

**AN ASSESMENT OF THE IMPLICATIONS OF EXCHANGE RATES  
FLUCTUATION ON THE PERFORMANCE OF SME's IN TANZANIA:  
THE CASE STUDY OF ELECTRONIC DEVICES TRADERS AT KARIAKOO,  
DAR ES SALAAM**

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**A Dissertation Submitted in Partial Fulfilment of the Requirements for Award  
of the Degree of Master of Business Administration (MBA-CM) of  
Mzumbe University**

**December, 2020**

## **CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **an assessment of the implications of exchange rates fluctuation on the performance of SME'S in Tanzania: The case of electronic devices traders at Kariakoo, Dar es Salaam**, in partial/fulfilment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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## **ACKNOWLEDGMENTS**

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## **DEDICATION**

This work is a dedicated to my parent as well as my family. They have showed love, patience, support as well as remembering me in prayers every day. May the blessing of the almighty God be upon you every day. This success is equally yours.

## **ABBREVIATIONS AND ACRONYMS**

SMEs	:	Small and Medium Enterprises
SPSS	:	Statistical Package for the Social Sciences
TRA	:	Tanzania Revenue Authority

## **ABSTRACT**

The growth of Small and Medium Enterprises (SMEs) worldwide always depends on favourable business environment. Nevertheless, SMEs in Tanzania are threatened by a number of limitations that hinder their performance. One of the constraints is exchange rate fluctuation. This study had a main objective which was to assess the implications of exchange rate fluctuation on the performance of SME's. In order to achieve the study objectives, assessment of the effects of foreign exchange rates fluctuations in the performance of SMEs as well as the effects of inflation rates fluctuations in the performances of SMEs was conducted. The study also assessed the mitigation strategies on inflation and exchange rate fluctuation. Descriptive research design was adopted in this study. The reason behind the selection of the design was its purpose and the nature of the variables at hand, which needed qualitative and quantitative analysis methods and the interpretation of views and perceptions. Findings from the study indicated the negative effect of exchange rate to business performance. Exchange rate was seen to impact many areas such as the importation of goods and the payment of trade creditors. The study concludes that, Unstable exchange rate has negative implication to the performance of SMEs in Tanzania. Depression of the value of currency which mainly occur in Tanzania and many developing country cause the decrease in purchasing power in importing product and also result in rise of product price in internal market. The study recommends to policy makers to make consideration on exchange rate dynamics when making monetary policy and fiscal policy.

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## **CHAPTER ONE**

### **1.1 Introduction**

This chapter gives the clear understanding of study background, establishing research problem as the main reason for the undertaking of the study. The general and specific objectives of the study are also clearly presented as the reason for the conduction of this research. Study findings gives reflection of research questions that comes as the setup of the study.

### **1.2 Background of the study**

In recent years, Exchange rate Between Tanzania and Other Developed countries has increased significantly. Its impacts has also been increasing in many areas including business performance. Increase in exchange rate in Tanzania has effect to business performance because Tanzania is highly dependent on exportation from many developed countries which are having strong currencies when compared to Tanzania Shillings. This results to increase purchasing cost which consequently increase price of the product. As many consumers in developing country like Tanzania are low income earners, High price make them not to buy and consequently sales drop. According to Belghitar, Clark, and Mefteh-Wali (2016), there are claims that floating exchange brings great impact in the overall performance of business. The study showed that, the way in which exchange rate fluctuate, affect both large firms and SMEs in the same way. It only differ on the extent of the effect. The extent of the impact varies according to size of the firm, industry which the firm originates and the decision from management of the individual firms. Belghitar et al. (2016) concluded that, there are existence of evidences that unstable exchange rate bring adverse effect on small and medium enterprises' performance, as it raises purchasing cost which results to raise in product price.

Small and Medium Enterprises specifically in underdeveloped countries are exposed to many effect which hinder their performances. Challenges that SMEs faces are simply attributed to first strategic group competition, macro environmental factors and competitive forces. Apart from all problems which SMEs face, they still face the

issue of exchange rate fluctuation (Alawode, 2005). These other challenges which SMEs face includes Insecurity of lives and property, poor infrastructural facilities, unpredictable industrial, monetary and fiscal policies, lack of market access, imposition of many tax and levies, lack of technology specifically for processing and preserving product, policy changes, low capacity and lack of data. Other challenges are poor operating environment, fragile ownership and lack of management skills. All those challenges makes business environment to be very poor when compared with developed countries. Finding solution to the problem of exchange rate fluctuation, as one of the challenge to the performance of SMEs, can help in improving their business performance.

Bordo (2003) revealed that, the past 100 years marks the start of the evolution of exchange rate regime. The regime had become noticeable at the start of the twentieth century, which joined the gold standard used by many counties by then. Finding reasons and determinants of exchange rate fluctuation has now days become one among the leading research agenda in which both academics and policy makers put into consideration. This is because, it is having a widespread economic implication. Many researchers have been studying on how the exchange rate fluctuation affects business performance and its implication on business performance. An example of some of the studies on this matter is the study done by David, Umeh, and Ameh (2010) which focused on how the echange rates has effect on manufacturing sector and Hooper and Kohlhagen (1978), which focused on exchange rate unpredictability effects to both prices and volume of international trade. Even though many study has been done concerning the subject matter, exchange rate fluctuation problem still exist.

SMEs has greater contribution in the economy of many countries. Problems which SMEs faces, cannot be ignored. SMEs has great contribution in Europe as it employ about two third of the work force. Also 99.8% of all enterprises are grouped under the categories of SME's (Schmiemann, 2006). SMEs denotes a right instrument for the success of the economic goals in any nation, Some of those economic are be

employment generation and the alleviation of poverty at low cost of investment as well as the increase of entrepreneurial abilities including the local technology (Fatai, 2011). According to the Tanzania ministry of trade and investment (2012), there were approximately 88,000 enterprises which falls in this category of SMEs, This number includes those which are not registered. In Tanzania, The central Bank which fall under the Ministry of Finance, is the one accountable for the country's monetary policy. According to Ngerebo (2012) Central bank formulate implement as well as controlling the monetary policy of a country and also fostering liquidity, solvency of the system along with to ensuring a well-functioning of the financial system. Bank of Tanzania issues information on exchange rates, as well as other publication and guidelines.

Each country has its own definition of SMEs basing on their own perspective. Definitions of SMEs can be seen in many forms such as number of employees in organization, business's industry and the level of invested capital. The definition of SMEs in Tanzania follow Small and Medium Enterprise Development Policy (2003) which grouped it into four categories. The first category is Micro enterprises, the second is Small enterprises followed by the third category which is Medium enterprises. The last category is the group of large enterprises. In USA definition of the SMEs depends on the industry which the business belong. Manufacturing and mining business sector with employees less than 500 are categorized into the group of small business, while the wholesale trade enterprises are those which have less than 100 employees (Thomas, 2010). Annual revenue is another form of classification which used to classify other business like the Construction sector. (Ajay, 2002).

**Table 1. 1: SMEs categories in Tanzania**

<b>CATEGORY</b>	<b>EMPLOYEES</b>	<b>CAPITAL INVESTMENT (TSHS)</b>
Micro enterprises	1 to 4	Up to 5 Million
Small enterprises	5 to 49	Above 5 Million to 200 Million
Medium Enterprises	50 to 99	Above 200 Million to 800 Million
Large enterprises	100 and above	Above 800 Million

**Source:** Tanzania Small and Medium Enterprise Development Policy (2003)

### **1.3 Statement of the problem**

Exchange rate fluctuation is having negative effect in markets of a country which depends on export of goods and services like Tanzania. However, it has positive effect by lowering the cost of input in the country which is import denominated. Exchange rate fluctuation has adverse effect in a country which heavily depend on import of consumer goods and finished goods. It is having a direct effect in running business as it increase importation cost which in turn raise the price of imported goods and services. It also affect the selling price, level of profit, resource allocation decisions, investment decision together with competitiveness in business. It also has effect on cost of production as it increasing the cost of production when raw materials are imported. Exchange rate also exerts influence on Trade, as many traders like to trade with countries which have strong currencies so as to sure on the level of profit. Because of those adverse effects of exchange rate, it is necessary to manage it and hence to reduce its impact. According to

Mordi (2006) revealed that, exchange rate appreciation usually reduce the competitiveness of export market. Adebisi and Dauda (2006) also pointed out that, a stable or persistent exchange rate is considered to exert positive effect on house hold income, consumption, firm investment and employment decisions. It also have effect on monetary policies and trade balance of a country, however its stability discourages movement of capital in foreign exchange market.

Inflation is another issue of concern in any business organization. The ability of each unit of a currency to buy goods and services drop when the general price level rises. According to Bortis (2004), Inflation cause the erosion of the purchasing power of a currency. When the purchasing power of a currency is dropped, consumer cannot buy the same quantity of good, which they could buy when the inflation rate is at the minimum. Inflation rate affect business as it increases the opportunity cost of holding money and consequently discourage investments in monetary capitals projects. Conversely, inflation has a positive effect as it encourage the investment in non-monetary capital projects.

SMES in Tanzania are affected with the issue of exchange rate fluctuation. Many studies has been undertaken on the issue of exchange rate fluctuation, but the problem exists. Very few of the available studies has specifically focus on the effect of exchange rate for developing countries like Tanzania. This fact is supported by Gachua (2011) who pointed out that, more empirical studies in this matter have to be undertaken so as to counter this uncertainty and fill the gap in countries which are underdeveloped. Agu (2002) also revealed that, there are a lot of issues in monetary policy and exchange rate management which are not addressed in literature.

Policy analyst has not yet agreed on what are the good exchange rate polices and what should be done in order to make those police sustainable. The implication of exchange rate fluctuation on SMEs performance has also not yet well addressed. Basing of the necessity of managing exchange rate effect, the researcher was motivated to conduct this study so as to provide findings which can contribute in minimizing their exchange fluctuation impacts and to fill the above observed gap. This study aimed at assessing the implication of exchange rate fluctuation on SMEs performance in Tanzania, and to come with recommendation to policy maker so as to help in minimizing exchange rate challenges.

