THE IMPACT OF FOREIGN EXCHANGE FLACTUATIONS ON EARNINGS FROM TEA EXPORT IN KENYA: A CASE OF KENYA TEA DEVELOPMENT AGENCY

BY

SHAH SYED SIBTE

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SPRING 2017
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University in Nairobi for academic credit.

Signed: ________________________ Date: ______________________

Shah Syed Sibte (629881)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________________ Date: ______________________

Kephah Oyaro

Signed: ________________________ Date: ______________________
ACKNOWLEDGEMENT

I thank the Almighty God for giving me sufficient grace to work on this proposal.
I would like to take this opportunity to appreciate my supervisor Mr Kepha Oyaro for the time and patience he accorded me during this study, also special thanks to the staff at Kenya Tea Development Authority (KTDA) who took part in this study
Gratitude is given to my lecturers and to my colleagues who have been of great assistance to me throughout the period.
I also wish to thank all the Authors whom I have used their works and literature in developing my research proposal.
DEDICATION

I dedicate this work to my parents and family for the support and trust they have accorded me throughout my education.
ABSTRACT

The purpose of this study was to analyse the impact of foreign exchange fluctuations on earnings from tea export in Kenya Tea Development Authority (KTDA) in Kenya. The was aimed at answering the following research questions: How does exchange rate of foreign currencies affect the amount of tea exports in Kenya? How does inflation affect earnings from tea in Kenya? How does the Government and politics affect earnings from tea in Kenya?

The study adopted a descriptive research design and data was collected using questionnaires. The target population consisted of 50 employees of KTDA. A sample of 44 respondents was drawn and 44 questionnaires were distributed and all were filled and returned. The data was analysed using descriptive analysis where the means and standard deviation were interpreted. Inferential statistics was also done using SPSS to establish regression and correlation among the variables. The results were presented in figures and tables.

The findings based on the first research question revealed that the company has had exposure to foreign exchange risks and transactional risk. There was however indifference with whether economic environment in Kenya is risky and if company is exposed to economic risk exposure. On analysis, the R square, the variation in tea export was caused by the variation in exchange rate of foreign currencies. A Pearson correlation was done between tea exports and the factors above revealed that only foreign exchange risks directly affected tea export in the firm. The study also sought to establish actions taken due to positive or negative developments in exchange rates on tea export in Kenya and majority of the respondents agreed that the company have entered a new foreign market where they did not have any sales or operations before. Although they denied delayed entry into foreign market, shift facility to foreign market due cheaper exchange rate and change of product mix.

The findings based on the second research question revealed that foreign exchange volatility affected inflation and the performance of tea, in addition, inflation affects the profitability of the company. A regression analysis done between variables of inflation on tea earning and the R square revealed that foreign exchange volatility and inflation affected tea earning in the region. The findings based on the third research question revealed that policy, political factors affected the performance of the industry. It was also revealed that
the company has clear policy. A regression analysis done between the variables revealed that variation in tea export was caused by the variation in government, politics, and foreign exchange and tea export.

The study concludes that the tea export is exposed to foreign exchange risks and due to the firm operating in foreign countries the industry is highly exposed to transaction risk. Despite this, the company has undertaken bold steps to increase the market share by entering “virgin” foreign market with no sales or operations before. The study also concluded that due to the nature of the tea export industry, foreign exchange volatility affects inflation and the performance of tea. In addition, economical factors such as inflation affects the profitability of the firm due to the high production costs involved. Lastly, the study concluded that government policy affects tea export, this could be due to the role the government play in influencing the cost of inputs such as fertilizers and minimum wage. The study also concluded that political factors affect performance of the country and as a result directly influences the nature of the export business.

The study recommends that the tea export is exposed to foreign exchange risks and transaction risk it is therefore necessary for the firm to take precautions such as use of hedging techniques. However, the relevant government agencies should establish measures to avoid dumping of tea product in the local market which would negatively affect the local industry. The study also recommends that foreign exchange volatility, economical factors such as inflation affects the profitability of the firm due to the high production. The monetary authorities therefore need to create and implement measures to curb high inflation and foreign exchange rates. Based on the findings, this study recommends that there is need for political stability in the country. The study also recommends that the government need to formulate regulations that would create a positive results situation all stake holders in the industry.

The study recommends that other research should be done on other variables that affect the Kenyan export trade. This study was carried out on Kenyan export trade, further research could be carried out on other export from Kenya or across the East Africa region to establish the effect of foreign exchange rate fluctuations, and to be able to generalize the findings
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<td>ANOVA-</td>
<td>Analysis of Variances</td>
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<td>FOREX-</td>
<td>Foreign Exchange</td>
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<td>GDP-</td>
<td>Gross Domestic Product</td>
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<td>NSE-</td>
<td>Nairobi Securities Exchange</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

This section highlights the foundation data on the examination theme that puts the issue in its theoretical context. It gives a brief description of exchange rates and how they have developed to the present frameworks now being utilized world over. It outlines objectives, goals and at last it gives the extent of the study while advocating the examination. According to Yutaka (2012), exchange rates are still one of the most controversial areas in both the theoretical and empirical economics and international finance. He further goes on to state that, although recent empirical models mostly neglect the potential existence of a long run relationship between exchange rates and economic fundamentals, structural models have been employed in the study of exchange rates. He also states that according to Beckmannetal (2011) surprisingly little attention has been directed to analysis of the relationship between exchange rates and macroeconomic fundamentals remains an important problem and should be analysed more.

Nguyen (2012) concentrated on examining the part of the exchange rate for Vietnam's economy mix period. She has systematized the hypothesis to assist illustrate the essential hypothetical issues on exchange rate and has examined encounter from nations, for example, China, Thailand, Korea, Malaysia, and Mexico to learn lessons for Vietnam. To evaluate the part of the exchange rate coordination period, the creators have concentrated on the exchange rate variance in the period 1999-2011 and discover issues in the present exchange rate. In this way, the concentrate additionally gave proposals to modify the exchange rate adaptably, keep up the harmony exchange rate steadily in view of the genuine acquiring force of VND through free market activity relationship in the market; enhance and balance out the adjusted instalments, engage VND on worldwide markets and control dollarization marvel.

Pham (2009) has drawn closer the issue about the exchange rate unpredictability affecting on the exchange adjust of Vietnam. The creator concentrated on the assurance of the multilateral real exchange rate or real effective exchange rate (REER) showcase in Vietnam in 1999 - 2008. In this way, the study surveyed the effect of REER on fare import operations in Vietnam by testing the relapse model of the effects of exchange rates on fare import proportion. Comes about demonstrated that exchange rate affects import-send out
exercises, nonetheless, notwithstanding components, for example, GDP which still played an imperative part on fare import exercises.

Tran NhuanKien (2015), utilized gravity models to investigate the elements which influence the export of VietNamese farming products. The paper demonstrates that horticultural fares of Vietnam are affected by the changes in worldwide horticultural market since joining the WTO (2007). All the more specifically, this study shows the factors which influence a nation's fare and import, for example, exchange rates, population measure, development among nations. Inside, Exchange rate impacts in positive course, every 1% expansion in the exchange rate makes fares of Vietnam normal increment of 3,469%. It implies that the cost of Vietnamese fare items is influenced by the cost of US dollars. Subsequently, balancing out rates of exchange is critical that the fare of horticultural products accomplishes supported stable development. Exchange Rate is utilized to infer the rate at which one cash might be changed over into another money. The conversion scale is utilized when basically changing over one money, for example, with the end goal of setting out to another nation or for taking part in hypothesis exchanging or exchanging the remote trade advertise (InvestorWords.com).

The Foreign Exchange Market is, by most records, the most established, and most broad money related market on the planet (Feder, 2011). The market in Kenya as in any creating economy is bound together inland spot showcase for the most part for US dollars and exchanges are assembled at the bank-client level. Over a drawn out stretch of time, global exchange has been viewed as significant way in accomplishing financial improvement (Bordo& Harold, 2012). Worldwide exchange is an imperative "motor" that drives monetary development of countries and universal aggressiveness is the "fuel" that enables that motor and subsequently enhances the financial execution of a nation. Trade rates are influenced by different variables which either is monetary, political, social, and ecological or a blend of any of them. Trade rates respond rapidly to news about present and potential financial and monetary strategies (Ezeala-Harrison, 1999).

As per International Financial Services London look into led in April 2007 (Kim, 2008) the US dollar was included in 86% of outside trade exchanges, trailed by the euro (37%), Japanese yen (17%), pound sterling (15%), Swiss franc (7%) and (7%) for Australian dollar (Were et al., 2012). In Kenya, some item closeout markets have particular affirmed hard money as method of trade. Deal No. 42 of 26th October, 1992 is affectionately recognized
as the deal in which the Mombasa Tea Auction went global by directing a best US dollar sell off as per Kenya Government Policy according to Exchange Control Circular No. 5/92/13 of 15/10/92 (EATTA, 2010).

As per Ozturk (2011), since the reception of a coasting conversion standard administration in 1973, the impacts of swapping scale instability on the volume of global exchange have been the subjects of both hypothetical and observational examinations. He goes above and beyond to characterize swapping scale unpredictability as the hazard connected with surprising developments in the conversion scale. He additionally watches that monetary essentials, for example, the expansion rate, loan fee and the adjust of instalments, which have turned out to be more unstable in the 1980's and mid 1990's, are wellsprings of swapping scale unpredictability.

All the more as of late, Ozturk referred to (Hook & Boon 2011) who have discovered that expanded cross-fringe exchange streams that have been encouraged by the pattern towards progression of the capital record, the headway in innovation, and money theory have likewise brought about the conversion scale to vacillate. He goes further to note that the high level of unpredictability and instability of swapping scale developments since the start of the summed-up skimming in 1973 have driven strategy creators and specialists to research the degree of the effect of such developments on the volume of exchange. This has been because of the way that the breakdown of the Bretton Woods System of settled trade rates both genuine and ostensible trade rates have varied broadly.

As per Aliyu (2011) the exploration identified with the conversion scale administration still stays important to market analysts, particularly in creating nations, regardless of a moderately tremendous assortment of writing in the territory. This, she says is generally in light of the fact that the conversion scale, in whatever conceptualization, is not just an imperative relative value, which associates household and world markets for merchandise and resources, additionally flags the aggressiveness of a nation's trade control versus whatever is left of the world in an immaculate market. She keeps on expressing that plus, it likewise serves as a stay which underpins manageable inside and outside macroeconomic adjusts over the medium to long haul. There is, in any case, no straightforward response to what decides the balance swapping scale, and evaluating balance trade rates and the level of conversion scale misalignment stays a, standout amongst the most difficult exact issues in open-economy macroeconomics (Williamson, 2013) as she referred.
The tea business works under the support of the Ministry of Agriculture for specialized and strategy direction. The business is very much organized right from the peak administrative body, the Tea Board of Kenya, the Tea Research Foundation of Kenya, through to the makers, tea fabricating manufacturing plants, the exchange and the mixing and pressing foundations. Farming economy represents 24% of the Kenyan GDP and utilizes roughly 66% of the populace and records for 70% of fare profit (Tea Board of Kenya).

