (Taylor, 2005). This price, actually, is not only higher than market ones, but it is more stable in negative periods, because the first objective of fair trade movement is to assure a minimum profit in order to guarantee producers survive[1]. Other material benefits derive from importers who establish long term purchasing agreements directly with producers, assure them a secure market for their product and provide them financing at northern market interest rates (Raynolds, 2002).

Immaterial benefits are less evident but also very important. The participation in fair trade networks requires from producers the development of technical, organizational and market capabilities that increase their competences (Leclair, 2002; Raynolds et al., 2004; Taylor, 2004) with positive effects on their long-term competitive advantage. Technical capabilities refer to the creation of a particular production process in order to obtain a quality output for consumers respecting the physical environment and guaranteeing safety conditions for workers. Organizational capabilities consist in the realization of a complex organizational structure with clear and well defined roles and rights. Market capabilities, on the other hand, are not a precondition to participate to fair trade network but they are developed during the commercial relationships because producers, thanks to the Atos' intermediation, create a direct informative link with consumers that implement the knowledge about the destination market (Raynolds, 2002).

Nevertheless, it has been showed with empirical analysis, that not every producers that operate in traditional network is able to enter in fair trade ones (Raynold et al., 2004; Raynolds, 2002; Taylor, 2002).

According to this observation, the aim of this paper is to define what are the conditions required to southern world producers in order to participate in fair trade network. In particular, starting from the analysis of the existent literature, it is supposed that the participation in fair trade network depends on

[1] "Currently the guaranteed fair trade coffee price is more than double the world market price. In the period of low prices, the fair trade price guarantee can mean the difference between survival and bankruptcy for many small-scale coffee growers" (Raynolds, 2002, p.18).

environment' and firms' characteristics. Environment's characteristics are analyzed using the model of Porter' diamond (1990), because the determinants of the nation's competitive advantage are the same that influence firms' capabilities to enter the fair trade network. On the other hand, the firms' characteristics determine the capability of southern firms to accumulate the resources and the competences necessary to become a fair trade producer. In particular this capability is influenced by managerial culture that has been analyzed using Shein's approach (1995)[1].

These hypotheses are analyzed, in the second part of the paper, using the cases study method, and comparing the different cases of fair trade producers in the tea industry. Actually, the analysis of fair trade tea industry is particularly interesting for our research for different reasons: first of all, tea is one of the most common fair trade product and it has a long fair trade tradition; second, tea cultivation and production has particular characteristics that inhibit the participation of single small scale firms; last but not least, the data of export's flow of the traditional tea and of fair trade tea have been showed that while Kenya is the principal exporter of traditional tea, the main fair trade exporter of it is India. Consequently comparing the case of Indian and Kenyan tea producers it is possible to verify what are the environment's and firms' characteristics that influenced the participation in fair trade tea network.

2. The conditions required for the participation in fair trade network

In order to participate in fair trade networks, firms must require to the Fairtrade Labelling Organization (FLO) the Transfair certification. After the request the FLO analyzes the characteristics of producers, and, only if particular and restrictive parameters are respected, gives its authorization.

Particularly small farmers can join fair trade if they have formed organizations (in co-operatives, associations or other organizational forms) which are able to contribute to the social and economic development of their members of their communities and which are democratically controlled by their components. Organizations can be certified by FLO if they comply with particular requirements that can be divided into *minimum requirements* which all producers' organizations must meet from the moment they join fair trade, or within a specific period, and in *progress requirements* according to which producers must show permanent improvement. *Minimum requirements* include the respect of environment, the attention on workers' safety, the participation in social development and also the ownership of market knowledge and international experience. In particular producers must have access to the logistic, administrative and technical means to bring a good product to the market (FLO Standards, 2004).

These restrictive parameters limit poor firms' participation in alternative networks. Actually, some firms in less developed countries have not financial, technical and managerial resources to respect minimum requirements, or, on the other hand, they have not enough information to understand the advantages of fair trade. Only few authors have argued about the difficulties of firms to participate in fair trade networks. Analyzing different empirical experiences in the fair trade coffee network, they have underlined the most important characteristics of a good fair trade producer (Raynolds, 2004; Raynolds et al., 2004; Taylor, 2002). Actually, it has been observed that successful fair trade participation depends on: prevailing political economic and market conditions; producers' social and ecological resources; group's internal organization and external links. The first aspect concerns the crisis of traditional market that pushes some producers to enter in alternative networks; the second point regards material and non-material producers characteristics like indigenous, religious and political traditions, level of education, posses of land, labor and capital resources; the third aspect regards producers groups' ability to create and maintain strong external ties with corporate buyers, the development of NGOs and other organizations and the capability to manage the internal tensions with a skilled management (Raynolds et al., 2004).

