

**Strategic Response of KTDA (H) Ltd to Changes  
in Contemporary Economic Factors in Kenya**

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the requirement for the Degree of Master of Business**

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**University of Nairobi**

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## DECLARATION

This Research Project is my original work and has not been submitted for purposes of examination to any other University.


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## ABSTACT

This research project focuses on strategic response of KTDA Holdings Ltd to changes related to contemporary economic factors of inflation rates, interest rates, exchange rates and international oil prices. According to Ansoff & Mcdonnel (1990) when a discontinuous change impacts on a firm both cumulative loss of profit and cost incurred in arresting and/or reversing the loss are said to occur. Firms should aim at minimizing the sum of the two combined losses which should also match the turbulence. There are three types of management responsive behaviours; reactive, decisive and planned. KTDA Holdings Ltd controls 60% of tea business in Kenya and serves over 580,000 smallholder tea growers spread in 16 counties of Kenya.

Studies on strategic response to environmental changes in Kenyan context have previously been undertaken by various researchers but none of these studies focused on strategic response to the four contemporary economic factors therefore justify the undertaking. The objectives of the study were to establish strategic response of KTDA Holdings Ltd to changes in contemporary economic factors in Kenya and its effects on its business. Literature review involved a comprehensive review of published and unpublished work from secondary sources of data in the area under study. The research design used was a case study to allow for an in-depth exploration, exhaustive gathering of information and analysis of the topic under study. Primary data was obtained from KTDA (H) Ltd senior management staff through use of an interview guide and thereafter analysed through content analysis.

It was established that in the last three years, business of KTDA (H) Ltd was affected by the contemporary economic factors. Effects included increased cost of inputs, high production cost, low interest income from deposits, high energy cost, poor returns, declining profit and growth. The organization detects discontinuous changes attributed to contemporary economic factors through regular review of documents. Strategic responses employed by KTDA (H) Ltd to changing contemporary economic factors include diversification, restructuring, technology, and financial, human resource, procurement, business consolidation, and efficiency and cost management strategies. It was concluded that KTDA (H) Ltd mainly uses planned management behaviours to address effects of contemporary economic factors.

Limitations of the research finding included lack of enough finances, limited time to undertake the research, limitations in movement, lack of enough data and lack of enough disclosure by some respondents. To broaden the study findings, the researcher recommends further study on management of strategic change in KTDA Holdings Limited. Findings of this study will provide useful information for decision making by various tea industry stakeholders in policy, theory and practice levels.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

“How a business responds to changes within its environment determines its success in the industry and constitutes its strategic response” (Githii, 2008). Business environment is classified broadly into external and internal environment. External environment covers parts of the organization which usually can not be controlled within the organization and is divided into five broad categories namely; (i) economic, (ii) social, cultural, demographic and environmental, (iii) political, governmental and legal, (iv) technological (v) competitive forces. The internal environment on the other hand is essentially all the factors that can be controlled by the organization that include; management of various teams in the organization, leadership/governance, human resource, financial, technology and organization culture.

This research project focuses on strategic response of Kenya Tea Development Agency Holdings Limited (KTDA [H] Ltd) to changes related to contemporary economic factors of inflation rates, interest rates, exchange rates and international oil prices. KTDA Holdings Limited is the managing agent of the smallholders tea sub-sector in Kenya which constitutes about 60% of tea business in the country while balance of 40% is contributed by the large scale tea sub-sector.

### **1.1.1 Strategic Response**

According to Kashero (2008), strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. It is through strategic management that a firm will position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by changing environment. This is done by first positioning the firm through strategy and capability planning in its rightful competitiveness and secondly, use of real time response through issue management and thirdly systematic management of resistance during strategic implementation.

Ansoff & McDonnell (1990) argues that when a discontinuous change impacts on a firm both cumulative loss of profit and cost incurred in arresting and reversing the loss are said to occur. The management problem of such a firm is therefore to minimize the sum of the two combined losses by restoring profitability of affected product lines, or by shutting down the operations that support them. According to them, there are three types of management behaviours; reactive, decisive and planned. In the reactive behaviour, response is delayed until the impact of change has become painful and threatening. Measures are tried one at a time, and only when they have been exhausted does attention turn to strategic countermeasures.

In decisive management the response is triggered when the impact of change has become unambiguous without the additional procrastination observed in the reactive management. Operating countermeasures are tried first, but in a planned systematic manner. Once the operating measures have been exhausted, the firm turns attention to a strategic response. Planned behaviour differs from the other two in that strategic and operating countermeasures are considered at the outset and a proper combination is used in parallel. In both reactive and planned behaviour there is frequently an additional period of procrastination beyond the point at which the importance of the threat has become unambiguous. This procrastination is composed of a systematic delay due to data processing and decision making and a behavioural delay, due to resistance from the power structure and managers who do not accept evidence which varies with experience.

Experience shows that in planned management, the procrastination delay can vitiate the time advantage offered by forecasting and planning. All these behaviours have their place in the range of management resources to threats and opportunities. In slowly changing environment, reactive management, and while costly can avert disaster. As the environment becomes more and more turbulent, it becomes necessary to use first, the decisive response and second, the planned response, if the firm is to avoid a disastrous impact. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff & McDonnell, 1990). Ansoff and McDonnell (1990) argues that strategy is a tool which offers significant help for coping with turbulence confronted by business firms. They developed the following model of gauging the degree of environmental turbulence.

**Table I – Model on degrees of turbulence**

Level 1	Level 2	Level 3	Level 4	Level 5
Repetitive	Expanding	Changing	Discontinuous	Surprising/unforeseen
Repetitive	Slow	Fast	Discontinuous	Discontinuous
	Incremental	Incremental	Predictable	Un-predictable

**Source: Ansoff & Mcdonnel (1990)**

In a country, different industries may experience different levels of turbulence. Management of any organization need to match responsiveness to the turbulence experienced. Responsiveness of a firm's capability often depends on the level of turbulence usually these are as follows; in level 1 & 2, environmental change is slower than a firm's responsiveness. In level 3, environmental change is comparable to a firm's responsiveness. In level 4 & 5, environmental change is faster than responsiveness.

### **1.1.2 Contemporary Economic Factors**

Business environment is classified broadly into external and internal environment. External environment covers parts of the organization which usually can not be controlled within the organization. The internal environment on the other hand is essentially all the factors that can be controlled by the organization such; management of various teams in the organization, leadership/governance, human resource, financial, technology and organization culture.

David (1998) identifies ten major external forces that affect organizations namely economic, social, cultural, demographic, environmental, political, governmental, legal, technological and competitive forces. These forces can be divided into five broad categories namely; (i) economic, (ii) social, cultural, demographic and environmental, (iii) political, governmental and legal, (iv) technological (v) competitive forces.

Economic factors have a direct impact on the potential attractiveness of various strategies, for example rise in interest rates make funds for expansion of organizations costly. It has also an impact of reducing incomes of consumer, which in turn translates to decline in demand of goods and services. Factors such as inflation and unemployment have a direct impact on buying patterns of consumer. This is one of the major economic forces affecting organization globally. Both consumer debt and government debt levels soar at the expense of future security. As a percent of disposable income, a fall in consumer savings leads to decline in consumer purchase at the expense the organizations relying on such purchases. Other key economic variables are shift to a service economy, availability of credit, level of disposable income, propensity of people to spend, interest rates, inflation rates, economies of scale, money market rates, government budget deficits, GNP trends, consumption patterns, unemployment trends, worker productivity levels, currency values, stock market trends, foreign countries economic conditions, import/export factors, demand shift for different type of goods and services, income differences by regions and consumer groups, price fluctuations, monetary policies, fiscal policies, tax rates among others.