## **1.4 Research objectives**

### **1.4.1 General Objective**

The study general objective was to assess the implication of exchange rate fluctuation on the performance of SME's in Tanzania.

### **1.4.2 Specific Objectives**

- i) To assess the relationship between exchange rate fluctuation and inflation and inflation rate and SMEs performance
- ii) To explore the effects of exchange rate fluctuations and inflation rate in the performances of SMEs in Tanzania
- iii) To assess the mitigation strategies on exchange rate fluctuation

## **1.5 Research questions**

- i) How does a foreign exchange rates fluctuation inflation rate and the performance of SMEs in Tanzania interconnected to each other?
- ii) What are the effects of exchange rates fluctuation and inflation on the performance of the SMEs in Tanzania?
- iii) What should be done so as to minimise risk associated with exchange rate?

## **1.6 Significance of the study**

Any scientific study aims either explore different knowledge or to add understanding in certain area. This study has the following significance:

- The study anticipates to be one of sources of information in making decision by policy makers on how to improve the performance of SMEs.
- The study aims at bringing the contribution in finding the solution minimize effect of exchange rate and inflation in business undertaking in developing countries.
- The Study anticipates to show areas in which further studies has to be undertaken so as to improve SMEs performance.

### **1.7 Scope of the study**

This study based on assessing the implications of exchange rate fluctuation on the performance of SME's in Tanzania, concentrating on the case of electronic devices stores in Kariakoo area Dar es Salaam Tanzania. The selection of the area based on the fact that, it comprises a larger number of the population with variety of businesses including electronic devices business, hence, it benefited the researcher in saving money and time

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter starts by defining of some key words used in the study. The chapter then followed by theories developed by other authors concerning import issues under consideration. It also presents the review of several study which have relation to business performance, exchange rate, inflation rate and SMEs in general. Literature difference of this study from other studies so as to avoid the repetitiveness of the ideas.

#### **2.2 Research concepts and definitions**

##### **2.2.1 Exchange Rate**

As defined by Krugman and Obstfeld (2009), exchange rate is a term which refers to the price at which a currency from one country can be exchanged to the currency of the other, or the price of one country expressed with regard to the other. Hence, it is conventional to describe the exchange rate as value or price of a unit of the foreign currency expressed in respect of the domestic currency. Exchange rate fluctuation is the unstable movement of exchange rates between two currencies. One of the factor which cause the exchange rate of one country to raise against another is the demand of the currency. The value of the currency increase when it is highly demanded.

##### **2.2.2 Exchange Rate Regime**

This is a way that an authority of one country manage its currency comparative to the currencies of the other country and the foreign exchange market. Exchange rate regime and monetary policy are two issues which are related and are dependent to each other. The Exchange rate regime exist in the form of floating exchange, pegged float and fixed exchange rate regime. A pegged float is the one in which the central bank of a country keep the rate in a way that that it cannot deviate too far from the target. The fixed exchange rate is the one in which the currency is kept fixed against the currency of another country while Floating exchange rate regime is the exchange

rate in which the movement in exchange rate is dictated by the market. (Levy-Yeyati & Sturzenegger, 2003).

### **2.2.3 Inflation rate**

Inflation is the increase in general price levels of goods and services, measured in a certain period of time. The ability of each unit of a currency to buy goods and services drop when the general price level rises. Inflation can also occur when there is a large supply of currency without a corresponding demand of a currency in an economy. As explained by Bortis (2004), Inflation cause the erosion of the purchasing power of a currency. When the purchasing power of a currency is dropped, consumer cannot buy the same quantity of good, which they could buy when the inflation rate is at the minimum.

### **2.2.4 Business performance**

Business performance has been defined by different authors in term of profitability, return or business growth. Fuller and Porter (1986) referred a business performance as entity ability in the creation value to clients. Niculescu and Lavalette (1999) describe the term business performance as a competitiveness which an economic entity have, determined by efficiency and productivity level that assures the entity survival in the market. Vintila and Duca (2013) also describe business performance the way in which business creates values to its shareholders and which is realized when the return is higher than capital invested. This definition of SMEs is the one which is used in this study.

### **2.2.5 Trade Balance**

Trade balance can simply be denoted as the dissimilarity which occurs in monetary value between the import on one hand and the export of goods and service on the other hand. Measurement of trade balance is sometimes done in term of US dollars against any other currency like Tanzanian shillings (Ruthenberg & Elias, 1996). Trade difference also means difference between the exportation of goods and services net of the importation. A county is said to have trade surplus when the total

export is greater than its total import. The deficit balance is noticed in a country's balance of trade when a total of its import is greater than the total of its export.

### **2.2.6 Small and medium enterprises**

There are different definitions of SMEs worldwide. They are defined according to situation in a country and business environment. Nevertheless, institutions that collect SMES information have seen to classify it into micro enterprises which have employees from 0-9, small enterprises which comprises of 10-49 workers, followed by organization which have 50-249 workers known as medium size enterprises (Venkatakrisnan, 2013). In Tanzania's context, organization which are having employees up to 4 workers who are operation with a capital to Tanzanian shillings five million. SMEs falls under the informal sector. The second group of small enterprises comprises of business with 5 to 49 employees or which have invested a capital from Tshs 5 million to 200 million. They are mostly formalized. The last group is medium enterprises which have employee from 50 and 99 people or industries which are having capital investment ranging from Tanzanian shillings 200 million up to Tanzanian shillings 800 million (URT 2012).

### **2.2.6 SMEs and Economy**

SMEs is regarded as an engine of economic growth in any country. In China, SME occupy 99.9% of all the firms, 71% of total sales and 84% of employees (Fan, 2003). Business environment of New Zealand is composed of a very large proportion of small business. Because of that situation, the growth of small firm in one hand together with key international markets on the other hand is regarded as very important issue to the whole development of the economy of New Zealand (Coviello & Munro, 1995).

In the case of Africa, the population is reported to grow at the growth rate of five percent each year. It is projected that, in the coming next three decades, the population of the Sub-Saharan Africa will grow to about 600 million people. This is more than twice of the labour force. The estimate provided by International labour organization shows that, 70% of the Sub-Saharan Africa depends on informal sectors

and small business for their livelihood (Abaje, Ati, & Iguisi, 2012). 90% of all businesses in Africa are SMEs, which implies that it is the core source of employment. It also promotes entrepreneurship and the development of business skills to African community. It also helps in poverty eradication and the growth of the economy. (Mokaddem, 2006).

According to (Kuzilwa, 2005), great role is seen to be played by small and micro enterprises in employment creation and income generation. Small and Medium Enterprises (SMEs) have been and are regarded as an important instrument in the generation of income for majority urban residents who are not having formal paid employment. In South Africa, approximately 80% of business are said to be family business. They are generally small to medium size enterprises. (Ackerman & Prichard, 2011). The large proportional of business in Ghana is which is approximately 80% is occupied by Small and medium enterprises. It is having very great contribution to the economy. During the year 2000, it accounted for 6% of the GDP. SME in Ghana has also contribution to employment as it takes almost 15.5% of labour force. Some of the economic activities which are performed in Ghana includes retail, whole sale farming and pharmaceutical business. All those economic activities contributes in providing income to entrepreneurs and also employment. (Abor & Biekpe, 2005).

Entry into small business entrepreneurship in Tanzania and East Africa has been simplified which gives more opportunity for its increase (Kazungu & Panga, 2015). 57% of wage employment in Tanzania is contributed by SMEs. It also contribute about 32% to country GDP (Bendera, 1997).

SME also contributes a lot in job creation even in developed countries. In USA, between the year 1990 and 1999, there was an increase of employment in small industry of about 17.68%. In comparison with the increase of employment in small industries there was slight increase in employment in large firm with 500 employees and above. The increase was only 4.79% (Acs & Armington, 1998).

SMEs play a great role in the improvement of living standards of human life. This is because of its contribution to services provision and the production of goods to satisfy the basic needs of people. (Cook & Nixon, 2000). Nairobi tailors, dressmakers and small clothing workshops use simple technology to provide quality goods for the domestic market which most of them begin small and continue to stay that way of business (Abuodha & King, 1991). SMEs' international activities have also been increasing in equivalent with the increase of the globalization of market. (Loveman & Sengenberger, 1990). Reports show that by the year 2000, the total contribution of SMEs was about 25% to 35% of world factory-made exports and the small share of FDI (Taylor & Murphy, 2004).

### **2.3 Theoretical literature review**

This is another section of literature review which focuses mainly on different theories with relationship with performance of SMEs and the implication of exchange rate fluctuation

#### **2.3.1 Interest Rate Parity and Interest Rates**

The interest rate parity condition which is also known as interstate parity nowadays was developed by Keynes (1923). The theory is very important to the study as it helps in the establishment of connection between inflation, Exchange rate and interest rate. This theory can be seen in two forms. The first one is uncovered interest rate parity and the second one is the covered interest rate parity. The relationship between expected exchange rate with nominal interest rate on bond and spot exchange rate which exist in two economy is described by uncovered interest rate parity. The relationship between the forward market and the spot market exchange rate, which are having interest rate on bond existing between two economies is described by covered interstate parity. The normal form of interest rate parity states that, the domestic interest rate is required to be higher compared to foreign interest rate by an amount equivalent to the forward premium on domestic currency.

According to this theory, in a circumstance when the exchange rate of currency of one country against the other is fixed, there must be the existence of fixed interest rate between the countries. Consequently, a small country using a pegged exchange rate regime cannot carry out monetary policy individually (Frenkel & Levich, 1975). This study was lately extended to periods which are, 1962–67, identified as the “tranquil peg”; 1968–69, identified as the “turbulent peg”; and the last period from 1973 to 1975, known as the managed float.

