

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**



**THE IMPACT OF EXCHANGE RATE VOLATILITY ON PRIVATE COMPANY  
PERFORMANCE: THE CASE OF PROFEEEDS 2013 TO 2022.**

**BY**

**B191622B**

**A RESEARCH PROJECT SUBMITTED TO THE FACULTY OF  
COMMERCE IN PARTIAL FULFILMENT OF THE BACHELOR OF COMMERCE  
(HONS) DEGREE IN BANKING AND FINANCE**

**BINDURA**

**JUNE 2023**

**The Release Form**

Reg number of Author: B191622B

Title of Project: The impact of exchange rate volatility on private companies Performance: The case of Profeeds Zimbabwe from 2013 to 2022.

Degree Programme: Bachelor of Commerce (Honours) Degree in Banking and Finance

Year submitted: 2023

.

Address: 16245 Sunningdale 2, Harare

Cell Number +263 775 687 493

Signed: ..... Date.....

**DECLARATION**

I hereby declare that this research study project is an original copy of my own work and has not been published before to any other university or institution.

**Approval Form**

I do hereby certify that I have read and recommended to Bindura University of Science Education for acceptance, a project entitled: “The impact of exchange rate volatility on private company performance: the case of Profeeds in Zimbabwe from 2013 to 2022” in partial fulfilment of the requirements for the Bachelor of Commerce Honours Degree in Banking and Finance.

Supervisor.....

Date.....

Chairperson.....

Date.....

## **Dedication**

I dedicate this project to my Almighty Lord who always has Good plans for me; 'for I know the plans that I have for you' declares the Lord, 'plans for welfare and not for calamity to give you a future and a hope' Jeremiah 29:11. Again to my beloved mother Rebecca Madzura. It is your love, sacrifices and efforts that I have made it to this level.

## **Abstract**

*The major aim of the study was to investigate effects of exchange rate volatility (appreciation, stability and depreciation) on private companies in Zimbabwe performance for the period from January 2013 to December 2022 as measured and averaged quarterly. There were two specific objectives: first, to examine the impact of foreign exchange rate volatility on private company performance in Zimbabwe, secondly to investigate whether company characteristics such as Company size have any overriding effect in the major objective. First, the findings of the research show that exchange rate volatility (appreciation, stability and depression) had an influence on private companies' performance in Zimbabwe during the study period. The correlation findings portrayed a weak negative connection between the foreign exchange volatility and the profits of company's over study period. The Zimbabwe dollar stochastic pattern during the entire study period with short periods of appreciation and stability. The exchange rates volatility was also found to be related to changes in inflation rates. The correlation between the inflation and exchange rate volatility was a weak one hence as inflation rates increased the USD rate also increase hence the Zimbabwe dollar depreciated in value. This facilitated an increase in the return on assets. There were several economic implications of these results for both business and public policy. First, a need for the management of companies operating in Zimbabwe to hedge against foreign exchange exposure, as the study revealed that an increase in foreign exchange volatility negatively affects their financial performance and thus reduction in the company value, there is need for better strategies to ensure financial performance is not affected by foreign exchange rate volatility*

## **Acknowledgements**

Profound gratitude goes to my supervisor for the guidance and support throughout the research and preparation of this dissertation. It has been an honor working with you, and I could not have done this without you. I would also like to thank my family for the spiritual, financial and moral support throughout my studies. Special mention also goes to my friends and my classmates for the social interactions and love that kept me going, may the dear Lord continue to bless you and guide you throughout your endeavors

## Table of Contents

DECLARATION.....	iii
Approval Form.....	iii
Dedication .....	iv
Abstract.....	v
INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the study.....	1
1.2 Statement of the problem .....	4
1.2 Objectives of the study.....	5
1.2.2 Secondary objectives.....	5
1.3 Research Questions.....	5
1.4 Significance of the study .....	5
1.5 Delimitations of the study.....	5
1.6 Limitations.....	6
1.9 Chapter Summary .....	6
CHAPTER TWO .....	7
REVIEW OF RELATED LITERATURE.....	7
2.0 Introduction.....	7
2.1 Theoretical Review.....	Error! Bookmark not defined.
2.1.2 Foreign Exchange Exposure Theory .....	7
2.1.2 The International Fisher Effect .....	7
2.1.3 Purchasing Power Parity.....	8
2.1.4 Interest Rate Parity Theory .....	8
2.2 Empirical Review .....	9
2.2.1 Determinants of Financial Performance of Private Company .....	9
2.2.1.1 The Size of the Company .....	9
2.2.1.2 Capital Adequacy .....	9
2.2.1.4 Credit Risk Management .....	10
2.2.1.5 Management Efficiency .....	11
2.2.1.6 Inflation.....	11
2.3 Direct and indirect effects of exchange rate vitality on the performance of Companies.....	12
2.4 Conceptual Framework.....	14
2.6 Chapter summary .....	15