Changes of social, cultural, demographic and environmental forces have a major impact upon virtually all products, services market and consumers. Organizations are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic and environmental variables. Social, cultural, demographic and environmental trends are shaping the way citizens live, work, produce and consume. New trends are creating a different type of consumer and consequently a need for different products, different services and different strategies. Consumers are becoming more educated, the population aging, minorities becoming more influential, people looking for local rather than Government solutions to problems, more emphasis being placed on preserving the natural environment and more women entering the workforce. Key social, cultural, demographic and environmental variables are child bearing rates, number of special interest groups and number of marriages/divorces/births/deaths, life expectancy, par capita income, buying habits, ethical concerns, sex roles, racial equality, social responsibility and environmental policies among others.

Governments are major regulators, deregulators, subsidizers, employers and customers of organizations. Political, Government and Legal forces can therefore represent key opportunities or threats for any organization. Changes in patent laws; antitrust legislation, tax rates and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

Examples of Political, Government and Legal variables are government regulations, deregulations and changes in tax laws, special tariffs, political actions, level of government subsidies, import/export regulations, political conditions, size of government budgets, environmental protection laws among others.

Revolutionary technological changes and discoveries such as superconductivity, computer engineering, thinking computers, robots, unmanned factories, space communications, space manufacturing, lasers, cloning, satellite networks, fiber optics, biometrics, Electronic Funds Transfer (EFT) are having dramatic impact on organizations. Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organization's products, services, marketing practices and competitive position. Technological advancement can create new markets, result in proliferation of new and improved products, and change the relative competitive cost position.

The main factor that affects most business is the degree of competition – how fiercely other businesses compete with the products that another business makes. These include rival firms, which therefore necessitate organization to identify them and determine their strengths, weaknesses, capabilities, opportunities, threats, objectives and strategies. Competition in virtually all industries can be described as intense and sometimes cutthroat. Though a business does not want competition from other businesses, inevitably most will face a degree of competition.

The amount and type of competition depends on the market the business operates in; many small rival businesses – such as a shopping mall or city centre arcade – close rivalry, a few large rival firms – such as washing powder or Coke and Pepsi, a rapidly changing market – such as where the technology is being developed very quickly – for example the mobile phone market. A business could react to an increase in competition (such as launch of rival product) in the following ways; cut prices (but can reduce profits), improve quality (but increases costs), spend more on promotion (for example do more advertising, increase brand loyalty; but costs money), cut costs, such as use cheaper materials, make some workers redundant, changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered and choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors.

Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission to design strategies to achieve long-term objectives and to develop policies to achieve annual objectives. Some organisations survive solely because they recognize and take advantage of external opportunities. Contemporary economic environmental factors with of significance to performance of businesses globally are inflation rate, interest rate, exchange rate and international oil prices.

<http://en.wikipedia.org/wiki> defines inflation as a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation also reflects erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index over time.

[http://en.wikipedia.org/wiki/Interest\\_rate](http://en.wikipedia.org/wiki/Interest_rate) defines interest rate as the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. Interest rates are normally expressed as a percentage rate over the period of one year. It is further argued that following are reasons for changes in interest rate; political short-term gain, differed consumption, inflationary expectations, alternative investments, risk of investment, liquidity preference and taxes.

According to [http://en.wikipedia.org/wiki/Exchange\\_rate](http://en.wikipedia.org/wiki/Exchange_rate), exchange rates between two currencies specify how much one currency is worth in terms of the other. A market based exchange rate will change whenever the values of either of the two component currencies change. A currency will tend to become more valuable whenever demand for it is greater than the available supply and vice versa.

International oil prices are determined by general global business environment. Price level are also determined by the oil producers groups mainly the OPEC. Additional cost is incurred in transportation of oil to the consumers, various taxes and duties. Oil is the main source of energy for most manufacturing organization and therefore a major input component globally.

Cole (2004) states that, according to systems and contingency approaches to management theory, an organization is viewed as a system of inter-related sets of activities, which enable inputs to be converted into outputs. This therefore enables explanation of key elements of organizations in terms of their interaction with one another and with their external environment. An organization is perceived as a social system that is always open and characterized by; receipt of inputs or energy from their environment, conversion of these inputs into outputs and discharge of their outputs into their environment.

In relation to an organization, the inputs include people, materials, information and finance. These inputs are organized and activated so as to convert human skills and raw materials into products, services and other outputs, which are discharged into the environment. A business organization does not function in a vacuum, as it has to act and react to what happens outside itself. These factors that happen outside the business are known as the external environment. These factors will affect the main internal functions of the business and possibly the objectives of the business and its strategies. The external environment in which organizations operate presents both threats that should be avoided and opportunities that could benefit the organization.

These external trends and events significantly affect all product, services, markets and organizations in the world. Organizations should be able to respond either offensively or defensively to these factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats.

### **1.1.3 The Tea Industry in Kenya**

In one charming legend on the origins of tea, even the Chinese ascribe their success to an improbable stroke of good fortune. According to this account, the story began in 2737 BC during the reign of the Emperor Chen Nung who had laudable interest in hygiene and medicine. One day, as the Emperor was boiling some water in order to purify it, a few leaves from a nearby tea plant (*camellia sinensis*) dropped into the imperial billycan, with such a felicitous result that the brew was firmly launched in Chinese court circles (Banyard & Thompson, 1981).

KTDA Strategic Plan 2010 – 2014 indicates that tea was introduced in Kenya in 1903 with commercial farming starting in 1924 on settler occupied farms. The 1929/30 World economic recession brought slump in the expanding tea industry as did other sectors of the economy. Due to shrinkage in the export market, the domestic market grew faster than anticipated. Competition for the domestic market was stiff and by 1931 the Kenya Tea Growers Association (KTGA) was formed to promote the interests of all persons concerned in the cultivation of tea in Kenya.



Soon after, the Associated Tea Growers of East Africa (ATGEA) was established to foster the same objectives within the three east African countries of Kenya, Uganda and Tanganyika (Tanzania). Tea growing and production was expanding elsewhere in the world. India, Ceylon (Sri Lanka) and the Dutch East Indies (Indonesia) were experiencing over production which culminated in the introduction of international tea growing expansion restriction scheme signed under the first Tea Agreement in Amsterdam in 1933. By then Kenya had planted only about 4,800 hectares under tea and was subjected to the same expansionary restrictions as the major tea growers in the world. The colonial government did not allow African peasants to grow cash crops up to 1937 when commercial maize cultivation was liberalized followed by cotton. The major arguments by the colonial government were that the Africans could not effectively control diseases on their farms and this could be a threat to the “well-cared-for” European settler-owned farms. Lack of farm labour was also feared including competition with the Europeans for lucrative farming business.

The Tea industry in Kenya is broken down broadly into Policy, Production, Regulatory & Research and Trade & Promotions. The main players are the Government of Kenya through the Ministry of Agriculture, Tea Board of Kenya, Tea Research Foundation, Kenya Tea Development Agency (Holdings) Limited, Kenya Tea Growers Association, Nyayo Tea Zone Development Corporation and East Africa Tea Trade Association. Economic Survey, 2011 indicates that the agricultural sector which is key to the economic growth, recovered from declines of 4.1% and 2.6% in the year 2008 and 2009 to record an impressive growth of 6.3% in 2010.