Trade refers to the action of buying and selling of commodities i.e. goods and services. In Kenya, the Vision 2030 issued as a fundamental benchmark in the measurement of the progress of Kenya’s economic development. It’s built up on three pillars which are the economic, social and political. The economic pillar aims at improving the prosperity of all regions and all Kenyans by achieving a ten percent gross domestic product (GDP) growth rate by the year 2012 (Daily Nation Friday August 31st2012). It further goes to state that Kenya’s economy has been on an upward trajectory over the last five years (since 2008); achieving an average 5.7 percent annual growth. Tourism, agriculture, wholesale and retail trade, manufacturing, IT enabled services and financial service shave been key drivers that have fuelled this growth. The trade sub-sector contributes significantly to the Kenyan Gross Domestic Product (GDP) through promotion of domestic and international trade.

Key programmes under this sub-sector are geared towards promoting enabling business environment, spearheading regional integration initiatives and promoting internationally recognised fair trade practices. The provision of affordable business credits is a core poverty programme implemented by the trade subsector to reduce poverty by offering trade finance, business entrepreneurial and advisory services to micro and small enterprises (Ministry of Planning, January2012). Baliamoune-Lutzans (2011) states that African countries have implemented a series of economic reforms, including trade liberalization, with the aim of boosting economic growth. The theoretical motivation for these reforms is that trade liberalization is expected to increase trade, which in turn raises the rate of economic growth.

This study therefore aims at finding out the relationship between exchange rate movement and tea exports in Kenya. Does exchange rate movement increase order crease the volumes of tea exports? What effect does this have on the exporters? What would be the effect of the movements on investors (both importers and exporters)? How can investors protect themselves against such risks?
1.2 Statement of the Problem
Although broad research has as of now been conveyed in this field about the exchange rate flow, a great deal still stays to be analysed to give financial specialists, particularly import and fare brokers, a superior comprehension of the market (Anonymous, 2012). The relationship that exists between exchange rate instability has not yet been completely comprehended because of the varying conclusions that have been touched base at by specialists. Ozturk (2011), for example discovered that consequences of various studies are hard to analyse since the specimen time frame, display detail, nation and measure of risk differ broadly. In a few cases, he expresses that long run measures are utilized that might be a superior intermediary for pattern changes in the conversion scale than instability. He infers that generally speaking, an extensive number of studies seem to support the routine presumption that conversion scale unpredictability discourages the level of exchange.

Sauer and Bohara (2011) state that the theoretical link between exchange rate volatility and real exports can be derived from the theory of a firm under uncertainty. They cite Hopper and Kohlhagen (1978) who develop a demand-supply model of the market for traded goods where risk-averse importers and exporters are assumed to maximize utility, which depends positively on expected profits and negatively on their standard deviation. Allowing for normal contract leads and payment lags, unexpected fluctuations in the spot exchange rate are shown to affect the unhedged profit streams of international traders. They conclude that if the exchange rate volatility is the only source of risk in the economy, both import demand and export supply will fall as a result.

This research sought to find out the effect exchange rate volatility will have on the international traders in Kenya. Will it reduce level of trade? Will the trade levels increase?

1.3 Purpose of the Study
The purpose of this study is to help determine how exchange rate movements affect the volume of tea exports in Kenya. In order to achieve this, the research is going to aim at the following objectives:

1.4 Research Questions
The study was guided by the following research questions:

1.4.1. How does exchange rate of foreign currencies affect the amount of tea exports in Kenya?
1.4.2. How does inflation affect earnings from tea in Kenya?

1.4.3. How does the Government and politics affect earnings from tea in Kenya?

1.5. Significance of the Study

1.5.1. Tea Factories and the Agriculture sector

It is said that Agriculture is the establishment of the Kenyan economy. This is certifiable in light of the way that primary piece of Kenya’s wealth includes farm produce e.g. tea, flowers, coffee and do on. Some of these things are sold locally and the surplus is exchanged to remote markets where they win Kenya outside wage. These wages add to the aggregate national yield (GDP) of the country. Since tea is one of the things consumed both locally and all-inclusive and adds to the GDP, it is fundamental to perceive how the volumes of tea exchanged are affected by the exchange rates of remote markets.

1.5.2 Related Organizations

This study is useful not only to firms involved in international trade. Smaller firms may also benefit from this study as some depend on the volatility of the main currencies as they may outsource their production to foreign countries.

1.5.3 Academicians and Researchers

This study is useful to future academicians and researchers as a point of reference and information to develop on the topic of forex trading. In addition, it will assist them appreciate the effects of exchange rates tea and economies at large.

1.6 Scope of the Study

The scope of the study is the exchange rate and tea sector in Kenya. Data is to be collected from the Tea and export controlling firms in Kenya. The target group is the stake holders in the tea sector. The target population for this study was the measurements on the volumes of tea exports from Kenya since 2011 until 2015. The research study is likewise going to utilize the month to month normal US dollar exchange rates against the Kenyan shilling for a comparable period. The US dollar has been particularly chosen for this study since the auctioning of the tea exports by the Kenya Tea Development Agency (KTDA) is designated in US dollars. I additionally mean to do a meeting with a portion of the KTDA workers in the department of Finance.
1.7 Definition of Terms

1.7.1 Inflation

Inflation can be defined as a sustained or continuous rise in the general price level or, alternatively, as a sustained or continuous fall in the value of money. Several things should be noted about this definition. First, inflation refers to the movement in the general level of prices. It does not refer to changes in one price relative to other prices. These changes are common even when the overall level of prices is stable. Second, the prices are those of goods and services, not assets. Third, the rise in the price level must be somewhat substantial and continue over a period longer than a day, week, or month. Marc (2011).

1.7.2 Exchange Rate Volatility

Exchange rate volatility refers to the inclination for remote monetary standards to acknowledge or devalue in esteem, along these lines influencing the gainfulness of outside trade exchanges. The unpredictability is the estimation of the sum that these rates change and the recurrence of those progressions. (Mohsene, 2012)

1.7.3 Gross Domestic Product

Estimation of every single last great and administrations delivered inside a nation inside a given day and age, normally one year. Gross domestic product along these lines incorporates the generation of remote claimed firms inside the nation, however rejects the wage from locally possessed firms found abroad. Moderate products, for example, plastic and steel, are excluded, keeping in mind the end goal to dodge twofold including, in light of the fact that they will be transformed into conclusive merchandise. (Helicon ,2016).

1.7.4 ARDL

ARDL Stands for "Autoregressive-Distributed Lag". It is a regression model that is used for testing the presence of long-run relationships between economic time-series (Giles, 2014).

1.8 Chapter Summary

It gives a brief depiction of the conversion standard frameworks administrations and how they have developed to the present frameworks now being utilized world over. It tries to look at different aspects of exchange rates and how they affect export in different cases. It further tries to look at volatility of exchange rates and how they link international trade.
The chapter also highlight the problem statement, purpose and the specific objectives of the study as well as its significance. This study also looks at the tea board of Kenya and how important source of export it is to Kenya. Chapter two looked at the literature review guided by the research objectives, in chapter three the methodology applied for the study was highlighted while chapter for focussed on data analysis. In chapter five the discussions, conclusions and recommendations were presented.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This part tries to give a survey of the impact of exchange rates on the volumes of tea traded by Kenya. It additionally examines a portion of the past studies that have been completed around the world. It goes for investigating the distinctive discoveries and conclusions that different authors have concocted before while doing their research study. At last, it highlights the holes found in the examination and outlines them showing how the study would like to fill the gap.

2.2 Exchange Rate of Foreign Currencies Affecting Tea Exports in Kenya
Chege (2014) studied and clarified that the impact of exchange rate unpredictability on fares can be clarified by two schools of thought, to be specific; the traditional and risk portfolio paradigms. The traditional school conjectures that higher exchange rate unpredictability builds hazard and therefore hoses exchange while the risk portfolio school holds that higher risks presents more noteworthy open doors for benefit and would subsequently advance exchange. As indicated by the traditional school of thought, the instability of profits would bring about the hazard disinclined and hazard unbiased makers reallocating assets from the high hazard outside business sectors to the lower chance residential advertises successfully bringing down global exchange (Oyovwi ,2012).

The risk portfolio hypothesis' take off from the traditional school of believed depends on the preface that the impact of an increment in exchange rate unpredictability relies on upon the convexity of the utility capacity, which is thusly impacted by the company's level of hazard avoidance. Very hazard opposed firms for example, will think that its appealing to build trades in the occasion that exchange rate instability builds the normal negligible utility of fare income. This is named as the income effect of exchange rate instability. The risk looking for operators then again consider exchange rate instability as a high hazard. Expanded income effect of exchange rate in this way prompts them to diminish trades and reallocate assets to other sub areas. This is the marvel alluded to as the substitution impact of exchange rate instability.

At the point when fares increment with an expansion in unpredictability, the more noteworthy the pay impact; while on the off chance that they decrease with an expansion in instability, then the substitution impact exceeds the salary impact. Models of hysteresis
in worldwide exchange have likewise demonstrated that expanded vulnerability impacts on universal exchange particularly if a lot of sunk expenses are included in universal exchanges.

Bristy (2013) dissected the effect of exchange rate unpredictability on fares of Bangladesh. This study investigated how exchange rate devaluation and its instability influence fares of Bangladesh. The study found that exchange rate devaluation positively affects export profit of Bangladesh. In spite of a positive connection between export demand and exchange rate devaluation, He found that the exchange adjust of Bangladesh was breaking down throughout the year. He ascribes this to excessively change in the exchange rate that counterbalances the fare development created by devaluation. He states that worldwide exchange relies on upon interpersonal relationship and in view of long run relationship between nations; exchange may not reaction instantly with the change of exchange rate approach. In this manner, the earlier year's exchange rate assumes a noteworthy part in expanding exports. He presumes that, a great comprehension of monetary and business environment of exchanging accomplice’s arrangements are expected to enhance export profit of Bangladesh.

Irene (2011) did a study on the relationship between foreign trade and financial earnings of Aircrafts in Kenya whose goal was to set up the relationship between outside trade and money financial profit of Kenya Airways. She utilized a case study design. From her discoveries, there is a negative relationship between foreign exchange risk and financial performance. Currency changes effect on costs thus negative effect on incomes and costs designated in outside (foreign) currency.

Muthamia and Muturi (2015) researched determinants of income from tea export in Kenya utilizing OLS. The study utilized time series running from 1980 to 2011. In their discoveries, exchange rates, cost of tea, horticulture esteem expansion foreign earnings and fare of products and enterprises essentially impact tea income in Kenya. The study assist found that swelling irrelevantly influences tea income in Kenya. This study will examine the effect of volume of tea fares on tea send out profit as opposed to Muthamia and Muturi (2015) who considered fare of products and services. The volume of goods and services fares may not unmistakably exhibit the effect of tea fares on tea income since other products of export are incorporated.
Mwangi (2014) analysed the impacts of exchange rates on French beans exported in Kenya. In this research, the estimations of exchange rate instability of the Kenya shilling against the US dollar were processed utilizing a summed up autoregressive conditional heteroscedasticity model. The consequences of co-coordination investigation utilizing vector autoregressive model showed the nearness of a long run harmony relationship between French beans fares and exchange rate. The conversion standard instability variable had negative long run consequences for French beans trades. The responsiveness of French beans send out request in the EU market to exchange rate unpredictability was negative and versatile. This suggested an expansion in the shilling exchange rate unpredictability prompts to a more than proportionate decline sought after for French beans trades from Kenya in the EU advertise.