### **2.3.2 The Balassa-Samuelson Model and External Debt**

This is another model which describe the how the productivity of goods can affect the exchange rate of one country and another. Obstfeld, Rogoff, and Wren-Lewis (1996) presented the standard version of the model, which used single factor production function. In equilibrium exchange rate, The Balassa model is one of the important traditional theory. Important experimental comment which underlines the Model is that, in any country where there is high productivity of goods in which are suitable to be sold, there will be having high price level compared to productivity off non-tradable goods. The hypothesis form the model states that, the improvement of production in goods for sales makes the real wages to increase proportionately because there is link between goods which are suitable to be sold and those from the non-tradable sector. This result in the overall increase of price level in the economy. The increase in price level in an economy leads to real exchange rate appreciation.

On the other hand, the model has limitations. It is based on the assumption that, the tradable price in both home and abroad is the same which is not realistic. The second limitation is that, it doesn't incorporate the demand side of goods. The model is criticized by the Keynesian school of thought which is in favour of rigid or stick price. Another limitation is that, it is very difficult to interpret the way of formation of market prices by not considering the demand and consumer behavior. Another limitation is that, the character of money is not considered by the model. (Kanamori, Zhao, & Institute, 2006).

Holub and Čihák (2003) also indicated that, the model come with the estimates which are reliable only for Eastern European countries. Nevertheless the extended model still does not have room for nominal exchange rate and money. The model has implication that, it doesn't make assumption of money supply and also it anticipate price to be flexible so that to help in the adjustment of demand and supply.

### **2.3.3 Purchasing Power Parity and Inflation rates**

Purchasing power parity theory is another important theory in this study as it explains how exchange rate is determined by making comparison between the average cost of goods and service in different countries. The theory helps to get more insight about the concept of exchange rate, which is very important aspect in this study. Purchasing power parity which is also called the inflation theory of exchange rates, is the theory which was originated in Spain and England during the earlier sixteen and seventeenth century. The theory was first named by the Swedish economics Cassel (1918) who showed the difficultness in discussing the over and under valuation of currency.

Absolute purchasing power parity dealt with Price relationship of good which are valued in currencies of different countries. Absolute PPP only hold in product market which is incorporated and competitive basing on the assumption that the word has no risk, and no transportation cost, tariffs on export, quartos etc. However, it is unrealistic in a real society to assume that no costs are needed to transport goods from one place to another. This is mainly because, the difference in prices between two different areas is caused by factors such as transport cost trade barriers and other tariffs (Kanamori et al., 2006).

Absolute PPP is normally regarded as a circumstance of goods market equilibrium. This is because the home market and foreign market are integrated into single market. Nevertheless, it is considered as a partial equilibrium the only reason being it doesn't deal with international payment balance and money market (Kanamori et al., 2006).

#### **2.3.4 The Balance of Payments Theory**

This is another important theory in the study. The theory was selected as it generally shows that, demand and supply of foreign exchange is the main factor for determining the countries' exchange rate. In a tendency where the foreign demand seem to be higher than the supply it result to its price to go up. The exchange rate also declines in a situation when the foreign exchange demand is less significant than its supply (Kanamori et al., 2006). The demand for foreign exchange on one hand and the supply on the other hand rises from the debit and credit items correspondingly in the balance of payments. Kanamori et al. (2006) also shown the items which are in the debit side of the balance of payment. The first one is the importation of goods and services and the second one is Loans and investments made abroad

Credit side of the balance of payments comprises of the supply of exchange rate which includes the export of capital proceeds as along with goods and services. In a situation when there is unfavourable balance of payment,

The supply of foreign exchange usually arises from the credit side of the balance of payments. It is comprised of the exports of goods and services and capital proceeds. When the balance of payments is unfavourable the decline of exchange rate occur. Contrariwise if there is favourable balance of payment in any country, the exchange rate will rise. In this situation, the purchasing ability of domestic currency grow (Kanamori et al., 2006).

The adverse balance of payment occurs when there is drop of exchange rate in a country below the equilibrium level. To bring the equilibrium rate to normal, export has to increase to eliminate that adverse situation. When exchange rate go up in the level which is above equilibrium of exchange rate, the favourable balance of payment occurs. (Kanamori et al., 2006).

### **2.3.5 Expectations Theory of Forward Exchange Rates**

This is the theory which propose that, expected foreign exchange rate which occur at a future date in time is the same as the current rate of exchange for the same maturity. This imply that, the future exchange rate which is quoted in foreign exchange market is suitable in predicting future exchange rate. The theory also contends that, forward rates have accuracy which is equivalent to spot exchange rate anticipated to be obtained on future date of delivery as specified in the forward contract. The theory further explain that, foreign exchange rate quoted in the market are unbiased forecast (Muth, 1961).

Although the circumstances in which the expectation theory hold can be very complex in describing, there is empirical evidences that show that it is a fairly good description of the occurrence of the relationship amongst the forward exchange rate as well as the expected future rates. The major disadvantage which is seen in expectations Theory of forward exchange rates is it's difficultness in achieving the perfect result obtained from the theory in such a way that today predicted rate which is seen in different maturities assets to be exactly equal to future sport rate realized. Also any mistake which can be done in estimation can result to wrong future conclusions which end up with loss.

### **2.3.6 Arbitrage Pricing Theory**

The developer of this theory is Ross (1976). The theory states that, the return which is expected from financial asset is established as a lineal function of a number of factors or theoretical indices of the markets and the beta coefficient shows sensitivity to which it can cause changes to each factor. The model denote answers to criticizes of the widely held Capital Asset Pricing Model CAPM that creates a linear relation existing among the additional return on asset and a single risk factor.

The changes in economic and financial variables is the origin of the Risk factors in Arbitrage Pricing theory. Those economic factors are like interest rates, real business activity, inflation, exchange rate amongst other variables. Mlambo, Maredza, and

Sibanda (2013) also contend that, there is a probability to reduce cash flow present values because of increase in real interest rate and subsequently result in price fall. Capital inflow also is stimulated by the greater interest rate which result to the drop of the exchange rate. This denotes that, the disruption of real exchange rate, influences the good connection between the exchange rate and the average stock prices.

### **2.3.7 The Keynesian Theory**

This is the theory which was developed by John Maynard Keynes. They used the imaginary newspaper beauty challenge to clarify the investor behaviour occurring in the stock market. He claimed that the level of stock market investment can be a result of the expectation proclaimed by other investor in relative to the viability of share investment which can be rational expected.

The demonstration of this attitude of investor was shown by Keynesian using the beauty contest by using number of images of young women which were put in the newspaper. The winner of the competition is obtained basing on the number of votes which the readers of the newspaper will select. Applicants are requested to choose a combination of six faces displayed photos of women in newspaper that are beautiful and those who select the popular face are fit to compete for the prize.

### **2.3.8 Portfolio balance theory**

The portfolio adjustment approach is alternate theoretical argument in connection between exchange rates and stock prices. As stated by this theory, portfolio adjustments occur on every occasion when there is an alteration in the stock prices. If stock prices increases, it will attract additional overseas capital. However, a deterioration in the stock prices will result in reduced corporate wealth which result to the country wealth reduction. This may result to a drop in the demand for money which forces monetary authorities cut the interest rates to ease the situation. In the situation when the interest rate are lower, outflow of capital of the country to take benefit of higher interest which is seen in different part of the world which end up to

currency depreciation. Therefore this theory show that, lower stock prices may result to currency depreciation.

### **2.3.9 Consumer Price Index**

In many country, the simple approach which is used in measuring inflation is the so called consumer price index. To obtain the consumer price index, the analysis of consumer purchasing power is analysed to help in determine goods and services consumer expect to buy and all those goods which are somehow considered to be bought by consumers. The result of this analysis is presented as the sample of the average consumer in that economy. This analysis didn't consider only those goods and services in which consumer buy on daily basis such as bread and fruit, but also it also make into consideration purchasing of durable goods and those frequent transactions like rents.

After the shopping list is put together and arranged in accordance to its importance and in accordance to customer budget, the resulted list is what is known as the market basket. The exercise is continuous in each month as the surveyor check prices of items in several outlets followed by comparing the total cost of the basket. The computation is then conducted so as to obtain changes which is expressed as the percentage of market basket occurred in past years. (Moutot, Gerdesmeier, Lojschová, & Landesberger, 2007). Nevertheless, this price level reflection is only representation of the average consumer.

In a situation where the buying behaviour of a person is different significantly from that average calculation of the index, that person may observe a change in the cost of living which is very different from that which is shown in that t index. As described above, there will always be some of the people who get different experience of higher "inflation rate" for their "individual basket" and others who face a lower "individual rate of inflation". In other words, the measurement of inflation by the index is the estimated measure of the average situation in the economy; it is not

identical to the overall price changes which is faced by all individual consumer in that economy (Kandil, 2008).

#### **2.4 Empirical literature review**

This is a part where various past studies, which are having relation with this study are presented. It consists of several researches which have touches the area of exchange rate fluctuation on the performance of SMEs.

The causes of inflation may be different from country to country. Papi and Lim (1997) conducted a study which three ways which can influence inflation. The first influence is through the monetary way which is seen in the growth of money stock. The Second way is the high government spending beyond the revenue collection. This is caused by the increase in national debt and the decrease in revenue which forces governments to borrow from the central bank and subsequently increase the flow of money in the economy which results to inflation. The third influence of inflation is the devaluation of the exchange rate. Moreover, the oligopolistic markets through price wars and collusions lead to inflation (Hegji, 2003).

Kisaka and Mwasaru (2012) investigated how the difference in exchange rate have impact on the economy. This study discovered that, the variability in exchange rate has great effect on the revenue as well as profit of companies, especial those company with a large dependence on import. Those organization which deals with importation of goods and services always suffer from conversional losses due to unstable exchange rate. The main reason is imports and exchange rate are expressively connected and imports is one of the core factors that shakes the exchange rate variability.

Aliyu (2009) asserted that appreciation of exchange rate causes the increase in imports and reduced export while depreciation would expand export and discourage import. Also, depreciation of exchange rate tends to cause a shift from foreign goods to domestic goods. Hence, it leads to diversion of income from importing countries

to countries exporting through a shift in terms of trade, and this tends to have impact on the exporting and importing countries' economic growth.

