



**MIDLANDS STATE UNIVERSITY**

---



DEPARTMENT OF ACCOUNTING

**The Impact Of Foreign Exchange Rate Fluctuations On Financial Performance Of  
N. Richards And Company**

**MODE OF ENTRY:** CONVENTIONAL

**REG NUMBER:** R167226W

**NAME:** MUFUYA GIVEMORE

**DECLARATION**

**I, ....., do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.**

\_\_\_\_\_  
**Student signature**

\_\_\_\_\_  
**Date**

**APPROVAL FORM**

**The undersigned certify that they have supervised the student MUFUYA GIVEMORE's dissertation entitled "The impact of exchange rate fluctuations on financial performance of N Richards and Company", submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.**

**Supervisor** .....

**Date** .....

**Chairperson** .....

**Date** .....

**RELEASE FORM**

**Student name:** Mufuya Givemore

**Dissertation title:** The Impact of foreign exchange rate fluctuations on financial performance of N Richards And Company

**Degree title:** Bachelor of Commerce Accounting Honours Degree.

**Degree granted in:** 2018

**Permission is hereby granted to the Midlands State University library to produce copies of this dissertation and to lend or sell such copies for private, scholarly or scientific research purposes. The researcher does not reserve other publication rights and so, this dissertation or extracts from it may be printed without the researcher's written permission.**

**SIGNED:** .....

**DATE:** .....

**CONTACT NUMBER:** 07777 701 885

**EMAIL ADDRESS:** *gmufuya@gmail.com*

## **DEDICATIONS**

First and foremost, I dedicate this dissertation to my brother Mr H Mufuya, he was there for me since the beginning of this project. I would also want to dedicate this to my parents Mr and Mrs Mufuya for the family support they provided. My academic supervisor Mr Chinyamunjiko was also an important pillar to this research, with his guidance and support I managed to make it this far.

## **ACKNOWLEDGEMENTS**

Special and sincere gratitude goes to the Lord Almighty. Without the grace of the good Lord, I wouldn't have made it this far. I also would like to thank N Richards and Company stakeholders for their help and guidance in making this research, a success. They provided me with far from the information I had requested and for that I am very grateful. Special thanks again to the Midlands State University Accounting Department for equipping me with the relevant and unparalleled knowledge. I am also thankful to my academic supervisor Mr Chinyamunjiko. Thank you so much for your guidance and support, without you, this study would not be a success today. To my dear family I thank you for your endless financial support, motivation, encouragement. I love you so much. I would also like to extend my gratitude to Muserere Ashley, you were of great help indeed. To all my friends, I thank you for the support you showed me!!

## **ABSTRACT**

This study investigated the impact of foreign currency exchange rates on retail firms. The main objective of this project was to determine if exchange rate fluctuations has impact on financial performance of retail shops, using the case of N Richards and company for the period 2016 to 2018. The study also sought to identify the key risk management practises that retail firms are implementing in response to foreign exchanges risks. The central issue that gave rise to this research is the increased importation of basic products like cooking oil and mealie-meal which the company cannot operate without for long, bundled with declining profits being realised by the company. This study adopted the descriptive research methodology to answer both qualitative and quantitative research questions. Both primary (questionnaires and interviews) and secondary (company records) sources of data were used in this study. The research key findings show that foreign exchange rate fluctuations have a negative impact on the profitability or the financial performance of the company. This was evidenced by a total decrease of profit from 8 million RTGs in 2016 to 5 million RTGS in 2018. The study findings showed that, the risk management practices which were in place at N. Richards are insufficient. The study revealed that, the company had only diversification, limiting the number of orders as well as overseas loans as the exchange risk management practices. From the study findings, the researcher recommended the company to try by all means to reduce its importation especially during this period in which we are facing harsh economic conditions in conjunction with a weak domestic currency which is depreciating or loosing value on daily basis. The researcher also recommended engaging in hedging practices for example the natural hedging in order to cater or manage the foreign exchange risk. This study therefore concluded that, foreign exchange fluctuations have negative impact on retail firm's financial performance.

## Table of Contents

<b>DECLARATION.....</b>	<b>ii</b>
<b>APPROVAL FORM .....</b>	<b>iii</b>
<b>RELEASE FORM.....</b>	<b>iv</b>
<b>DEDICATIONS .....</b>	<b>v</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>vi</b>
<b>ABSTRACT .....</b>	<b>vii</b>
<b>List of Tables .....</b>	<b>xi</b>
<b>List of Figures.....</b>	<b>xii</b>
<b>List of Appendices.....</b>	<b>xiii</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>1</b>
1.0 Introduction.....	1
1.1. Background of the study .....	1
1.2. Statement of the problem .....	2
1.3 Main research objective .....	3
1.4 Other research objectives .....	3
1.5 The main research question.....	3
1.6 Other research questions .....	3
1.7 Value of the study .....	3
1.8 Assumptions.....	4
1.9 Delimitations of the study .....	5
1.10 Limitations .....	5
1.11 Definition of key terms .....	5
1.12 Summary .....	6
<b>CHAPTER TWO .....</b>	<b>Error! Bookmark not defined.</b>
<b>LITERATURE REVIEW .....</b>	<b>7</b>
2.1 Introduction.....	7
2.1.1 Exchange rate fluctuations .....	7
2.1.2 Financial Performance .....	8

2.1.3 Exchange Risk Management.....	8
2.2 Theoretical literature .....	9
2.2.1 Foreign Exchange Exposure Theory .....	9
2.2.2 Purchasing Power Parity Theory.....	9
2.2.3 Interest Rate Parity Theory .....	11
2.2.4 International Fisher Effect Theory .....	11
2.3 CONCEPTUAL FRAMEWORK .....	13
2.4 Empirical Literature .....	14
2.5 Gap analysis .....	15
2.6 Summary .....	16
<b>CHAPTER THREE .....</b>	<b>17</b>
RESEARCH METHODOLOGY .....	17
3.1 Introduction.....	17
3.2 Research Design and research approach.....	17
3.3 Population and Sample.....	17
3.4 Research Instruments .....	19
3.5 Data Collection .....	20
3.6 Data reliability and validity.....	21
3.7 Ethical Considerations .....	21
3.8 Data Analysis .....	22
3.9 Summary .....	22
<b>CHAPTER FOUR.....</b>	<b>23</b>
DATA ANALYSIS AND INTERPRETATION .....	23
4.1 Introduction.....	23
4.2 Response Rate.....	23
4.3 Demographic analysis .....	25
4.4 The company's total profits for 3 years .....	29
4.5 Discussion of the findings.....	30
4.7 Summary .....	34
<b>CHAPTER FIVE .....</b>	<b>35</b>
SUMMARY CONCLUSIONS AND RECOMMENDATIONS .....	35
5.1 Introduction.....	35

5.2 Summary .....	35
5.3 Major Research findings .....	36
5.4 Conclusions .....	36
5.5 Recommendations .....	37
5.6 Areas for Further Researches .....	38
<b>REFERENCE LIST .....</b>	<b>39</b>
<b>Appendix i.....</b>	<b>42</b>
Questionnaire .....	42
<b>Appendix ii.....</b>	<b>45</b>
Interview guide .....	45

## List of Tables

Table 3.1 Statistical representation of sample size .....	18
Table 4.1: Response rate .....	23
Table 4.2: Demographic analysis.....	25.
Table 4.3: invoiced purchases transactions for 2016.....	26
Table 4.4: invoiced purchases transactions for 2017 .....	27
Table 4.5: invoiced purchases transactions for 2018 .....	28
Table 4.6: Company's Annual profits.....	29
Table 4.7: Risk management practices in place.....	32
Table 4.8: Effectiveness of Risk management practises.....	33

## **List of Figures**

Figure 1.1: Research Variables.....	13
Figure 4.1: Response rate.....	24
Figure 4.2: Relationship between foreign purchases and annual profits.....	30

**List of Appendices**

Appendix i: Questionnaire.....42  
Appendix ii: Interview guide .....45

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

The chapter covers the background of the research, statement of the problem and the main research topic. The chapter also presents the objectives of the study, questions to be answered by the research and the purpose of the study. The chapter highlights the main research topic which is centered on the impact of foreign exchange rate fluctuations on financial performance of N. Richards.