This growth was attributed to favourable weather conditions coupled with improved global demand during 2010. The report further indicates that tea production increased by 27% from 314,100 tonnes in 2009 to 399,000 tonnes in 2010 as detailed on Appendix V. More than one-third of Kenya's agricultural produce is exported, accounting for 65% Kenya's total exports. Over 80% of the Kenyan population earns their livelihood from agriculture and agro-based industries. Agricultural growth is therefore a key determinant of growth and development within the Kenyan economy.

TBK Report of January, 2011 indicates that, the country's tea production for 2010 reached an all time high of 399 Million Kgs compared to 314 Million Kgs recorded in 2009 and 345 Million Kgs recorded in 2008. A total of 441 Million Kgs was exported compared to 342 Million Kgs exported in 2009. Consequently, the export earnings rose from Kshs69 Billion (USD 899 Million) to Kshs97 Billion (USD 1.23 Billion) to register the highest export performance recorded by the industry. Improved export earnings were attributed to a combination of higher export volume, improved prices as well as depreciation of the Kenya Shillings against the US dollar. The Kenya Vision 2030 (2007) indicate that despite the central role that agriculture plays in the Kenyan economy, the sector continues to face four major challenges associated with productivity, land use, markets and value addition.

#### **1.1.4 The Kenya Tea Development Agency Holdings Limited**

Kenya Tea Development Authority was established under a statutory legislation on 20<sup>th</sup> January 1964 under Legal Notice No. 42 Section 190 of the Agricultural Act (Cap 318 of the Laws of Kenya). The enactment charged KTDA with the statutory responsibility of promoting and fostering the development of tea for the small-scale tea growers within specifically scheduled tea growing areas. This subsidiary legislation empowered KTDA to assist the small-scale tea farmers in expanding their holdings through the following goals and objectives; manage tea extension programme with the aim of improving the level of management and crop husbandry, develop and maintain a tea infilling programme to cover vacancies within farms, increase the area under tea by recruiting more farmers, providing tea-planting materials, collecting, purchase and handling of green tea, processing of the tea leaf, manufacturing of tea, marketing of the made tea, payment of the growers after the necessary deductions and development of sound technical, financial and managerial infrastructure.

In the early 1990s the Government of Kenya through the Public Enterprise Reform Programme (PERP) listed KTDA among other four strategic public enterprises for reforming. Those others were Kenya Posts and Telecommunications (KPTC), National Cereals and Produce Board (NCPB), Kenya Railways (KR) and Kenya Ports Authority (KPA). In line with the Government policy of liberalization and restructuring of the tea industry, the Kenya Tea Development Agency Limited was formed on the privatization of Kenya Tea Development Authority on 30<sup>th</sup> June 2000.

The Agency took over the assets and liabilities of the Authority and also its mandate but under new terms entered into with the independent tea factory companies it manages. In December 2009, the company changed its name to Kenya Tea Development Agency Holdings Limited (KTDA (H) Ltd) in line with the recommendations made by a Government constituted tea industry task force of 2007. It is a public limited liability company owned by 54 corporate shareholders, who are KTDA's affiliated tea-producing factories. KTDA provides management and other services through its various subsidiary companies under a management agreement with the factory companies.

The Agency is contracted by the tea factory companies to; manage tea cultivation, develop and maintain tea husbandry, collect, weigh, handle and pay farmers for green leaf delivered, manufacture green leaf into tea, market the manufactured tea, develop and provide sound technical, financial and managerial infrastructure, provide services in procurement, ICT, Human Resources and other support services. KTDA (H) Ltd is currently managing 65 tea factories that serve over 580,000 smallholder tea growers cultivating over 115,000 hectares of tea spread in all the 16 counties of Kiambu, Murang'a, Nyeri, Kirinyaga, Embu, Tharaka-Nithi, Meru, Kericho, Bomet, Nakuru, Kisii, Nyamira, Nandi, Kakamega, Vihiga and Trans- Nzoia (Constitution of Kenya, 2010). In order to address core business activities and exploit economies of scale and scope, KTDA (H) Ltd established subsidiary companies for specific roles and responsibilities.

The subsidiary companies are; KTDA Management Services Ltd that was established to specifically deal with management of the tea factory companies. Majani Insurance Brokers Ltd undertakes insurance portfolios for internal and external clients. Chai Trading Company Ltd undertakes all matters relating to warehousing, clearing and forwarding and general trading in teas. Kenya Tea Packers Ltd (KETEPA) undertakes tea blending and packing for local and export markets. Recently it has ventured into water bottling (Maisha Brand). Green Land Fedha Limited is a micro-finance institution aimed at providing a variety of affordable financial services to tea and non-tea growing stakeholders. KTDA Power Company was set to spearhead development of small hydro power projects across the tea growing regions.

During its period of existence, the growing of tea by small-scale sub-sector in Kenya has attained a niche in the global tea trade. The KTDA (H) Ltd is the largest single producer and exporter of made tea in Kenya and the world. Kamau (2008) argues that while KTDA was in the past viewed as a model contract farming system, in recent years it has suffered from challenges associated global oversupply of tea, declining tea prices and increases in cost of production.

## 1.2 Research Problem

According to Kashero (2008), strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Mugweru (2008) observed the magnitude of today's environmental changes is unprecedented and that it is very interesting and exciting world, but also volatile and chaotic. The researcher further argued that to cope with an unprecedented world, one must build an enormous amount of flexibility into the firms. Contemporary economic factors affecting business of KTDA (H) Ltd are; inflation rates, interest rates, exchange rates and international oil prices.

Studies on strategic response to environmental changes in Kenyan context have previously been undertaken by various researchers, among them; Odongo (2003) who studied strategic responses by Kenya Tourist Development Corporation to changes in its environment; Kimani (2006) who studied strategic responses to Christian Community Services (CCS) organisations in Kenya to changes in their environment; Ahmed (2008) who studied strategic responses by Automobile dealers in Mombasa to Government policy on used motor vehicle importation; Githii (2008) who studied strategic responses of Rwathia Group of business to environmental changes; Kamami (2008) who studied response strategies of small and medium audit firms in Nairobi to regulatory changes affecting the audit industry; Kashero (2008) who studied strategic responses to changing environment at Lloyd Masika; and Kubunya (2008) who undertook a survey of strategic responses of firms to environmental changes in Kenya – A case study of City Council of Nairobi.

These studies focused on other organizations outside the tea industry that have different business environmental factors. In addition none of these studies focused on strategic response to the four contemporary economic factors. This therefore justifies undertaking of the proposed study to fill this knowledge gap. There are various changes encountered by the KTDA (H) Ltd emanating from the contemporary economic factors which have direct impact on the nature and direction in which the firm operates. There is therefore a need for the KTDA (H) Ltd to continuously formulate strategies to respond to these changes to ensure sustainability of the business. The researcher wishes to establish; what are the effects of these contemporary economic factors changes to the business of KTDA Holdings Ltd? What are the strategic responses undertaken by management to address them?

### **1.3 Objectives of the Study**

- (a) To establish the effects of changes in contemporary economic factors in Kenya to the business of KTDA Holdings Limited.
- (b) To establish strategic response of KTDA Holdings Ltd to changes in contemporary economic factors in Kenya.

#### **1.4 Value of the Study**

The finding of the study will provide useful information for decision making to the following stakeholders in the tea industry; the small scale tea farmers, management of KTDA (H) Ltd, tea customers, services and products suppliers, industry competitors, regulators, employees, investors and any other important interest groups. The proposed study will also act as a source of reference materials and knowledge for academicians and upcoming researchers who might be interested in carrying out studies related to this one.