As the outcomes demonstrated, a unit increment in exchange rate unpredictability in Kenya prompts to a two-overlay diminish in French beans exported to the European Union. The short-run progression of the French beans trade request model was evaluated utilizing a Vector Error Correction display and the coefficient on mistake adjustment term was observed to be - 0.77. The negative indication of this coefficient shown that the course of rectification is towards the long-run balance while the size shown the speed of alteration towards the long-run balance. The aftereffects of this study show that exchange rate unpredictability is one of the factors that impact execution of French beans sends out from Kenya to the European Union market with a negative and flexible short run and long run relationship. They likewise reason that there is relationship between exchange rate steadiness, macroeconomic solidness, institutional changes and export performance.

Maugu (2013) utilized disequilibrium model of agricultural crop export to examine factors that impact supply of Kenya's major crop exported. The study utilized time serie data information running from 1963 to 2012. The study's discoveries demonstrate that tea, pyrethrum and agricultural fares are altogether affected by exchange rate. The discoveries likewise show that GDP altogether impact tea, coffee and total export. El-nino which is caught by a spurious variable essentially influences pyrethrum trades. This study expects to enhance the study by Maugu (2013) by fundamentally concentrating on tea exported out since tea is the main product trade in Kenya.

Rutto and Ondiek (2014) researched effect of exchange rate instability on Kenya's tea trades utilizing OLS. The study utilized time series data running from 1970 to 2008. The
discoveries of the study show that exchange rate unpredictability adversely impact Kenya's tea send out execution. This study plans to enhance the study by Rutto & Ondiek (2014) by exploring different components which impact tea export profit in Kenya.

2.2.1 Translation Exposure in Foreign Exchange

Translation exposure is a sort of risk of exchange rate confronted by multinational companies that have branches working in another nation. The risk remote exchange rate volatility will antagonistically influence the interpretation of the auxiliary's benefits and liabilities designated in outside cash into the home money of the parent organization while combining budgetary proclamations. It is likewise called translation risk or accounting exposure (Hollensen, 2011). Bartram(2013) is of the opinion that in reality assets, liabilities and in addition value on a balance sheet are communicated in recorded qualities and the outside exchange rate at which the monetary standards exchange toward the end of the bookkeeping time frame is most likely not the same remote exchange rate when the records were reserved.

In such manner along these lines when an organization does the typical thing of doing the transformation at another outside exchange rate, there is a probability of exchange rate losses and profits. Along these lines the question that asks to be addressed is at what exchange rate the accounts ought to be translated. It could be at the rate of exchange at the balance sheet date, at the rate of exchange at the time when the assets were acquired or the liability incurred, or at the rate of exchange mid-way through the trading year.

Firms have income statements and balance sheets. The accounting reports mirror the valuation of the liabilities and assets of the firm. Changes in those valuations can speak to capital increases or misfortunes which may must be accounted for in the income statements. An exogenous factor, for example, an adjustment in interest rates may change the estimation of assets and liabilities and create a capital loss or gain. However, this capital pick up or misfortune is not associated with any choice about the operation of the organization. Once the capital loss or gain happens there is nothing that should be possible about it. The capital loss or gain may adjust desires of future increases or misfortunes and some activity may be perhaps being justified, yet ordinarily the exogenous changes are deviations from expected conditions and these deviations are in their nature unpredictable. So, the capital increases and misfortunes are something that happens for the organization yet they are not something that it can or ought to take care of (Bartram 2013).
2.2.2 Transaction Exposure Due to The Exchange Rate

This sort of exposure happens for a situation where an organization exchanges, acquires, or loans in a foreign currency or offers fixed assets of its subsidiaries in an outside nation. This includes time delay between the dedication of the exchange and the receipt of the instalment. Amid this time frame, exchange rates are relied upon to change and in this way, open the organization to risk (Gachua, 2011).

A firm has transaction exposure at whatever point it has legally binding cash flows receivables and payables whose qualities are liable to unforeseen changes in exchange rates because of an agreement being designated in an outside currency. To understand the residential estimation of its remote named money streams, the firm should trade outside currency for local cash. As firms arrange contracts with set costs and conveyance dates notwithstanding an unpredictable outside trade advertise with trade rates always fluctuating, the organizations confront a danger of changes in the exchange rate between the foreign and home currency. It alludes to the hazard connected with the adjustment in the exchange rate between the time an endeavour starts an exchange and settles it (Schmidt, 2012).

Comprehensively, operating exposure is portrayed by a more drawn out, undetermined time horizon contrasted with transaction or exchange introduction. Over the long haul, nominal exchange rates conform to counterbalance aggregate contrasts in remote nations' rates of swelling so the obtaining force of home or outside currency in a given nation on a specific date later on will vary from its foreseen value. This implies operating exposure is the introduction to changes in genuine trade rates. This is the primary reason in the matter of why the presentation is considered to have a more extensive degree, since sudden changes in real exchange rates influence real as well as potential money streams by the method for adjusting the structure of operational factors, for example, cost, volume, value, incomes and by changing the focused position of the uncovered organization. In Addition, such an operational presentation can be improved through changes in the personalities and arrangements of contenders, providers and clients achieved by the adjustment in return rates. This is likewise despite the famous danger of undesirable changes in the estimation of a firm that comes to fruition as a consequence of surprising changes radiating from the real exchange rates (Adler, 2012).
2.2.3 Economic Exposure Due to Exchange Rate Fluctuations

A firm has economic exposure otherwise called forecast risk to the extent that its reasonable worth is affected by unexpected exchange rate volatility. Such exchange rate changes can seriously influence the firms market of the overall industry position as to its rivals, the company's future cash flows, and at last the firms value. Financial introduction can influence the present estimation of future cash flows. Any exchange that opens the firm to foreign exchange risk additionally uncovered the firm monetarily, yet monetary presentation can be brought on by different business exercises and speculations which may not be negligible global exchanges, for example, future cash flows from settled resources. A move in return rates that impact the interest for a decent in some nation would likewise be a monetary presentation for a firm that offers that great. Financial Exposures can't be supported too because of constrained information, and it is expensive and tedious. Monetary Exposures can be overseen by, item separation, valuing, marking, outsourcing, and so on (Gachua, 2011).

In the present time of expanding globalization and uplifted currency unpredictability, changes in exchange rates affect organizations’ operations and profitability. Exchange rate instability influences not simply multinationals and substantial companies, but rather little and medium-sized endeavours also, even the individuals who just work in their nation of origin. While understanding and overseeing exchange rate risk is a subject of evident significance to entrepreneurs, financial specialists ought to be acquainted with it also in view of the tremendous effect it can have on their investments (Bartram et al., 2013). Diverse variables can influence the future cash flows of a firm and in this way likewise influence the monetary presentation. For instance, the speculation arrangement of the firm and additionally outside components, for example, a political emergency in a nation can influence the business levels of the company's item. It is difficult to recognize, evaluate as well as relieve such sorts of dangers given they are probably going to include developments in coin in which the organization has no physical dealings.

2.3 Effects of Inflation on Earnings from Tea in Kenya

Inflation is one of the main considerations that influence the exchange rates. Theoretically a low inflation rate situation will display a rising rate of currency, as the buying force of the currency will increment when contrasted with different currencies Duarte & Stockman (2012). Generally, the inflation rate is utilized to measure the price stability in the economy.
Reasonably, the inflation can be separated into two sides, to be specific: demand side inflation (demand pull inflation) and supply side inflation (cost push inflation). For open-economy countries, inflation comes from domestic factors (internal pressure) and also overseas factors (external pressure). The sources of outside elements are the expansion in the world item costs or exchange rate fluctuations. The impact of exchange rate towards inflation itself relies on upon the decision of exchange rate administration in the nation. Exchange rate framework has a vital part in decreasing or minimizing the danger of fluctuations in exchange rates, which will affect the economy. Any adjustments in exchange rates will have a great effect on the economy (Fung, 2012).

The expected rate of inflation is generally identified with export earnings. Thus, an expansion in the general price level erodes the genuine estimation of cash and initiates a portfolio move. Friedman treats the rate of inflation as the rate of profit for genuine resources similarly as the rate of interest is the rate of return on financial resources. Thusly, higher inflation rates lead individuals to shift part of their wealth from money and financial assets to real assets which, in turn, mean that higher inflation rates are connected with lower interest for cash. Exact work on developing nations has been less effective in finding noteworthy and stable coefficients for expansion flexibility than for money flexibility.

Sadali (2013) explored the determinant that make natural rubber price unpredictable, the ward factors for this study were instability natural rubber price in Malaysia, while the independent variables were crude oil petroleum price, inflation, export and import. The results had negative relationship with the rubber price in Malaysia. The normal rate of inflation is generally identified with financial related execution. In this way, an expansion in the general price level disintegrates the genuine estimation of cash and initiates a portfolio move. Friedman regards the rate of inflation as the rate of profit for genuine resources similarly as the rate of intrigue is the rate of profit for financial assets. Along these lines, higher inflation rates lead individuals to move some portion of their riches from cash and monetary advantages for genuine resources which, thus, implies that higher inflation rates are connected with lower interest for cash. Observational work on developing nations has been less effective in finding critical and stable coefficients for inflation elasticities than for income elasticities (Vong & Chan, 2013).

Victor and Samuel (2012) in evaluating the relationship between the real exchange rate and inflation in Nigeria watched a long run relationship amongst inflation and the real exchange
rate. The speed of conformity shown by the error correction model led by them promote underpins this long run relationship. The outcome demonstrated that both domestic and imported inflation valued the real exchange rate and the ARCH result shows the ingenuity of instability between the rate of inflation and the real exchange rate, a sign that the exchange rate in Nigeria has been defenceless to fluctuation in the rate of inflation. They prescribe that since imported inflation is one of the real reasons for real exchange rate instability, approaches to balance out real exchange rate by focusing on inflation ought to be consolidated with approaches to build export and production of already foreign made contributions to lessen the issue of imported inflation.

Bakare(2011) directed a study on the determinants of cash supply growth and its suggestions on inflation in Nigeria. The study utilized quasi-experimental research design approach. The outcomes demonstrated that credit extension to the private division decides cash supply development and inflation in Nigeria. He along these lines finished up that adjustments in cash supply are attendant to inflation in Nigeria.

2.3.1 Monetary Policies affecting inflation and Exchange rates

Monetary policy can be characterized as the procedure by which the government, central bank, or fiscal power of a nation controls the supply of cash, the accessibility of cash and the cost of cash or rate of interest, keeping in mind the end goal to accomplish an arrangement of destinations situated towards the development and steadiness of the economy. Those objectives are: price stability, promoting growth, achieving full employment, smoothing the business cycle, preventing financial crises and stabilizing long-term interest rates and the real exchange rate. Monetary policy is the control of the cash supply with the target of influencing macroeconomic results, for example, GDP development, inflation, unemployment and swapping exchange rate. Fiscal arrangement might be inflationary or deflationary relying on the monetary state of the nation. Contractionary approach is authorized to crush down the cash supply to control inflation and expansionary policy is to invigorate financial movement to battle unemployment in recession (Adegbite&Alabi, 2013). Monetary policy basically impacts total demand; stock market additionally serves as a vital channel of the monetary transmission instrument. Stock costs impact money related riches, and subsequently influence consumption, investment and labour supply choices. Monetary policy upgrades manageable development is the upkeep of value soundness in economy. Since managed increment in value levels is
decreed significantly to be a fiscal wonder, money related approach utilizes its devices to adequately check cash supply with a view to keeping up value soundness in the medium to long haul. Money related strategy additionally impacts assumptions about the future heading of financial action and inflation, subsequently affecting the prices of goods, asset prices, exchange rates as well as consumption and investment (Niculae, 2013).