According the above features, it is possible to classify the factors that influence the participation in fair trade network in two categories:

1. Environment's characteristics: they include all the factors that contribute to determine the precondition for the firm's entry in fair trade network.
2. Firms' characteristics: they include firm's structure and the managerial tendencies that determine of cultural variables and influence inter and intra firms relationships.

2.1. Environment's characteristics. Environment's characteristics establish the precondition for firm's entry in fair trade network. The same resources that

[1] Shein defines culture as a coherent set of fundamental assumptions that can be used to explain the relationship between an organization and its environment. The author identifies different components of the culture: values, rites, heroes and myths. Myths refer to the nature of manager's behavior in the firm's government and are distinct in external causality myth and internal causality myth. The entrepreneurs with high internal causality myth are very self-confident and consider their activity the only determinant of their firm's success, instead entrepreneurs with high external causality myth tend to consider the external elements the only determinants of the firm's failure (Shein, 1995).

guarantee the international success of the domestic firms increase, also, the probability that these firms participate in fair trade networks.

The precondition for firm's entry in a fair trade network may be defined using the dimensions described by Porter's diamond (1990), which explains the determinants of a country's competitive advantage assuming that is determined by four dimensions. The first dimension, the sophistication of the internal demand, is often absent in less developed countries, actually, as it has been already explained, local firms sell their product, above all, on the foreign market. According to this consideration, the sophistication of the foreign demand may be a determinant of competitive advantage. The second dimension, the level of domestic competition, is relevant only if it refers to the competition on international market of the domestic firms: a high competition with consequent low level of profits could induce some domestic firms to change their destination market and to look for alternative market niches. The last two dimensions, the presence of country specific factors and internationalization support services, contribute to increase firms' tangible and intangible resources, to facilitate their international relationships and, consequently, their participation in fair trade network. These dimensions suggest that a country that has a competitive advantage in the traditional network is able to obtain a competitive advantage also in the alternative network.

In order to completely analyze the contextual factors, it is necessary to consider the Government's role in the economy (Reich, 1990), actually a direct State's intervention in the economy limits firms' possibility to choice their international strategy and their commercial partner. Moreover, only for less developed countries, a relevant variable seems to be the colonialist domination as underlined by some studies about the productive structure of Francophone and Anglophone countries in Africa. The author affirms that while French domination has favored more mutualistic systems based on firm's strong dependency on external aids, English influence has allowed the transfer of western business principles (Friedberg, 2003).

2.2. Firm's characteristics. Firm's characteristics measure the tangible and intangible assets that influence the capability of the single firm to enter fair trade network and to take advantage from this participation. Firm's size can be considered a measure of firms' financial and technical resources, actually large firms usually have more financial resources and invest more in the development of efficient technical solutions. Moreover, managerial culture is an important element to explain the participation in fair trade networks. Participation in fair trade requires actually consistent investments with long term returns. So only a proactive manager characterized by a long-term orientation (Hofstede, 2001), can take fair trade's opportunities. Moreover some firms in less developed countries are small o medium enterprises and they are administrated by family or tribe members. Nevertheless, also if the small dimension poses limits in term of financial and cognitive resources, a proactive entrepreneur can bypass this limit encouraging inter-firms cooperation. Entrepreneurs' attitude and behaviors become, consequently, even more important because of the strong influence that the entrepreneur has on the whole activity. According to this observation, it is important to analyze the characteristics of entrepreneur's culture that can be explained using Shein's (1995) distinction between internal and external causality myth.

Entrepreneurs with high internal causality myth are very self-confident and consider their activity the only determinant of their firm's success. In the same way, these entrepreneurs tend to centralize firm's government and to use a paternalistic conduct with other organizational members so limiting firm's growth and acquisition of new resources and knowledge.

As opposite, entrepreneurs with high external causality myth tend to consider the external elements the only determinants of firm's failure, so they limits the information exchange with the external environment and, above all, they do not establish cooperation with other firms (Shein, 1995). Entrepreneurs with high external and internal causality myths will probably be closed to new market opportunities, to technical innovations and, also, to the necessities of their social and natural environment, they do not collaborate with other firms to increase their resources and knowledge (Calvelli, 1990).