Insightful diagnosis of a company's external and internal environment is a prerequisite for managers to succeed in crafting strategy that is an excellent fit with the company's situation, is capable of building competitive advantage and holds good prospect for boosting company performance – the three criteria of a winning strategy. Thompson, Strickland & Gamble (2007), further states that all companies operate in a “macro-environment” shaped by influences emanating from the economy at large. A company's macro-environment includes all relevant factors and influences outside the company's boundaries, where relevant means important enough to have a bearing on the decisions the company ultimately makes about its direction, objectives, and strategy and business model.

Strategically relevant influences coming from the outer ring of the macro-environment can sometimes have a high impact on a company's business situation and have a very significant impact on the company's direction and strategy. Happenings in the outer-ring of the macro-environment may occur rapidly or slowly with or with or without advance warning. But even if the factors in the outer-ring of the macro-environment change slowly or have such a comparatively low impact on a company's situation that only the edges of a company's direction and strategy are affected, there are enough strategically relevant outer ring trends and events to justify a watchful eye. As company managers scan the external environment, they must be alert for potentially important outer ring developments, assess their impact and influence, and adapt the company's direction and strategy as needed.

However, the factors and forces in a company's macro-environment having the biggest strategy - shaping impact typically pertain to the company's immediate industry to the company's immediate industry and competitive environment – competitiveness pressures, the actions of rival firms, buyer behaviour, supplier – related considerations among others.

According to Thompson, Strickland & Gamble (2007), thinking strategically about a company's industry and competitive environment entails using some well defined concepts and analytical tools to get clear answers to seven questions (i) what are the industry dominant economic features? (ii) What kinds of competitive forces are industry members facing and how strong is each force? (iii) what forces are driving industry change and what impacts will they have on competitive intensity and industry profitability? (iv) what market position do industry rivals occupy – who is strongly positioned and who is not? (v) what strategic moves are rivals likely to make next? (vi) what are the key factors for future competitive success? (vii) does the outlook for the industry present the company with sufficiently attractive prospects for profitability? Analysis-based answers to these questions provide managers with the understanding needed to craft a strategy that fits the company's environmental situation.

### **2.3 Contemporary Economic Factors**

Gichumbi (2008) stated that economic environment is concerned with the nature and direction in which the firm operates. It is characterized by factors that affect supply, demand, growth, competition and profitability within the industry. Mugweru (2008) observed that the state of the macroeconomic environment determines the general health and wellbeing of the economy. This affects a company's ability to earn an adequate rate of return. Pearce & Robinson (1991) stated that economic environmental factors concern the nature and direction of the economy in which a firm operates. Consequently, firms must try to forecast the repercussions of major actions taken in both the domestic and international economic arena. Economic environment is also said to be very dynamic and complex in nature as it keeps on changing from time to time with the changes in an economy like change in government policies and political situations.

According to Johnson & Scholes (2002), economic factors include business cycles, GNP trends, interest rates, money supply, inflation, unemployment and disposable income. Inflation rates, interest rates, exchange rates and international oil prices have been selected as the economic environmental factors due to significant impact they have in the business undertaken by KTDA Holdings Limited. Letiwa (2011) argues that prices of most commodities at the local retail shop are skyrocketing in Kenya due to inflation. He further argued that as months pass, the amount of shopping you get for your basket reduces over time. This is what he described as inflation or what is described as increase in the general level of prices of goods and services over a period of time.

An increase in cost of production and subsequent rise in unfavorable inflation is usually felt by the consumers through increased prices. A further increase in inflation triggers Central Bank of Kenya to review its benchmark rates upward, which have a direct impact on business access to credit. Impact of inflation in the KTDA Ltd is felt in form of increased cost of production and shrinking of markets for tea products. KTDA Strategic Plan (2010) indicate that average annual inflation in Kenya has generally been on the upward trend from 1.96% in 2002 to 6.49% in 2006 before reaching a high of 16.27% in 2008 due to a combination of Post Election Violence and the global financial crisis. The annual inflation rate came down to 9.24% in 2009 and further decreased to 7.03% in March 2010. The CBK (November, 2010) indicate that the annual average inflation persisted in its downward trend from 10.2% in November 2009 to 4.1% in October 2010 and further down to 4% in November 2010.

According to the report this general declining trend was largely attributed to, among other reasons, the declining prices of food and communications during the period. Inflation is one of the major economic forces affecting organization globally has a direct impact on buying patterns of consumers as it affects their purchasing power. As a percent of disposable income, a fall in consumer savings leads to decline in consumer purchase at the expense the organizations relying on such purchases. Letiwa (2011) stated that a rise in inflation can destroy any future financial plan if not addressed early in the planning process by both individuals and organizations.

Reasons for changes in interest rate are political short-term gain, differed consumption, inflationary expectations, and alternative investments, risk of investment, liquidity preference and taxes. Mugweru (2008) observed that the state of the macroeconomic environment determines the general health and wellbeing of the economy. This affects a company's ability to earn an adequate rate of return. Rise in interest rates make funds for expansion of organizations costly. According to Anyanzwa (2011), the big question to the Central Bank of Kenya is whether deposit interest rates should be lowered to reduce the cost of borrowing or to increase it to attract more savings. According to the report, commercial banks in Kenya have complained risks in the economy and high costs of funds as major hurdles hampering the intention to lowering lending rates. Economic Survey (2011) shows that since December 2009, the principal interest rates declined with the average interest on 91-day treasury bills declining significantly by 4.54% points to 2.28% in December.

Mureithi (2011) argues that Kenyan foreign exchange market has been very jittery due to some domestic and external events. On the domestic front it was associated with the ICC decision on 2008 PEV cases, reports of drought in tea growing areas, the rising of inflation, uncertainty of financing Kenya's account deficit and a recent IMF board paper arguing Kenya's debt levels to be reduced. The foreign events are; turmoil in North Africa and Middle East, difficulty of investors in withdrawing their portfolio on Egyptian money and capital markets due to political turmoil and foreign investors liquidating of their positions on the NSE to cater for the increased demand for the US dollar.

Letiwa (2011) documented that the shilling depreciated by 6.3% against the US Dollar this year, falling to a 17 year low of Kshs86.15 per US Dollar on March 14, on higher demand from oil importers as global crude prices surge. It is therefore important for organizations to monitor and analyse impact to their businesses to enable come up with strategic response equivalent to shocks. International oil prices are determined by general global business environment and the oil producers groups especially the OPEC. Additional cost is incurred in transportation, storage, taxes and duties. KTDA (H) Ltd through its factories is major consumer of oil where it is used to dry tea. Oil products such as diesel are used in transport of tea from the farm to the factories and also delivery of made tea to the market. It is therefore a major determinant of production cost and final returns in the business. According to Senelwa (2011), the East African countries are feeling the unforeseen effects of a sharp rise in global crude oil prices, which could hurt the 2011 economic projections.

Economic growth of these countries is threatened by inflation driven by the escalating cost of fuel. Indications are that trade unions in Kenya have started to demand for wage review to cushion workers from the rising cost living. Letiwa (2011) argues that a continued rise in oil prices could raise inflation further. Economic Survey (2011) indicates that the world economy emerged from the recession experienced in 2009, recording a significant growth of 4.6% in 2010. This influenced world oil demand and supply. Oil prices fluctuated between US Dollar 73 and US Dollar 86 per barrel most of the year but peaked at US Dollar 91.85 per barrel in December 2010. The high international oil prices translated to changes of petroleum prices in the domestic market.