Changes in monetary policy influence the trade estimation of the dollar on currency showcases along these lines increment the cost of both the imported and sent out merchandise and enterprises. An increment in exchange rate influences both demand and supply in the economy. A monetary policy that cuts interest rate fee, for instance, brings down the cost of borrowing, bringing about higher investment movement and the buy of customer durables. The desire that financial movement will reinforce may likewise provoke banks to east loaning policy, which thus empowers business and family units to support spending. In a low financing cost administration, stocks turn out to be more appealing to purchase, raising family units' money related resources. This may likewise add to higher purchaser spending, and makes organizations' speculation extends more alluring. Low loan fees additionally tend to make cash deteriorate in light of the fact that the interest for local products rises when imported merchandise turn out to be costlier. The blend of these factors raises output and employment as well as investment and consumer spending. Also, monetary policy is one of the principal economic management tools that governments use to shape economic performance. Measured against financial arrangement, monetary policy is said to be quicker at resolving economic shocks (Kyari, 2015).

2.3.2. Public Debt Affecting Inflation and Exchange Rate

Ugwu (2011) noticed that public debts help in keeping up economic stability, advancement of profitable enterprises, meeting crises, arraignment of war and meeting current deficiencies. Inner obligations, which are obligations raised locally, don't offer ascent to net augmentations to the nation's capital development, rather they wind up occupying stores which normally would have been accessible for private division venture to general society area. Such obligations support open part rivalry over rare accessible nearby investible assets. In perspective of the constraints encompassing the utilization of household obligations, governments connect for remote obligations which have the capability of expanding salaries as extra assets are infused into the household economy. Remote or
outside obligations are those obligations owed by people, firms, or administration of one nation to inhabitants of another nation or worldwide offices.

Sulaiman and Azeez (2012) researched the impact of external debt on the economic growth of Nigeria, utilizing econometric systems of Ordinary Least Square, augmented dickey-fuller (ADF) unit root test, Johansen co-integration test and error correction method (ECM) in its analysis of gathered data. The model worked for the concentrate on intermediary, GDP, as the endogenous variable measuring financial development as a component of endless obligation, proportion of outer obligation to fare, inflation, and exchange rate proxy as the exogenous variable. The co-integration result showed that long-run equilibrium relationship exists, among the variables. Discoveries from the blunder amendment strategy demonstrated that outer obligation has contributed emphatically to the Nigerian economy.

Masaku(2014) explored the impact of Kenya's outer obligation on conversion scale vacillations. A correlation design was chosen for the study and SPSS was utilized to examine information, utilizing descriptive statistics, correlation and regression procedures. Population and sample size was 360 data points over a time of 40 years, from 1971-2010, with nine factors. The reliant variable used was external debt while the control variables were GDP, terms of trade, net foreign assets, exchange rate, interest rate, inflation rate and government expenditure. The study found that there was a general upward pattern in both outer obligation and exchange rate vacillations. The concentrate additionally uncovered that outer obligation, loan cost and not remote resources had a positive and critical impact on swapping scale. Then again, inflation rate and FDI inflows had negative furthermore, huge impacts on exchange rates. Outside obligation represented 63% of the remote trade instability. The examiner presumed that Kenya's outer obligation decidedly and huge influences her exchange rate volatility.

2.3.3. Imports and Exports Affecting Inflation and Exchange Rates

There is a dynamic relationship between imports, wage, inflation and exchange rate. ADRL approach was utilized what's more, demonstrated that as genuine pay increases in Pakistan, the interest for imported items from nations like UK, USA, Germany and Japan increments because of which the imports increment as a result of this the exchange rate is influenced as there is a huge relationship amongst imports and exchange rate. (Alam & Ahmed, 2011). The varieties in exchange rate have its suggestions all in all economy including the financial intermediaries, individual investors and corporate investors. Exchange rate volatility
influences the benefits of organizations. The organizations that are vigorously subject to imports will experience the ill effects of the business and change misfortunes on the grounds that high imports will deteriorate the nearby money as imports and exchange rates are altogether related and imports is one of the primary elements that influences the exchange rate inconstancy and inflation.

Kisaka and Mwasaru (2012). Macroeconomic factors like exchange, development and inflation are additionally cointegrated with exchange rate strategy. The exchange rate of the nations that are oil bringing in like Pakistan is significantly influenced by its imports. (Sattar, 2012). Debasement of rupee negatively affects the Pakistan economy. The neighbourhood money devalues with any expansion in exchange rate. The import and fare request in Pakistan is less flexible because of which trade rate is contrarily influenced as speculators continue Importing and Pakistan is additionally an oil bringing in nation. Compelling voices in Pakistan must attempt to make such strategies through which exchange rate is kept at lower level (Abbas, 2013).

The exports are one of the primary sources of correcting the negative balance of payment. The relationship amongst exports inflation and exchange rate is there however exchange rate does not influence the fares specifically furthermore, exchange rate influences the pay of the general population and which affect the fares. It is normally said that exchange rates volatility lessens the measure of fare however it is apparent from that measure of exchange may not really be influenced by the exchange rate instability however unpredictability can change the structure of the exchange. Exports and exchange rates have negative relationship so nations attempting to keep their exchange rate at a bring down level must help their fares generally conversion scale instability would them be able to reliant on a less products at the point when choosing the frameworks of exchange rate.

The unpredictability in exchange rate has been taken as a variable that influences the trade real exports demand, export prices and exchange rate instability are connected with each other. Fares of India, Pakistan and Sri Lanka are influenced adversely by the unstable exchange rate. The fares are the principle wellspring of expanding the remote trade saves in creating economies and with high fares the swapping scale can be cut down. Approaches must be made to control the unpredictability in return rate with the goal that fares proceed to increment and exchange rate is monitored or alluring level. (Mukhtar& Malik, 2011)
Exports, imports, inflation, and exchange rates are identified with each other. An adjustment in export influences the exchange rate unpredictability. The exchange rate policy of Pakistan has reduced the exports and the overvalued exchange rate has increased the imports rather than exports. Overvalued exchange rate affects the macroeconomic stability of the country and high exports would have stabilized the exchange rate instability. Vulnerability in exchange rate can influence the development of exchange. For a nation like Pakistan whose exchange rate is extremely unpredictable its exchange with US, UK and UAE is influenced by the vulnerability in its exchange rate. The relapse comes about demonstrate that there is a relationship between the exchange development and trade rate vulnerability. State Bank needs to intercede and control the unpredictability of the exchange rate. This vulnerability can be diminished by expanding the fares so that the exchange rate can be controlled. (Hassan, 2013)

2.4 The Government and Politics Affecting Earnings from Tea In Kenya

The connection between government spending and the genuine exchange rate has been the subject of a developing however uncertain writing in universal macroeconomics. (Chatterjee & Mursagulov, 2012) analysed the system through which public foundation spending influences the progression of the genuine exchange rate. Utilizing a two-segment subordinate open economy display with intersectoral conformity costs, they have demonstrated that government spending produces a non-monotonic U-moulded modification way for the genuine exchange rate with sharp intertemporal trade-offs. The impact of government spending on the genuine exchange rate depends basically on (i) the structure of public spending, (ii) the basic financing approach, (iii) the power of private capital underway, and (iv) the relative efficiency of public infrastructure (Chatterjee and Mursagulov 2012).

Government can restrict or even abandon section into enterprises with so much controls as permitting prerequisites and breaking points on access to crude materials. Administrative weights oblige heterogeneity by endorsing uniform asset guidelines, skills and methods for conveying assets crosswise over given businesses and by characterizing what assets are socially adequate or admissible as data sources. These weights restrain assorted qualities by compelling the scope of firms” allowed asset alternatives and by forcing normal societal desires crosswise over contending firms about how information sources ought to be consolidated and sent underway. Political procedures and enactment impact the natural
controls with which ventures must go along; as with many considers the general environment, changes can profit or harm an industry (Dutta et al., 2011).

Sen Gupta and Sengupta (2012) while the firm-level accounting information and other macro variables have limited suggestions for the interaction between exchange rate and exports, there is confirmation that these Indian firms react unevenly to exchange rates. For example, the REER change effect is likely to be driven by the negative appreciation effect but not the depreciation effect. Also, the Indian firms that have a smaller export shares tend to have a stronger response to both REER change and volatility. Contrasted and those sending out merchandise, the organizations that fare administrations are more influenced by the exchange rate. These outcomes have some essential approach suggestions. In perspective of the Indian economy's dependence on exports and the Reserve Bank of India’s managed exchange rate policy, our empirical results indicate a currency appreciation and volatility, in general, have an adverse effect on Indian firms’ exports, and the effect tend to be stronger for firms that have a smaller export share or export services.

Subsequently, if approach producers wish to advance fares particularly as Indian development rate continues floundering lately, they should centre their endeavours on stemming consistent valuation for the swapping scale and diminishing instability. Obviously, the Reserve Bank of India has been seeking after the topsy-turvy strategy of interceding to avert increase over the decade ago or thereabouts (Sen Gupta & Sengupta, 2012). It ought to be noticed that the swapping scale strategy could strongly affect a few firms than others, and option strategies might be looked to offer an adjusted impact crosswise over various sorts of firms. In whole, a better grouping of firms and conversion scale development proposes that the conversion standard impacts are more mind boggling that the basic reading material remedy. To shed extra knowledge to the sending out conduct of Indian firms, it is justified in future research to analyse the variables fundamental the halter kilter reactions. The accessibility of goal particular and sector specific firm level and value information could permit future studies to gage a superior photo of association’s sending out conduct.

2.4.1. The Structure of Public Spending

Awan et al. (2011) explored the effect of fiscal deficit, depreciation, deterioration of terms of trade on the rising level of external debt for the period 1974-2008 given the monstrous obligation weight of Pakistan. A log linear frame model was indicated to dissect this
relationship utilizing Johansen approach. The study discovered critical long-run relationship between external debt and exchange rate and decay of terms of exchange. It was proving that these components altogether were in charge of external debt trouble in Pakistan. Assist the outcomes indicated positive however unimportant relationship between foreign debt and fiscal deficit with regards to Pakistan economy. Awan et al. (2011) examined the effect of exchange rate on external debt and not the converse. Utilizing debt trap and non-debt trap nations, Alam and Taib (2013) researched the relationship between external public debt with budget deficit, current account deficit, and exchange rate deterioration for a time of thirty years (1971 to 2000). An observational examination utilizing environment of dichotomy was embraced. The discoveries demonstrated that external public debt (EPD) was positively related to budget deficit (BD), current account deficit (CAD) and exchange rate depreciation (ERD) in the panels of six DTC and eight NDTC. However, the strength of relationship varied in DTC and NDTC. The consider concentrated on the relationship between exchange rate and external debt and not effect of the external debt on exchange rate volatility. In Kenya, few studies have endeavoured to show relationship between exchanges rates and external debt Masuku (2012) examined the impacts of Kenya's external debt on exchange rate volatility against the USD from 1971 to 2012. The study uncovered that external debt had positive and noteworthy consequences for exchange rate. However, the study consolidated the diverse exchange rate administrations Kenya has experienced since 1971 moving from settled to gliding administrations. Moreover, the study did not explore the relationship between external debt and exchange rate instability.