#### **1.1. Background of the Research**

According to a company website accessed on (22 March 2020), N. Richards and company is a family owned business formed in the 1970s, but later transformed into a private limited company in the early 1990s. It specializes in wholesaling, marketing hardware and it also have cash and carries in which small quantities and units are sold. As a result of harsh economic conditions prevailing in our country the company has placed more reliance on imported commodities. It's relying heavily on importing from our neighboring countries but usually South Africa. The exchange rates fluctuation and the risks associated have become a crucial aspect in financial management area (Singh. 2017). Dolan and brooks (2015) said the fluctuation of exchange rate affect both the cash flows from company's operations as well as the value of the firm. Singh (2017) asserts that from 2009 up to date Zimbabwe have been experiencing wide currency fluctuations which deepened the retail industry's vulnerability to foreign exchange risk and this has led to a considerable amount of study. Marston (2013) said it is generally a held view that the fluctuation of foreign exchange rate is a significant source of financial instability. Thus they beg to have a significant impact on the firm's

value and financial performance no matter how the entity operates that is either domestically or internationally oriented. A lot of researches were done focusing on how listed companies are affected by the exchange risk as well as the impact on multinational companies (Chikoko etal 2013, Opaluwa etal 2014 and Rutto and Ondiek 2014). Researches were also done considering the economy as a whole for example how inflation is linked or affected by exchange rate fluctuations (Pitia and Lado 2015) but very little have been done on retail firms like N Richards and company which are saving only domestic market but it is linked to exchange risk through importing some commodities like basic food stuffs. Thus this presents a big research gap hence one may decide to find more with regard to the impact of the foreign exchange gain or losses on the financial performance of such companies which are neither multinational companies nor listed ones

## **1.2. Statement of the problem**

N Richards and Company has been hit by declining financial performance for successive years between 2016 and 2018. The researcher had an opportunity to attend one of the annual meetings which was held on the 2<sup>nd</sup> of December 2018. The whole management team was worried about the declining performance of the company and the company's finance manager raised concerns about the foreign exchange risk as the major cause of the firm's bad performance. The manager explained that due to the harsh prevailing economic conditions the firm is forced to import a lot of commodities from foreign countries there by being linked to the risk foreign exchange. N Richards annual profits which were of concern are the 8 million profits for 2016, 6.5million for 2017 and 5 million profits for 2018 (Financial Statements as at 2016, 2017 and 2018). Researches were done pertaining how inflation rate is affected by exchange rate fluctuations (Munyawiri Ezekiel, Midlands State University. 2014), the impact of foreign exchange rates on Listed companies in Zimbabwe (Chikoko etal. 2013) but a very little have been done on retail firms like N Richards and company which are saving only the domestic market but involved in international transactions in ways like importation of commodities from foreign nations. This presents a big research gap thus one may decide to find more on the effect of the foreign exchange gain or losses on the financial performance of such companies.

### **1.3 Main research objective**

To find the impact of foreign exchange rate fluctuations on financial performance of N.Richards and Company

### **1.4 Other research objectives**

- To identify risk management practices that are in place at N Richards and company
- To find the effectiveness of the existing foreign exchange risk management practices in solving the foreign exchange risk

### **1.5 The main research question**

How foreign exchange rate fluctuations did affected the firm's financial performance?

### **1.6 Other research questions**

- What should be done by a company in a retail sector to manage the foreign exchange risk?
- To what extent are the existing risk mimimising practices effective in solving the foreign exchange risk?

### **1.7 Value of the study**

This Research is of paramount importance because nowadays most companies are engaging in international trade especially those in the retail industry. Some

commodities may be imported from foreign nations as a result of certain factors like shortages from the local supplies. Therefore this research shall find out the impact of engaging in international trading to the financial performance as far as exchange rate fluctuations are concerned hence it begs to be of great importance to various stakeholders and firms within the retail sector.

- **To the managers of N Richards and Company**, the research findings may provide information which can be helpful in guiding their decision making with regard to foreign exchange risk.
- **To the Government**, this study may help in informing and assisting the policy formulation and designing of regulations that are effective with all material regards to the retail sector.
- The research may also provide necessary information in relation to the impact of foreign exchange rate movements and this may be of a huge benefit to **academicians and researchers** who shall intend to conduct further researches related to this study.
- The study will help **investors and other funds providers** of the company in understanding how the profits of the entity to which funds are given or provided would be affected by the movements or changes in exchange rate.

### **1.8 Assumptions**

All respondents to this study were assumed to be employees of N.R. Richards for the period under consideration (2016 to 2018). The researcher assumed that all respondents were knowledgeable and had access to all relevant information about foreign currency exchange rates such that they responded from an informed point of view. The study also assumed that proper accounting was being done for the period under review; hence the information revealed for the study was true.

## 1.9 Study Delimitations

The research was confined to N Richards & Company. The period under investigation was strictly 2016 to 2018. Only those branches that deal with merchandise invoices and receipts were considered for the study, hence the study was confined to the Accounting, Marketing and Inventory Control department. Due to the wider effects of foreign currency exchange rates, this study was only focussing on the impact on profitability.

## 1.10 Limitations

Due to the Covid 19 induced lock down, the research was restricted to electronic means of gathering data, thus there was no room to physically assess the quality of respondents. Exchange rates have also serious impacts on other aspects such order cycles and procurement levels, thus it was difficult to find the effect that the rates had on profitability without considering the changes in the volume of purchases and sales.

## 1.11 Definition of key terms

- **Currency-** A currency is money in any form which can serve as a medium of exchange and authorized for book keeping, especially banknotes and coins in circulation (Omagwa 2015)
- **Foreign Currency** – Refers to the currency of a foreign country authorized to serve as a medium of circulation and to be used for the basis for record keeping (Murthy and Sree 2013)
- **Exchange Rate** - Runo F.N (2016) defines it as one currency's price converted into other currency terms.
- **Risk-** Adetayo (2013) defines risk as the possibility or change for a loss or danger.

- **Financial performance** – was defined as a measure that is used to measure how well a company might use assets from its ordinary mode of business and generation of revenue (Adetayo, 2013)
- **Hedging** - Runo R.N (2016) defines hedging as a technique that an entity exposed to foreign exchange can create to defend a current position from unfavorable moves in the currency pair.

### **1.12 Summary**

The beginning chapter of this study highlighted background of the research, the problem statement, research objectives and research questions. The chapter also presented the research assumptions, delimitations as well as limitations to the study. The definitions of key terms were also given in the first chapter of this study. The following chapter then presents chapter 2 of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents the literature that was reviewed by the researcher and it forms the foundation or basis or concepts for the research. This chapter also looks on the theories which of paramount importance in guiding or the theories which were used as a yard stick, the chapter then looked on empirical studies hence showing the research gap after which it will then presents the summary of the literature.

##### **2.1.1 Exchange rate fluctuations**

Bradley and Moles (2012) define exchange rate as the price at which currencies can be exchanged for example two units of currency A can be used to buy 1 unit of currency B. According to Reid and Joshua (2014), defined exchange rate as the value of local currency expressed against foreign currency. Omagwa (2015) emphasise that like any other commodities exchange rates are affected by the law of demand and supply. Monetary policies like interest rates determine or influence the supply of a currency whereas on the other hand a wide range of factors affect the demand side, these factors include inflation rates as well as changes in fiscal policies. Murthy and Sree (2013) argue that comparison of commodities quoted in different currencies is facilitated by exchange rate thus it plays a crucial role in trade. Adetayo (2013) explains that determination of the country's balance of trade is not reliable without taking into account exchange rate variations hence its of great significance in this particular area as well According to Omagwa (2015), also says the price of imports is directly affected by the rate fluctuations thus directly affecting the nation's external sector.

The country can try to move away from the burden of fluctuating currencies by implementing a fixed exchange rate system whereby the value of foreign and local currency will be set at par (Reid and Joshua, 2014).

### **2.1.2 Financial Performance**

Murthy and Sree (2013) say that it refers to the ability to leverage operational decisions as well as decisions on investment and strategies in order to achieve financial stability in a business. According to Khrawish (2016) financial performance comprise of measurement on achievement that is measuring how far the organization had gone in trying to attain pre-set targets, objectives and goals at large. A wide range of measures can be used to measure financial performance and these may include measures on profitability and measures on liquidity (Reid and Joshua, 2004). Bradley and Moles (2002) argue that it is every or any organization's main goal or objective to maximize or have the maximum profit as possible thus profitability measures are of great importance and usually used as compared to other measures. Measures on profitability include return on equity as well as the return on assets. Khrawish (2011) says that the return on assets is also of paramount importance in explaining firm's profitability and it provides an insight or overview on the degree of management efficiency basing on how it uses the entity's assets. Return on equity then explain the shareholders equity against the firm's profitability.