## 2.4 Management Behaviours in Strategic Response

Ansoff & McDonnell (1990) argues that when a discontinuous change impacts on firm both cumulative loss of profit and the cost of arresting or reversing the loss are incurred. They further observed that there are three types of management behaviour; reactive, decisive and planned behaviours. In the reactive behaviours, response is delayed until the impact of change has become painful and threatening. In decisive management the response is triggered when the impact of change has become unambiguous without the additional procrastination observed in the reactive management. In the planned behaviour, strategic and operating countermeasures are considered at the outset and a proper combination is used in parallel. According to them, start of response is delayed past the rationale trigger by the following four contributing factors; systems delay, verification delay, political delay and un-familiarity rejection delay. All four delays will postpone the response past the rational trigger point and will substantially increase the total cost to the firm.

According to Pearce & Robinson (1997), some of the strategic responses are; monitoring competitors' strategies, turnaround strategies, matching organization structure to strategy and building a strategy supportive of culture. Murgor (2008) found out that the strategic responses in place to counter the environmental changes and challenges in the Kenya's sugar industry include; financing of the industry, intensified research, enforcement of standards, socio economic development, lobbying for industry and product diversification.

According to Lugho (2007), strategic and operational responses employed by organizations to changing environmental conditions include diversification, restructuring, collaborative, generic, marketing, product, price, place, promotion, operation and technology, financial, human resource and procurement strategies. Githii (2008) established that among the strategic responses by Rwathia Group of companies to business environmental changes were; price adjustments, modernization of facilities, training, differentiation and diversification.

According to Ansoff & Mc Donnell (1990), for an organization to implement strategic responses the following three components are essential; right climate (will to respond), competence (ability to respond) and capacity (volume to respond). These three components are the responsibility of the general management who should also ensure that the organization engages in behaviour which optimizes the organization long term objectives (Lugho, 2007). According to Johnson & Scholes (2002) outcomes and responses to the environment could include; business failure (failure to meet threshold requirements), repositioning (addressing other segments with different threshold requirements), staying in business (meeting the threshold product features), outperforming competitors (satisfying the critical success factors better than competitors), exploiting other opportunities (other arenas that already value the same critical success factors) or creating new opportunities (where the critical success factors could be valued).

According to Thompson, Strickland & Gamble (2007), managers are not prepared to act wisely in steering a company in a different direction or altering its strategy until they have a deep understanding of pertinent factors surrounding the company's situation. The strategic success hypothesis states that a firm's performance potential is optimum when the following three conditions are met. Aggressiveness of the firm strategic behaviour matches the turbulence of its environment. Responsiveness of the firm's capability matches the aggressiveness of its strategy. The components of the firm's capability must be supportive of one another (Mathenge, 2008). According to Pearce & Robinson (1997), some of the strategic responses are; monitoring competitors' strategies, turnaround strategies, matching organization structure to strategy and building a strategy supportive of culture.

## **2.5 Post trigger Behaviours**

Ansoff & Mc Donnell (1990) referred post trigger as the period between the first awareness of threat and the point of coping with it. According to them, during the pre-trigger period, coping of deficiencies are perceived, analysed and corrected within the established routines and programmes of normal activities. The importance of the triggers point is that it ushers in extra-ordinary, non routine drastic measures which are classified into; strategic measures and operating measures.

According to them, it involves coping with discontinuous changes in the firm's relationship to the environment, in its internal dynamics and/or in its value system. It involves for example diversification into new business, divestment from major product lines, major re-organizations, introduction of strategic planning systems. These measures are known to change the face of the firm, alter perspectives, and introduce new ways of life (Ansoff & Mc Donnell, 1990).

According to Ansoff & Mc Donnell (1990) operating measures stops short of changing familiar relationships. The measures are drastic enough such as unusual major sales promotions, a drastic price cut to revive flagging sales, a major write-off of assets, disposal of large amounts of obsolete inventories, replacement of obsolete plant, a freeze on hiring, arresting management development programmes or cut backs in research and development expenditure. According to them, most firms prefer implementing operating measures because they are familiar and acceptable because they have either been tried before or their impact can be forecasted with confidence. On the other hand strategic measures will be acceptable only in the minority of the firms who previously made drastic strategic change a way of life. For most firms with history of incremental strategic changes, drastic strategic measures appear to them as strange, risky and threatening.

Ansoff & Mc Donnell (1990) concluded reactive management behaviour is appropriate for turbulences of levels 1 – 2 (when speed of change is slow and strategic discontinuities are rare), decisive management behaviour is appropriate in turbulence levels 2 – 3 (where strategic discontinuities are infrequent, but the speed of change makes advisable a rapid operating response) and planned management behaviour is appropriate for turbulence levels 3 – 5 (where strategic discontinuities are frequent and both operating and strategic responses must be made expeditiously). According to Odiwuor (2008), the essence of strategic response to organizations is to improve profitability, to manage risks, to reinforce technology, sharpen skills and achieve greater customers' orientation, corporate governance and achievement of international standards.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter contains a description of procedures and techniques used in the collection, processing and analysis of data. It specifically covers research design, data collection and data analysis applied while carrying out the research project.

#### **3.2 Research Design**

Research design used was a case study. The design was preferred because it allows for an in-depth exploration, exhaustive gathering of information and analysis of the topic that is being studied (Chebet, 2008). The objective of the case study was to establish strategic responses adopted by KTDA Holdings Ltd in addressing effects brought about by changes in contemporary economic factors.

### **3.3 Data Collection**

Primary data was obtained through use of an interview guide attached as Appendix II. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda & Mugenda, 2003). The method was preferred because of the advantage of resulting to standardised data that is convenient for analysis. It is also known to be efficient, flexible, cheap and easy to administer. Primary data collection involved interviewing ten KTDA (H) Ltd senior management staff from the following departments; Strategy & Planning, Treasury Management, Factory Operations, Corporate Affairs, General Accounts, Legal & Regulatory Affairs, Human Resources & Administration, Procurement and KTDA Power Company.

Internal and external secondary data was also obtained and analysed. Internal sources included; current KTDA (H) Ltd Strategic Plan, Annual Financial Statements, organization website and management reports. External secondary data sources included various reports and publications from; Tea Board of Kenya, Tea Research Foundation, Central Bank of Kenya and Government. Text books, journals and periodicals and print media reports were the other source of secondary data.

### **3.4 Data Analysis**

The recorded interviews responses were edited for completeness and consistency before analysis. Thereafter content analysis was used in analysing the in-depth qualitative data. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda & Mugenda, 2003).

The method of analysis has been successfully used in similar studies by Gitonga (2008) and Tanui (2008). The results obtained from the study are based on research questions, research objectives and the conclusions drawn and the recommendations made thereof.

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

#### 4.1 Introduction

This chapter contains data analysis, interpretations and discussions in relation to the objectives of this study. This discussion focuses on the meaning of this finding, how this fits into the existing body of knowledge, whether the findings are consistent with current theories, whether they give new insights and whether they suggest new theories.

#### 4.2 Respondents Profiles

It was established that majority of the respondents interviewed were KTDA (H) Ltd employees for over five years and this gave them an advantage of giving the information required from experience. It was also noted that majority of the same group are from one gender (male) and aged over 35 years.