Hossain (2002) agreed that the connection between two countries can be facilitated by exchange rate through making possible international trade. The connection between two countries can also be facilitated by effects on the imports and export volumes, along with the balance of payment position of a country. Mukhtar and Malik (2010) claimed the main source of the increase of country reserves is the export in emerging economies. When the country is having high exports it can help to make the exchange rate to go down.

Patosa and Cruz (2013) studied on how exchange rate movement can be affected in selected Asian countries (China, Philippine, Thailand and Malaysia). The Results of this study exposed that, only some of the variables which were included in the model contribute to the justification of exchange rate movements. Industrial production was seen to be significant in countries under consideration. There were also mixed result between money supply, interest rate and inflation rate. According to Patosa and Cruz (2013), China, Malaysia, Thailand and Singapore are having only two important variables. For China and Malaysia, only variables were industrial production and inflation rate.

Clarida and Gali (1994) also concluded that, shock in business cycles can cause fluctuations in real exchange rate. Gauthier and Tessier (2002) also assessed on the how real exchange rate dynamics can be affected by the soppo shock in Canada by suing the structural vector error adjustment model. They established that while majority of the stochastic depreciation of the exchange rate is accounted for by supply shocks. Results from their study does not support the Balassa–Samuelson hypothesis as revealed that the exchange rate to appreciate as a response to a positive supply shock

Nemushungwa, Gyekye, and Matthew (2015) empirically investigate how South African exports are impacted by the exchange rate fluctuation using the ARDL bounds testing procedure and monthly data using the period from 2000 to 2013. The study results confirm the insignificant negative long run impact that exchange rate fluctuation has on South African exports. Real exchange rate has insignificant negative long-run effects on South African exports. Moreover, the coefficient of error correction term for exports model, is seen to be positive and statistically insignificant and is therefore not supportive of the validity of the long-run equilibrium relationship between the selected variables

Hausmann, Panizza, and Rigobon (2006) reveals that the real exchange rate of the developing countries' is more unpredictable than that of the technologically advanced countries on account of high exposure to both real and nominal shocks, by variations in the real exchange rate shocks sensitivity

Rutasitara (2004) investigated how exchange rate influences inflation in Tanzania. Model estimation showed support to the structural inflation view and seen to be persistence as the current rate echoes about 0.6 of its value four quarters back. The study contributes to the debate on the arguments about the relative role of exchange rates in discussion of Structural Adjustment Program, and stabilization policies. Unluckily, most key reforms happened in the second half of 1990s, were not captured by the study because the study periods ended in the year 1995. It is also interesting to note that, just about all macro variables in the model, are stationary in levels.

Bergen (2010) who studied on the factors that affect exchange rates revealed that, there is high correlation between Interest rates, inflation and exchange rates. By manipulating interest rates, central banks employ influence over both inflation and exchange rates, and therefore changing interest rates and hence effect inflation and currency values. Higher interest rates usually attract lenders by offering them greater return in comparison to other countries. Therefore, higher rates of interest is more

attractive to foreign capital which result to the rise of exchange rates. However when such situation occur in a country, mitigation technique are used so as to minimize the exchange rate effects.

According to Bergen (2010) a country which is having lower inflation rate usually experience the appreciation of currency value. This is because of the increase in purchasing power when compared to the currencies of other countries. An example of countries which are having level of inflation in the twentieth century includes Switzerland, Japan and German while USA and Canada lately achieved low inflation rate. As observed above, a country with higher inflation rate usually faces currency depreciation problem when compared to the currency of another country they trade.

Karfakis and Kim (1995) conducted another study which used Australian exchange rate data. The study come with findings that, unanticipated deficit in current account is related with depreciation in exchange rate on one hand and the increase in interest rates on the other hand. There is also recognized evidences that the domestic wealth is reduced by current account deficit, resulting to rapid increase of exchange rate

Another study done by Obstfeld et al. (1996), and Engel and Flood (1985) also reported the fall of real value of currency. Report shows the downfall in capital flow from developed to underdeveloped countries in the current periods. Another concern was the abrupt outflow of capital which extremely caused effect to exchange rates as it were seen during several financial tragedies which arose in East Asia, Mexico and Brazil. Capital and current account balances and Real exchange rates, are affected by capital outflow for years after the crises.

Solnik and Roulet (2000) on the study on dispersion as cross sectional correlation exposed that, the approach of balance of payment was one among the economic modelling of exchange rate first approach. The approach traced the flow of finance across a country's borders in a given period. All financial transaction are treated as

credit and the final balance kept to zero. Those international transactions include: international trade, income received, service payments, portfolio investments foreign direct investment, short- and long-term Capital flows, and also the sale of currency reserves which is done by the central bank. A ratio comparing export to import prices, the trade terms is related to Current accounts and the balance of payments. The rise of country's export by a greater rate compared to that of imports shows that its terms of trade have favourably improved. This rise usually shows demand for the country's exports. This result in the rise in the demand of goods and services from a country and hence the increase in demand of the currency of that country which also lead in an increase in the value of currency

Froot and Stein (1991), conducted the study which focused on exchange rate and foreign direct investment. They examined the connection between FDI and exchange rate in a situation where there is imperfect information in the worldwide integrated capital market. It further concluded that, devaluation in the currency of the other country stimulates foreign capital inflows, and contrariwise, an appreciation end up with reduction in value.

Currency devaluation countries that receive foreign capital leads to a fall in local cost of production in terms of foreign currency and profit rise of export oriented foreign investors accordingly. The conclusion in this is higher return which usually attract the inflow of capital

Biger (1979) also studied the implication that exchange rate exerts on international portfolio diversification. The study showed from the international point of view that, the total rate of return resulted from holding overseas financial assets comprises of dividends and capital gains as return on the assets and gains and losses which resulted from exchange rate movement during the holding period. The fluctuations of exchange rate act as an additional source of uncertainty which generates both losses and gains to investors across countries. According to Biger (1979) the movement in exchange rate drastically increases the risk of foreign investment that occur after

holding bonds and stock. When holding bond and stock is compared, the influence is potential greater when an investor holds bond than for stock because of the fluctuation nature of stock.

According to Bailey and Tavlas (1991) there is no existence of harmful effect found in the rise in exchange rate unpredictability upon Foreign direct investments, under controlled float rate system. Another study done by Kogut and Chang (1996) also observed movement in exchange rate as important feature in determining foreign direct investment by electronic firms specifically of Japan to U.S. Firoozi (1997) also recognized the presence of connection among FDI and exchange rate instability. Ang, Hodrick, Xing, and Zhang (2006) established that, real rate of exchange which occurs between currencies is a substantial variable in determining the level of FDI of Japan in China and the devaluation of Chinese currency had a positive consequences inward FDI which come from Japan in the same period.

Mowatt and Zulu (1999) who conducted the study in the investments of South Africa which are in the region of Southern and Eastern African, come with the findings which pointed exchange rate as a major obstacles to FDI in Mozambique Botswana and Zimbabwe.

Dua and Sen (2006) also tested if link exist b between the inflow of capital and real exchange rate. The study purposely examined how exchange rate influence foreign capital inflow. The results discovered that capital inflow such as foreign direct investment and portfolio are substantial and positively correlated with exchange rate. They also found if there is an increase in either foreign direct investment or equity inflows a positive effect will occur on the Indian currency exchange rate.

The study of Campa and Goldberg (1999) also examined the way real exchange rate fluctuation affect manufacturing industries in the U. S., Japan, the United Kingdom and Canada between the year 1970 to 1993. The study had a key goal to investigate the impact of exchange rate fluctuation on investment. The study found that,

crossways nations, there is substantial effects of exchange rates on investment in industries which are having low mark up in Japan, United Kingdom and United States. The study showed that low-markup industries happen to have greater sensitivity than high-markup industries. Moreover, in high-markup sectors, an exchange rate appears to have weak or minor effects on investment. The study also had another inference which showed that, volatile exchange rates contribute to investment fluctuation by manufacturing industries in US.

In summary, it can be observed that most studies which examined if there is a link which exist amongst exchange rate fluctuation and business performance found the negative relationships, some of the study showed positive relationship and some showed significant relationship. Some of the study also note showed any relationship. However other factors such as risk behavior (Risk appetite) of the investor and the nature of the investor himself have to be put under consideration.

The above literature exposed the significant connection among exchange rate unpredictability and business performances in different countries. However, there are very few studies that tried to question if relationship existed between exchange rate on one hand and the implication exchange rates fluctuation on the SME's performance especial in Tanzania.

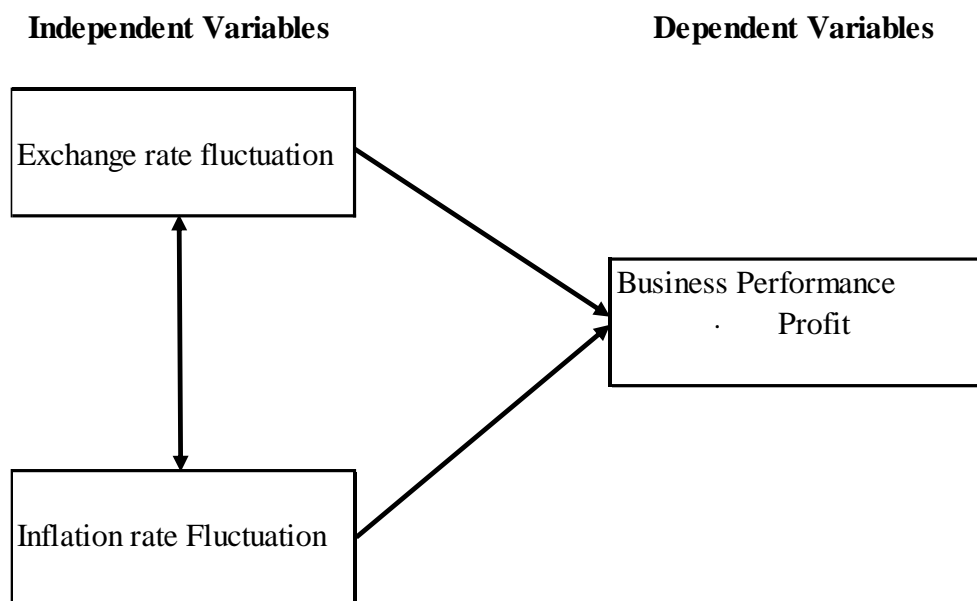
## **2.5 Research gap**

Many researches have been conducted on the SMEs sector but a lot of them focused on the lack of finance as the core problem to SMEs sector. Also main factors have been pointed out as reasons for SMEs failure which includes lack of government assistance, wrong pricing techniques, negative cash flows, poor record keeping, lack of planning, government taxation, inadequate of capital and high rent but many research have ignored the effect of exchange rate fluctuation. This study intends fill the gap through going further to assess the implication exchange rates fluctuation on the SME's performance in Tanzania.