<b>CHAPTER THREE .....</b>	<b>16</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>16</b>
<b>3.0 Introduction.....</b>	<b>16</b>
<b>3.3 Population of the Study .....</b>	<b>16</b>
<b>3.5 Data Analysis.....</b>	<b>16</b>
<b>3.5.1 Analytical Model .....</b>	<b>17</b>
<b>3.5 Ethical Considerations.....</b>	<b>18</b>
<b>3.6 Chapter Summary .....</b>	<b>18</b>
<b>DATA PRESENTATION, ANALYSIS AND DISCUSSION.....</b>	<b>19</b>
<b>4.1 Introduction.....</b>	<b>19</b>
<b>4.2 Descriptive Statistics .....</b>	<b>19</b>
<b>Table 4.1: Descriptive Statistics .....</b>	<b>Error! Bookmark not defined.</b>
<b>4.6 Discussion of Findings .....</b>	<b>25</b>
<b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>27</b>
<b>5.1 Introduction.....</b>	<b>27</b>
<b>5.2 Summary of Findings .....</b>	<b>27</b>
<b>5.4 Recommendations .....</b>	<b>28</b>
<b>5.5 Suggestions for Further Studies.....</b>	<b>29</b>



## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

Currency crisis problems have been Zimbabwe's biggest headaches for the past 20 years; more specifically, the choice of financial crisis dates back to before 2000, when the government started compensating veterans of the conflict and when it started taking over land. The most significant periods of extreme currency instability and an appropriate monetary regime in Zimbabwe. The long-term causes of the crisis have previously been examined by a number of policy missions, along with some of Zimbabwe's policy options and motivations. They made this decision in light of the various currency exchange rate management strategies currently in use around the world, the roles played by governments and central banks in support of sound policy frameworks, and their understanding of other economies that have chosen the dollar as their reserve currency. The chapter presents the study's introductory elements, such as the study's historical context.

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

The history of Zimbabwe's currency has seen many ups and downs. Zimbabwe had a fixed-managed government from 1980 until 2009, during which time the US dollar was officially pegged to the Zimbabwean dollar with a permissible margin for fluctuation. While fixed exchange rates were common throughout history, there has been slow and drastic shift internationally toward more flexible exchange rate regimes after the days of the Bretton Woods agreement's collapse in 1973 (Mandizha, 2021). In light of this, numerous African nations adopted fixed-managed exchange rates after gaining political independence. The macroeconomic stability was intended to be supported by the pegged exchange rates. But in many instances, it was impossible to maintain because the currencies had overvalued themselves in comparison to other world currencies. The same thing happened in Zimbabwe, where the currency was pegged against the US dollar. The currency became more and more unsustainable due to the peg to the US dollar, despite periodic adjustments to the exchange rate. Zimbabwe, like many other African countries, but to a much greater extent, was blamed for this, with national budget deficits and rapid money supply growth being the main causes. Due to insufficient availability of foreign currency at the official, fixed rate, a parallel market with a sharply depreciated, market-determined exchange rate emerged.

When inflation rates in Zimbabwe began to rise at an alarming rate several years ago, the country's economy was declared to be hyperinflationary. Even today, the economy hasn't yet stabilized. The changes in the consumer price index shows how the economy's fundamentals, all suffered after the US\$176 million IMF facility was suspended in August 1998. Inflation increased year over year from 29% in August 1998 to 55.2% in June 1999. The massive micro and macro adjustments that hit the manufacturing sector and many other industries were a contributing factor to the high inflation in 2022, as mentioned in the RBZ report. The Reserve Bank of Zimbabwe reports that in May 2022, the inflation rate was 131.7%. The situation has improved with the legalization of electronic transfers, but exchange rate volatility still carries a heavy burden.

Price changes within an economy will cause a decline in the value of the domestic currency because inflation is defined by Ahlgrim and D'Arcy (2012) as a persistent increase in the general prices of goods and services over time. According to (Modebe and Ezeaku, 2016), one of the difficulties that the manufacturing sector faced at the time was the liquidity shortage that resulted from their unstable exchange rates. Some large corporations that seemed to be performing so well and yet had strong and sound current ratios nearly collapsed when their creditors demanded payments but they had no money in their bank accounts. The majority of debtors were unable to fulfil their obligations at the same time that short-term investments with asset management companies could not be recouped because these companies were either put under curatorship or experienced their own problems.

As Profecds imports the majority of their profitable agricultural processing machinery and chemicals, the exchange rate's unpredictability has had a noticeable effect on the company's overall profits. Since there is a shortage of foreign currency in the economy right now, people are forced to participate in illegal parallel market activities. The instabilities in the market and the difference between the official exchange rate and the parallel market, exposes the company to some unforeseeable risks of exchange.