### **4.3 Effects of contemporary economic factors**

Analysis of data provided indicates that for the last three years, KTDA (H) Ltd business was affected by changes in inflation rates. The effects included; increased tea production cost, escalation of project cost, reduction of values of company assets and erosion of purchasing power of employees and the organization. Other effects included increased cost of employment of KTDA (H) Ltd because of inflation salary adjustments. It was established that the company awarded its employees a 12% salary increment with effect from July 2011 to compensate them for rising inflation translating to a huge salary bill.

Exchange rates variations in the last three years also had an effect in the business performance of KTDA Holdings Ltd. Effects include increased cost of imported inputs such as machinery, fertilizer and oil products. In 2008/09 the company was for the first time unable to import farmers' fertilizer due to high international prices linked to high prices caused by volatility in exchange rates. However the importation was undertaken the following year and every year thereafter.

Interest rate changes have had effects on the business of KTDA (H) Ltd for the last three years. It affected the levels of borrowing (loans) and repayment periods at times necessitating revision of project scope. It was established as a policy major projects such as factory construction are financed through 50% loan and 50% equity.

This meant that a slight variation upward of interest rate on Kshs250 million loan resulted to huge cost when you consider the number of on-projects at any one time. Low deposit interest rate resulted to low interest income from both short and long term deposits made by the organization. This has effect on the final payment to the farmers as it is considered as one source of revenue. Changes in international oil prices in the last three years had adverse effects in the business of KTDA (H) Ltd by increasing prices of furnace oil and diesel. Effects to business included increased tea production cost, high cost of green leaf collection, processing and distribution of made tea.

It was also established that the organization detects discontinuous changes attributed to contemporary economic factors through regular review of its internal documents such as market and operational reports. It also reviews external documents such as Central Bank of Kenya releases, various annual Economic Surveys and other press releases. Analysis is undertaken through monitoring & evaluation of the strategic plans for various business units and the analysis of financial statements. Another finding was that responsibility formulation of responses to effects attributed to changes in contemporary economic factors lays with the senior management of KTDA (H) Ltd especially the office of Finance & Strategy Director. However, for those responses requiring change of policy, approval of the Board was mandatory after recommendation by management. The KTDA Holdings Ltd board was established as the highest governance organs handling policy issues of the organization.

Another finding is that delay of response to the contemporary economic factors is mainly attributed to systems delay. It was noted that a substantial time is consumed while observing, interpreting, collating, consulting and transmitting information between detection and actual response. In some cases also verification, political and unfamiliarity rejection delays in responses are also experienced within the organization.

Analysis of the collected data indicates that as far as KTDA (H) Ltd is concerned, responses as far as discontinuous contemporary economic factors are concerned are planned. Another finding is that the organisation needs to be more proactive in detection and formulation of responses arising from the various contemporary economic including the four under focus. It was established from the study that other contemporary economic variables with significant effect in the business of KTDA (H) Ltd are; tea prices, labour cost and taxation.

#### **4.4 Strategic response by KTDA (H) Ltd**

Strategic responses employed by KTDA (H) Ltd to changing contemporary economic factors include diversification, restructuring, technology, financial, human resource, marketing and procurement strategies. The organization has diversified its revenue sources through formation of subsidiary companies dealing with non tea businesses. The diversified revenue sources include bottling of drinking water, warehousing, insurance brokerage, credit products, real estate development and hydropower generation.

Other strategic responses include implementation of electronic weighing solutions, factory modernization and construction of new factories. Installation of Continuous Fermentation Units in all the factories was undertaken in the last three years to improve efficiency and reduce tea production cost. Restructuring in KTDA (H) Ltd has been in form of staff rationalization and outsourcing of non core business processes such as security and cleaning services. As at the time of data collection the organization was in the process of implementing recommendations made a management consultant. The consultant was undertaking an assignment that involved review of KTDA organization structures, determining of staff requirements, remuneration survey and development of new grading and salary structures. Employment of people matching the skills required and training has also been applied to ensure maintenance of skilled staff. Other strategic responses adopted include extensive use of ICT (automation) in most of the operations and processes. As at the time of data collection KTDA (H) Ltd had embarked on the process to an integrated computer platform across the all its business units.

Product differentiation as a strategic response has been in form of orthodox tea production as a way of adding value of tea to increase tea returns. Other strategic responses noted on the marketing front was acquisition international recognized market related certification/accreditations such ISO, Fair-Trade and Rain-Forest Alliance. During the last three years it was noted that all the KTDA managed tea factories were ISO 22000/2005 certified as an important assurance to customers of high quality and safety of KTDA teas. In addition all the KTDA business units are ISO9001:2008 certified.

To cushion against high international oil prices, KTDA has undertaken projects geared towards alternative cheaper sources of energy namely wood-fuel and generation of own hydro electric power. As at the time of data collection, all the factories had acquired 22% of targeted land to develop own wood-fuel plantations. A subsidiary company was also formed to spearhead generation of hydro-power. Suppliers of petroleum products to tea factories managed by KTDA (H) Ltd are selected through competitive tendering to optimize value. At the time of the study it was established sourcing of petroleum products for all the KTDA managed tea factories was from four major oil companies in Kenya namely; Total Kenya Limited, Kenol-Kobil, Galana Oil and HASS Petroleum Kenya Limited on long term supply contracts as a way of managing escalation of oil prices. To manage fuel consumption at the factories a vehicle replacement policy of 5 years was developed and implemented. KTDA has partnered with various banks and other financial institutions to provide assets finance to facilitate implementation of the 5 years vehicles replacement policy. Procurement strategies include long term supply contracts and bulk buying of inputs and other consumables to enjoy economies of scale.

#### **4.5 Challenges of strategies implementation**

Strategies of countering the challenges are usually very expensive to implement in terms of time and other resources and this has also been witnessed at the KTDA (H) Ltd. In the process of responding to some of the changes the organization has suffered negative impact on productivity, loss of valued employees, adverse impact on customers and sometimes delays on non achievement of company outcomes.

As the organization tries to diversify its income generating portfolios it has ventured into non tea business such as provision of financial services that has been met by resistant especially by those already in the business such as SACCOs and other microfinance institutions. Another challenge has been venturing into high risk project such as hydro power generation, money lending, wood-fuel plantation establishment and water bottling that may result to low return on investment. Generally, it was also established that most of changes emanating from the contemporary economic factors are beyond the control in terms of organization's scope and mandate leaving the organization exposed to risks or at the mercy of other players such as Government to address them.

From these findings it has been established that the effects of changes in contemporary economic factors have adversely affected business of KTDA (Holdings) Ltd for the last three years. This has called for crafting and implementation of various strategies to address them. From the findings it has been established that the organization has come up with various strategic responses to address changes brought about by the contemporary economic factors of inflation, interest rates, exchange rates and international oil prices. The success of the KTDA Holdings Ltd in terms of growth and profitability may be attributed to strategic responses implemented by the organization. This concurs with Ansoff & McDonnell (1990) who argued that when a discontinuous change impacts on a firm both cumulative loss of profit and costs incurred in arresting and reversing the loss are said to occur as experienced within the KTDA Holdings Ltd for the last three years. The management of such a firm should minimize the sum of the two combined losses and the same is happening at the KTDA Holdings Ltd.

The study established those strategic responses by KTDA (H) Ltd to address changes arising from contemporary economic factors include diversification, restructuring, technology, financial, human resource, marketing and procurement strategies. It was also established from this study that strategic responses by KTDA Holdings Ltd to changes arising from contemporary economic factors have been documented in form of five years strategic plans. The organization has been operating within five years strategic plans since privatization in 2000 with the current one running between 2009 and 2014. Each department has objectives and key performance indicators (KPIs) aligned to the corporate objectives which are monitored regularly through management meetings. It was also noted that some of the strategic responses have resulted to positive results in the performance of the organization in terms of growth and profitability. This concur with the findings of Githii (2008) who argued that how a business responds to changes within its environment determines its success in the industry and constitutes its strategic response.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter contains summary of study findings, conclusions, limitations of the study, recommendations for further study/areas to pursue and implications of the study on policy, theory and practice.