### **2.1.3 Management of Exchange Risk**

Exchange risk related to foreign currency refers to the marginal riskiness imposed on the company's cash flows as a result of currency fluctuations (Ehrhardt, 2015). Omagwa (2015) said foreign currency risk is mostly in three different forms which are the translation, transaction and the economic exposures. The management of this kind of risk include taking of certain decisions mostly the decisions which aim at reducing or limiting the negative effects of fluctuations in a currency's value with regard to income statement and the statement of financial position values. Firms may used the

availed Financial instrument which may help as mitigating tools and their implementation should be done in trying to solve the exchange risk. Hedging techniques is the common name used to such risk management tools which may involve the use of financial instruments. Murthy and Sree (2013) alluded that the concept of hedging is a way of avoiding a probable loss. It is a process of reducing or minimising exposure and a number of techniques are included most particularly to cater for those transactions denominated in foreign currency. The hedging techniques may be confined internally within the entity without any involvement of market-based financial instruments and this is called internal hedging.

## **2.2 Theoretical literature**

### **2.2.1 Foreign Exchange Exposure Theory**

The theory of contemporary foreign exchange exposure (Buckley, 2000; Shapiro, 2003.) say that the value of a multinational company should be mainly affect via foreign sales and the foreign assets (net assets) which are subject to presentation in domestic currency that is the parent's domestic currency would be used to present foreign sales as well as the foreign assets. In spite the focus on companies with considerable abroad operation by the earliest empirical studies, the researches failed to give out clearly the significant effect of exchange rate movements on the stock price of retail companies. However some of the previous studies (Jongen et al and 2006; Gao, 2010) are more consistent with the foreign exchange exposure theory and they concluded that exchange movements are significant in determining the value of an entity due to their impact on sales as well as net assets.

### **2.2.2 Purchasing Power Parity Theory**

The theory was modified by Menon and Viswanathan (2015) saying that similar goods should have the same value even if the goods would be in different countries. They were of a view that if the purchasing power is identical in different countries then it should follow that the exchange rates in relation to the currencies of those countries should be at equilibrium. Reid and Joshua (2014) also supports that the commodities

price level ratio should agree or tally with the country's currency. According Ross (2008), an incorrect valuation of a country's currency might be shown by the money having no purchasing power against the nation's commodity level. There are certain assumptions shaping the theory and these include the assumption that there are transactional costs, free trade without barriers and the nature of commodities in trade is similar. The price of identical commodities should be the same across borders as long as the currency used is exchanged using the spot rate.

It was then recommended that price indexes should be used in determining the exact price of commodities which are similar in nature across countries. However this belief carries some challenges especially in determining the Purchasing Power Parity resulting from price indexes provided the concern that different nations may use different commodities to generate their price level (Reid, 2005).

Menon and Viswanathan (2015) classified the Purchasing Power Parity into two major classes which are the absolute and relative PPP. The absolute PPP was said to be the one which is determined putting the similarity fact of commodities aside but the commodities should still have the same cost leading to the law of one price. But due to the weaknesses of the absolute PPP it was then found necessary to have the alternative approach which is then called the relative PPP and this one now takes into account the market imperfections.(Ross, 2008).The theory is going to hold some water for this study since it clearly explains the value of a country's currency against that of other countries.

### **2.2.3 Interest Rate Parity Theory**

The policymakers with regard to monetary policies found that exchange rates were affected by monetary policies. The theory is based on the view that the emergence of a country's interest rate basically leads to the appreciation of that country's currency. Apparently this shows that the assets prices play a crucial role in the variations of exchange rates. This theory was deduced by Keynes (1923) and it consists of two forms as which are; covered interest rate parity and uncovered interest rate parity. The covered interest rate parity touches on the link between the spot market and forward market exchange rates in relation to the rate of interest on bonds in 2 different countries. Uncovered interest rate parity on the other hand looks on the link between the spot and expected exchange rate in relation to rate of interest on bonds in different countries.

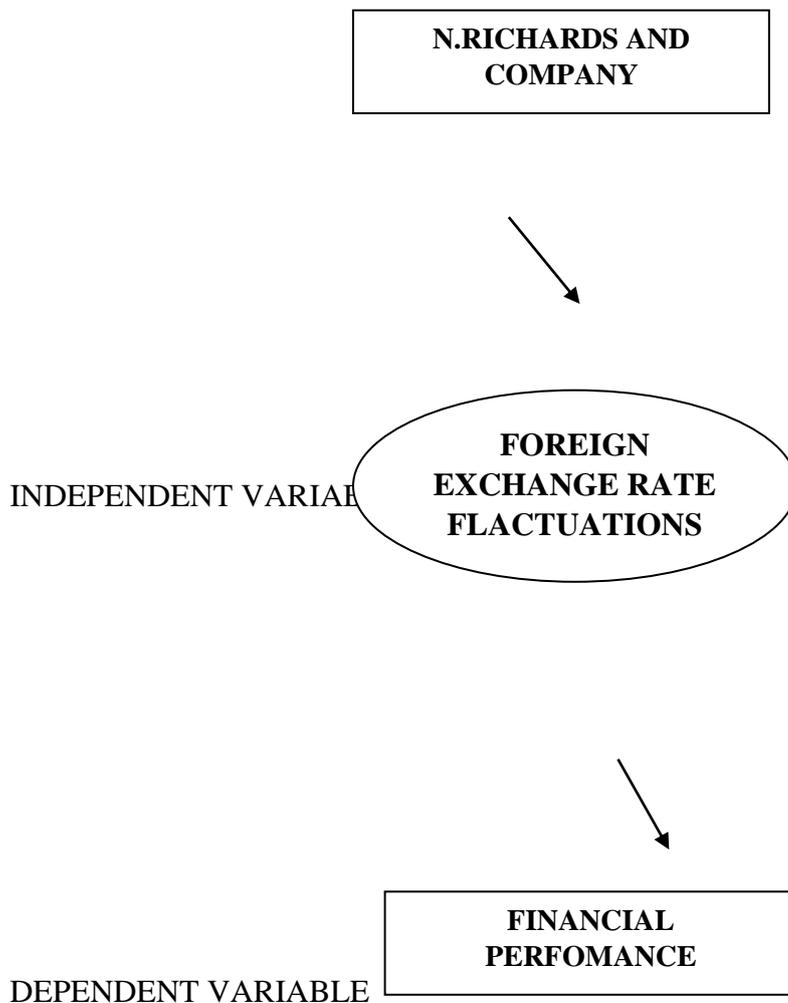
### **2.2.4 International Fisher Effect Theory**

This theory recommends that foreign currencies that are generally associated with relatively high rates of interest are followed by depreciation because the high rate of interests indicates the inflation rate in anticipation (Madura, 2010). In the long run the association between differences in interest rates and the changes in spot exchange rate tend to exist but only to a considerable deviation in the short run (Hill, 2014). The theory is not necessarily known as a good predictor of short run changes in rate of exchange (Cumby and Obstfeld, (2010).

This issue might be explained by the fact that a set of factors are capable of causing fluctuations on exchange rates. These factors include but not limited to the demand and supply of foreign currency, issues linked to balance of payments, high inflation levels, monetary policies as well as the general expectations (Khalwaty, 2012). Thomas (2001) tested the theory by examining financial results of purchasing future contracts on currencies with high rate of interest that had discounts and then sell the future contracts of currencies with low rate of interest. This study contradicted to the theory as it was found that about fifty seven percent of transactions that were created by this strategy were considerably profitable. In other words averagely the gain was above or greater than the loss. For the Fisher Effect theory to have hold, the currencies that had high rate of interest should have depreciated and vice versa. This could at the end resulted in insignificant profits from the transactions. Adler and Lehman (2010) and Abuaf and Jorion (2011) also found the variation in the relationship between the rate of inflation and exchange rates to be very material rather than being insignificant. Hakkio (2015) however argues regardless of whether it's in the short run or not, the association between inflation rate differences and exchange rates is not perfect but emphasise the use of rate of inflation differentials in predicting long run movements with regard to exchange rates.