2.4.2. The Relative Efficiency Of Public Infrastructure

Export income depend fundamentally on the accessibility of physical infrastructure, extending from roads and ports to vitality and media communications. It gives the idea that inside transport costs significantly affect trade income. Internal transport assistance assumes a vital part over all locales in clarifying fare profit in later periods. Its criticalness seems, by all accounts, to be more set apart among better performing exporters. Inner transport foundation assumes an imperative part in fare segment advancement. Most African nations, are portrayed by poor transport foundation, and are observed in all periods to be poor fare entertainers. This demonstrates Kenya could accomplish more to raise its supply limit by putting resources into transport foundation (Fugazza, 2014).
This conclusion is upheld by the study by Limao and Venables (2011) who show some observational investigation demonstrating that levels of fare exchange streams watched for African nations are generally low, basically as a result of poor transport framework. This could be more intense on account of landlocked nations as a result of their geological debilitations. The way that there is still a considerable interest in foundation in Kenya could clarify the moderate upward portability in fare income.

Interestingly, regardless of the aforementioned policy focus, a consensus remains elusive about the impacts of transport foundation on financial development at the total level (Pereira & Andraz 2012). The potential association between monetary advancement and transport framework interest in the United States has been at the bleeding edge of scholastic verbal confrontations over decades. Various exact studies recommend that administration uses on open framework, counting transportation, can possibly build efficiency or decrease cost of generation and, thus, increment financial development (e.g., Aschauer 1989, Munnell 1990, Fernald 1999, Glass 2008, Pereira and Andraz 2012). On the other hand, others locate no huge impact or even a negative effect on national profitability (e.g., Holtz-Eakin 1994, Garcia-Mila et al. 1996, Ewing 2008). Despite the assorted points of view with respect to transport framework speculation, the later worldwide monetary retreat has urged some arrangement creators to use this financial approach device to advance monetary recuperation, strengthening the civil argument about the financial effect of foundation speculation.

Banerjee, Duflo, and Qian (2012) record that railroad development in China took after an investment technique of interfacing authentic urban areas. While their exploration question is distinctive—they utilize this exogenous variety to distinguish the impact of transportation foundation on the differential development rates of locales between verifiable urban focuses—there is a similitude in the sources of erogeneity: both foundation ventures mean to shape a wide system as opposed to profit certain parts of the nation. To put it plainly, the speculation was not intended to support sends out from districts that are slacking as far as exports, or to bolster areas that are as of now effective exporters.

2.4.3. Political state of Involved Nations

It is contended that political-legal environment is a blend of interrelated components that impact inside business all in all, counting exports. For example, the general condition of legislative issues in the household and remote nations holds a noteworthy effect on the
export execution. In like manner are comparative issues political dependability, political philosophy, laws, legislative controls incorporating impedance in economy or a particular industry. Sanely, political unpredictable, open dispositions against the sending out nation or against the item, and the politicization of exchange unions apply a reasonable measure of weight on the sending out execution along these lines must be taken into check by decision makers (Khattab et al., 2012).

The political strengths of the advertising environment may commit decision makers to change or adjust showcasing systems. For example, marketing managers seek to build constructive relationships with stakeholders with elected politicians. In addition, governments are esteemed beneficial purchasers, and when positive ties exist, chose authorities can impact the legislative buy introduction. Furthermore, government officials can assume a fundamental part in helping organizations to secure outside business sectors. In such manner, numerous associations help choosing authorities that are watched emphatically and promising to their exercises through battle commitments. Despite the fact that laws deny corporate monetary mediation in the decision procedure for specific hopefuls, yet the firm is permitted to add to political gatherings. The term delicate cash is presented for this situation, which alludes to cash gave to political parties without particulars to the conduct of use (Pride & Ferrel, 2012).

The general term political hazard alludes to "the probability that political events in a country will negatively affect a firm’s financial performance." Studies affirmed the significance of political soundness on the institutional status in the facilitating nation, which reasonably holds quick effect on the sending out execution to the nation on one hand, and on its progression on the other. Thinks about affirm a straight relationship between the political steadiness in the nation and the fascination of remote speculations. Instable political situations have a tendency to make sentiments of doubt and doubt by remote organizations in various parts of the nation including power authorities, administrative controls, enactments foundations, and the future as an entire (Allard, 2012).

2.5 Chapter Summary
Various studies have been done on the impact of fluctuating exchange rates on macroeconomic factors and its effect on the distinctive segments of the economy. The studies on exchange rate instability and their impact on export profit have brought about blended results. Existing observational proof is however basically in light of developed
nations though a couple of observational examinations had been attempted in African nations like Kenya. There is hence a gap as far as studying exchange rate volatility versus export earnings profit. It is apparent that it has not been done completely particularly in the developing markets. Also, the greater part of the studies led have been in developed nations and they are not indisputable. This study thus will try to fill this gap by examining the effects of exchange rate fluctuations on export earnings with emphasis on Kenya’s exports of tea. The following chapter uses different statistical methods to collect data and tries to establish if there is any sort of relationship.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This part outlines how the research study was led. It incorporates the research design used, the picked sample which prompts to the population and reasons with reference to why the population was picked. Data collection, analysis and presentation are likewise explained on in the part.

3.2 Research Design
This research study utilized a descriptive research design. This was aimed and determining why and how the variables were related. This design utilized depiction as an apparatus to sort out the data gathered into examples that develop amid analysis and presentation. It likewise had visual guides such diagrams & graphs to aid in presentations. The dependent variable was tea exports in Kenya while the independent variables were exchange rate of foreign currencies, inflation and Government and politics.

3.3 Population and Sampling Design

A Population is the precise number of elements that is included in the research study. The study’s population consisted of employees from the KTDA each representing different sections i.e. firms within the KTDA

3.3.1 Population
The target population for this study was for the measurements on the volumes of tea exports from Kenya since 2011 until 2015. The researcher met with a portion of the KTDA workers in the department of Finance (Treasury) and other workers involved in Payments and receivables i.e the Accounts section and this were 50 in number

3.3.2 Sampling Design
A sample is a proportion of the population being examined through a research study. Thus the sampling design refers to the definite procedure that the researchers used in selecting the items from the population that formed the sample. In this study no selection criteria was used.
3.3.2.1 Sampling Frame

The sample frame consisted of the KTDA and firms under it and the frame consisted of all employees in the finance department at the firm.

3.2.2.2 Sampling Technique

The population of 50 employees was considered large population and therefore A random sampling technique was used to select the required number of respondents.

3.3.2.3 Sample Size

From the target population, a sample represent a portion of the population and for this study using the formula:  
\[ n = \frac{N}{1 + N(e)^2} \]

Where:  
- \( n \) = sample size 
- \( N \) = Population 
- \( e \) = error

At 95% confidence interval and a population of 50 the sample size was calculated as:

\[ n = \frac{50}{1 + 50 \times (0.5)^2} \]

\[ = \frac{50}{1 + 0.125} \]

\[ = \frac{50}{1.125} \]

\[ \text{Sample size} = 44.44 \]

Using the formula 44 employees were selected as the optimum sample size, and random sampling was used to select employees working in the forex department and finance sector at the KTDA. The managerial employees were selected as they were expected to be conversant and well informed with reference to effects of forex trading.

3.4 Data Collection Methods

This research study utilized both primary and secondary information gathering methods and the questionnaire was the tool of choice. The questionnaire was divided into four parts with the first capturing demographic information, and the second third and fourth capturing
the specific research objectives. The questions used a five point Likert scale where the respondents were allowed to either agree or disagree with the statements. The reason for using the questionnaire was the low cost involved and the limited time available for the research.

3.5 Research Procedures
The research instruments used in this study were developed based on the research objectives. In terms of data collection, the research enlisted the services of research assistants who were first trained on the various aspects. Thereafter, a pilot study was carried out on survey the instruments before they were fine tuned for the research. The survey instruments were distributed to the respondents and follow up visits were made to ensure feedback. Secondary data and information were obtained from journals, books and previous studies.

3.6 Data Analysis Methods
Data Analysis system is the way toward bundling the gathered data; place it all together and organizing its principle parts in a way that the discoveries can be successfully and effortlessly communicated. The information given was examined through correlation of the distinctive figures (Anonymous, 2012). The examination was directed through simple regression models. The information gathered was exhibited through utilization of tables, pie diagrams and charts.

3.7 Chapter Summary
The chapter looks at how to analyse data collected from different sources above. It plans to look at primary data collected from the tea board statement and considered interviews of different related personnel. Data of a period of about 5 years is considered. It will also use statistical tools to collect and disseminate such collected data. Finally, data collected was used to get real time Information and analysis. The following chapter tries to collect the required data from different sources in the Kenyan Tea sector.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents findings and interpretations established from the study. Findings are presented in line with questionnaire and research questions. The first part highlights findings from demographic factors, the second part presents result on how exchange rate of foreign currencies affect the amount of tea exports in Kenya, second part how inflation affect earnings from tea in Kenya and the last part on how government and politics affect earnings from tea in Kenya.

4.1.1 Response Rate

The researcher distributed 44 questionnaires and all were filled and returned hence representing a response rate of 100% as shown in Table 4.1

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Questionnaires</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and collected</td>
<td>44</td>
<td>100</td>
</tr>
<tr>
<td>Non Responded</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 Demographic Information

4.2.1 Gender

The research sought to establish the response rate of gender. From the study majority of the respondents were female with a response rate of 61% while male had a response rate of 39. % as shown below in figure 4.1
4.2.2 Education Level

The researcher wanted to investigate the level of education respondents have. Based on my findings masters had majority with a response of 24 representing 54.5 % of the population whereas bachelor degree had 20 respondents hence representing 45.5 % of the population as shown figure 4.2 below

4.2.3. Work Experience

From the findings, it was revealed that majority of the respondents have worked in the organization for 3-5 years representing 61.4% of the population, followed by 20.5 % of respondents who have worked in the organization for over 10 years, 13.6 % who have worked for 6-9 years and 4.5% of respondents who have worked for less than 2 years. This is illustrated in figure 4.3
4.2.4 Position

From the findings 26 respondents were accountants representing 59.1% of the population, clerks were 3 respondents for 6.8%, managers were 3 representing 6.8%, middle level was 6 representing 13.6% and treasury was 6 representing 13.6%. Results show that majority of the employees work in the accounting department hence having the highest number. Results are illustrated in figure 4.4

4.3 Effects of Exchange Rate of Foreign Currencies

4.3.1 Descriptive of Exchange Rate of Foreign Currencies

The first objective of the study sought to establish effects of exchange rate of foreign currencies on amount of tea exports in Kenya. Respondents were asked to respond to a set of questions on a five point Likert scale. Based on finding majority respondents agreed that
the company is exposed to foreign exchange risks (4.61), follow by whether the company is exposed to transactional risk with a mean of (4.00). The least means were for the variables whether economic environment in Kenya is risky (3.84) and if company is exposed to economic risk exposure (3.80). Results are illustrated below in the table 4.2

Table 4.2: Descriptive Of Exchange Rate of Foreign Currencies

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>MEAN</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company is exposed to foreign exchange risks</td>
<td>4.61</td>
<td>1.039</td>
</tr>
<tr>
<td>Economic environment in Kenya is risky</td>
<td>3.84</td>
<td>.608</td>
</tr>
<tr>
<td>Company is exposed to transaction risk</td>
<td>4.00</td>
<td>.747</td>
</tr>
<tr>
<td>Company is exposed to economic risk</td>
<td>3.80</td>
<td>.765</td>
</tr>
</tbody>
</table>

4.3.2 Regression between Exchange Rate of Foreign Currencies and Tea Export

A regression analysis was done between variables Exchange Rate of Foreign Currencies and tea export. On analysis, the R square value was 0.869 and a p-value of (0.000) was significant. This means that 86.9% of the variation in tea export was caused by the variation in exchange rate of foreign currencies as highlighted in table 4.3