In this sense their firms will not enter fair trade networks, not only because they are not able to develop the minimum conditions to obtain fair trade certification, but also because they do not understand the benefits of the alternative network.

According to the previous considerations, the fact that a large number of fair trade producers come from a small number of countries can be explained in a cultural perspective by the existence of a dominant managerial culture more compatible with fair trade aims.

Entrepreneurial culture is influenced notably by entrepreneur's individual experience, but also by the characteristics of the social norms defined as the value system of major social groups. Social norms are determined themselves by the outside influences and by the ecological factors, like geography, history, demography, economy etc., that affect the physical and the social environment (Hofstede, 2001).

3. The influence of fair trade on the internationalization of tea producers

3.1. The traditional tea markets. Tea comes from an evergreen bush which thrives at fairly high altitude in the wetter regions of the tropics and sub tropics. There are three types of tea classified according to the processing method: black tea – fermented after plucking; green tea – unfermented; Oolong – semi fermented. Tea is still grown as a typical plantation product, but tea plantations have both agricultural and industrial features. Work in the tea gardens is basically a labor-intensive agricultural activity, with planting, maintenance and harvesting done by hand.

Tea must be processed on the day it is picked. At the factory it undergoes five different treatments – withering, rolling, fermenting, drying and sorting. This processing work is fairly mechanized and accounts for only about 10% of total employment in the tea sector. Whether tea production is in the hands of plantation owners or states enterprises, it can only survive low tea prices by paying low wages.

Generally tea is cultivated and transformed by large factories that own large tea plantations. The history of tea as a typical colonial product is still reflected in the considerable foreign ownership of the means of production. Following independence, some countries took tea plantations into state ownership. Many of these state owned enterprises are now undergoing privatization.

Although tea is traditionally a plantation product, in many countries it is also cultivated by smaller scale producers: in Kenya, almost 60% of tea comes from small farms. The cultivation of tea is attractive for small farmers because it provides work and an income throughout the year, it requires relatively little investment, and the risk of complete crop failure is small. Small farmers may sell their crop to middlemen, to plantations or to ‘bought leaf’ factories – factories which buy green leaf, process it and sell it.

Prices paid for green leaf are usually low. The price paid for tea supplied by small farmers can be further depressed by its (sometimes justified) reputation for being inferior to the plantation product. It is supposed that small farmers lack the necessary know-how to pick and store the leaves and to treat the bushes and soil properly, and small farmers may also lack the resources to afford the necessary technical inputs. Furthermore, poor transport often means that it takes too long for the tea to arrive at the processing plant.

Tea originated in China but its cultivation has spread widely in Asia and Africa. The current significant producers of tea are India, China, Kenya, Sri Lanka, Turkey, Indonesia, Japan, Iran, Bangladesh, Vietnam and Malawi. The tea coming from the relatively young tea producing countries in Africa is often of high quality and stands up well in competition with the traditional tea-producing countries. In 2004 global tea production grew to 3.150 million of tonnes, from 2.848 million tonnes in 1999. However, relative production levels in the different producer nations continue to fluctuate. Production from East Africa, particularly Kenya, is increasing rapidly. While the Kenyan crop increased by 66 percent to 246,000 tonnes in the decade to 1995, smaller tea producing nations have struggled to compete. In 1998, Kenyan tea production reached a peak of 294,000 tonnes, falling again in 1999 and in 2000, and increasing in 2004.

Tea is usually exported at a relatively early stage of its transformation process. Blending and packing, the most lucrative part of the tea trade, is usually done by the tea companies in the buyer country. Actually, like many other commodity markets, the tea industry is highly concentrated, the major players in the tea industry are Unilever, Hillsdown Holdings, Allied Lyons, the Co-operative Wholesale Society, James Finlay and Associated British Foods. Many producers have tried to sell processed tea in tea bags or prepacked consumer units, but the export of ready-for-use tea is often hampered by poor market information and the absence of funds for expensive marketing strategies (Efta Yearbook 2003).

Some producing countries consume a lot of tea themselves, this means that the biggest producers are not necessarily the biggest exporters. For example while India is the most relevant tea producer, the most important tea exporter is Kenya. In 2004, 47.5% of world production was exported, a slight increase compared with 2003. While Asian exports were more or less stable, African exports continued to increase (Table 1).