## 2.3 CONCEPTUAL FRAMEWORK

**Figure 1.1 Conceptual Framework**



**Fig 1.1 showing the variables of the research**

The research seeks to find the effect of exchange rates fluctuations on financial performance of N Richards and Company; the exchange rate shall be an independent that is its included as an independent variable whereas firm's financial performance or profit in particular is going to be a dependent variable.

## 2.4 Empirical Literature

Clark et al (2017) say the main findings from previous researches could have resulted from various reasons or issues of concerns ranging from the theoretical consideration which implies that the background of theories may fail to give clearer support for the basic assumption that the rate of exchange fluctuation has an undesirable effect on the level of trade. The other thing is the issue of sample period which may be considered to be too long or too short. Lastly one may say the specification equation could be argued to have included few macro variables from those which may be recommended. As viewed by Tenreyro (2016), it seem to be a lot of estimation limitations in the previous studies on the effect of rate of exchange fluctuation on financial performance and this may impose doubt on the conclusions made.

Opaluwa, Umeh and Ameh (2014) researched on the effects that exchange rate fluctuations have on the financial performance of the manufacturing sector in Nigeria. This study adopted the econometric tool of regression. It was concluded that exchange rate fluctuations and the financial performance of firms in the manufacturing sector of Nigeria had a significant association which was basically of a negative nature.

Rutto and Ondiek (2017) also examined the effect of rate of exchange fluctuation on the financial performance of tea exporting companies in Kenya. The research used time series analysis and it also employed the multivariate co- integration method. The conclusion was that the rate fluctuations do affect the financial performance negatively.

Pitia and Lado (2015) also carried a research on link between exchange rate and inflation. This study found that exchange rates do not necessarily affect the consumer price index but currency depreciation affects economic growth negatively.

The concern over the levels of rate of exchange and their relationship with the main economic variables like growth, liquidity, income and profitability led to a greater part of discussion since we moved into the mid-2000s and this was fuelled by global

imbalances which began to widen. From the reviewed literature a consensus has not been met regarding the best definition of the long-term equilibrium real exchange rate, Nassif et al (2016) added that a lot of empirical papers focused on determining the impact of foreign exchange fluctuations at national level or point of view for example the effect on growth.

Bradley and Mole (2012) concluded that exchange risk management is a financial function which clearly affects the value of a firm. It was said that in theory there are basically other factors or issues other than the challenge with regard to measurement which can affect or hinder the statistical detection of the significant association or link between stock values and exchange rate movements.

Murugi et al (2016) say there are a variety of risk management practices that a firm may adopt in trying to tackle foreign exchange risk. Hedging was mentioned as one of the techniques or practices that might be used however it was argued that some firms the effectiveness of this technique may depend on certain factors like nature of the firm. Mugeru W.D (2013) also says overseas loans in support with hedging are risk management practices that a firm may adopt in trying to curb or solve foreign exchange risk

## **2.5 Gap analysis**

There is a huge research gap since most of the studies which were carried out focused on the macro-economic variables, sectors other than the retail sector and the economy as a whole. In addition the researches were done taking into account foreign firms and not in the Zimbabwean context hence applicability to our economy may be questionable. The retail industry is apparently lacking behind or not looked on thus its essential to investigate the impact of foreign exchange rate fluctuations on the retail industry since the industry holds a crucial position in many if not all economies. For this particular research, the company under investigation is an organisation with the major part of its operations not exposing it to currency fluctuations but the importation of commodities is the way of its exposure thus it's more like one sided. The use of hedging shall be tested to determine if it will still be useful to caution the exposure

since the company is having an unbalanced exposure that is no exports are being made to foreign countries.

## **2.6 Summary**

The chapter has presented the review of literature in line with the current research. A theoretical framework on which the study is built on was also covered in this chapter. The chapter also presented previous studies and findings obtained from related studies. A gap analysis summed up this part of the research. The following chapter will now look at the research methodologies that the researcher adopted in this study.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter highlights the methods that were used by the researcher used undertaking the research. These methods include design of the research, the population, sampling, methods of collecting data and procedures used to analyse data

#### **3.2 Research Design and research approach**

Research design refers to a framework or plan for a study which is used to guide in collecting and analyzing data, it is a blue print in detail which guides the research towards its objectives (Murugi et al 2016). This research is obliged to answer the question about the impact of exchange rate fluctuations on retail firm's financial performance and a case study of N Richards and company was found to be the best suitable research strategy. The research relates to a descriptive one and generally it describes the features of a certain case. The research employed or used both qualitative data as well as the quantitative one. Positivists are of a belief that reality is constant thus observations can be made on it (Myers 2019), the researcher shares the same point of view thus a deductive approach was used.

#### **3.3 Population and Sample**

The population targeted was confined to top management of three crucial departments which are directly linked to inventory, sales and the measuring of firm's financial

performance. These 3 departments are the Accounting department, Inventory control and the marketing department, comprising of twenty five (25) top management employees. The company under investigation is not a multinational company hence it does not have any branch or subsidiary outside Zimbabwe but it's exposed to exchange risk mostly through the importation of commodities (purchases) from abroad. Three departments which are directly linked to foreign exchange risk were considered during the research and these were the Accounting, Marketing and the Inventory control department.

Sample size is the number of observations used for calculating estimates of a given population (N Richards website) accessed 25 March 2020). According to Jen Baggs et al (2016) an appropriate sample size should be at least 10% of the total population. This research used a sample of above 70 percent of the management team for the Accounting and Finance department since they are believed to have sufficient and appropriate information which pertain the foreign exchange risk. In other terms the management team is the one involved in the preparation of the financial statements thus they can provide necessary information about how the risk of foreign exchange affects the overall performance in financial term that is in relation to profits. Random sampling was done on other departments which are the Marketing department and Inventory control department. The sample size and population is summarised overleaf:

**Table 3.1: Statistical representation of sample size**

<b>DEPARTMENT</b>	<b>POPULATION</b>	<b>SAMPLE SIZE</b>	<b>PROPORTION (%)</b>
Accounting and Finance	10	8	50
Marketing	7	4	25
Inventory control	8	4	25
<b>TOTAL</b>	<b>25</b>	<b>16</b>	<b>100</b>

**Source: NRG Inventory Controller (2019)**

As shown by the table above the Accounting and Finance department of the company holds a big percentage of the total sample size that is eight members out of sixteen.

This was justified by the fact that this department is of crucial position as long as the impact of exchange risk is to be stressed and identified. Half of the sample size was then shared by the remaining departments that are the Marketing department as well as the Inventory control department.

### **3.4 Research Instruments**

Data collection instruments are defined as devices used to collect data for a study (Singh 2017). This study adopted structured questionnaires and interviews to collect data from the participants. A combination of questionnaires and interviews was chosen so that one instrument would clear the gaps and flaws of the other. This was done in accordance with Mugera (2013) who claimed that to facilitate the dependability of the data and interpretation; researchers should gather information through different instruments. The research instruments are therefore discussed in detail in the following sections.

#### **Questionnaires**

Marston (2017) says a questionnaire is a tool used for data collection which usually includes giving a set of written questions. Baggs (2016) argue that questionnaires are practical such that they tailor-made for certain groups and use various ways to manage the questionnaires, that is, they can be tailor made to suit a certain class for example in this case a questionnaire for the Accounting department may be made differently to that of the marketing department. Khalwaty (2012) asserts that, closed questions can motivate participants to answer and they are also easy to answer, hence, this study adopted closed ended questions. Baggs (2016) states that to simplify the administration process as well as ensure that the data obtained is reliable and valid; a structured questionnaire may be recommended for a study. More so, large volumes of information may be collected from a huge number of people in a short period, thus giving the researcher enough time to analyze data and address the main research question about the impact of rate of exchange fluctuations on financial performance as well as sub- questions which are also part of the research. On the other hand, Murugi

etal (2013) argue that detailed information may not be given in a closed ended question although this can be more relevant in explanatory researches. Clark etal (2017) says that questionnaires in most cases are affected by things like changes of emotions, behavior and feelings, some of the information may not be understood but for this particular research the researcher tried to give the participants enough time so that they can go through the questionnaire with no hurry for them to give as appropriate and reliable information as possible. The researcher could have adopted the drop and-pick-later method but due to Corona Virus outbreak the questionnaires were distributed to targeted participants via the email platform. Sufficient time was given to the participants allowing them to understand, fill the questionnaire and also check for completeness before submitting it.