Table 4.3: Model Summary on Exchange Rate of Foreign Currencies on Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td>1</td>
<td>.932a</td>
<td>.869</td>
<td>.852</td>
<td>.17260</td>
<td>.869</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), exposed to foreign exchange risks, economic environment in Kenya, exposed to transactional risk, exposed to economic risk
An ANOVA analysis was done between effects of exchange rate of foreign currencies on tea export at 95% confidence level, the F critical was 50.535 and the P value was (0.000) therefore showing a significant difference in the mean between exchange rate of foreign currencies on tea export. Results is illustrated below in table 4.4

Table 4.4: ANOVA on Exchange Rate of Foreign Currencies on Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>7.527</td>
<td>5</td>
<td>1.505</td>
<td>50.535</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1.132</td>
<td>38</td>
<td>.030</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8.659</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tea Export
b. Predictors: (Constant), exposure to foreign exchange risks, economic environment in Kenya, exposure to transaction risk, exposure to economic risk

4.3.3 Coefficient of Exchange Rate of Foreign Currencies on Tea Export

A Pearson correlation was done between tea exports (dependent variable) against other factors of exchange rate of foreign currencies. When tea exports was predicted on exchange rate of foreign currencies constant (p value=.001). The organization undertakes companies expose to foreign exchange risks (Beta=1.008, p value=.000); economic environment in Kenya is risky (Beta=-.082, p value=.972); company is exposed to transaction risk (Beta=-.115, p value=.316); company is exposed to economic risk (Beta=.127, p value=.383). Only variable company is exposed to foreign exchange risks was significant (p value<0.05). Table 4.5 below shows results of the regression coefficients, t-statistics, standard errors of the estimates and p values are shown in table 4.5
Table 4.5: Coefficients of Exchange Rate of Foreign Currencies on Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant) Tea Export</td>
<td>2.852</td>
<td>.490</td>
</tr>
<tr>
<td>Company is exposed to foreign exchange risks</td>
<td>.435</td>
<td>.039</td>
</tr>
<tr>
<td>Economic environment in Kenya is risky</td>
<td>-.003</td>
<td>.082</td>
</tr>
<tr>
<td>Company is exposed to transaction risk</td>
<td>-.069</td>
<td>.068</td>
</tr>
<tr>
<td>Company is exposed to economic risk</td>
<td>.074</td>
<td>.084</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant) Tea Export</td>
<td>5.816</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Company is exposed to foreign exchange risks</td>
<td>11.219</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Economic environment in Kenya is risky</td>
<td>-.036</td>
<td>.972</td>
<td></td>
</tr>
<tr>
<td>Company is exposed to transaction risk</td>
<td>-1.017</td>
<td>.316</td>
<td></td>
</tr>
<tr>
<td>Company is exposed to economic risk</td>
<td>.883</td>
<td>.383</td>
<td></td>
</tr>
</tbody>
</table>

4.3.4 Descriptive On Actions Taken Due To Developments in Exchange Rates

The study also sought to establish actions due to positive or negative developments in exchange rates on tea export in Kenya. Respondents were asked to respond to a set of questions on a five point likert scale. Majority of the respondents agreed that the company have entered a new foreign market where they did not have any sales or operations before (4.20), this was followed by abandon to foreign market (3.27), reduce operations in foreign market (3.20). The least mean were for the variables delay entry (2.95), shift facility to foreign market cheaper exchange rate (2.48) and change of product mix (2.80) based on this results most respondents disagreed that it is was cheaper for the company to shift facilities to foreign location where it becomes cheaper to operate due to exchange rate, company had delayed entry in foreign market and also that the company has changed its product mix as shown in Table 4.6.
Table 4.6: Actions Taken Due To Developments in Exchange Rates

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter foreign market with no sales or operations before</td>
<td>4.20</td>
<td>.851</td>
</tr>
<tr>
<td>Shift facility to foreign market cheaper exchange rate</td>
<td>2.48</td>
<td>1.110</td>
</tr>
<tr>
<td>Delay entry</td>
<td>2.95</td>
<td>1.011</td>
</tr>
<tr>
<td>Abandon to foreign market</td>
<td>3.27</td>
<td>.585</td>
</tr>
<tr>
<td>Reduce operations in foreign market</td>
<td>3.20</td>
<td>1.002</td>
</tr>
<tr>
<td>Change of product mix</td>
<td>2.80</td>
<td>1.069</td>
</tr>
</tbody>
</table>

4.3.5 Regression between Actions Taken and Tea Export

A regression analysis was done between variables of actions taken and tea export in Kenya. On analysis, the R square value was (.789) and a p-value of (.000) was significant this means that 78.9% of the variation in earnings from tea in Kenya was as a result of the variation in action taken as a result of fluctuation in exchange rate. Results are illustrated in below in table 4.7

Table 4.7: Model Summary on Actions Taken and Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.888a</td>
<td>.789</td>
<td>.755</td>
<td>.22207</td>
<td>.789</td>
<td>23.099</td>
<td>6</td>
<td>37</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Enter foreign market with no sales or operations before, shift facility to foreign market cheaper exchange rate, delay entry, abandon to foreign market, change of product mix, reduce operations in foreign market
An ANOVA analysis was done between actions taken and tea export in Kenya at 95% confidence level, the F critical was 23.099 and the P value was (0.000) therefore showing a significant difference in the mean between actions taken and tea export. Results is illustrated below in table 4.8

**Table 4.8: ANOVA on Actions Taken and Tea Export**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>6.834</td>
<td>6</td>
<td>1.139</td>
<td>23.099</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1.825</td>
<td>37</td>
<td>.049</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8.659</td>
<td>43</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable Tea export in Kenya
b. Enter foreign market with no sales or operations before, shift facility to foreign market cheaper exchange rate, delay entry, abandon to foreign market, change of product mix, reduce operations in foreign market

### 4.3.6 Coefficient of Actions Taken and Tea Export

A Pearson correlation was done between tea export in Kenya (dependent variable) and actions taken to mitigate exchange rate. When tea export in Kenya was predicted on inflation Constant (p value=0.001). Finding revealed that the organization has entered foreign market with no sales or operations before (Beta=0.256, p value =005); shift facility to foreign market cheaper exchange rate (Beta=-0.345, p value =0.000); change of product mix (Beta=-0.167, p value =0.055); abandon to foreign market (Beta=0.206, p value =0.224); reduce operations in foreign market (Beta=0.472, p value =0.002); Delay entry (Beta=-0.728, p value =.000).

From the above analysis, only variables delay entry, shift facility to foreign market cheaper exchange rate, reduce operations in foreign market, and enter foreign market with no sales or operations before were significant (p value < 0.05), however, variable delay entry (Beta=-.728) and shift facility to foreign market due cheaper exchange rate (Beta=-0.345) were significant but had a negative Beta (-0.336). The results of the regression coefficients, t-statistics, standard errors of the estimates and p values are shown in table 4.9.
Table 4.9: Coefficient of Actions Taken To Mitigate Exchange Rate

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant) Tea export</td>
<td>4.872</td>
<td>.299</td>
</tr>
<tr>
<td>Enter foreign market with no sales or</td>
<td>.135</td>
<td>.045</td>
</tr>
<tr>
<td>operations before</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shift facility to foreign market due to</td>
<td>-.139</td>
<td>.032</td>
</tr>
<tr>
<td>cheaper exchange rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of product mix</td>
<td>-.128</td>
<td>.065</td>
</tr>
<tr>
<td>Abandon to foreign market</td>
<td>.091</td>
<td>.074</td>
</tr>
<tr>
<td>Reduce operations in foreign market</td>
<td>.198</td>
<td>.059</td>
</tr>
<tr>
<td>Delay entry</td>
<td>-.326</td>
<td>.047</td>
</tr>
</tbody>
</table>

4.4 Effects of Inflation on Earnings from Tea Export in Kenya

The second objective of the study sought to establish effects of inflation on tea exports in Kenya. Respondents were asked to respond to a set of questions on a five point likert scale.

4.4.1 Descriptive on Effects of Inflation on Earnings from Tea Export in Kenya

The study also sought to establish effects of Inflation on Earnings from Tea Export in Kenya. Majority of the respondents agreed that foreign exchange volatility affects inflation and the performance of tea (4.45) and inflation affects the profitability of my company (4.41) as indicated in table 4.10.
Table 4.10: Effects of Inflation on Earnings from Tea Export in Kenya

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange volatility affects inflation and the performance of Tea</td>
<td>4.45</td>
<td>0.627</td>
</tr>
<tr>
<td>Inflation affects the profitability of my company</td>
<td>4.41</td>
<td>0.497</td>
</tr>
</tbody>
</table>

4.4.2 Regression between Inflation and Earnings on Tea Export in Kenya

A regression analysis was done between variables of Inflation and Earning on tea export in Kenya. On analysis, the R square value was (.689) and a p-value of (.000) was significant this means that 68.9% of the variation in earnings from tea in Kenya was as a result of the variation in action taken as a result of inflation on tea export. Results are illustrated in below in table 4.11

Table 4.11: Regression between Inflation and Earnings from Tea Export in Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>.722a</td>
<td>.689</td>
<td>.654</td>
<td>.21067</td>
<td>.689</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14.899</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant).

b. Foreign exchange volatility, Inflation affects the profitability of my company

An ANOVA analysis was done between inflation and earnings from Tea Export in Kenya and tea export in Kenya at 95% confidence level, the F critical was 14.899 and the P value was (0.000) therefore showing a significant difference in the mean between inflation and earnings on tea export. Results is illustrated below in table 4.12

38
Table 4.12: ANOVA between inflation and earnings from Tea Export in Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4.325</td>
<td>2</td>
<td>2.1625</td>
<td>14.899</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>1.115</td>
<td>16</td>
<td>.069</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5.440</td>
<td>18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable Tea export in Kenya
b. Foreign exchange volatility, Inflation affects the profitability of my company

4.4.3 Coefficient of Inflation and Earnings on Tea Export

A Pearson correlation was done between tea export in Kenya (dependent variable) and inflation and earnings. When tea export in Kenya was predicted on inflation Constant (p value=0.000). Finding revealed that Foreign exchange volatility affects inflation and the performance of Tea (Beta=-.298, p value =.005), inflation affects the profitability of my company (Beta=-.642, p value=.000) and they were significant (p value < 0.05), The results of the regression coefficients, t-statistics, standard errors of the estimates and p values are shown in table 4.13.

Table 4.13: Coefficient of Inflation and Earnings from Tea Export in Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant) Tea export</td>
<td>4.135</td>
</tr>
<tr>
<td></td>
<td>Foreign exchange volatility affects inflation and the performance of Tea</td>
<td>-.456</td>
</tr>
<tr>
<td></td>
<td>Inflation affects the profitability of my company</td>
<td>-.425</td>
</tr>
</tbody>
</table>

39
4.5: Relationship between Government, Politics, Foreign Exchange and Tea Export

The third objective of the study sought to establish relationship between government, politics, foreign exchange and tea export. Respondents were asked to respond to a set of questions on a five point Likert scale.

4.5.1 Descriptive on Relationship between Government, Politics, Foreign Exchange and Tea Export

Respondents agreed government policy (4.45) and political factors (4.25) affects tea export. It was also established that the company has clear policy (4.41), and other information also affect tea export (4.45). Results are illustrated in table 4.14 below.