Tea produced for export is usually of a higher quality than tea produced for the home market and it is also more susceptible to fluctuations in market price. This increases the risk both for farmers and exporters. Tea prices show great variation reflecting diversity of quality. Unlike coffee, there is no single world market for tea, and prices are subjected to strong fluctuations. Lower tea prices always eventually affect a country’s less advantaged social groups through lower wages and high inflation. In order to compensate falling export earnings and the subsequent dwindling of purchasing power, many countries extend the area of cultivation to expand export volumes. For this reason, world-wide production of tea increased by more than 40%, between 1980 and 1990. Major tea producers such as India, Kenya, Malawi and Tanzania have extended their tea production while marginal tea producing nations have found it impossible to compete. Competition has become more intense since the emergence of the African tea industry in the 1960s.

Table 1. Annual production and export of tea for selected countries (in thousands of tonnes)

Country	Production		Exports	
	2003	2004	2003	2004
India	857,055	820,216	170,601	179,000
Bangladesh	56,833	55,627	12,173	12,000
Sri Lanka	303,254	308,089	291,891	279,498
Indonesia	168,653	165,000	88,175	96,000
China	768,140	785,000	259,980	279,489
Iran	58,051	53,000	7,014	8,000
Japan	87,000	85,000	845	923
Turkey	155,000	145,000	7,042	5,904
Vietnam	93,000	95,000	51,837	60,000
Kenya	293,670	324,609	269,268	326,343
Malawi	41,693	50,090	42,015	46,599
Uganda	36,475	35,706	34,069	29,686
Argentina	60,000	63,000	58,191	66,374
World total	3,144,426	3,150,580	1,387,274	1,496,218

Source: International Tea Committee Annual Bulletin of Statistics.

The UK is the second largest importer of tea (after the Russian Federation). In 1999 the UK imported 137,000 tonnes (around 11% of the total world exports). This is more tea than the rest of Europe put together.

Table 2. Annual import of tea for consumption in selected countries (in thousands of tonnes)

Countries	2003	2004
Russian Federation	165,656	165,000
Other CIS	60,000	58,000
United Kingdom	125,279	126,946
Pakistan	118,309	120,000
USA	94,174	99,484
Egypt	49,860	70,000
Japan	47,132	56,196
Dubai	48,779	46,000
Afghanistan	46,000	41,000
Iran	30,200	34,000
Iraq	37,800	37,000
Morocco	44,916	42,500
Poland	30,798	32,114
Syria	29,000	29,500
World total	1,348,100	1,390,800

Source: International Tea Committee Annual Bulletin of Statistics

Any changes in the UK market have, therefore, a direct impact on producers, but this traditional stable market is undergoing considerable change. Demand for tea is falling slowly (but steadily) as customers switch to coffee and soft drinks. Tea is, nevertheless, still the number one British drink and the market leaders are fighting hard to maintain market share and to stimulate demand. The innovations and tactics used do not, however, benefit producers. In order to increase value, the emphasis is increasingly on premium priced, top quality products. This has increased the value of sold tea despite a fall in volume. This means higher prices for those factories able to meet the higher standards, but results in more difficulties for low quality producers who are already suffering from lower prices. They are also powerless to do anything about it as quality is largely determined by climate and altitude. Along with the higher quality product an emphasis on more sophisticated packaging arises. The emphasis is on image and freshness, with foil wrapping and higher quality printed boxes becomes the norm. The increasingly sophisticated and expensive packaging puts downward pressure on the cost of the tea itself and makes adding value in the country of origin much more difficult. Meanwhile, an even higher percentage of the retail value of the finished product goes to the marketing company and not to the farmer. Product innovation is also a key feature of the current UK market as the brand leaders compete to maintain their market position.

3.2. Material and non-material benefits of fair trade for tea producers. For a long time tea has been included in the product range of the European fair trade organizations; its member organizations import tea from 27 partners in Asia and Africa, who are, for the most part, private companies. None of the fairtrade initiatives has established a minimum price, instead, a premium price is paid on top of the market price. This premium is paid into a fund for the benefit of the workers. The prices paid for tea should at least cover the costs of production and provide for an extra margin for the improvement of working and living conditions and for future investments. These might include conversion to organic cultivation, education and training for small farmers. Producers are very vulnerable to the erratic movements of the international tea market, so fair trade organizations, in principle, maintain trade relationships on a long-term basis which gives producers stability. This allows them to plan social development projects or achieve long-term goals such as transition to organic cultivation. At the producers' request, part of the product value can be paid in the form of an advance payment. This prevents producers from falling into debt before they harvest their crop. Small growers can use this money, for example, to improve the productivity of their land and, therefore, the quality of their tea.