### **Telephone Interviews**

The researcher found telephone interviews to be appropriate due to the pandemic outbreak which made it almost impossible to move around having a face to face engagement with the targeted participants. Myers (2019) defines an interview as a qualitative data collection method that includes direct engagement with the individual participants. Myers (2019) argues that interviews give greater opportunity for the researcher to ask follow up questions, ask for additional information and keep on referring back to the key question as the interview progresses to generate rich understanding of things like attitudes. More correct information can also be secured through the interview technique since clarity and explanations can be given to the informant whenever necessary. However, Marston (2018) was of the view that interviews are time consuming taking into consideration setting up, interviewing, feedback analysis and reporting but for this particular research the researcher had all the time he may require to carry out fruitful interviews.

### **3.5 Data Collection**

Questionnaires which are structured were used to collect the primary data and they were distributed to crucially three departments of the N Richards and company. Due

to the corona virus epidemic, electronic questionnaires were used in which each respondent received a copy of the questionnaire through email. Questionnaire was adopted because of its appropriateness for example its capable of allowing the respondent to fill the questionnaire with sufficient time required and it also grants the researcher an opportunity to review the questionnaire to ensure the information provided was complete. Secondary data was collected from the company archives and the data included financial statements as well as annual reports. Some of the reports have been gathered before the outbreak of corona virus, with other supplementary documents being received through emails due to corona virus induced lockdown.

### **3.6 Data reliability and validity**

Reliability means the ability of research to obtain constant results that is if the same research is to be conducted again under the same circumstances or conditions as those of the original research (Bryman and Bell, 2015). This research adopted the research instrument which was used by Coombs (1998) and reliability for this instrument was tested by Combs (2002) as well as Combs (2005) using the Cronbach alpha. Mutwiri (2018) says validity is a level to which an instrument does justice to what it is supposed or expected to do. In this research content and face validity of the research instruments used were assumed to have been measured and approved since the research adapted research instrument from previous researchers. Thus only construct validity was taken into consideration that is the degree to which an instrument measured the trait/ theoretical construct which it was intended to measure.

### **3.7 Ethical Considerations**

Initially the researcher sought authority from the top management at N Richards and company to conduct the research. During the study, the researcher maintained privacy and confidentiality principles by neither revealing the respondents' identity nor asking for it. Only relevant information to the research objectives was asked for and all information gathered was solely used for academic reasons or purposes since this

was the promise made to the respondents. Sources of information and authorities were duly acknowledged by way of referencing using the Harvard referencing system.

### **3.8 Data Analysis**

Descriptive statistics were used in analysing the data that was gathered. The data was analysed using excel spreadsheet and presented using frequency tables, line graphs and charts.

### **3.9 Summary**

The chapter presented the methodology covering the study design, the targeted population, sample size and the techniques which were used in sampling. This chapter also carries the research instruments, procedures used for data collection, the validity and reliability of data as well as the analysis of data and presentation procedures.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter presents the study findings with regard to the impact of foreign exchange fluctuations on financial performance of N Richards and company. The chapter also presents data presentation, analysis and presentation. Data was analysed using descriptive analysis. Presentation was done using relative frequencies, tables and charts.

#### 4.2 Response Rate

The Research sought data from three departments which were accounting, marketing and Inventory Control. The study response rate is presented by table 4.1 below:

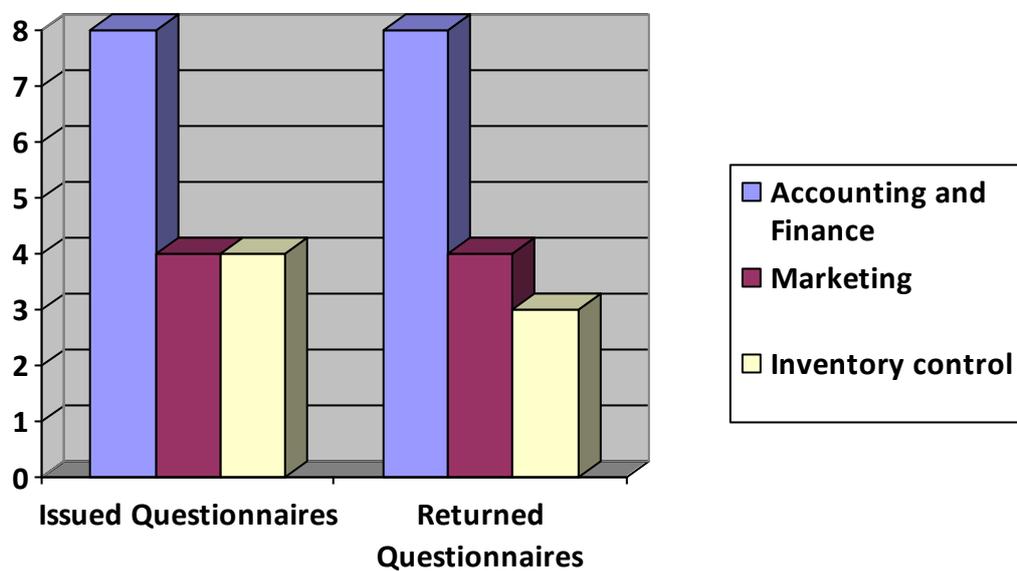
**Table 4.1 Department's response rate**

<b>Department</b>	<b>Issued Questionnaires</b>	<b>Returned Questionnaires</b>
Accounting and Finance	8	8
Marketing	4	4
Inventory control	4	3
<b>Total</b>	<b>16</b>	<b>15</b>

**Source: Primary data**

Out of the 16 respondents to this study, 15 filled and emailed back their questionnaires. This gives the research a 93.8% response rate. The commendable was actually attained and this was after the researcher administered the questionnaires through the email platform and telephone follow-up calls to give a reminder to the respondents for them to fill-in and return the questionnaires within a reasonable time.

**Figure 4.1 Department's response rate graph**



**Source: Primary data**

Figure 4.1 above shows the departments from which information was gathered through questionnaires and it also illustrates the total number of respondents participated in respective departments. Thus the graph shows that Accounting department has a highest number (eight) of respondents, marketing has an average (four) whilst the Inventory control department has the least (three).

### 4.3 Demographic analysis

Table 4.2 shows the demographic finding of the research (n= 16)

<b>CHARACTERISTIC</b>	<b>FREQUENCY</b>	<b>PERCENTAGE</b>
<b>Gender</b>		
Male	11	69%
Female	4	25%
<b>Department</b>		
Accounting and Finance	8	50%
Marketing	4	25%
Inventory control	3	19%
<b>Year of joining the company</b>		
Before 2016	15	94%
After 2016	0	0

**Source (Primary data)**

As shown above 69% of participants were males and the researcher tried by all means to also have female participants for the remaining portion. The Accounting and Finance department was the department of main focus since it deals directly with the foreign exchange rates as well as the calculation of profits thus 50% of the participants were from this department, the marketing department constituted 25%, with the Inventory control department taking the remaining 19% . All of the participants who returned their questionnaires indicated that they have joined the company before 2016, and this was of great necessity since the researcher wanted to make sure participation was from those with adequate and appropriate information for the study.

**Table 4.3 Annual purchases transactions invoiced to N Richards and Company for the year 2016**

<b>Currency</b>	<b>Number of transactions</b>	<b>Percentage number of transactions</b>	<b>Value of transactions</b>	<b>Value of transactions in RTGS</b>
Foreign purchases (ZAR)	270	26 %	3m	3.18m
Foreign purchases (USD)	120	11.5 %	4.7m	49.82m
Local purchases (RTGS)	650	62.5 %	5.1m	5.1m
<b>Total</b>	<b>1040</b>	<b>100 %</b>	<b>N/A</b>	<b>58.1m</b>

**Source: NRG Financial records**

**2016 Year end close rates**

- ❖ **1 USD = 10.01 ZAR**
- ❖ **1 USD= 10.60 RTGS**
- ❖ **1 ZAR=1.06 RTGS**

Table 4.3 above indicates the company's 2016 purchases information, providing the details about the total number of transactions which were incurred locally as well as with the foreign suppliers. All local transactions were invoiced or recorded in the books of accounts using the local currency that is RTGS. This was a similar case to (Tenreyro 2016), where all of the company purchases were invoiced using the local currency however that research focused on manufacturing firms which had also exports and these exports formed part of the sales which were also invoiced using the entity's local currency. N Richards and company incurred 1040 transactions and most

of them were incurred locally as shown by a very big proportion of 62.5% whilst the foreign transactions occupy the remaining 37.5%. The value of transactions was then expressed in RTGS terms using the close rate at the 2016 year end. The total value of transactions for 2016 was 58.1m RTGS. This was calculated by adding the value of USD invoiced import purchases (4.7m \*10.60 RTGS) plus the import purchases invoiced in ZAR (3m \*1.06 RTGS) and finally add the value of local purchases which is 5.1m RTGS.