## 2.6 Conceptual framework

The conceptual framework is presentation diagrammatical of the connection amongst dependent and independent variables (Shields & Rangarajan, 2013). An independent variable is the one that is sovereign of the outcome being examined and Dependent variable is the variable that being determined upon occurrence other variable or is a consequence of the other variable (Kothari, 2004).

**Figure 2. 1: Conceptual framework**



Source: Research data 2019

### **Independent variables**

Independent variables in this research were exchange rate and inflation rate. Inflation rate were calculated by using the percentage of change in Consumer Price Index (CPI) monthly. Inflation rate data was collected from Bank of Tanzania. Foreign exchange rate were measured as the standard deviation of the exchange rate of Tanzania Shilling price to U.S. dollar. The exchange rate data values was obtained from Bank of Tanzania.

**Dependent variables**

Dependent variable in this study was Business performance. Business performance was measured by looking on the perception of respondents regarding increase or decrease in importation of their products caused by currency fluctuation in Tanzania. Also business performance was measured by looking on the net profit for the period of twelve months.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the methods that were used during the study undertaking. The chapter start by presenting research design followed by unit of the study, data collection methods, sample and sampling technique, and lastly data analysis.

#### **3.2 Research design**

Research design is a plan that stipulates means of collecting Data and also answer question on how the data should be analysed. It is the organisation of settings of collection and itemisation of data in a way that aims to associate importance to the research purpose with economy in practise (Kothari, 2004).

Creswell, Plano Clark, Gutmann, and Hanson (2003) well-defined research design as the collections of plans and all procedures which the researcher anticipate to use during the research activity from the broad assumption to extensive techniques of data collection and analysis. Research design of a certain research is always built on the researcher personal knowledge, the nature of the problem anticipated to be covered and the expected audience. Kothari (2004) also demarcated research design is a setting for gathering, measure and analyse the collected data. It shows the arrangement in which the research is expected to be conducted from the starting up to the conclusion

Saunders (2011) showed the importance of research design to researchers as it help the researcher to be informed about the methodology which is anticipated to be used, and also to have enough information on data collection as well as analysis will be carried out. It is the assurance of the success of the whole work.

From such definition, many research designs exist in literature which include descriptive research design. Descriptive research design as described by Saunders (2011), is the design which has a main goal to construct the correct representation of the circumstances, person or incident. The advantage noted from this design is its help in producing a great range of response from a many respondents. It also increases the confidence of the researcher in relatively to involved research questions.

This study used the case study design. The main reason to use this design was to get the enough detailed information so as to facilitate the clear understanding on the study. The design helped the researcher in describing the nature of that phenomena. This design was used by considering the nature of the variables as shown in this dissertation which required qualitative and quantitative analysis methods and also the explanation of opinions and perceptions. The chosen case Electronics devices traders at Kariakoo Dar es Salaam.

### **3.3 Area of the study**

Area of the study denotes to the specific place where the researcher used in the course of collecting information and all needed data on the subject matter concerning the research topic studied. The study was conducted in Kariakoo in Dar Es Salaam Region. The area was selected because it has a lot of Electronics Devises Shops located in the same area. It helped the researched to get enough information concerning the study under consideration. To get more insight of the study, other data was be collected direct from Government institution which are Bank of Tanzania, National bureau of Statistics of Tanzania and Tanzania Revenue authority. Private and Government Banks was also be included.

### **3.4 Population**

Study population or target population as defined by Kothari (2004) are all items which the researcher put under consideration in the activity of the research to bring about the achievement of the study objectives. In this study, the total population was

188 electronic devices vendors at Kariakoo Dar es Salaam was chosen. Total physical counting of all the shops was done so as to get the actual number. The selected area is unique as it is a dedicated area for sales of imported electronic devices around the city. The fact that, all devices sold in the area are imported, gave confidence to the researcher that enough information concerning exchange rate and inflation rate could be obtained. The researcher also choose electronic devices vendors because they reflected a sample of SMEs in Tanzania.

### **3.5 Sampling techniques and procedures**

#### **3.5.1 Sample size**

According to Kothari (2004), sample size encompasses of few item which has been carefully chosen from the universe, anticipated to be used for the purpose of the study. Latham and Locke (2007) indicated that, sample consist of choosing some of representative of the population and collect data from them, so as to be used as research information.

A sample of 100 vendors was selected from the population of 188 shop, for this study. The study therefore used Mugenda and Mugenda (2003) methods, which recommends a sample size of 100% for a population of less than 100 respondents, 30% for a sample size of between 101 – 1000, 10% for a target population of between 1001 – 9,999 and 1% for a target of over 10,000. A sample was selected from a population of 188 electronic devices shop. Other Data was collected direct from Government institution which are Bank of Tanzania, National bureau of Statistics, Banks and Tanzania Revenue Authority

#### **3.5.2 Sampling procedures**

For the purpose of this study, the researcher used two types of sampling procedures based on probability and non-probability sampling. It involved purposive sampling and simple random sampling.

### **Purposive Sampling**

This is a technique in which the decision on item which should be included or excluded in the sample rest on the researcher's judgment and intuition. According to (Kothari, 2004), purposive technique allows the researcher to choose respondents basing on the fact that they have required characteristics which are related to the issue being studied Purposive technique enables the researcher to choose respondents basing on the fact that they have desirable characteristics related to the issue being studied. This technique were used to select 20 key respondents in all 188 shops. Key respondents were owners of those 20 shops. They were chosen purposely because of their understanding of the business and also because they were keeping enough records of sales and profit on monthly basis.

### **Simple Random Sampling**

This is a sampling technique in which the researcher includes anyone in the study by considering that all respondents have common noticeable characteristics and have an equal opportunity to be selected (Ndunguru, 2007). In this study the all 188 shops were given numbers. A list of all shops was created followed by creating a sample of 100 shops using random number generator. There were no bias in selection.

## **3.6 Data collection**

The study used questionnaire and interviews as the major data collection instruments. This is due to the fact that, those data which would not be obtained through questionnaires, will then be captured in an interview. The study also used Documentary review to capture data which could be helpful to the study.

### **3.6.1 Interview**

The interview was used to test the attitude and correctness of the subject. Semi structured interview was conducted for 14 respondents at their offices and other 6 respondents through telephone. Respondents were asked already prepared questions in the interview guide and other follow up question were asked when needed.

### **3.6.2 Questionnaire**

In this study, questionnaire was used to capture overviews and general information about the study. The study used open ended and flexible questionnaire, so as to allow greater opportunities for individual expression. 100 questionnaire were served and the response rate was 100%.

### **3.6.3 Documentary Review**

The Secondary data were available at the authority's profiles. The researcher viewed different documents, journals, files, and consultancy reports, quarterly and annual reports relevant to SME's.

### **3.7 Data analysis**

Data analysis of qualitative data from Questionnaires was done by editing and coding using themes derived from the objectives of the study, which studied factors contributed to SMEs failure. The data collected was checked and edited for clarity, legibility, relevance and adequacy. Hence, data was cleaned, tabulated and weighted. Percentages was also used in the analysis. Collected data was also analysed by using descriptive statistics, such as tables, percentages, and the likes. Data from Documentary review were also classified and arranged into categories so as to help identifying connection with the research questions. Data analysis of qualitative data from interview started by Data validation so as check if the pre-determined standard were met. If followed by editing to make sure data has no errors, then followed by tabulating and summarizing so as to identify connections and patterns that can answer research questions.

To get more insight on the study, the study adopted the following multiple regression model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where Y= Business performance in term of monthly profit

X1= Inflation rate in term of percentage of change in Consumer Price Index monthly.

X2= Exchange rate to Tanzania shillings

$e$  = Random error term

$\beta_0$  = Regression constant

It is the expectation the researcher that this data analysis method will allow to come to possible conclusions and recommendations and hence to open-new ground for further research.

### **3.8 Ethical issues**

According to Mugenda and Mugenda (2003), a confirmation must be given by the researcher on the principle of Voluntary consent where the respondents is willingly take part in the research. Informed consent ought to be based on information on the subject of the study, identification of the researcher's personal benefits that may be expected or achieved. Gall, Borg, and Gall (1996) also noted that the involvement in research is voluntary and respondents are at right to take away from the study at any time deprived of any consequences.

In this research the researcher informed this to the respondents in advance before beginning of the study. The researcher by using the trained assistants make sure that all respondents are fully agreed all the details pertaining to the study. No respondent was involuntary take part in the study, Nonetheless it was conducted voluntarily.

According to Kothari (2004) Plagiarism denotes to using another person's work as if it were your own, by the demanding credit for something that was prepared by somebody else. It is taking and using another person's thought as if they were your own. Higher care was taken to make sure that all work taken from other scholars was acknowledged.

## **CHAPTER FOUR**

### **PRESENTATION AND ANALYSIS OF FINDINGS**

#### **4.1 Introduction**

In this chapter the findings of the study presented. Those findings are based on the questionnaires which were provided to respondents. Findings presented are about the assessment of implication of exchange rate fluctuation in the performance of SMEs, specifically electronic devices vendors. Data was collected considering the below specific objectives of the study.