Fair trade tea should preferably be packed in the producer country, so that producers receive the added value and new jobs are created.

None of the fair trade marks restricts themselves to purchases from small farmers. In fact, the producer registers include large plantations which have satisfied, as a minimum, the local legal criteria for working conditions such as minimum wage, housing and health care, and which often sell their outputs only on the traditional market. This element constitutes a peculiarity of fair trade tea market because, usually, the participation in fair trade network is permitted only to small firms. Actually, even if fair trading with small farmers continues to be an important option, as it offers the opportunities for the empowerment of tea producers, one obvious problem is that small farmers have to sell to privately owned factories unless they are fortunate enough to belong to the small number of co-operatives which have their own factory. Such co-operative ownership of a factory is rare, as it requires considerable investments.

Another problem that the quality of tea from small farmers is generally considered to be below export standards (Efta Yearbook 2003). According to this, the participation in fair trade network can increase tea producers' knowledge and innovation capability that is a necessary condition in order to participate in the modern competition on the traditional tea market.

3.3. The conditions required for the participation in fair trade tea network. Even if the evident benefits coming from the participation in fair trade network, not every tea producer which operates in traditional network is able to enter in fair trade ones. Analyzing the number of fair trade tea producers certified by FLO, it is evident that the large part of them is localized in specific countries (Table 3). Data shows that while Kenya is the main exporter of traditional tea it is present in fair trade market with only one producer, instead India is represented by twenty-six organizations and it is the first exporter of fair trade tea.

Table 3. Number of FLO certified tea producers

Countries	Number of certified organizations
Africa	16
Kenya	1
South Africa	4
Tanzania	6
Uganda	4
Zimbabwe	1
Asia	45
China	2
India	26
Nepal	1
Sri Lanka	15
Vietnam	1
Total	61

Source: FLO (last updated: May 2004).

As already explained, the causes of this phenomenon can be investigated comparing India and Kenya environment's and firms' characteristics.

3.3.1. Environment's characteristics. Kenya, with a gross domestic product (GDP) estimated at $16,4 billion, is the most developed economy in East Africa. However, with an estimated population of 32,2 million people (almost half of them are under 15 and 56% of them live below the poverty line), the country's GDP per capita is approximately $400. Kenya enjoys an extensive, but deteriorating infrastructure, a generally well educated population, and a strong entrepreneurial tradition. Mombassa is the most important deep-water port in the region, despite deteriorating equipment and problems with ineffiency and corruption. Kenya financial and manufacturing industries, while still small, are the most sophisticated in East Africa. Consequently, even if Kenya is one of the most developed nation among the underdeveloped countries, the level of infrastructure and of internationalization support services is still insufficient in order to support the internationalization process of domestic firms. Moreover, agriculture is the largest employer in Kenya and the country exports tea, coffee, cut flowers and vegetables. Tea exports, traditionally Kenya's largest single foreign exchange earner, was relegate to second place after horticulture in 2003. Tourism, at $339 million, is the third largest foreign exchange earner, over 1.1 million tourists visited the country in 2003.

The main export destinations in the year 2004 were Uganda, the United Kingdom, the Netherlands, Tanzania, Pakistan, Egypt, Rwanda, Democratic Republic of Congo, Germany and Afghanistan. African countries accounted for 46.6% of the total exports per year to June 2004, compared to 46.5% per year to June 2003. So Kenya export above all commodities to foreign market characterized by a high competitive but also low sophisticated demand, consequently, according to Porter's theory (1990), there are low incentives for domestic firms in order to increase their competitiveness on the foreign markets[1].

On the other hand, India[2] recorded one of the highest growth rates in the world in 2003-04, second only to China among the emerging market economies. According to the World Development Indicators 2004, India became the fourth largest economy in terms of purchasing power parity, after the US, China and Japan. Domestic developments – largely immune to the global business cycle – powered a surge in real GDP growth to 8.2 per cent – the highest in 15 years. An agricultural rebound, typical of a post-drought supply response of the Indian economy, played a key role in the resurgence of growth. Activity also firmed up in a wide range of manufacturing and services sectors. India has a good level of infrastructure compared to other emerging countries: with three million kilometres of roads, India has the world's third largest road network, moreover, Indian Railways, founded in 1851, is one of the world's largest. India has 12 international airports (under central Government control) and 83 domestic airports (under state government control). The utilities industry is controlled by the Government but, recently, the main power industry has been privatized. Even if the financial markets are only at an embryonic state, an extensive banking network exists and it is based on three different bank typologies the scheduled commercial banks, the regional rural banks, the cooperative and special purpose rural banks. These infrastructures and the increasing number of government international support services have created the basis for the internationalization of domestic firms.