**Table 4.4 Annual purchases transactions invoiced to N Richards and Company for the year 2017**

<b>Currency</b>	<b>Number of transactions</b>	<b>Percentage number of transactions</b>	<b>Value of transactions</b>	<b>Value of transactions in RTGS</b>
Foreign purchases (ZAR)	370	35 %	3.2m	3.42m
Foreign purchases (USD)	160	15 %	4.8m	63.6m
Local purchases (RTGS)	525	50 %	5 m	5m
<b>Total</b>	<b>1055</b>	<b>100 %</b>	<b>N/A</b>	<b>72.02m</b>

**Source: NRG Financial records**

**2017 Year end close rates**

- ❖ **1 USD = 12.30 ZAR**
- ❖ **1 USD= 13.25 RTGS**
- ❖ **1 ZAR=1.07 RTGS**

Table 4.4 above indicates that the total number of transactions increased from 1040 in 2016 to 1055 transactions in 2017. N Richards and company has now increased its level of importation as indicated by a rise or increase in the amount of foreign transactions to 50% thus foreign transactions are now sharing the same portion with local transactions. The total value of transactions in RTGS is also heavily increasing that is it rises from 58.1m in 2016 to 72.02m in 2017 which shows a 13.92m increase in the total value of purchases in RTGS, this was resulting from the volatility of the exchange rates which were used by the researcher to convert the value of foreign transactions to local value. This was slightly different to the research by Rutto and Ondiek (2017) since the exporting company or the multinational company which was investigated reduced its importation on purchases but rather increased its foreign sales (exports).

**Table 4.5 Annual purchases transactions invoiced to N Richards and Company for the year 2018**

<b>Currency</b>	<b>Number of transactions</b>	<b>Percentage number of transactions</b>	<b>Value of transactions</b>	<b>Value of transactions in RTGS</b>
Foreign purchases (ZAR)	399	39 %	3.7m	4.02m
Foreign purchases (USD)	204	20 %	5.1m	81.7m
Local purchases (RTGS)	415	41 %	4.3m	4.3m
<b>Total</b>	<b>1018</b>	<b>100 %</b>	<b>N/A</b>	<b>90.02m</b>

**Source: NRG Financial records**

**2018 Year end close rates**

❖ **1 USD = 14.42 ZAR**

❖ **1 USD= 16.02 RTGS**

❖ **1 ZAR=1.11 RTGS**

Table 4.5 above shows for 2018 the total number of transactions slightly decreased from 1055 in 2017 to 1018 transactions in 2018 but the company's total number of foreign transactions is keeping on increasing and local portion has now been outpaced since 59% of the total transactions is for foreign transactions and only 41% remains for local invoices. This was different to the research by Rutto and Ondiek (2017) since the exporting company or the multinational company which was investigated reduced its importation on purchases but rather increased its foreign sales (exports). The total value in RTGS terms kept on shooting since the exchange rates used convert the foreign transactions were rising as. From 72.02m in 2017, the total value of transactions is now 90.02m RTGS which shows an increase of 18m RTGS. Thus for the 2016-2018 period the total value of transactions or the firm's total value of purchases rose from 58.1m RTGS to 90.02m RTGS indicating a total increase of 31.92m RTGs.

#### **4.4 The company's total profits for 3 years**

The study aimed at determining the effect of the total imported purchases on the net income of the company for the past three years which are 2016, 2017 and 2018. The research findings are summarised by the table below:

**Table 4.6 The imported Purchases and firm's annual profits.**

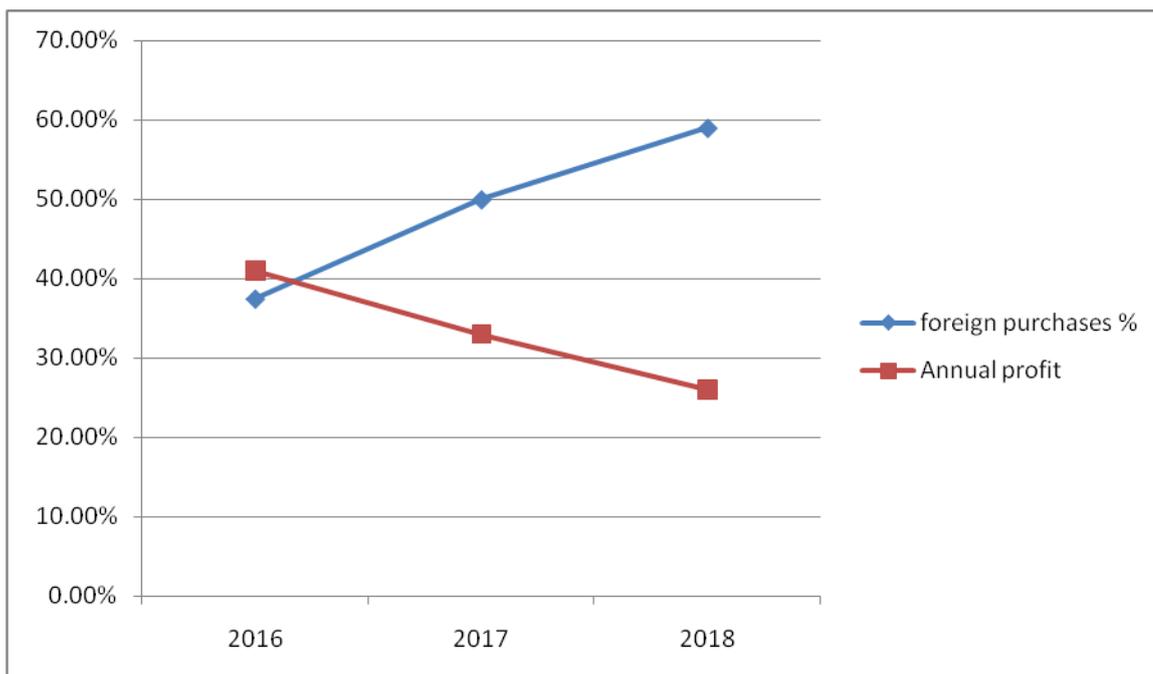
<b>Year</b>	<b>Foreign Purchases Percentage</b>	<b>Local purchases Percentage</b>	<b>Annual Profits(m)</b>	<b>Profit Percentage</b>
2016	37,5 %	62.5 %	8m	41%
2017	50 %	50 %	6.5m	33%
2018	59 %	41 %	5m	26%

**Source (Primary data)**

Table 4.6 above summarizes the information provided earlier about the company's foreign versus local purchases. The annual percentages were then offset with the

annual profits for the 3 respective years. From 2016 the annual profits has declined by 3 million RTGS dollars that is 8 million minus 5 million profit for 2018. The profit was declining each year since 2016.

**Fig 4.2 The relationship between the foreign purchases and the firm's annual profits**



Source (Primary data)

#### 4.5 Discussion of the findings

As shown by fig 4.2 above, the increased importation by N Richards and company has resulted in declining annual profits from 2016 to 2018. This is in line with the previous findings by Tenreyro (2016), the researcher concludes that the foreign exchange fluctuations had an undesirable impact on financial performance of Nigerian manufacturing firms. From a telephone interview conducted with the head of Accounting and Finance department (N Richards Accountant), it was revealed that the purchases which were invoiced using USD by foreign suppliers were of great concern

to the management. The USD was very strong to the domestic currency and the exchange rate has been increasing yearly as shown by the previous tables (**Table 4.3, 4.4 and 4.5**). In 2016 1USD was equivalent to 10.60 RTGS, in 2017 it rose to 1USD being equivalent to 13.25 RTGS and finally in 2018 the exchange rate was now 1USD equals to 16.02 RTGS.