Inconsistencies in the macroeconomic policy framework and the ensuing hyperinflation triggered the economy to become unofficially dollarized in the late 2000s because the Zimbabwean dollar was unable to fulfil its traditional role as a unit of account. Following the 2008 elections and the establishment of the Government of National Unity (GNU), a multi-currency regime (characterized by a variety of legal tenders) was put into place in February 2009, almost completely replacing the Zimbabwean dollar (Hungwe, 2021). The Zimbabwean

dollar was reinstated legally and made the only form of legal tender (under the guise of RTGS dollars) in the middle of 2019. Before then, this system was in place. The exchange rate has, however, rapidly declined since its formal reintroduction on both the official and unofficial markets.

It should be noted that the effort to preserve a fixed exchange rate (over the peg against the US dollar) in the decades following independence was in conflict with the macroeconomic fundamentals of Zimbabwe. In relation to Zimbabwe's international competitiveness, the exchange rate became increasingly overvalued, causing serious foreign currency shortages, problems with the balance of payments (BoP), and the emergence of the so-called "black market." These long-term issues were made worse in the 2000s by the Reserve Bank of Zimbabwe's (RBZ) quasi-fiscal activities and the quick expansion of the money supply brought on by fiscal scarcities. The RBZ generated income and spent it on government purchases like agricultural subsidy programs, which are frequently cited as one of the primary causes of hyperinflation.

As a result of the de facto abandonment of the Zimbabwean dollar and the implementation of the multi-currency regime in 2009, hyperinflation abruptly came to an end when the RBZ was unable to print money. Economic growth changed for the better in 2009 and some earlier years, while inflation was kept at low levels. Due to subsequent weak and unsustainable macroeconomic and political reforms, this situation was only temporary. Several inconsistent macroeconomic policies were also reinstated or strengthened, particularly following the fall of the Government of National Unity in 2013 and the restoration of ZANU PF rule.

In contrast to the GNU's largely balanced budget, which was governed by cash budgeting principles, which means only spending money that has been collected, since 2014, budget deficits have been funded by government borrowing and money creation. These inconsistencies made it more difficult for businesses to convert between their RTGS dollars and US dollars (used for transfers and payments outside of the US or in cash) as a result of the worsening US dollar shortages in the financial system. In theory, the RTGS dollar was equal to one US dollar, but in practice, this parity could not be maintained. However, due to laws requiring indigenization, the governments did not address the deteriorating business climate, widespread corruption, hostility toward foreign investment, or the failure to initiate a debt restructuring process between 2008 and 2018. All of these reduced the country's capacity to boost exports and draw capital inflows. In a nation with its own currency, the central bank has the power to

issue new money and supply it to business and industry as well as the overall economy. This option isn't available in a nation without its own currency; this was also a setback for the expansion of the economy because the feature wasn't available. In a formal monetary union, such as the Euro Zone, the regional central bank may carry out this responsibility, but it is not possible for it to do so in the event of unilateral dollarization outside of a monetary union, claim Hanke and Kwok (2009). The majority of the current account's components, including the trade balance deficit (higher imports than exports), are in deficit in many developing countries. This may be partially offset by remittances from the diaspora and foreign aid, but in Zimbabwe the calculations are very murky.

Agro processing industries are hampered by exchange rate volatility because they cannot directly access foreign currencies in Zimbabwe without going through the central bank. They are left with no choice but to use the black market to supplement the insufficient foreign currency that the central bank is dispersing. The company is exposed to the risk of exchange rate volatility due to the instability in the parallel market, which could result in significant losses.

According to Hanke (2020), Zimbabwe's issue is a sizable current account deficit because it does not benefit from FDI inflows that are deterred by the country's high political and economic risk. Profecds cannot borrow money on the international capital markets because the government's official foreign exchange reserves are almost completely gone. Lack of access to foreign currency through trade or capital inflows severely restricts the availability of US dollars in the economy as a whole and in companies in particular.

The RBZ's creation of RTGS dollars has been used to finance the government's ongoing budget deficits. Due to a dearth of US dollars and the emergence of RTGS dollars, a decline in the value of the RTGS dollar was unavoidable. In essence, the government violated the fundamental principle of a functioning dollarized (or currency board) system, according to which the Balance of Payments should be the only factor influencing the growth or contraction of the money supply. All of these have had a detrimental effect on how well the companies have performed.

## **1.2 Statement of the problem**

Exchange rate volatility that is affecting Zimbabwe's manufacturing sector has hurt Profecds. The company's performance has been impacted by exchange rate volatility both directly and indirectly. Ani et al. (2013) claim that the company's performance is significantly impacted by

the foreign exchange market because of its crucial role in the production of stock feeds. According to Negrbo (2012), foreign exchange operations are a crucial part of business operations and have a big impact on the company, the domestic economy, and internal reserve provisions. The fact that the majority of the research focused on exchange rate fluctuations and macroeconomic variables like GDP and inflation is concerning. This study focused on the effects of exchange rate volatility on the sector's performance, particularly on Profeeds, in order to generate interest.