However, the real Indian competitive advantage is based on the high level of managerial and technical education of domestic middle class. In India there are over 300 universities and 13.000 colleges, moreover Indian students now representing 12 percent of the total number of international students in the United States. This highly educated middle class has guaranteed the development of one of the most important software industry in the world and India is today the third world pharmaceutical producer. The most important markets of Indian products are the United States and the European Union, characterized by high competition and high sophisticated demand. These factors, according to Porter's model (1990), have pushed Indian firms to develop high quality productions also in traditional industries, in particular India is one of the largest producers of organic tea.

According to these macroeconomic differences between India and Kenya, India seems to have a clear competitive advantage that influences also fair trade tea industries.

3.3.2. Firms' characteristics. The tea industry in Kenya is fully liberalized and the marketing of tea is carried out independently by trade members. Nevertheless, the Tea Board of Kenya established in 1950 under the Tea Act of the laws of Kenya is mandated to regulate the tea industry in all aspects of tea growing, research, manufacture, trade and promotion in both the local and the international markets. The Board also disseminates information relating to tea and advises Government on all policy matters regarding the tea industry through the Ministry of Agriculture.

Over 84% of Kenyan tea is sold on the Mombasa auction, which is the second largest tea auction center in the world. Tea is offered at the auction by brokers on behalf of the producers by garden marks-manufacturing factories situated within the growing field with each mark depicting the respective catchment's area for the tea grown around it. Buyers who basically export the tea bought, bid against themselves with the highest bidder buying the whole lot bid for. Producers also sell some of their tea directly through private arrangements with tea importers across the world. This form regards about 10% of the total production. The local tea market absorbs only 5% of the total production.

The large part (about 60%) of tea producers are small farmers that sell tea leaves to large factories at low prices, these factories export indirectly transformed tea to foreign markets. In particular the most important Kenyan tea importer is Pakistan. Local producers do not know the modern production techniques so they sell a classic and a low quality tea to western firms that realize the most value added activities. This inertial behavior can be explained by analyzing the entrepreneurial culture. According to cultural perspective, some authors (Montgomery, 1987; Blunt, 1983; Kiggundu, 1988) describe western African entrepreneurship model as a set of small familiar firms managed by an entrepreneur characterized by high power distance and short-term orientation (Hofstede, 2001).

[1] These data are available in Kenya Country Commercial Guide 2004 and Kenya Annual Report 2004 of the Central Bank of Kenya.
[2] These data are available in India Country Commercial Guide 2004 and India Annual Report 2004 of the Reserve Bank of India.

African management style is characterized by authoritarism, paternalism and personalism and could be described using the term *ubuntu*. The term *ubuntu* emphasizes the principle of helping others as away of helping oneself (Saule, 1998): the concept explains in positive the attitude to help the others but, in negative, causes the favouritism as the disposition allowing for subjective judgements in allocating rewards and sanctions in organizations. African manager has also a high sense of territoriality because he does not tolerate what he perceives as interference from other sections of the organizations.

Using Shein (1995) classification, Kenyan managers have high internal and, above all, high external causality myths, so they are close to new market opportunities, to technical innovations and, also, to the necessities of their social and natural environment, and do not collaborate with other firms in order to increase their resources and knowledge (Calvelli, 1990). Probably these cultural aspects are the main determinants of the scarce presence of Kenyan tea producers in the fair trade network.

Nevertheless, also, in Kenya it is possible to observe the presence of more proactive managers that, bypassing the environment's limitation, have developed, through the cooperation with other producers, necessary technical and market capabilities in order to participate in fair trade tea network.