#### **5.2 Summary of Findings**

Major effects of contemporary economic factors was established to be increased cost of production, increased wage bill, escalation of project costs and increased cost of development loans. Strategic responses of the KTDA to changes brought about by these contemporary factors are business consolidation, revenue diversification, efficiency and cost management, restructuring, technology, financial, human resource, marketing and procurement strategies. It is concluded that KTDA (H) Ltd uses both strategic and operational measures usually associated with planned management behaviours to address effects of contemporary economic factors.

### 5.3 Conclusions

It can be concluded that effects of changes in contemporary economic factors have adversely affected business of KTDA (Holdings) Ltd for the last three years in various ways. Strategic responses applied by the firm to address changes arising from contemporary economic factors include diversification, restructuring, technology, financial, human resource, marketing and procurement strategies. It was also established for this study that strategic responses by KTDA Holdings Ltd to changes arising from contemporary economic factors have been documented in form of five years strategic plans. The conclusion of this research is that that KTDA (H) Ltd uses planned management behaviours to address effects of contemporary economic factors. This is where strategic and operating countermeasures are considered at the outset and a proper combination is used in parallel.

The researcher noted that the organization is continuously monitoring its business environment through its organs in order to timely respond to the effects of arising from these changes. This finding was consistent with findings of previous researchers that strategic response by organizations has a positive relation with improved performance. The finding further re-affirms other findings that established that lack of consistent strategic response can easily run down organisations especially in a turbulent environment.

#### **5.4 Limitations of the Study**

Limitations of the research project included shortage of finances, time, lack of enough data and lack of full disclosures by some respondents. The researcher was self-sponsored for both course work and the research project which resulted to pressure on his financial resources. The research project would have required much more time but the researcher had to submit the report within a specified timeframe. The overall time taken was therefore not enough to cover all areas the researcher would have wished to cover. The researcher was also limited in movement as he works in Nairobi while most of the business operations of the KTDA Holdings Ltd are mainly located outside Nairobi. To some extent there was also a limitation on availability of published and unpublished literature on this very dynamic area of contemporary economic factors.

Some respondents were not as open as would have been expected in providing information needed for the research project. Some respondents gave inadequate data contrary to the expectation of the researcher. Other targeted respondents delegated their responsibilities to their subordinates because they were either busy or on leave or had travelled out of office at the time of data collection. The researcher therefore believed that the respondents provided similar information with what would have been provided by their seniors.

## **5.5 Recommendations for Further Study**

Based on the study findings, the researcher recommends further study on management of strategic changes at KTDA (H) Ltd. It was noted that there are numerous changes affecting the business of the organization arising from contemporary economic and other factors. A study in management of strategic change would help in evaluating change management strategies by the KTDA (H) Ltd or/and any other business organizations. Results of a study in management of strategic change would expound and enrich the findings of this completed research project.

## **5.6 Implication of the Study on Policy, Theory and Practice**

The findings of this study will provide useful information for decision making to the various stakeholders in policy, theory and practice. The main stakeholders in this case will include; KTDA (H) Ltd management, small scale tea farmers, tea customers, services and products suppliers, industry competitors, industry regulators, employees and investors. The findings will help management of KTDA (H) Ltd in evaluating the strategies adopted in addressing changes arising from the contemporary factors. This will help them in reviewing those found wanting and improve on those that are in order. KTDA (H) Ltd competitors and other potential investors in the tea industry will also appreciate the effects brought about by contemporary economic factors and corresponding strategic responses adopted to address them.

This will help them in borrowing the best practises and replicating in their organizations to improve their business performance. The Government and other tea industry regulators will find the study useful in guiding formulation and review of policies on the tea industry and agriculture sector in general. The findings will also serve as a secondary source of data for academicians and upcoming researchers interested in carrying out studies related to KTDA (H) Ltd and tea industry in general. Suppliers of products and services of KTDA (H) Ltd will appreciate the findings of the study to guide them in deciding on the direction to take as far as the future business engagement with the organization is concerned. From the findings, the employees of KTDA (H) Ltd will also be able to evaluate their future as employees of the organization.

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# APPENDICES

## Appendix I

### LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAM - LOWER KABETE CAMPUS**

DATE: 26-05-2011

#### TO WHOM IT MAY CONCERN

The bearer of this letter IRAKA, DAVID KAKANI

Registration No DBI/71554/2008

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you

  
**DR. W.N. IRAKI**  
**CO-ORDINATOR, MBA PROGRAM**

## Appendix II

### INTERVIEW GUIDE

#### RESPONDENT'S PROFILES

<b>Name</b>				
<b>Department</b>				
<b>Designation</b>				
<b>Gender</b>	Male		Female	
<b>Age (Years)</b>	Below 25	26 – 35	36 - 45	Above 46
<b>Years in KTDA Ltd</b>	Below 5	6 – 10	11 - 15	Above 15

1. For the last 3 years, have the following factors affected the business of KTDA (H)

Ltd in any way?

Inflation rates

Yes { } No { }

If yes, which are these effects?

Exchange rates

Yes { } No { }

If yes, which are these effects?

Interest rates

Yes { } No { }

If yes, which are these effects?

International oil prices

Yes { } No { }

If yes, which are these effects?

2. How does the organization detect discontinuous changes attributed to inflation rates, exchange rates, interest rates and the international oil prices?
3. Who is responsible for formulation of responses to the above changes attributed to the above stated factors?
4. Delay in start of response to the contemporary economic factors affecting KTDA (H) Ltd is attributed to the following (please tick the correct one):-
  - (a) Systems delay (time consumed while observing, interpreting, collating, consulting and transmitting information)
  - (b) Verification delay (waiting a little bit longer to see if the threat will 'blow itself out')
  - (c) Political delay (some managers believe that the crisis will reflect on their reputations)
  - (d) Unfamiliarity rejection delay (management trust prior and familiar experiences only)
  - (e) All the above
5. State the ways the KTDA (H) Ltd detects and analyses changes occurring in its business environment?
6. Generally in your opinion, the following statements are true as far as responses to discontinuous economic factor changes are concerned in the KTDA.

- (a) Response is delayed until the impact has become painful and threatening
- (b) Response is triggered when the impact of change has become unambiguous
- (c) Strategic and operating countermeasures are considered at the outset and a proper combination is used in parallel.

7. What areas as far as response to changes in the contemporary economic factors by KTDA would you like to be improved?
8. Apart from the above four factors, what are the other contemporary economic factors with significant effect in the business of KTDA (H) Ltd?
9. What strategies have KTDA (H) Ltd undertaken to address challenges arising from changes arising from; inflation rates, interest rates, exchange rates and the international oil prices?
10. What can you say are the challenges realised when implementing these strategies?
11. Do you consider strategic responses by KTDA (H) Ltd to these changes as adequate?