## **Objectives of the study**

### **1.2.1 Primary objectives**

The purpose of the study was to investigate the impact of exchange rate volatility on the performance of Profeeds company's operations.

### **1.2.2 Secondary objectives**

1. To determine what factors affect Profeeds' financial performance.
2. To determine the direct and indirect effects of exchange rate volatility on Profeeds operation performance.
3. To identify mitigation strategies for the direct and indirect effects of exchange rate volatility on Profeeds Company performance.

## **1.3 Research Questions**

1. What factors affect Profeeds' financial performance?
2. How does exchange rate volatility affect Profeeds' operational performance, both directly and indirectly?
3. What actions can be taken to mitigate the impact of both direct and indirect exchange rate volatility on Profeeds' performance?

## **1.4 Significance of the study**

The recommendations from the study, which are geared toward policy reforms, can help the monetary authorities' policies on currency reform. The study of how exchange rate volatility affects business performance will also help central banks identify areas where they can improve their performance and operations. By addressing issues with exchange rate volatility in its operations, the research will assist the company in boosting revenue and stability.

### **1.5 Delimitations of the study**

The investigation was conducted by Profeeds Private Limited. The decision to choose the company (Profeeds) was forced by the company's status as one of Zimbabwe's largest agro-processing businesses. Profeeds was also picked because it has several locations across the nation, allowing the results to be generalized to the entire agro-production industry, particularly in the production of stock feeds. The study will be conducted from January to June of 2023.

### **1.6 Limitations**

The study's main drawback was the lack of sufficient time, which the researcher would have preferred for the study's objectives. To ensure that the study was finished in the allotted time, the researcher did try to scale it back. In an effort to work around time constraints, the research did not cover all of Profeeds' branches. He also utilized the weekends in his quest to complete the study by the deadline.

The employees were reluctant to fully disclose all of the data to the researcher because they were uncertain of the end users of the data, even though the researcher had explained the research's justifications to the company's top officials. However, the researcher was able to obtain the necessary paperwork allowing access to the required data. To help the researchers obtain accurate data, the researcher attempted to demystify and eliminate all de-hoaxed theories.

### **1.9 Chapter Summary**

The subject of the study, its background, the statement of the problem, research questions, and the study's significance are all presented in the chapter. More importantly, the chapter described how the study was organized. The review of relevant literature and the study's theoretical framework are the main topics of the following chapter.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.0 Introduction**

This chapter provides a review of the relevant literature as well as the study's theoretical framework after the previous chapter provided the study's introduction, which examined the effect of exchange rate volatility on the performance of the Agro-processing industry using the case of Profeeds in Zimbabwe.

#### **2.1 Theoretical review**

The theoretical perspective presented in this section is based on a company's global operations. Profeeds is exposed to various intra-national transaction risks as a result of its buying and selling activities, the most significant of which is the risk of exchange rate volatility. Additionally, the company engages in international trade, which exposes it to exchange rate risks.

##### **2.1.2 Foreign Exchange Exposure Theory**

The value of an MNC should be primarily impacted by exchange rate changes through overseas purchases and sales that should be made in the local currency of the parent company, according to Shapiro's (2003) definition of current foreign exchange exposure. Despite the findings of this study, early empirical studies on the topic contend that focusing on companies with sizable numbers of overseas operations has little impact on how exchange rate fluctuations affect MNCs' stock prices (Levi, 2009). Profeeds engages in international trade, making it a global company. They specialize in importing certain products that they sell in the market. As a result, they are vulnerable to currency volatility.

##### **2.1.2 The International Fisher Effect**

This theory states that the variance in returns between two countries is equal to the difference in inflation rates between them (Shapiro, 2007). Expected inflation and a real rate of return are both factored into the nominal risk-free interest rates. Accordingly, if all financiers from the various republics seek the same return, then variations in expected inflation will lead to differences in interest rates between nations (Staikouras and Wood, 2004). According to Adler and Lehman (1983), there is a significant and significant variation in the relationship between

the inflation rate differential and the exchange rate. Since the exchange rate system in Zimbabwe is partially managed, there is a discrepancy between the market's obtaining rates and the actual rates, which is evident in Zimbabwe. Additionally, this is exposing businesses like Profeeds that are engaged in international trade. However, Hakkio (1986) showed that the long-term relationship between inflation rate differentials and exchange rates wasn't exactly ideal and acknowledged the use of inflation rate differentials in predicting long-term changes in exchange rates.