Table 4. The most important Kenyan producer of fair trade tea: the Meru Herbs

In 1982, a group of small farmers living at the foot of Kenya founded the "Ng'uuru Gakirwe Water Committee" and initiated the plans to abstract water from the nearby river for domestic supply and farming. The activities of the "Water Committee" have improved the living conditions of population and the project expanded including the construction of an irrigation system. At the moment Gakirwe Water Project provides water for domestic and irrigation purposes to more than 470 households. The most important crops grown at Ng'uuru Gakirwe are chamomile, tea, carcade and lemongrass. These herbs are grown organically and sold to the factory for processing, packaging and export to the EU (mostly Italy, Belgium and Germany). A company, called Meru Herbs, is the commercial arm of the Ng'uuru Gakirwe Water Project and it is located in the project area, with the support of the Diocese of Meru. More than 470 small farmers from the Kenyan southeastern Province Meru, work for Meru Herbs: they cultivate camomile, carcade and fruits for the preparation of infusions and fruit preserves. All production, processing and packing is handmade. Products are sold through fair trade. Herbal teas and fruit jams are imported by *Ctm Altromercato* and sold in the World Shops throughout Italy. However, Meru Herbs processes and exports only a small percentage of the produce by the farmers. The company hires workers (mostly women) for the factory and operates almost independently of the Water Project. But farmers get seeds and inputs on credit from the company. Meru Herbs has two factories, the major one handles the herbs (carcade, chamomile and lemon grass) while the second one makes jams. The facilities are simple and clean. Once a farmer delivers his/her herbs (flowers), they are sorted, graded, weighed, and in the case of carcade, they are manually shelled to remove seeds, then dried for one week, chamomile in the shade and carcade in the sun. If it rains, there is an electric drier available. Once dry, the flowers are allowed to stay overnight in trays, then ground, graded again and packed. The packaging is beautifully done, and produces a variety of sole types and combinations of herbs for various uses. For instance, there is plain chamomile, carcade and lemon grass, then carcade mixed with lemongrass, tea and lemongrass, chamomile in packets of 20 tea-bag sizes or loose carcade. These are further packaged in printed boxes for export. In the jams factory, they make papaya, cardade and mango jams. Fruits for the jam factory are not organic and therefore the factory accepts all fruits, even those from outside the scheme. The jams are made mostly through boiling including sterilization by boiling. These jams do not have any additives and are therefore sold to niche markets in Japan and the EU and also in up-market supermarkets in Nairobi.

Source: Mati (2004).

The Indian tea industry is characterized by a high concentration, actually the large part of tea production is realized by few big corporation localized in the north east of the country. These large firms produce above all for the internal market but, recently, have adopted new techniques in order to increase tea quality and to produce organically grown tea to supply to a number of developed country markets. For instance, the United Neelgiri Tea Estates Co. Ltd since 1994-95 has been procuring organically grown tea from its tea gardens in the Kora Kundha estates. The company is planning to export organically grown tea. Production of bio-tea is also undertaken in the sabroom area (Tripura) in the two tea gardens of a private enterprise with necessary financial support from ERAMIC, a German organization.

These large firms have a structured internal organization and their workers are highly organized thus, it is not a surprise that India is the most important producer of fair trade tea. Also in this case the entrepreneurial culture has an important influence over the participation of Indian firms to the fair trade activities. Some of the largest business organizations in India are family controlled, even if they own only a minority of the common shares. Some of the prominent business families are the Tatas, Birlas, Ambanis, Mahindras, Shrirams. Such companies, or groups of companies, are usually headed by a member of the family, often a son or grandson of the founder. Key positions in management are often held by members of the "extended" family which might include relatives by marriage, and by close friends and confidants. During generational succession, it happens that some decisions are developed to professional managers, who are not connected to the family (Chhokar, 2002). These large firms are characterized by high power distance, strong performance and long-term orientation and also by high uncertainty avoidance (Hofstede, 2001). Leadership style is very charismatic, more trusting and emotion oriented, high conservative and not specialized, but Indian manager is also very formal and relationship oriented (Chhokar, 2002). According to these considerations and using Shein's (1995) dimensions, Indian entrepreneur is characterized by high internal but also by low external causality myth, and this constitutes an important difference with respect to Kenyan one. So the Indian firms' resources and tendency to cooperate with other producers, determined by the low level of the external causality myth, allow Indian firms to accumulate the necessary market and technical knowledge in order to participate in fair trade tea network.