- i) To assess the relationship between exchange rate fluctuation and inflation and inflation rate and SMEs performance
- ii) To explore the effects of exchange rate fluctuations and inflation rate in the performances of SMEs in Tanzania
- iii) To assess the mitigation strategies on exchange rate fluctuation

This chapter is arranged starting with background information of the respondents which have included personal information like respondent's gender, and age. It also includes their level of education and time they have spent in business. It also include the position of the respondents in his/her business. After background information of respondents, responses from respondents related to specific objectives and research question is also presented. The chapter ends with the summary of all issues presented in the chapter. Results which are presented in this chapter were analysed using the aid of statistical package for social science (SPSS)

#### **4.2 Respondents background information**

The background information which were captured during the study were gender distribution, age, and number of year which the person have been in business

#### 4.2.1 Gender

**Table 4. 1: Respondents gender**

Gender	Frequency	Percent
Male	60	60%
Female	40	40%
Total	100	100%

Source: Field data 2019

As it can be seen in Table 4.1, 60 respondents (60%) were female while 40 respondents (40%) were male. As shown above large number of respondents were male compared to female. This was the nature of respondents in terms of their gender.

#### 4.2.2 Age of respondents

**Table 4. 2: Age of respondents**

Age group	Frequency	Percent
18-35	50	50%
36-55	43	43%
Above 55	7	7%
Total	100	100%

Source: Field data 2019

Age of respondents was divided into age group of 18 to 35, 36-55 and above 55 years. As observed above, 50 respondents (50% ) were in the age group of 18-35 years followed by 36-55 age group which was 43 (43% ) of all respondents. 7 (7%) of respondents were in the last age group of above 55 years. Age of respondent was very important aspect in the study because age represents the level of maturity of a person. As it can be seen in Table 4.2, 50 (50%) respondents was having more than 36 years. Basing on the assumption that high age level implying high maturity, having 50 respondents with high age implying that, they were in a position to provide correct views concerning the subject under study.

### 4.2.3 Level of education

Field data show that 5 of respondents (5%) did not attend any school. Other 25 (25 %) were having primary education level while 18 (18%) of respondents were having Secondary level of education. Vocational level of education is another level in which 31% (31%) of respondents were having. The remaining 21 respondents (21%) were having university level of education. The above data is also shown in table 4.3.

**Table 4. 3: Level of education**

Level	Frequency	Percent
Not attended school	5	5%
Primary Level	25	25%
Secondary Level	18	18%
Vocational/Technical education	31	31%
University level	21	21%
Total	100	100%

Source: Field data 2019

### 4.2.4 Business management position

**Table 4. 4: Management position**

Position	Frequency	Percent
Owner	45	45%
Manager	40	40%
Both	15	15%
Total	100	100%

Source: Field data 2019

Business management position is another factor which were considered in obtaining the background information of respondents. It was very important because it helped to know the experience of the respondents in business and also to access if respondents were having enough capability of giving their views concerning the subject matters in the study. As shown in Table 4.4 above, the sample was characterized by 45 (45%) of employees who were owner of their business. 40 (40%) of respondents were managers of the business but they were not owning those

business. The last group consisted of 15 (15%) of respondents who were both manager and owner of their business.

#### 4.2.5 Business level

**Table 4. 5: Business level**

Level	Frequency	Percent
Wholesaler	25	25%
Retail	69	69%
Both	6	6%
Total	100	100%

Source: Field data 2019

Table 4.6 Show business level of respondents. As it can be seen in Table 4.6, 25 (25%) of respondents come from wholesale business, 69 (69%) from retail business and the remaining 6 (6%) come from the business which do both retail and wholesale business.

#### 4.2.6 Number of employees

Table 4.8 Shows number of employees in business. This factor was considered to know business level of respondents. 90 (90%) of respondents of respondents come from business with 1-10 employees. Another category was business with 10 to 25 employees. 5 (5%) of respondent's business occupied that group. The last group was business with more than 25 employees which took 5 (5%) of all respondents

**Table 4. 6: Number of employees**

Group	Frequency	Percent
1-10 employees	90	90%
10-25 employees	5	5%
25 and above	5	5%
Total	100	100%

Source: Field data 2019

#### 4.2.7 Nature of devices

Electronic devices sold in stores was another background information requested to respondents. It was requested so as to make sure business which data are collected are aligned with the case study of the subject. As observed above in Table 4.5, 22

(22%) of devices sold in those businesses were mobile phones, 35 (35%) were fridges, and 32 (32%) were television and radio. 11 (11%) of devices sold in all store covered other electronics devices like electric iron and electric cooker which are not listed in Table 4.7

**Table 4. 7: Nature of devices**

Devices	Frequency	Percent
Mobiles phones	22	22%
Fridges	35	35%
Television and Radios	32	32%
Others	11	11%
Total	100	100%

Source: Field data 2019

#### **4.2.8 Time spent in business**

Respondents were also asked about the period of time they have been doing business. 14 (14%) of respondent showed that they were in that business for less than one years. Another category was of those who were in business between one and five years. 49 (49%) of the respondent were seen in this group. The last category was those who was having 5 years and above in business. This group took 37 (37%) of respondents.

**Table 4. 8: Time in business**

Period	Frequency	Percent
Less than 1 year	14	14%
Between 1 and 5 Years	49	49%
More than 5 years	37	37%
Total	100	100%

Source: Field data 2019

#### **4.3 Exchange rate and Business performance**

In order to find the implication of exchange rate to SMEs performance, the researcher wanted respondent's views if exchange rate fluctuation has interconnection with business performance. Respondents were provided with administered questionnaires so as to provide their views on the respective questions. Summary of their views are presented on this part.

#### 4.3.1 Exchange rate fluctuation and business performance

The researcher wanted to know respondents views on if foreign exchange rate fluctuation has contribution to business performance. As shown in Table 4.9, 85 (85%) of responses agreed that, it has effect on their performance while the remaining 15 (15%) of the response did not agreed on that. Further responses from the interview showed that, exchange rate fluctuation has significant contribution to business performance in positive and negative way. When it change in favour of business owner, it increases the value of Tanzanian Shilling and hence the business man/woman can buy more products with the same amount of money which he could buy small quantity if exchange rate does not favour him/her.

**Table 4. 9: Exchange rate and business performance**

Responses	Frequency	Percent
yes	85	85%
No	15	15%
Total	100	100%

Source: Research findings 2019

#### 4.3.2 Importation of products

The researcher wanted to know if majority of products which are sold by SMEs are imported. Findings showed that, 20 (20%) responses were neutral, 58 (58%) agreed and the remaining 22 (22%) strong agreed. Other responses from the interview showed that importation of products is done mainly from China, Malaysia, Kenya and India. The summary of responses are shown clearly on Table 4.10.

**Table 4. 10: Importations of Products**

Responses	Frequency	Percent
Neutral	20	20%
Agree	58	58%
Strong Agree	22	22%
Total	100	100%

Source: Research findings 2019

### 4.3.3 Exchange rate data update

Table 4.11 shows responses if update in exchange rate is obtained. Findings indicate that, 4 (4%) strong disagree, 5 (5%) disagree while 12 (12%) were neutral. 50 (50%) agreed that they receive update on exchange rate and the remaining 29 (29%) strong agreed on the issue.

**Table 4. 11: Exchange data update**

Responses	Frequency	Percent
Strong Disagree	4	4%
Disagree	5	5%
Neutral	12	12%
Agree	50	50%
Strong Agree	29	29%
Total	100	100%

Source: Research findings 2019

### 4.3.4 Unpredictability of exchange rate

The researcher also wanted to know if the exchange rate is unpredictable. Findings summarized in Table 4.12 shows that, 5 (5%) strong disagree that the exchange rate is unpredictable. 5% disagree and 7% of responses were neutral. 55 (55%) of the respondents agreed that it is unpredictable and the remaining 28 (28 %) strong agree on that issue.

**Table 4. 12: Unpredictability of exchange rate**

Responses	Frequency	Percent
Strong Disagree	5	5%
Disagree	5	5%
Neutral	7	7%
Agree	55	55%
Strong Agree	28	28%
Total	100	100%

Source: Research findings 2019

#### 4.3.5 Products Sold and exchange rate

The researcher also wanted respondent's views if products sold by SMEs are affected by exchange rate fluctuation. Findings summarized in Table 4.13 shows that, 3 (3%) strong disagree that Products Sold are affected with exchange rate Fluctuation. (3%) disagree and 9 (9%) of responses were neutral. 58 (58%) of the respondents agreed that Products Sold are affected and the remaining 27 (27 %) strong agree on that issue

**Table4. 13: Effects on product sold**

Responses	Frequency	Percent
Strong Disagree	3	3%
Disagree	3	3%
Neutral	9	9%
Agree	58	58%
Strong Agree	27	27%
Total	100	100%

Source: Research findings 2019

#### 4.3.6 Consideration when paying creditors

The researcher also wanted respondent's views if Consideration of exchange rate is made when paying foreign creditors. Findings summarized in Table 4.14 shows that, 4 (4%) strong disagree that Consideration of exchange rate is made when paying foreign creditors. 4 (4%) disagree and 10 (10%) of responses were neutral. The remaining 60 (60%) agree that Consideration of exchange rate is made when paying foreign creditors

**Table 4. 14: Consideration when paying creditors**

Responses	Frequency	Percent
Strong Disagree	4	4%
Disagree	4	4%
Neutral	10	10%
Agree	60	60%
Strong Agree	22	22%
Total	100	100%

Source: Research findings 2019

#### 4.4 Effects of exchange rate fluctuation in the performance of SMEs

In order to establish the implication of exchange rate fluctuation to SMEs in Tanzania, the researcher sought responses on how exchange rate fluctuation affect the performance of SMEs, in Tanzania. Respondents were provided with questionnaires so as to provide their views. The summary of their responses as per research question and administered questionnaire are shown below.

##### 4.4.1 Extent of risk

**Table4. 15: The extent of risk**

Responses	Frequency	Percent
Low	10	10%
Medium	35	35%
High	45	45%
None of the above	10	10%
Total	100	100%

Source: Research findings 2019

Table 4.15 above shows that, there were low risk of currency instability. 35 (35%) of responses shows there is medium risk while 45 (45%) of responses show there is high risk of currency instability. The remaining 10 (10%) of respondents didn't respond.