### **2.1.3 Purchasing Power Parity**

This theory holds that identical goods should have the same prices in a perfect market, as suggested by Gustav (1918). It essentially puts into practice the idea that, after accounting for exchange rates, goods cost the same everywhere. When all deposits offer the same return rates across all currencies, the foreign exchange market is said to be in equilibrium. According to Giddy and Dufey's (2007) description of the International Fisher effect, differences in nominal interest rates between two nations typically explain changes in exchange rates. Profeeds would not have been motivated to travel abroad to purchase those goods if goods available in Zimbabwe were priced the same as those available elsewhere, but the existence of price differences creates an opportunity for arbitrage.

This indicates that Profeeds has a business opportunity, even though the fluctuating exchange rates are eating into their profits as they exchange one currency for another. It is closely related to Irving Fisher's theory of the Fisher effect. Increases in price lead to depreciations in foreign exchange rates in comparison to other countries, ensuring that similar goods have comparable relative values across different countries. According to the theory, fluctuations in foreign exchange rates were counterbalanced by comparative price indices, as one price law would require. According to the one price law, identical goods will trade for the same price in markets where there is competition when their values are expressed in the same currency.

### **2.1.4 Interest Rate Parity Theory**

Keynes (1923) created this parity condition to establish a connection between inflation, interest rates, and exchange rates. It basically explains how differences in interest rates between two different countries are balanced and matched by changes in their respective currencies (Huang, 2009). Further, it is stated that it harmonizes interest rates, exchange rates for foreign currencies, and spot exchange rates (Roll and Yan, 2000). Because Profeeds is a company that trades on the global market, the differences in interest rates between nations have an impact on



how they conduct business there. They need to borrow money to fund their trade. Other reasonable economic theories like purchasing power parity and the monetary model don't significantly improve forecasts of exchange rates made using the random walk method, at least over time horizons shorter than a year, as suggested by (Hacche and Townsend 1981) and (Meese and Rogoff 1983).

## **2.2 Empirical Review**

### **2.2.1 Determinants of Financial Performance of Private Company**

The performance of an organization can be influenced by a variety of internal or external factors. Internal and company-specific variables have an impact on the board of directors' management, which in turn affects the organization's profitability. Internal factors can be manipulated by a company and vary from one company to the next. There are many, including information technology, capital size, labour productivity, deposit liabilities, management quality, credit portfolio, interest rate policy, business size, and ownership. According to Athanasogluo et al. (2005), the main external factors that affect a company's performance are the GDP, the stability of macroeconomic policy, inflation, political unpredictability, and interest rates. For the purpose of this study, Profeeds was chosen as the company whose operations would be examined to see how volatility would affect them.

#### **2.2.1.1 The Size of the Company**

The effect that a company's size has on its performance cannot be disregarded. Large corporations are more effective than small businesses because they benefit from economies of scale (Wild and Han, 2010). Profeeds should typically be utilizing its economies of scale, but the exchange volatility is working against this advantage. The market share of a company is typically influenced by its size, which has an impact on profitability. The bigger a firm's market share, the greater sales it generates, and if a private company increases loans, it will receive better interest rates, resulting in higher profits. Companies' market shares essentially capture potential economies of scale or diseconomies of scale. Numerous factors, including the company's size, have an impact on its financial performance (Ahmed and Ahmed, 2010). Large companies are more productive than small businesses because they can benefit from economies of scale and scope (Wild and Han, 2010). Net premium, or the premium a company earns after deducting operating expenses, can be used to gauge size.

### **2.2.1.2 Capital Adequacy**

Capital is a significant factor that affects a company's profitability. Equity is the amount that shareholders have access to for use in trying times (Athanasoglou, 2005). The majority of companies with more capital perform noticeably better than their undercapitalized counterparts, according to George and Dimitrios (2004). Staikouras and Wood (2003) assert that among Agro-processing institutions, profits and equity are correlated. Goddard et al. (2004) provide support for the earlier finding that there is a positive correlation between the capital/asset ratio and company earnings. Once more, the future course of the relationship between a company's capital and its profitability cannot be predicted with certainty.

The performance of domestic and foreign private companies in 15 EU countries between 1995 and 2001 was noted by Pasiouras et al. in 2007. They discover that company-specific characteristics have an impact on the profitability of both domestic and foreign companies. The results show that a company's profitability is significantly influenced by capital adequacy, credit risk, company size, volatility risk, and liquidity risk, even though their effects and relationships aren't always the same for domestic and foreign companies.

Chirwa (2003) investigated the association between market structure and profitability of private companies in Malawi using data from time series spanning the years 1970-1994. The results of his study show that profitability, capital adequacy ratio, and gearing ratio do not correlate well.