Table 5. Some cases of fair trade tea producers in India

Ambootia tea garden	Ambootia was among the first tea gardens established by the British in the midnineteenth century and became Fair Trade certified by Fairtrade Labelling Organizations International (FLO) in 1994. Home to 911 workers and their families, Ambootia has been selling to the Fair Trade market for ten years. With a strong resolve to work with and not against nature, Ambootia transitioned to 100% organic and biodynamic production in 1992. Organic cultivation not only contributes to environmental sustainability and the growth of hearty tea bushes, but also creates a healthier environment for workers. An increased number of cows, used to create natural fertilizer, allows workers to receive a regular supply of milk. In addition, biodynamic farming methods have led to the discontinuation of the use of agro-chemicals and pesticides, ensuring cleaner drinking water and fresher air for Ambootia workers. With the premium from fair trade sales, the Ambootia tea garden has been able to make further improvements to its community. Workers at Ambootia have chosen to direct their fair trade earnings to education, reforestation program, public health.
Oothu tea garden	A pioneer in sustainable tea production, Oothu was the first tea garden in India to adapt biodynamic principles, in the 1970s. It was also among the first in the country to become organic certified in 1992, and fair trade certified in 1995. Today, Oothu teas are 100% certified fair trade, organic and biodynamic, and tea garden is the largest organic tea producer in the world. To date, the tea worker community has collectively decided to invest their fair trade earnings in a retirement fund, college scholarships for the children of tea workers who wish to continue their education, a life insurance fund for families of tea workers, monthly financial assistance for families with handicapped children.
Iyerpadi tea garden	The Iyerpadi Tea Garden is located in the western ghats of southern India, in a region known as the Annamallais Hills, or "The Hill of Elephants". With strong commitments to quality and local ecosystem preservation, Iyerpadi produces a wide range of black, green, oolong, and white teas. Iyerpadi also produces green tea extracts for a range of global markets. Since becoming fair trade certified in 2004, the worker community at Iyerpadi has been very excited by the new opportunities provided to them. Collectively, they are making decisions about which projects should be funded with the fair trade premiums in a manner that will improve the quality of life in the community. Some of the initiatives under consideration include: improvements in the educations system, scholarships in higher education, improvements to health facilities at the tea garden, construction of a community hall for weddings and other ceremonies, construction of sheltered resting places in tea fields where workers can lunch without being exposed to the elements.
Makaibari tea garden	Makaibari is one of the oldest of all Indian Tea Gardens. The garden is home to 610 teaworkers and their families. The Makaibari Tea Garden is a pioneer in innovative management. As early as 1971, garden manager Rajah Banerjee made the decision to switch production to a 'permaculture' based system, and since 1991 production has been 100% organic and biodynamic. The premium earned through fair trade tea sales has enabled the worker community at Makaibari to take an active role in improving their own lives. Projects the Makaibari workers have financed through fair trade include: computer center, microcredit, scholarship funds, village electrification, income generation.

Source: Transfair USA.

Conclusions

On the same hand of many authors (Ponte, 2000; Bacon, 2005; Raynolds, 2004) this work underlines that a solution of southern producers' vulnerability can be found in the participation in alternative trade networks like fair trade. Actually, even if firms that participate in fair trade network do not adopt an innovative entry mode, because they continue to export indirectly their outputs, they earn a series of specific material and non material benefits that could guarantee them, in the long term, an increase of the resources allowing them the competences necessary in order to pass on the next stage of the internationalization process and to adopt a more complex internationalization entry mode (Reid, 1981; Chang, 1995). Nevertheless, it has been showed with empirical analysis that not every producers that operate in traditional network is able to enter in fair trade ones (Raynold et al., 2004; Raynolds, 2002; Taylor, 2002).

In particular the participation in fair trade network requires specific environments' and firms' characteristics: country competitive advantage on the traditional market is an important prerequisite and managerial culture, in term of external and internal causality myths (Shein, 1995), has a strong influence on firms' capacity to successfully participate in fair trade network. The empirical analysis based on cases studies has confirmed the importance of these factors. Actually, the analysis of fair trade tea industry has been particularly interesting for our research for different reasons: the first, tea is one of the most common fair trade products and has a long fair trade tradition, the second, tea cultivation and production has particular characteristics that inhibit the participation of single small scale firms, the third, comparing the data of export's flow of the traditional tea and of fair trade tea it is been observed that while Kenya is the principal exporter of traditional tea, in the fair trade market it is by far by India. So comparing the case of Indian and Kenyan tea producers it has been possible to connect the success of the Indian fair trade tea producers both to the India's relative competitive advantage in the world market and to the Indian producers' culture, characterized by low external causality myth. These first conclusions will be the starting point of future researches that will test them in other industries in order to define a complete map of the factors that may influence the participation in fair trade network by different southern world's firms.

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