The declining profits were due to the fact that after importing these commodities using a strong USD currency N Richards the sold the goods using the domestic currency which kept on losing value thus most of the imported inventory ended up being sold at a loss. In other words the selling price in RTGS was not enough to equate the USD cost of the imported inventory hence these losses ended up diluting the profits from domestic purchases leading to declining profits. Apart from the inventory which was invoiced in USD, inventory which was purchased using the South African Rand (ZAR) also played a role in reducing the company's profits. This is because the ZAR was a bit stronger to the domestic currency as well therefore these purchases had also a similar effect to the organization's annual profits although the effect was of a minor impact as compared to that of USD invoiced foreign purchases.

Thus the research found that foreign exchange fluctuations have a negative impact on financial performance of an importing retail business. The findings are in line with the previous findings on how the foreign exchange rate fluctuations affect the financial performance of manufacturing companies in Nigeria done by Opaluwa, Umeh and Ameh (2014). The research concluded that the foreign exchange rate fluctuations have a negative impact on the output of Nigerian manufacturing firms. The current findings are also similar to those revealed by Rutto and Ondiek (2017) where the research investigated on how a multinational company can be influenced by the foreign exchange rate fluctuations.

Ambunya (2012) however opposed the current findings when she investigated the effect of movements in exchange rate on returns of stock market at the Nairobi Stock Exchange. The research found that exchange rate and stock market returns movements strongly relates and the fluctuation of foreign exchange positively affects the performance of stock market hence it totally contradicts the findings of this study.

Again the findings by Rutto and Ondiek (2017) were in overall terms similar to the current findings but impact was slightly smaller since the multinational company which was investigated only lost less than a million dollars over a similar period to this current research but N Richards and company lost 3 million dollars in a period of three years.

**Table 4.7 Risk management practices in place (n=16)**

Risk management Practice	Yes		No	
	Frequency	percentage	Frequency	percentage
1.Hedging techniques			15	94 %
2.diversification	15	94 %		
3.Limiting the number of orders	15	94 %		
4.stop loss-order			15	94 %
5.Overseas loans	15	94 %		

**Source (Primary data)**

Table 4.7.1 above indicates that only three out of five policies are in place at N Richards and company. Currently the risk management practises available are diversification, limiting the number of orders and overseas loans. These practices are part of those mentioned by Mugeru (2013) as it was said that overseas loans might be effective in handling foreign exchange risk. However N Richards and company does not have any hedging technique in place, hedging techniques are very essential to any firm exposed to foreign exchange risk. This was argued by Murugi et al (2016) saying hedging techniques may be very effective in managing foreign exchange risk. Mugeru (2013) also mentioned hedging techniques in addition to overseas loans.

**Table 4.8 Effectiveness of risk management practices (n=16)**

<b>Risk management practice</b>	<b>To a greater extent</b>	<b>To a lesser extent</b>	<b>Somehow</b>
1.Hedging techniques	N\A	N\A	N\A
2.diversification		10	5
3.Limiting the number of orders		13	2
4.stop loss-order	N\A	N\A	N\A
5.Overseas loans		9	6

**Source (Primary data)**

Table 4.6.2 above shows that the management practices which are currently in place are proving to be ineffective. The research revealed that the available risk management practices at N Richards and company have been in place since 2015 but their effectiveness was doubted or was said to be of a lesser extent by the management since the organization's annual profits are continuously declining. Limiting the number of importation orders has been in place though the limit level seem to have been too high still, Loans were issued to the foreign country in order to cover up but the interest rate or the profit recouped from these loans still failed to cover the losses incurred in selling of the imported inventory Most of the participants pointed out foreign exchange fluctuations as a main cause of the company's bad performance since 2016 and they said the risk management practices which are currently in place are proving to be insufficient. This is similar to the research findings by Murugi et al (2016), where it was concluded that a variety of risk management practices should be put in place for a firm to effectively manage risk associated with foreign exchange. It was said that the variety of those tools should by all means involve hedging techniques for effectiveness to be achieved.

However some of the participants argued that there are some other factors other than the foreign exchange risk which are capable of eroding the company's profits. These factors included inflation, reduced employee productivity and low or reduced demand.

#### **4.7 Summary**

This chapter looked on the response rate, the research findings relating to how foreign exchange rate fluctuations affected the performance in financial matters of N Richards and company. The chapter also covered the findings in regard to the sub research questions which were the identification of available management practices to manage the risk associated with foreign exchange as well as assessing their effectiveness. Study findings were then discussion and answers to the research questions were explained.

## **CHAPTER FIVE**

### **SUMMARY CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

Chapter 5 summarises all previous chapters, major study findings and the conclusions that were made from the research. The chapter also reveals the recommendations to the various stakeholders of the study and areas which may need further researches in order to supplement or complement this research.

#### **5.2 Summary**

After identifying the research gap, the researcher found it necessary to find the effect of exchange rate fluctuations on the performance with regard to profits of an importing retail business. N Richards and company was chosen as the case study. Literature was reviewed to make sure that the study was going to carry a huge contribution to various stakeholders of the company. Structured questionnaires and telephone interviews were adopted by the researcher to gather all the essential information for the research. Both qualitative and quantitative information was gathered and the research employed both primary and secondary information from N Richards and company. Ethical considerations were respected during the data gathering process and all information gathered was used for purposes of academics as promised to the participants. Graphs, tables and text were used to present and analyse the gathered information. The research concluded that the exchange rate fluctuations have a downside impact on the financial performance of N Richards and Company.

### **5.3 Major Research findings**

The findings showed that foreign exchange movements had an undesirable impact on company's performance for the period under study. The exchange rates fluctuations were of a greater impact especially the USD/RTGS exchange rate which kept on rising during the period of study. In other words the RTGS kept on losing value whilst on the other end the USD was gaining value thus the rate was rising in favour of the foreign currency. It is during the same period when N Richards and company has increased its importation of commodities from South Africa and a lot of these foreign suppliers charged or invoiced N Richards in USD whilst a few charged using the South African rand (ZAR). The South African rand slightly strong compared to our domestic currency hence its impact was of a little significance comparing with that of the United States dollar. Thus the importation of goods using strong currencies and then selling of the same imported inventory using a weak domestic currency led to the deterioration of the firm's annual profits. These study findings are in consent with previous findings by Rutto and Ondiek (2017); Opaluwah, Umeh and Umeh (2014) and research by Tenreyro (2016) regardless of some slight differences that were touched on earlier in this research.

In response to the foreign exchange risk, the research found that N Richards and company has some risk management practices in place however the practices are not that effective and they need to be supplemented or complemented by hedging techniques . If a variety of management practices including hedging techniques is in place, effectiveness could be possible as this was argued by Murugi et al (2016).

### **5.4 Conclusions**

The research found that the local currency (RTGS) has been depreciating or losing value to the Dollar for United States and the Rand for South African during the period under study. Thus it was very risky for a firm to engage in foreign trading that is the specifically the foreign exchange risk was high. The Researcher concludes that it was not good time for N Richards and company to increase its importation of commodities

from abroad. This is because this imported inventory was to be sold at the domestic market using the weak local currency to such an extent that the selling price may end up failing to cover even the purchase price of that inventory. The study also concludes that it will be better to depend on the local supplies only since these were purchased using a weak currency and sold using a weak currency as well hence profit margins were maintained leading to realisation of profits annually. It was also concluded that the company has some risk control measures in place but these measures are proving to be insufficient or inadequate to effectively minimise the risk they are meant to reduce.

## **5.5 Recommendations**

In recommendation a company should first assess the environment in which it's operating from before engaging in international transactions. The strength of domestic currency should be assessed against foreign currency to be paid when importing so that more informed decisions can be made. In an economy with a weak domestic currency it may only be recommendable to import if the firm is guaranteed of selling the imported stock using the strong foreign currency used. This is how the company might be able to recover and realise profits. If it won't be able then it will be better for it to rely on domestic supplies only. A retail organisation should also try hard to have effective risk management practices in place especially when engaging in foreign trading. These risk management practices should always be assessed to justify their effectiveness in minimising the risks they will be intended to reduce. For the best risk management practices to be in place, the researcher may recommend the company to employ certain steps in coming up with a best strategy. These steps includes identifying the firms risk exposure first that is identifying if its transaction exposure, economic exposure or translation exposure. Then from there the company should measure its risk exposure and understand its all options. Finally it can now develop a risk management strategy. The researcher would also like to advise N Richards and company to implement hedging techniques. For instance it can start with the natural hedging technique by trying to export some commodities to South Africa so that the foreign exchange risk might be reduced. Alternatively the organisation may

implement the “Stop loss order” technique, this will imply that N Richards will have to stop importation of any stock which proves to be causing losses and wait up until when it will be viable to do so. Therefore the company can suspend importation upto the time when the local currency starts to appreciate.