### **2.2.1.3 Company Liquidity Management**

Private businesses need access to sufficient liquidity in order to run smoothly. Managers must therefore seek out the best liquidity balances (Ubindi, 2006). When liquidity is a problem, a company can borrow money from other businesses at exorbitant rates. High liquidity, however, results in the loss of lucrative opportunities (Waheed, 2009). According to Tabari, Ahmadi, and Emami (2013), a company's inability to accommodate falling liabilities or pay for rising assets is what causes liquidity risk. A company is said to be illiquid if it is unable to quickly convert assets into cash or increase liabilities at a reasonable cost. When a company doesn't have enough liquidity, it can't meet its needs for resources without turning to debt or selling assets at a reasonable loss (Wamukhoma, 2014). Lack of sufficient liquidity could, in extreme cases, lead to bankruptcy. Bourke (1989) looked at the performance of businesses in 12 nations, including Australia, Europe, and North America. He discovered that both capital and liquidity ratios have a favourable relationship with profitability using global data from 1972 to 1981.

#### **2.2.1.4 Credit Risk Management**

This method of structured risk assessment focuses on using control strategies to manage uncertainties. Among the strategies used are insurance, reducing the risk's negative effects, risk avoidance, and risk acceptance. The two steps in managing credit risk are identifying the risk source and quantifying the risk using mathematical models (Tabari and Emami, 2013). The structured approach to credit risk management entails risk assessment, management strategy development, and risk mitigation using managerial resources. Some of the strategies include transferring the risk to a third party, avoiding the risk, minimizing its negative effects, and accepting some or all of its consequences. Tabari and Emami (2013) claim that the process of risk management consists of two steps. Finding the risk's origin, or the main causes that are contributing to it, is the first step. The second is to develop methods for mathematically modelling risk and quantifying it in order to understand the institution's risk profile.

#### **2.2.1.5 Management Efficiency**

This is yet another important factor in figuring out a company's profitability. It is evaluated using ratios like the rate of loan growth, the rate of earnings growth, and the rate of total asset growth. The management performance is measured using a variety of factors, including management systems, staff qualifications, and control systems. Financial ratios help assess management's capacity to direct resources to the most lucrative projects. Operating profit ratios are one of these ratios that are used to gauge management quality (Rahman, 2009).

#### **2.2.1.6 Inflation**

Inflation rates and financial performance are mutually exclusive. Therefore, if prices rise, the value of money decreases and portfolio switching is encouraged. People's wealth shifts from cash and financial assets to real assets as the inflation rate rises. This basically means that lower money demand in an economy is a result of high rates of inflation. Based on empirical research, it has been found that resistance to inflation is significantly and steadily greater than resistance to income (Vong, 2009).

Because its purchasing power increases in relation to other currencies, a country with a historically low rate of inflation typically experiences a rising currency value. The United States and Canada didn't achieve low inflation until 19 years after Japan, Germany, and Switzerland did in the second half of the 20th century. Higher inflation causes the currencies of those countries to lose value in comparison to those of their trading partners. Additionally, this is frequently related to higher interest rates (Bergen, 2010).

### **2.3 Direct and indirect effects of exchange rate vitality on the performance of Companies**

Studies on the volatility of exchange rates can be divided into two categories: Analysis of the effects of exchange rate volatility is presented first, followed by a discussion of its macroeconomic causes. Currency operations play a major part in the global market. Consequently, foreign currency is required for the completion of global transactions involving the import and export of goods and services. Therefore, if the currency is unstable, Profceeds will incur some financial losses in order to pay off its domestic and international debts. Ongor and Kusa (2013) looked at how macroeconomic factors like GDP, inflation, and exchange rates affected business performance. According to Ani et al. (2013), because of the importance of businesses in the financial generation of an economy, the volatility of foreign exchange has a significant impact on business income. The generation of foreign exchange is a crucial part of business operations and has a big impact on how long a company can continue to operate and maintain internal reserves (Negrbo, 2012). The performance of a company is significantly impacted by exchange rate fluctuations, according to (Lambe 2015). Babazadeh and Farokhnejad (2012) discovered that, in Iran, the exchange rate plays a significant role in determining a company's profitability. Macroeconomic variables like real GDP, inflation, and exchange rates, among others, have a direct bearing on how profitable Kenyan businesses are, claims (Kiganda 2014). An analogous case is made regarding the effect of the real exchange rate on credit growth based on the Fischer channel of capital transfer (Von Hagen and Siedschlag, 2010). In countries with fixed exchange rates, like Zimbabwe, the relative cost of non-tradable goods rises in concert with changes in exchange rates, and central banks work to maintain stable nominal exchange rates. As a result, more credit will be required. In countries with flexible exchange rates, exchange rate volatility is less likely to result in an increase in credit. In a fixed exchange rate system, on the other hand, exchange rate volatility encourages credit expansion according to, (Megood et al. 2014)