##### 4.4.2 Effect on purchasing power

**Table4. 16: Effect on the purchasing power**

Response	Frequency	Percent
Strong disagree	3	3%
Disagree	3	3%
Neutral	6	6%
Agree	51	51%
Strong agree	37	37%
Total	100	100%

Source: Research findings 2019

Table 4.16 above shows that, 3 (3%) of respondent strong disagreed on if exchange rate fluctuation has effect on the purchasing power. 3 (3%) of respondents disagree, 6 (6%) were neutral on either to agree or to disagree, 51 (51%) agreed on the issue, and the remaining 37 (37%) strong agree that exchange rate fluctuation has effect on their purchasing power. Further responses from interview showed that, all the goods which they sale are imported from other countries mainly China. Importation is based on the capital on their business. When exchange rate rise, it result lower their purchasing power because, they buy small quantity when compared to when the exchange rate with Tanzania shilling is stable or somehow lower.

#### 4.4.3 Effect on price drop

Respondents were also asked to give their responses on if exchange rate fluctuation has effect on price drop. The result are presented in Table 4.10 below

**Table 4. 17: Effect on price drop**

Response	Frequency	Percent
Strong disagree	3	3%
Disagree	3	3%
Neutral	5	5%
Agree	47	47%
Strong agree	42	42%
Total	100	100%

Source: Research findings 2019

Table 4.17 shows that, 3 (3%) of responses strong disagree on if price fluctuation has effect on the purchasing power. 3 (3%) disagree while 5 (5%) were neutral on the subject matter. 47 (47 %) of other responses agreed that exchange rate fluctuation has effect on price drop while 42 (42%) strong disagreed. Other responses from the interview showed that, when exchange rate go down, it causes price of goods to drop. It causes negative effect on those who were having large stock of goods bought with high price. They become forced to sell their goods basing on the market price as a result they get low profit or loss at all.

#### 4.4.4 Effect on stock of items in stores

The responses on the effect of exchange rate fluctuation on the stock of items in stores are shown in the below Table 4.18

**Table 4. 18: Effect on stock of item**

Response	Frequency	Percent
Strong disagree	2	2%
Disagree	2	2%
Neutral	4	4%
Agree	52	52
Strong agree	40	40%
Total	100	100%

Source: Research findings 2019

Table 4.18 shows that, 2 (2%) of the responses strong disagreed that the exchange rate fluctuation has effect on the stock of items in stores. 2 (2%) disagreed, while 4 (4%) were neutral. 52 (52%) agreed that exchange rate fluctuation has effect on stock of items in stores and the remaining 40 (40%) strong agreed on that issue.

#### 4.4.5 Effect on consumer purchasing power

In order to know the effect of exchange rate fluctuation on the performance of SMEs, the study sought responses from respondents on if exchange rate fluctuation has effect on purchasing power. Table 4.19 provides summary of the findings with regards the effect of exchange rate fluctuation purchasing power.

**Table 4. 19: Effect on purchasing power**

Response	Frequency	Percent
Strong disagree	5	5%
Disagree	5	5%
Neutral	9	9%
Agree	47	47%
Strong agree	34	34%
Total	100	100%

Source: Research findings 2019

Table 4.19 indicates that, 5 (5%) of respondents strong disagreed, 5 (5%) disagreed, and 9 (9%) were neutral. 47 (47%) of the responses agreed that exchange rate has effect on purchasing power and the remaining 47 (47 %) strong disagreed.

#### 4.5 Exchange rate fluctuation data from June 2018 to May 2019

In order to find the implication of exchange rate fluctuation, United States Dollar to Tanzania Shillings exchange rate data from June 2018 to May 2019 were obtained from Bank of Tanzania. Collected data were then summarized so as to obtain monthly average exchange rate for that period. Exchange rate data helped the researcher to get more insight on the study and to find the relationship between the variables under the study. The result are presented in Table 4.20

**Table4. 20: Exchange rate monthly average**

Month	Monthly average USD (Spot Buying)	Monthly average USD ( Spot Selling)
May-19	2,277	2,300
Apr-19	2,278	2,301
Mar-19	2,278	2,300
Feb-19	2,274	2,297
Jan-19	2,271	2,294
Dec-18	2,269	2,291
Nov-18	2,268	2,291
Oct-18	2,267	2,290
Sep-18	2,265	2,287
Aug-18	2,262	2,285
Jul-18	2,256	2,279
Jun-18	2,254	2,276

Source: Bank of Tanzania 2019

Table 4.20 indicate that exchange rate was not fixed. It was fluctuating throughout the months. The highest exchange rate of USD to TSH was 1USD to 2,301 TSH in May 2019 and the lowest was 1USD to 2,276 in June 2018.

#### 4.6 Inflation rate

One of the factor contributing to changes in exchange rate is the inflation rate. In order to get more insight on the study, inflation data for the period from June 2018 to May 2019 were obtained. The below Table 4.21 shows the inflation rate for the period from June 2018 to May 2019.

**Table 4. 21: Inflation data**

Month	inflation rate
May-19	3.5
Apr-19	3.2
Mar-19	3.1
Feb-19	3.9
Jan-19	3.0
Dec-18	3.3
Nov-18	3.0
Oct-18	3.2
Sep-18	3.4
Aug-18	3.2
Jul-18	3.3
Jun-18	3.4

Source: BOT and NBS computation

Table 4.21 indicated that the highest inflation rate during that period was 3.5 in May 2019 and the lowest was 3.0 in November 2018 and January 2019.

#### 4.7 Correlation and regression Analysis

##### 4.7.1 Correlation analysis

The Pearson correlation analysis is the analysis which is used to determine the relationship between variables. The variables under this study was Business performance on the side of dependent variables which was measured by looking on the net profit for the period of twelve months. Independent variables was Inflation rate fluctuation and exchange rate fluctuation. Correlation coefficient denoted by  $r$ , is used in determination of the relationship between variables. The coefficient can be positive or negative depending on the data trend. The coefficient can take the range of values from +1 to -1. When a value is 0 or close to zero indicates that, there is

weak relationship between variables. When the value close to 1 indicate the positive relationship between variables and when the value close to -1 indicate a negative association between variables.

**Table4. 22: Correlation analysis**

		Inflation Rate	Exchange rate	Business performance (ROA)
Inflation Rate	Pearson Correlation	1	.024	-.203
	Sig. (2-tailed)		.941	.527
	N	12	12	12
Exchange rate	Pearson Correlation	.024	1	-.967
	Sig. (2-tailed)	.941		.000
	N	12	12	12
Business performance (Profit)	Pearson Correlation	-.203	-.967	1
	Sig. (2-tailed)	.527	.000	
	N	12	12	12

Source: Research findings 2019

Finding shown in Table 4.22 indicates that, the relationship between foreign exchange rate and business performance is strong and negative ( $r = -0.967$ ). Inflation rate has weak negative correlation with business performance ( $r = -0.203$ ) Findings also indicate that, the relationship between Inflation rate and exchange rate is weak positive correlation ( $r = 0.24$ ). This imply that any changes in exchange rate will cause a small change in inflation rate in a positive direction and vice versa.

#### 4.7.2 Regression analysis result

The study adopted the following regression model as shown in chapter 3,

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where Y= Business performance

X1= Inflation rate

X2= Exchange rate to Tanzania shillings

e = Random error term

$\beta_0$  = Regression constant

**Table 4. 23: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.275	.701		17.505	.000
	Inflation Rate	-.030	.010	-.180	-3.000	.015
	Exchange rate	-.005	.000	-.963	-16.083	.000

a. Dependent Variable: Business performance (ROA)

Table 4.23 shows regression coefficient result which shows the negative relationship between business performance and exchange rate, shown by the negative coefficient (-0.005)

Business performance and inflation rate shown by negative coefficient (-0.30) on the other hand. Result also show the regression constant of 12.275.

#### **4.8 Mitigation strategy**

The third objective of this study was to assess the mitigation strategy which is used to protect business against the risk of exchange rate instability. 20 key respondents were interviewed so as to give their view concerning their mitigation strategy. The results are shown in Table 4.24

**Table 4. 24: Mitigation strategy**

Response	Frequency	Percent
Foreign Currency bank account	10	50%
No hedging option	6	30%
No answer	4	20%
Total	20	100%

Result in Table 4.24 shows that. 10 (50%) of respondent used to keep bank account in foreign currency so as to be used in the future when needed. Further responses from the interview showed that, they exchange their Local currency and put in foreign currency bank account in the time when the exchange rate is favourable. Result also indicated that, 6 (30%) of respondents had no option to hedge against

exchange rate. And the remaining 4 (20%) of respondent did not respond to this question. Response imply that, this problems affect a large group of SMEs and they have enough knowledge on how to mitigate it.

## **CHAPTER FIVE**

### **DISCUSSION OF THE FINDINGS**

#### **5.1 Introduction**

In this chapter the findings presented in chapter four are discussed. The discussion starts with the background information of respondents and its implication on the study. The implication of exchange rate on business performance will be discussed by looking on its impact as well as its effect to business performance. The chapter ends by discussing correlation and regression analysis result as presented in chapter four.

#### **5.2 Background information**

As presented in chapter four, the background information which were captured during the study are gender distribution, age, and number of year which the person have been in business. Respondents selected were both male and female in which male were 60 (60%) and female were 40 (40%). This shows that, SMEs comprises of both male and female regardless of their fraction. This imply that, any problem which SMEs faces, affect both male and female directly.

Respondents were distributed into three age group which are 18-35, 36-55 and above 55. No respondents who were below the age of majority. By considering that, all were adult, it increases confidence that, their response are genuine.

Respondents were also having difference level of education. Large group 31 (31%) were having vocational education and 21 (21%) were having university level education. The remaining 48 (48%) were from other lower level of education. Further responses from the interview shows that, respondents were not having formal education specifically for the business they are doing. They have only informal education and experience.