### **5.6 Areas for Further Researches**

This research revealed or uprooted the effect of exchange rate movements on the financial results of an importing retail company. This impact was found to be negative in nature since rate of exchange movements led to the decline of a firm’s annual profits by a very big percentage. However, there are some other factors which were raised by the participants engaged by the researcher. The participants argued that the foreign exchange risk was the major contributor to the firm’s declining profits but factors like reduced employee productivity, inflation and reduced demand may need to be investigated as well since they are capable of having an impact on the financial profitability. Thus the research would like to encourage the upcoming researchers to investigate or take a closer look on these mentioned forces in order to find out the real impact they may have on the retail firm’s financial performance. This would help to supplement or complement the results of this research.

## REFERENCE LIST

- Abauf and Jorion (2011) 'Financial depth', *Southern economic journal*, 79(4) pp905-927.
- Adetayo, J. O. (2013) ' Foreign Exchange Risk Management', *Journal of Social Science*, 8(3), pp207-213.
- Adler and Lehman (2010) 'Exchange rate variability and International trade', *Applied economics journal*, 42(20) pp2631-2644.
- Bradley, K. & Moles, P. (2002) 'Strategic Exchange Risk Exposure', *Managerial Finance*, 5(28), 29-39.
- Baggs, J et al (2016) *Canada firms dynamics in Retail Trade*. Canada: Wiley and Sons ltd,
- Buddley and Mole, C. (2012) *Exchange rate volatility and export*. Oxford: Sage publications.
- Chikoko et al (2014) *the impacts of Foreign Exchange Rates on the Zimbabwe Stock exchange*. Gweru: Midlands State University.
- Clark et al (2017) 'exchange rate risk', *Journal of International Economics*, 15 pp45-63.
- Combs (2005) *Financial Management on the International Economy*. New York: Sage publications.
- Dolan,T. and Brooks (2015) *Currency Trading for Dummies*. New York: New York Press.
- Ehrhardt (2015) 'Exchange rate Volatility and trade', *Applied Economics journal*, 43(3) pp1617-1620.
- Gao (2010) 'Exchange rate Volatility and Economic Activities', *The International Trade journal* 27(4) pp349-384.

- Hakkio (2015) 'The effects of real exchange rate risk on international trade', *Journal of international economics*, 15 pp45-63.
- Hill (2014) 'Exchange rate uncertainty and the trade flows', *Boston College working paper*, 695.
- Khalwaty (2012) 'Finance and business Cycle', *The journal of Finance*, 60(3) pp1097-1128.
- Khrawish, H.A. (2016) 'Performance Determinants: Evidence from Jordan'. *International Research Journal of Finance and Economics*, 5(5), 19-45.
- Madura (2010) 'Exchange rate effects on the volume and trade flows', *Journal of international money and finance*, 21(4) pp481-496.
- Marston, S. (2013) *Understanding Foreign Exchange Rates*. United Kingdom: Penguin Random House.
- Menon and Viswanathan (2015) 'The effects on exchange rate volatility on imports', *International Economic journal*, 12 (1) pp 31-40.
- Mugera W.D (2013) *Effects of foreign exchange rate volatility on financial Performance of commercial banks in Kenya*, Unpublished MBA Project, University of Nairobi
- Murthy, Y. and Sree, R. (2013) *A research on Financial performance*. Nairobi: College of Banking & Financial Studies.
- Murugi et al (2016) *Research techniques*. Nairobi: ACTS Press.
- Mutwiri, G. (2018) *Effects of foreign exchange rate Fluctuation on financial performance of commercial banks in Kenya*. Nairobi: Unpublished MBA Project
- Myers, M. (2019) *Information system Qualitative research*, New Zealand: University of Auckland
- Nassif et al (2016) 'Exchange rate misalignment', *International journal of economics and management*, 3(1) pp130-150.
- N Richards and Company (2020) *N Richards Historical background*, Available at [www.nrichards.co.zw](http://www.nrichards.co.zw) (accessed on 23/03/20)

- Opaluwa et al (2014) 'exchange rate dynamics, *International journal of economics*, 34(2) pp269-287.
- Omagwa, J. (2015). *Practices for foreign exchange risk by foreign owned firms*. Nairobi: University of Nairobi.
- Pitia and Hado (2015) 'Real exchange rate and commodities', *Open economics review*, 24(3) pp495-500.
- Reid, W. & Joshua, D. (2014) *The theory and practice of international financial management*. New York: Prentice Hall.
- Ross, B. (2008) 'Exchange rate volatility effects on commodities', *Journal of Economics and Finance*, 25(1) pp70-93.
- Runo F.N (2016) *Relationship between foreign exchange risk and Profitability of oil companies listed in the Nairobi Securities Exchange*. Nairobi: University of Nairobi
- Rutto and Ondlek (2017) 'Exchange rate and foreign trade', *European economic review journal*, 33(6) pp 1241-1264.
- Singh, M. (2017) *Foreign currency trading strategies*. Oxford: Sage Publications.
- Shapiro (2003) 'Financial Growth and Dependence', *American Economics Review* 87(2) pp539-542.
- Tenreyro (2016) 'Uncertainty and export performance', *Journal of Money, credit and banking*, 39(40) pp 965-979.
- Walden (2018) *International economics: A European focus*. London: Prentice Hall

## Appendix i

### Questionnaire

Dear Participant.

My name is **Mufuya Givemore**, a student at Midlands State University studying for a Bachelor of Honours Degree in Accounting (HACC). As a requirement for the completion of the degree program, students have to carry out a research project on a problem of their choice subject to university authorities' approval. As such I am undertaking a research on “**impact of foreign exchange rate fluctuations on the financial performance of an importing retail business, a case of N Richards and company.**”

You are therefore kindly requested to assist in the research by completing the questionnaire fully and truthfully. All the information you provide will be used solely for the academic purpose of this study and will be treated with utmost confidentiality. Your cooperation in this regard will be greatly appreciated.

Please take note of the following:

- Your participation in this study is completely voluntary and you are free to withdraw from the study at any point.
- Your participation in this study does not include any compensation.
- Confidentiality will be maintained and your identity will in no way be linked to your responses to the questions.
- You will be provided with feedback from the results when the study is completed.

Instructions:

- Please indicate your answer by ticking [] or [] in the appropriate box.
- Do not write your name, address or any identification particulars anywhere on the questionnaire.
- Where additional information is requested, write in the spaces provided

1. Please indicate your gender

**Male** [ ]

**Female** [ ]

2. When did you join N Richards and Company?

**Year 2016** [ ]

**Before 2016** [ ]

3. Please kindly show your department

**Accounting** [ ]

**Marketing** [ ]

**Inventory Control** [ ]

4. Do you agree that foreign currency exchange rate affects Company's financial performance?

**Yes** [ ]

**No** [ ]

5. To what extent does foreign exchange rate fluctuations affected profitability of your importing retail company?

**To a lesser extent** [ ]

**To a greater extent** [ ]

**Somehow** [ ]

6. Besides foreign currency exchange rates, what other factors can be attributed to the declining profitability between 2016 and 2018?

i.....

ii.....

iii.....

7. Does N Richards have proper exchange rate risk control measures?

Yes [ ]

No [ ]

If yes, what are the exchange rate control procedures that have been used?

i.....

ii.....

iii.....

8. Were the control measures effective in managing the exchange rate risks?

Yes [ ]

No [ ]

Somehow [ ]

*Thank you for your time and cooperation*

## **Appendix ii**

### **Interview guide**

1. Do you agree that foreign currency exchange rates affect financial performance of retail firms?
2. What other factors affected your company's financial performance during the period 2016 to 2018?
3. Did your company have effective risk control mechanisms to manage exchange rate risks?
4. To what extent were the adopted risk control measures effective in minimizing the exchange rate risks?
5. What do think should be done to contain such threats to company's performance?