Another assertion made by Montiel and Reinhart (2001) is that businesses may view a fixed exchange rate system as a guarantee for foreign borrowing and increase their demand for

outside capital. The amount of foreign exchange for businesses during the same period increases along with the exchange rate. The ability and desire of the borrower to repay the foreign exchange loan decreases as the exchange rate rises. A customer is conducting business using the previous exchange rate when they open a letter of credit (L/C) and pay the prepayment in accordance with the exchange rate in force at that time. If the exchange rate rises noticeably, the customer might not be able to fulfil their obligations. As a result, the company's credit risk increases. The borrower must pay a fee in addition to the interest rate, which is based on changes in the exchange rate. Borrowers may decide not to repay the loan in this situation due to financial hardship or because they expect a lower exchange rate and repayment at the earlier rate. Therefore, the exchange rate risk is one of the most significant risks for businesses engaged in foreign exchange. Exchange rate volatility affects a company's assets and liabilities as well as its performance because it has an impact on how the company projects its asset value, liabilities, income, and costs.

Institutions are more vulnerable to financial crises in developing countries. Changes in exchange rates directly affect businesses' revenues, expenses, and profitability, according to the majority of financial and economic analysts (Sanders et al., 1990). Babazadeh and Farrokhnezhad (2012) looked into "The Impact of Short and Long-term Changes in Exchange Rates on Company's Profit" using a short- and long-term error correction model. The financial statements and balance sheets of one private company were used to extract information on exchange rates and interest rates for the five-year period between 2006 and 2010. The results demonstrated that while a company's profit eventually materializes when the exchange rate is higher than the equilibrium rate, a short-term rise in the exchange rate causes a reaction at the anticipated level. The profit from foreign exchange operations and the exchange rate are non-stationary, but they are co-integrated. More so than its long-term impact, exchange rate volatility has an impact on short-term foreign exchange earnings.

In their 2013 study, "Exchange Rate Volatility and Company Performance in Nigeria," Taiwo and Adesola substituted loan loss to total advances ratio and capital deposit ratio for actual company performance. The results of two models demonstrated that the impact of the exchange rate on the performance of the company depends on the type of proxy used to measure that performance. The loan loss to total advances ratio indicates that the high percentage of bad loans may make it difficult for lenders to manage loans, whereas the capital deposit ratio shows no clear relationship with exchange rates.

Kasman et al. (2011) looked into "The Impact of Interest Rate and Exchange Rate Volatility on Company Stock Returns in Turkey" using OLS and GARCH models. Changes in interest rates and currency exchange rates have a negative and significant effect on company stock returns, the findings show. Market return is likely a significant factor in determining the dynamics of company stock return, as evidenced by the fact that company stock returns are more sensitive to market returns than interest rates and exchange rates. They came to the conclusion that the main factors influencing the volatility of company stock return are fluctuations in the interest and exchange rates. Currency Rate Volatility and Company Performance in Nigeria was examined by Kemisola et al. in 2016. They empirically investigated the problem from 2005 to 2014. The volatility of the exchange rate is demonstrated by the ARCH LM test. According to the findings, exchange rate volatility significantly and negatively affects a company's profitability. The liquidity of businesses also suffered from the depreciation of the Nigerian currency. By using a vertical perspective, Caballero and Krishnamurthy (2005) investigated Currency and Credit Channel Volatility in Emerging Markets. They stated that businesses in emerging markets face severe credit restrictions and financial friction, which are made worse by a negative shock to capital inflows. The study demonstrates that though financial policy can prevent the contraction of external credit, this is only likely to be the case during periods of moderate contraction.

Exchange rate volatility brought on by the depreciation of the US dollar during a period of severe external crisis undermines the expansionary effects of monetary policy, and expansionary monetary policy under these circumstances exacerbates exchange rate depreciation. Mbutor (2010) looked into "Exchange rate Volatility, Stock Price Fluctuations, and Company Lending Behaviour in Nigeria" using the VAR method. The Granger causality test confirmed that changes in the value of company stocks and the lending policies of businesses in Nigeria were directly impacted by exchange rate volatility. Using the OLS method and an error correction model, Kariuki and Washington (2014) investigated "The Impact of Macroeconomic Variables on Credit Risk in the Production Industry System of Kenya" as a determinant of non-performing loans from 1990 to 2013. The findings imply that Kenyan companies faced a sizable negative credit risk as a result of the shilling's fluctuation against the dollar.

Munib and Yasmin Javid (2013) investigated how macroeconomic factors, such as the exchange rate, affected non-performing loans for Pakistani private companies from January 2002 to December 2011. According to the findings of the Granger causal relationship, non-

performing loans were caused by exchange rates and inflation. Ozcelebi (2018) investigated "The Effects of Exchange Rate Volatility on Financial and Macroeconomic Variables" using the PVar Model for 10 OECD nations. While exchange rate volatility has little effect on inflation, variation decomposition showed that it does affect interest rates.