Table 4.14: Relationship between Government, Politics, Foreign Exchange, and Tea Export

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>MEAN</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policy affects tea export</td>
<td>4.45</td>
<td>.627</td>
</tr>
<tr>
<td>Political factors performance of my country</td>
<td>4.25</td>
<td>1.014</td>
</tr>
<tr>
<td>Company has clear policy</td>
<td>4.41</td>
<td>.497</td>
</tr>
</tbody>
</table>

4.5.2 Regression between Government, Politics, Foreign Exchange on Tea Export

A regression analysis was done between variables of Government, Politics, Foreign Exchange and tea export. On analysis, the R square value was 0.758 and a p-value of (0.000) was significant. This means that 75.8% of the variation in tea export was caused by the variation in government, politics, and foreign exchange and tea export. Results are illustrated in table 4.15 below.
Table 4.15: Model Summary on Government, Politics, Foreign Exchange and Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.870&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.758</td>
<td>.739</td>
<td>22909</td>
<td>.758</td>
<td>41.663</td>
<td>3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>40</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tea Export

b. Predictors: (Constant), government policy, company policy, political factors

An ANOVA analysis between effects of differentiation on tea export at 95% confidence level revealed that the F critical was 41.663 and the P value was (0.000) therefore significant. This result therefore shows that there was a statistically significant difference in the mean between the various variables of Government, Politics, Foreign Exchange that influence tea export.

Table 4.16: ANOVA of Government, Politics, Foreign Exchange and Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>6.560</td>
<td>3</td>
<td>2.187</td>
<td>41.663</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2.099</td>
<td>40</td>
<td>.052</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8.659</td>
<td>43</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tea Export

b. Predictors: (Constant), government policy, company policy, political factors

4.5.3 Coefficient of Government, Politics, Foreign Exchange and Tea Export

When tea export was predicted on relationship between government, politics, foreign exchange (p value=0.001), government policy affects tea export (Beta=0. 156, p value =0.200); political factors performance of my country (Beta=-0.262, p value =0.007); company has clear policy (Beta=-0.000, p value =0.647); other information (p value =0.000). From the analysis above, all variables had a positive Beta apart from other
information which did not have any Beta. Furthermore only variables other information and company has clear policy were significant (p-value < 0.05). The results of the regression coefficients, t-statistics, standard errors of the estimates and p values are illustrated below in table 4.17.

Table 4.17: Coefficients of Government, Politics, Foreign Exchange and Tea Export

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1  (Constant) Tea Export</td>
<td>1.696</td>
<td>.330</td>
<td>5.146</td>
<td>.000</td>
</tr>
<tr>
<td>Government policy affects tea export</td>
<td>.112</td>
<td>.086</td>
<td>.156</td>
<td>1.304</td>
</tr>
<tr>
<td>Political factors performance of my country</td>
<td>.237</td>
<td>.083</td>
<td>.262</td>
<td>2.845</td>
</tr>
<tr>
<td>Company has clear policy</td>
<td>.286</td>
<td>.047</td>
<td>.647</td>
<td>6.140</td>
</tr>
</tbody>
</table>

4.6 Regression Analysis between Inflation, Exchange Rate, and Government

The research analysed the effects of exchange rate, government and inflation on tea export. A linear regression was done between tea export and the other co factors. The results showed that the $R^2$ value was 0.794 hence 79.4% of the variation in the firm’s tea export was explained by the variations in the cofactors as illustrated in table 4.18

Table 4.18: Model summary between Inflation, Exchange Rate, and Government

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.891$^a$</td>
<td>.794</td>
<td>.779</td>
<td>21117</td>
<td>794</td>
</tr>
</tbody>
</table>

a. Predictors:(Tea Export), inflation, exchange rate, government
An ANOVA analysis was done between effects of exchange rate, government and inflation on tea export and at 95% confidence level, the F critical was 51.393 and the P value was (0.000) therefore significant the results are illustrated below in table 4.19

**Table 4.19: ANOVA of Tea Export and Other Factors**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.875</td>
<td>3</td>
<td>2.292</td>
<td>51.393</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>1.784</td>
<td>40</td>
<td>.045</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8.659</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tea Export
b. Predictors: (Constant), inflation, exchange rate, government

**Table 4.20: Regression Coefficient of Exchange Rate, Government and Inflation and Tea Export**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.246</td>
<td>.482</td>
<td>.510</td>
<td>.613</td>
</tr>
<tr>
<td></td>
<td>.080</td>
<td>.081</td>
<td>.087</td>
<td>.985</td>
</tr>
<tr>
<td></td>
<td>.681</td>
<td>.070</td>
<td>.881</td>
<td>9.680</td>
</tr>
<tr>
<td></td>
<td>.259</td>
<td>.087</td>
<td>-.226</td>
<td>2.990</td>
</tr>
</tbody>
</table>

As per Table 4.20, the equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 \) becomes:

\[ Y = 0.0246 + 0.080X_1 + 0.0681X_2 + 0.259X_3 \]

Where \( Y \) is the dependent variable Tea Export in Kenya

X1 – Exchange Rate

X2 – Government

43
X3 – Inflation

The regression equation illustrated in Table 4.20 above has established that taking all factors into account (exchange rate, government and inflation) all other factors held constant tea export in Kenya was 0.0246. The findings presented also showed that with all other variables held at zero, a unit change in exchange rate would lead to a 0.080 increase in tea export in Kenya and a unit change in government will also lead to 0.080 change in tea export in Kenya. Moreover, the study also showed that a unit decreases in inflation would result in 0.259 change in tea export in Kenya. Only the variables government intervention and inflation was significant (p<0.05).

4.6.1 Correlation Analysis between Tea Export and Other Variables

The research did a correlation analysis to determine the relationship between tea export, exchange rate, and government and inflation rate. Finding from the research revealed that there was a strong positive correlation between tea export and exchange rate, (E=0.556, r<0.05), also a strong positive correlation between tea export and government (G= 0.862, r<0.05), and a positive correlation between tea export and inflation (I=-0.062, r>0.05). Findings show that for every change on exchange rate, and government and inflation there is a positive increase in tea export.

Table 4.21: Correlation Analysis between Tea Export and Other Variables

<table>
<thead>
<tr>
<th></th>
<th>Tea Export</th>
<th>Exchange Rate</th>
<th>Government</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tea Export</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.556**</td>
<td>.862**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.688</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>Pearson Correlation</td>
<td>.556**</td>
<td>1</td>
<td>.582**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.211</td>
</tr>
<tr>
<td>Government</td>
<td>Pearson Correlation</td>
<td>.862**</td>
<td>.582**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.042</td>
</tr>
<tr>
<td>Inflation</td>
<td>Pearson Correlation</td>
<td>-.062</td>
<td>-.192</td>
<td>-.308*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.688</td>
<td>.211</td>
<td>.042</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.7 Chapter Summary

This chapter has highlighted results and findings. The first section provided an analysis of demographic, the second section effects of exchange rate of foreign currencies on amount of tea exports in Kenya. The third section provided findings on effects of inflation on earnings from tea export in Kenya. The fourth section relationship between inflation and foreign exchange and its impact on tea export and the fifth section has highlighted relationship between government, politics, foreign exchange and tea export. The chapter five discusses the findings, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the findings of the study and summarizes the findings. Subsequently, the findings are fully discussed with relevant literature supporting and opposing the results are drawn. Thus, the chapter entails the discussion, conclusions, and recommendations, it further gives suggestion for further studies.

5.2 Summary

The purpose of this study was to analyse the impact of foreign exchange fluctuations on earnings from tea export in Kenya Tea Development Authority (KTDA) in Kenya. The was aimed at answering the following research questions: How does exchange rate of foreign currencies affect the amount of tea exports in Kenya? How does inflation affect earnings from tea in Kenya? How does the Government and politics affect earnings from tea in Kenya?

The study adopted a descriptive research design and data was collected using questionnaires. The target population consisted of 50 employees of KTDA. A sample of 44 respondents was drawn and 44 questionnaires were distributed and all were filled and returned. The data was analysed using descriptive analysis where the means and standard deviation were interpreted. Inferential statistics was also done using SPSS to establish regression and correlation among the variables. The results were presented in figures and tables.

The findings based on the first research question revealed that the company has had exposure to foreign exchange risks and transactional risk. There was however indifference with whether economic environment in Kenya is risky and if company is exposed to economic risk exposure. On analysis, the R square, the variation in tea export was caused by the variation in exchange rate of foreign currencies. A Pearson correlation was done between tea exports and the factors above revealed that only foreign exchange risks directly affected tea export in the firm.

The study also sought to establish actions taken due to positive or negative developments in exchange rates on tea export in Kenya and majority of the respondents agreed that the company have entered a new foreign market where they did not have any sales or operations
before. Although they denied delayed entry into foreign market, shift facility to foreign market due cheaper exchange rate and change of product mix.

The findings based on the second research question revealed that foreign exchange volatility affected inflation and the performance of tea, in addition, inflation affects the profitability of the company. A regression analysis done between variables of inflation on tea earning and the R square revealed that foreign exchange volatility and inflation affected tea earning in the region. The findings based on the third research question revealed that policy, political factors affected the performance of the industry. It was also revealed that the company has clear policy. A regression analysis done between the variables revealed that variation in tea export was caused by the variation in government, politics, and foreign exchange and tea export.

5.3 Discussion

5.3.1 Exchange Rate of Foreign Currencies Affect the Amount of Exports

The findings of this research revealed that the company is exposed to foreign exchange risks (4.61) this was attributed to the fact that the firm has to export the products to foreign countries. Chege (2014) studied and clarified that the impact of exchange rate unpredictability on prices was either due to higher exchange rate unpredictability builds hazard and therefore hoses exchange. Similarly, Bristy (2013) dissected the effect of exchange rate unpredictability on fares of Bangladesh. This study investigated how exchange rate devaluation and its instability influence fares of Bangladesh. The study found that exchange rate devaluation positively affects export profit of Bangladesh.

Most of the respondents agree that the company is exposed to transaction risk (4.00) which is as a result of the foreign trade undertaken by the firm. Study by Irene (2011) to determine the relationship between foreign trade and financial earnings of Aircrafts in Kenya. She established that there is a negative relationship between foreign exchange risk and financial performance. Currency changes effect on costs thus negative effect on incomes and costs designated in outside (foreign) currency.

It was also established that there was uncertainty about the company being exposed to economic risk (3.80). Although that was the case in this research it differs with other studies. Maugu (2013) utilized disequilibrium model of agricultural crop export to examine factors that impact supply of Kenya's major crop exported. The study utilized time series data information running from 1963 to 2012. The study's discoveries demonstrate that tea,
pyrethrum and agricultural fares are altogether affected by exchange rate. The discoveries likewise show that GDP altogether impact tea, coffee and total export. El-nino which is caught by a spurious variable essentially influences pyrethrum trades. This study expects to enhance the study by Maugu (2013) by fundamentally concentrating on tea exported out since tea is the main product trade in Kenya.

A regression analysis was done to establish the relationship between Exchange Rate of Foreign Currencies on tea export revealed that 86.9% of the variation in tea export was caused by the variation in exchange rate of foreign currencies. This finding are in line with Rutto and Ondiek (2014) research on effect of exchange rate instability on Kenya's tea trades utilizing OLS. The study utilized time series data running from 1970 to 2008. The discoveries of the study show that exchange rate unpredictability adversely impact Kenya's tea send out execution. This study plans to enhance the study by Rutto and Ondiek (2014) by exploring different components which impact tea export profit in Kenya.