Business management position of respondent is also another information requested to respondents. Some of respondents 45 (45%), were owners but not direct dealing with day to day activities of the business. 40 (40%) of respondents were business manager and the remaining 15% were both manager and owner. This implies that, respondents selected were having enough information concerning their businesses. It gives the researcher assurance that, the responses gives a real picture of what is happening. Some of respondents were having retail businesses and some were having wholesale business.

The objective of this study was to find the implication of exchange rate fluctuation to SMEs. In Tanzania, SME categories are distributed depending on number of employees and capital invested as shown in Table 5.1. Number of employee was another important factor considered in the study so as to know to what extent respondents falls in the category of SMEs. Findings showed that, 95 (95%) of organization were having 1 to 25 employees and only 5 (5%) of organization were having more than 25 employees. Basing on SMEs categories in Tanzania, They fall on the group of small and medium enterprises.

Responses were also obtained from respondents who are to the large extent experienced in their business. 49 (49%) of respondents were having an average of 1 to 5 years in business while 37 (37%) were having more than five years. Experience they have in business, gave the researcher confidence on the responses obtained.

### **5.3 Implication of exchange rate fluctuation on SMEs performance**

Findings presented in chapter four show implication of exchange rate to business performance on two areas. The first area is the impact of exchange rate fluctuation and the second area is the effect of exchange rate fluctuation on business performance.

Exchange rate fluctuation direct impact business performance because it has a direct contribution on the performance of business. Findings presented showed that exchange rate impact business in both positive and negative way. When it change in favour of business it increases the value of Tanzanian Shilling in exchange with other currency and hence the business man/woman can buy more products with the same amount of money which he could buy small quantity if exchange rate does not favour him/her. It has been seen in the findings that, majority of product sold are imported. This imply that, the process of exchanging currency and its implication cannot be avoided.

Exchange rate fluctuation also impact business performance due to its unpredictability. This is another area which were indicated 55 (55%) responses in the study. Also update in exchange rate were reported to difficult by many responses 50 (50 %). This imply that, business arrangement can be negatively affected when it change in a position which does not favour it.

To the large extent exchange rate has seen to have negative impact on business performance. Findings are indifference with the study done by Adeniran, Yusuf, and Adeyemi (2014) which found that, exchange rate has positive impact to business performance, but the impact was note seen to be significant. The result suggest that developing country are in better position in selecting the exchange rate regime which is flexible.

On the other hand, exchange rate fluctuation founded to affect performance of SMEs due to its risk of instability. Many responses showed that, business are under high risk due to its instability. It also affect purchasing power when the exchange rate rise in favour of the other country. It also affect the purchasing power in importation of products. When exchange rate go down, it causes price of goods to drop. It affect negatively those who were having large stock of goods bought with high price. They become forced to sell their goods basing on the market price as a result they get low profit or loss at all. Findings presented in chapter four also show that exchange rate

has effect on consumer purchasing power. This is when prices of product rise because of rise in importation cost caused by the rise in exchange rate.

The above explanation concludes that, exchange rate fluctuation affect negatively the performance of business, specifically SMEs in negative way. The study are in agreement with the study done by Belghitar et al. (2016) which concluded that, it is difficult for SME to overcome negative competitive effect caused by fluctuating exchange rate. The study also concluded that, the appreciation and depreciation of exchange rate can affect negatively the returns in all SMEs.

#### **5.4 Correlation and regression analysis**

Correlation and regression analysis result also showed negative relationship between independent and dependent variables. Correlation result showed a strong and negative relationship ( $r = -0.967$ ). Between foreign exchange rate and business performance and a weak negative correlation between inflation and business performance ( $r = -0.203$ ). This implies that, any change in the independent variable will result to negative effect on the dependent variable. The negative coefficient of both inflation and exchange rate also support the correlation analysis results. Findings also indicate that, the relationship between Inflation rate and exchange rate is weak positive correlation ( $r = 0.24$ ). This imply that any changes in exchange rate will cause a small change in inflation rate in a positive direction and vice versa.

#### **5.5 Exchange rate and inflation rate mitigation strategy**

Findings in chapter four shows that, some of respondents had only one way to hedge against exchange rate risk. Other respondent did not have any mitigation strategy. This implies that, to the large extent SMEs has no means to hedge against exchange rate fluctuation risk. It seems that, education should be given to them so as to reduce exchange rate fluctuation risk.

According to Döhring (2008) Exchange rate risk can be seen in the following dimensions.

- i) Certain versus uncertain dimension
- ii) Short run and long run dimension
- iii) Risk in the value of assets versus risk in the value of cash flow dimension

Exchange rate risk can occur in form of transaction risk, translation risk and economic risk. Döhring (2008) defined transaction risk as transaction risk as the impact which occur in exchange rate when it changes against the committed cash flow that lie in the future while the nominal value of cash flow is known. This is simply the adverse exchange rate effect that can occur on the completed transaction before its final settlement. On the other hand translation risk is a risk in which the exchange rate fluctuation impact the valuation of assets and liabilities mainly foreign subsidiary, in the balance sheet statement of multinational consolidated. Economies risk is the impact of the exchange rate fluctuation which can be seen in the present value of the future cash flows.

Apart from the method which is seen to be used to hedge against exchange rate fluctuation, there are other methods which are explained by other literature. Döhring (2008) on the study on Hedging and invoicing strategies to reduce exchange rate Exposure explained that, the exposure to exchange rate risk can be reduced by using domestic currency invoicing and other means of hedging. The study mentioned other hedging method shown below.

- i) Forward exchange rate contract

This is a contract in which a foreign exchange rate is fixed today so as to buy a certain amount of currency in the future. The method can be used so as to reduce the risk against exchange rate.

ii) Swaps

This is the cash flow exchange in which the cash flow of one currency is exchanged with the cash flow of another currency.

iii) Option

This is when a seller offer an option but not an obligation to purchase a certain amount of foreign currency in the future at an agreed exchange rate.

If the above few methods can be adopted by SMEs, they can help in reducing the exchange fluctuation risk.

## CHAPTER SIX

### SUMMARY, CONCLUSION AND POLICY IMPLICATION

#### 6.1 Introduction

This chapter presents the summary of the findings, conclusion as well as policy implication for this study. The chapter is arranged starting with the summary of the findings followed by conclusion police implication for the study.

#### 6.2 Summary

The growth of small and medium enterprises (SMEs) at any place in the world in always depends on favourable business environment. Nevertheless, SMEs in Tanzania are threatened by a number of limitations that hinder their performance. One of the constraints is exchange rate fluctuation. This study had a main objective which was to assess the implications of exchange rate fluctuation on the performance of SME's. In order to achieve the study objectives, assessment of the effects of foreign exchange rates fluctuations in the performance of SMEs as well as the effects of inflation rates fluctuations in the performances of SMEs was conducted. The study also assessed the mitigation strategies on inflation and exchange rate fluctuation

Descriptive research design was adopted in this study. The reason behind the selection of the design was its purpose and the nature of the variables at hand, which needed qualitative and quantitative analysis methods and the interpretation of views and perceptions.

Findings from the study indicated the negative effect of exchange rate to business performance. Exchange rate was seen to impact many areas such as the importation of goods and the payment of trade creditors.

The study concludes that, Unstable exchange rate has negative implication to the performance of SMEs in Tanzania. Depression of the value of currency which mainly occur in Tanzania and many developing country cause the decrease in

purchasing power in importing product and also result in rise of product price in internal market.

The study recommends to policy makers to make consideration on exchange rate dynamics when making monetary policy and fiscal policy.

### **6.3 Conclusions**

Basing on the findings of this study, it can be concluded that, exchange rate fluctuation has negative implication to the performance of SMEs in Tanzania. This is because of its direct impact on business performance. The depression of the value of currency which mainly occur in Tanzania and many developing country cause the decrease in purchasing power in importing product and also result in rise of product price in internal market.

Exchange rate fluctuation also has negative effect to SMEs because they face the risk of currency instability It also affect negatively those who were having large stock of goods imported with high price in the event when currency appreciation occur. People become forced to sell their goods basing on cheaper market price as a result they get low profit or loss at all. The negative relationship between independent and dependent variable in correlation and regression data analysis also show the negative implication of exchange rate to business performance.

### **6.4 Policy Implication and recommendation**

Although policy makers have been doing a good work in Tanzania, something has to be done so as to reduce risk associated with exchange rate dynamics. The study recommends to policy makers to make consideration on exchange rate dynamics when making monetary policy and fiscal policy. Also Government intervention must be done when there is very high dynamics in exchange rate. This will help The SMEs and import and export business at large. Consideration in exchange dynamics must be made whenever making any policy that affect the exchange rate. The government must also take action so as to reduce the gap between formation and implementation of monetary policies so as to make sure the issue is controlled.

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## APPENDIXES

### APPENDIX II: QUESTIONNAIRES

Dear Respondent,

I am Angela. K Cyprian; Taking master degree of Business administration in corporate management at Mzumbe University (Dar es Salaam Campus). I am currently conducting my research titled: An assessment on the implications of exchange rate fluctuation on the performance of SME's in Tanzania, the case of electronic devices vendors, in Kariakoo Dar es salaam.

This questionnaire is purposely intended to collect data so as to meet the academic purpose of the researcher not otherwise. Confidentiality will be observed and no information will be given to another third part for other use. However, if you are uncomfortable about answering any of the questions, do not do so. Do not write your name at anyplace on this paper.

#### SECTION A: General Business Demographic Information

Please tick the appropriate (✓) box							
1. Gender:	Male	<input type="checkbox"/>	2. Age	18-35	36-55	Above 55	
	Female	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Management's Position:			Owner	Manager	Both		
4. Level of education			Not attended school			<input type="checkbox"/>	
			Primary level			<input type="checkbox"/>	
			Secondary level			<input type="checkbox"/>	
			Vocational/Technical Training or certificate			<input type="checkbox"/>	
			University level			<input type="checkbox"/>	
5. Level of business			Wholesaler	Retailer	Both		
6. Age of the Business:			Less than 1 year	Between 1 and 5 years	More than 5 years		
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
7. Number of People Employed:			0 – 10	11 – 25	25 and above		
			<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		