## Appendix III

### LETTER OF CONFIRMATION



KENYA TEA DEVELOPMENT AGENCY HOLDINGS LIMITED  
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Tel: +254 20 221441/2/3/4 3227000 340570 | Fax: 254 020 211240  
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19<sup>th</sup> July, 2011

The Co-ordinator, MBA Programme,  
University of Nairobi,  
School of Business,  
Lower Kabete Campus  
P.O. Box 30197  
**NAIROBI**

Att: Dr. W.N. Iraki,

RE: DATA COLLECTION FOR RESEARCH PROJECT - IKARA, DAVID KARANI

Reference is made to your letter dated 26<sup>th</sup> May 2011 on the above subject.

This is to confirm that the above named was facilitated to collect data in the KTDA Holdings Limited that was relevant to his research project.

We would be glad if a copy of the research findings is availed to this organization.

Yours sincerely,

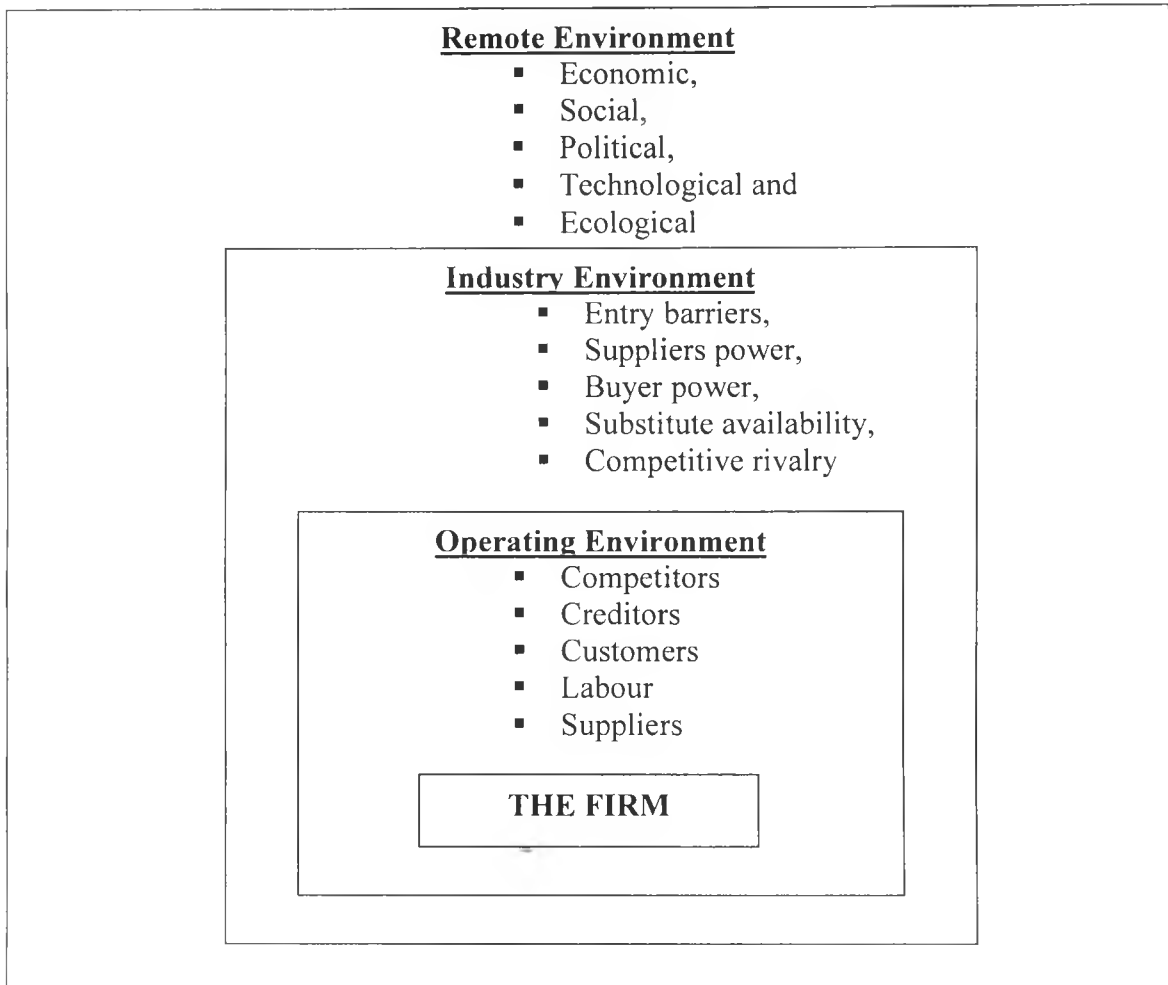
**ROBERT M. MUHJA**  
**HEAD OF STRATEGY & PLANNING**

**Directors:**

*Prof. Othman O. Njoroge, P. Njoroge MBE (2011) (Vice-Chairman), J. S. J. Twarok (Marketing), J. Wanjiku, Elizabeth Gakuru,  
C. K. Mutitu, P. T. Karuga MBS, G.M. Mugo, S.M. Iren, J. Koge, J. Njagarara, B. Matonda, J.M. Mukavie,  
B. K. Ngari (Finance & Strategy), Abdurizack Ali (Operations)*

## Appendix IV

### FIRM'S EXTERNAL ENVIRONMENT



Pearce & Robinson (1991), Pg 97

## Appendix V

### SMALLHOLDER TEA PRODUCING COUNTIES AND FACTORIES

	COUNTY	KTDA MANAGED FACTORIES
1.	Kiambu	Kambaa, Kagwe, Theta, Kuri, Gachege and Mataara
2.	Murang'a	Ngere, Njunu, Nduti, Makomboki, Ikumbi, Gacharage, Githambo, Kanyenyai-ini, Gatunguru and Kiru
3.	Nyeri	Chinga, Iria-ini, Gitugi, Gathuthi and Ragati
4.	Kirinyaga	Ndimba, Mununga, Kangaita, Kimunye and Thumaita
5.	Embu	Kathangariri, Mungania and Rukuiriri
6.	T-Nithi	Weru
7.	Meru	Kinoro, Kionyo, Imenti, Githongo, Michimikuru, Kiegoi and Igembe
8.	Kericho	Toror, Tegat, Momul, Litein, Chelal and Kapkatet
9.	Bomet	Mogogosiek, Kapset, Rorok, Kobel, Kapkoros and Tirgaga
10.	Nakuru	-
11.	Nyamira	Sanganyi, Kebirigo, Tombe, Gianchore Nyankoba and Nyansiongo
12.	Kisii	Rianyamwamu, Kiamokama, Nyamache, Itumbe, Ogembo and Eberenge
13.	Nandi	Chebut and Kaptumo
14.	Kakamega	-
15.	Vihiga	Mudete
16.	Trans-Nzoia	Kapsara

Source: KTDA (H) Ltd (2011)

## Appendix VI

### Production, area and average yield of tea by subsector (2005-2010)

	2005	2006	2007	2008	2009	2010
AREA (Ha) '000						
Small holder.....	92.7	95.8	98.2	107.1	107.3	115.0
Estates.....	48.6	51.3	51.0	50.6	51.1	56.9
TOTAL	141.3	147.1	149.2	157.7	158.4	171.9
PRODUCTION (Tonnes) '000						
Small holder.....	197.7	191.2	229.6	210.9	172.6	225.0
Estates.....	130.8	119.4	140.0	135.0	141.5	174.0
TOTAL	328.5	310.6	369.6	345.9	314.1	399.0
AVERAGE YIELD (Kg/Ha)						
Small holder.....	2,312.0	2,225.0	2,658.0	2,397.0	1,862.0	2,291.0
Estates.....	3,372.0	2,689.0	3,105.0	2,768.0	2,909.0	3,412.0

Source: Economic Survey, 2011