The findings established that KTDA has managed to enter foreign market with no sales or operations before (4.20). Bradley (2005) study established that there were many reasons for internationalization of firms and these he attributed to the lucrative opportunities abroad, decline in product and technology lifecycles, excess production and the desire for a firm to attract customers abroad.

5.3.2 Inflation Affect Earnings from Export

Majority of the respondents agreed that foreign exchange volatility affects inflation and the performance of tea (4.45). Similarly, Sadali (2013) explored the determinant that make natural rubber price unpredictable, the ward factors for this study were instability natural rubber price in Malaysia, while the independent variables were crude oil petroleum price, inflation, export and import. The results had negative relationship with the rubber price in Malaysia.

The study also revealed that inflation affects the profitability of the company (4.41) and Alam and Ahmed (2011) established that there is a dynamic relationship between imports, wage, inflation and exchange rate. ADRL approach was utilized what's more, demonstrated that as genuine pay increases in Pakistan, the interest for imported items from nations like UK, USA, Germany and Japan increments because of which the imports increment as a result of this the exchange rate is influenced as there is a huge relationship amongst imports and exchange rate. Alam and Ahmed (2011) further established that the varieties in
exchange rate have its suggestions all in all economy including the financial intermediaries, individual investors and corporate investors. Exchange rate volatility influences the benefits of organizations. The organizations that are vigorously subject to imports will experience the ill effects of the business and change misfortunes on the grounds that high imports will deteriorate the nearby money as imports and exchange rates are altogether related and imports is one of the primary elements that influences the exchange rate inconstancy and inflation.

A regression analysis was done between variables of Inflation and Earning on tea export in Kenya. On analysis, the R square value was (.689) and a p-value of (.000) was significant this means that 68.9% of the variation in earnings from tea in Kenya was as a result of the variation in action taken as a result of inflation on tea export. Similarly, Kisaka and Mwasaru (2012) study established that macroeconomic factors like exchange, development and inflation are additionally co-integrated with exchange rate strategy. The exchange rate of the nations that are oil bringing in like Pakistan is significantly influenced by its imports. (Sattar, 2012). Debasement of rupee negatively affects the Pakistan economy. The neighbourhood money devalues with any expansion in exchange rate. The import and fare request in Pakistan is less flexible because of which trade rate is contrarily influenced as speculators continue Importing and Pakistan is additionally an oil bringing in nation. Compelling voices in Pakistan must attempt to make such strategies through which exchange rate is kept at lower level (Abbas, 2013).

A Pearson correlation was done between tea export in Kenya (dependent variable) and inflation and earnings. When tea export in Kenya was predicted on inflation Constant (p value=0.000). Finding revealed that Foreign exchange volatility affects inflation and the performance of Tea (Beta=-.298, p value =.005), inflation affects the profitability of my company (Beta=-.642, p value=.000) and they were significant (p value < 0.05). The earnings of India, Pakistan and Sri Lanka are influenced adversely by the unstable exchange rate. The fares are the principle wellspring of expanding the remote trade saves in creating economies and with high fares the swapping scale can be cut down. Approaches must be made to control the unpredictability in return rate with the goal that fares proceed to increment and exchange rate is monitored or alluring level (Mukhtar & Malik, 2011).
5.3.3 Government and Politics Affect Earnings from Export

Respondents agreed government policy affect earning from tea export (4.45). The connection between government spending and the genuine exchange rate has been the subject of a developing however uncertain writing in universal macroeconomics. Chatterjee and Mursagulov (2012) analysed the system through which public foundation spending influences the progression of the genuine exchange rate. Utilizing a two-segment subordinate open economy display with inter-sectoral conformity costs, they has demonstrated that government spending produces a non-monotonic U-molded modification way for the genuine exchange rate with sharp inter-temporal trade-offs. The impact of government spending on the genuine exchange rate depends basically on the structure of public spending, the basic financing approach, the power of private capital underway, and the relative efficiency of public infrastructure (Chatterjee and Mursagulov 2012).

The findings also revealed that political factors affect tea export (4.25). Other studies political procedures and enactment impact the natural controls with which ventures must go along; as with many considers the general environment, changes can profit or harm an industry (Dutta et al., 2011). It was also established that the company has clear policy (4.41), and Grosse (2005) in his study noted that the political environment in international trade has been known to have an impact on organizations operations and its decision making. Grosse also established that politics has become a vital factor when making international business decisions, on investment and development of markets. A regression analysis was done between variables of Government, Politics, Foreign Exchange and tea export. On analysis, the R square value was 0.758 and a p-value of (0.000) was significant. This means that 75.8% of the variation in tea export was caused by the variation in government, politics, and foreign exchange and tea export.

Fugazza (2014) established that export income depend fundamentally on the accessibility of physical infrastructure, extending from roads and ports to vitality and media communications. It gives the idea that inside transport costs significantly affect trade income. Internal transport assistance assumes a vital part over all locales in clarifying fare profit in later periods. Its criticalness seems, by all accounts, to be more set apart among better performing exporters. Inner transport foundation assumes an imperative part in fare segment advancement. Most African nations, are portrayed by poor transport foundation,
and are observed in all periods to be poor fare entertainers. This demonstrates Kenya could accomplish more to raise its supply limit by putting resources into transport foundation.

Similarly, Khattab et al (2012) contended that political-legal environment are a blend of interrelated components that impact inside business all in all, counting exports. For example, the general condition of legislative issues in the household and remote nations holds a noteworthy effect on the export execution. In like manner are comparative issues political dependability, political philosophy, laws, legislative controls incorporating impedance in economy or a particular industry.

The findings presented also showed that with all other variables held at zero, a unit change in exchange rate would lead to a 0.080 increase in tea export in Kenya and a unit change in government will also lead to 0.080 change in tea export in Kenya. Moreover, the study also showed that a unit decreases in inflation would result in 0.259 change in tea export in Kenya. Only the variables government intervention and inflation was significant (p<0.05).

5.4 Conclusions

5.4.1 Exchange Rate of Foreign Currencies Affect the Amount of Exports

The study concludes that the tea export is exposed to foreign exchange risks and due to the firm operating in foreign countries the industry is highly exposed to transaction risk. Despite this, the company has undertaken bold steps to increase the market share by entering “virgin” foreign market with no sales or operations before.

5.4.2 Inflation Affect Earnings from Export

The study concluded that due to the nature of the tea export industry, foreign exchange volatility affects inflation and the performance of tea. In addition, economic factors such as inflation affects the profitability of the firm due to the high production costs involved.

5.4.3 Government and Politics Affect Earnings from Export

The study concluded that government policy affects tea export, this could be due to the role the government play in influencing the cost of inputs such as fertilizers and minimum wage. The study also concluded that political factors affect performance of the country and as a result directly influences the nature of the export business. Despite this the company was found to have clear a policy.
5.5 Recommendations

5.5.1 Recommendation for improvement

5.5.1.1 Exchange Rate of Foreign Currencies Affect the Amount of Exports

The study established that the tea export is exposed to foreign exchange risks and transaction risk it is therefore necessary for the firm to take precautions such as use of hedging techniques. However, the relevant government agencies should establish measures to avoid dumping of tea product in the local market which would negatively affect the local industry.

5.5.1.2 Inflation Affect Earnings from Export

The study established that foreign exchange volatility, economic factors such as inflation affects the profitability of the firm due to the high production. The monetary authorities therefore need to create and implement measures to curb high inflation and foreign exchange rates.

5.5.1.3 Government and Politics Affect Earnings from export

Based on the findings, this study recommends that there is need for political stability in the country. The study also recommends that the government need to formulate regulations that would create a positive results situation all stake holders in the industry.

5.5.2 Recommendations for Further Studies

The study recommends that other research should be done on other variables that affect the Kenyan export trade. This study was carried out on Kenyan export trade, further research could be carried out on other export from Kenya or across the East Africa region to establish the effect of foreign exchange rate fluctuations, and to be able to generalize the findings.
REFERENCES


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APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE ON THE RELATIONSHIP BETWEEN FOREIGN EXCHANGE TRADING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED ON THE NAIROBI SECURITIES EXCHANGE

The purpose of this questionnaire is to collect information on the relationship between exchange rate fluctuations and earnings from export of tea. All the information collected will be treated as private and confidential and will only be used for research purposes. Your assistance in completion of this questionnaire is highly appreciated.

Section A: General Information

Tick the appropriate response from the alternatives provided.

1. Indicate your Gender:  Male ☐  Female ☐

2. Indicate your level of education

a. Diploma ☐

b. Bachelor ☐

c. Masters ☐

d. Doctorate ☐

e. Other (Please specify) ________________________________

3. How long have you been working in the Tea industry?

a. Less than 2 years ☐

b. 3 – 5 years ☐

c. 6 – 9 years ☐

d. 10 years and above ☐

4. What is your position in the company?

a. Board of Directors ☐

b. Senior Management ☐
c. Other (Please specify) _______________________________________

Section B: Foreign Exchange Rate Volatility affecting Tea Export In Kenya.

Using a scale of one to five rate, the following statements about Cost strategy by ticking the appropriate space provided with 1(Greatly disagree), 2 (disagree), 3(neutral), 4(agree) and 5(Greatly Agree). Please tick (√) the appropriate answer

<table>
<thead>
<tr>
<th>Section B</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. My company is exposed to foreign exchange risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. The economic environment in Kenya is risky</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. My company is exposed to transaction risk exposure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. My company is exposed to economic risk exposure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. My company is exposed to translational risk exposure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.2. Section C: In the past 5 years has your company undertaken any of the following actions due to positive or negative developments in exchange rates?

Using a scale of one to five rate, the following statements about Cost strategy by ticking the appropriate space provided with 1(Greatly disagree), 2(disagree), 3(neutral), 4(agree) and 5(Greatly Agree). Please tick (√) the appropriate answer
Section C

| 1. Enter a new foreign market where your company did not have any sales or operations before | 1 | 2 | 3 | 4 | 5 |
| 2. Shift facilities to foreign locations where it became cheaper to operate due to exchange rate changes | 1 | 2 | 3 | 4 | 5 |
| 3. Delay entry into a foreign market | 1 | 2 | 3 | 4 | 5 |
| 4. Abandon a foreign market completely | 1 | 2 | 3 | 4 | 5 |
| 5. Temporarily close or reduce operations in a foreign market | 1 | 2 | 3 | 4 | 5 |
| 6. Change the composition of products sold in foreign or local markets (change of product mix) | 1 | 2 | 3 | 4 | 5 |

Section D: Relationship Between Inflation and Foreign exchange and its impact on tea Export.

Using a scale of one to five rate, the following statements about Cost strategy by ticking the appropriate space provided with 1(Greatly disagree), 2(disagree), 3(neutral), 4(agree) and 5(Greatly Agree). Please tick (✓) the appropriate answer

<table>
<thead>
<tr>
<th>Section D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Foreign exchange volatility affects inflation and the performance of Tea</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Inflation affects the profitability of my company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section E: Relationship between Government, politics, Foreign exchange and Tea Export.

Using a scale of one to five rate, the following statements about Cost strategy by ticking the appropriate space provided with 1 (Greatly disagree), 2 (disagree), 3 (neutral), 4 (agree) and 5 (Greatly Agree). Please tick (√) the appropriate answer

<table>
<thead>
<tr>
<th>Section E</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Political factors affect performance of my company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. My company has clear policies regarding foreign exchange volatility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If there is any other information you would like to add please feel free to add it here.

__________________________________________

THANK YOU FOR TAKING YOUR TIME TO FILL THIS QUESTIONNAIRE