## 2.4 Conceptual Framework

A conceptual framework, according to Kombo and Tromp (2009), consists of broad ideologies and doctrines drawn from pertinent academic fields that are meant to structure a subsequent demonstration. In other words, it is a research tool designed to aid scholars in familiarizing themselves with and comprehending a phenomenon being evaluated and in presenting it. It is a useful tool to help a scholar develop a clear interpretation of subsequent findings if it is well expressed. As research findings, it is crucial to carefully examine, confirm, review, and restructure negotiations because doing so clarifies the likely relationships between the variables (Smyth, 2004). The conceptual framework of the current study is depicted in the diagram below.

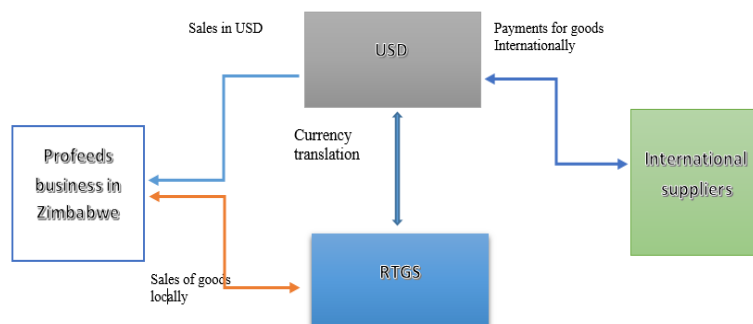


Figure 1 Conceptual Framework

## 2.6 Chapter summary

The literature reviewed in this chapter was pertinent to the study. It reviewed the study's guiding theories in particular. In line with the research questions of the current study, it also provided a review of the related literature. The study's methodology is described in the subsequent chapter.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The section outlines the strategies the researcher used to accomplish the study's goals. It examines the research design, target population, sample population, data and data collection methods, as well as the data itself.

#### **3.1 Research Design**

In an effort to accommodate both secondary data that will be analyzed using stepwise regression analysis on SPSS software, the research adopted a quantitative research design. A target of 39 data points will be generated from the archives of Profeeds private limited company.

##### **3.1.2 Quantitative**

The research methodology was also appropriate for this study because it provided an opportunity to use a quantitative data analysis strategy. It also provides a variety of unique methods for gathering data. This research design was only applied to the quantitative analysis of secondary data for this study. The primary flaw in the explanatory research design was the fact that it placed a heavy emphasis on quantitative data, which was prone to measurement errors.

#### **3.3 Population of the Study**

According to Creswell and Clark (2014), a population is a precise group of the people, things, occurrences, and households that are being studied. According to the study's time frame, Profeeds Private Ltd. branches made up the marked population. 11 Profeeds branches were used for this study because the target population was too big. From the main offices of the Profeeds Company, the data was easily accessible.

#### **3.4 Data and Data Collection**

The company's consolidated financial statements were used as a source of secondary data, according to Profeeds' corporate office. The ROA of all the entities as of the end of 2022 for the nine years beginning in 2013, when the Exchange rate began to fluctuate, was included in



the secondary data assessed. For the years 2013 to 2022, quarterly data on currency exchange rate fluctuations was gathered. Additionally, the company's quarterly inflation rates and data on company size were obtained, and these data were used as the study's control variables. The secondary data was then analyzed using a quantitative methodology.

### **3.5 Data Analysis**

Data analysis includes inspecting it in customs that will reveal the observable patterns, trends, and relationships. This entails subjecting it to statistical procedures that will reveal both the degree of confidence in the results and any apparent relationships between the variables (Milstein and Wetterhall, 2013).

Utilizing the appropriate analytic methods to address the research questions of the study is a necessary step in the data analysis process. The gathered data were examined using SPSS. Frequency tables, charts, correlations, and regressions all helped the investigation. Multiple linear regression analysis was applied stepwise to look at the relationship between the independent and dependent variables. The analysis was completed at a significance level of 0.05.

#### **3.5.1 Analytical Model**

The researcher used a multiple regression analysis with the aid of the ensuing analytical model in order to obtain the impact of RTGS volatility on company performance and accomplish the goal.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where: Y= Financial performance as measured by Profitability of company based semi annuals

Dependent Variable)  $\beta_0$  = Constant (y-intercept)

$X_1$ = Average quarterly Zimbabwe dollar volatility (as measured by the inflation rate of RTGS against the USD)

$X_2$  = company performance (as measured by the return on assets ROA)

$X_3$  = Company size (the capita inflation factor)

$\epsilon$  = Error term

The effects of Zimbabwean dollar volatility and achieving the desired goals were examined using an Analysis of Variance to assess their significance. After developing the ANOVA statistics, the researcher considered the computed F-values. Both the 5% significance level and the 95% confidence level were considered. If the F-calculated figures were less than 2.4 (critical values), the researcher believed the model was significantly adequate to explain the relationship.

**Table 3.1: Operational Definition of Variables**

<b>Variable</b>	<b>Definition</b>	<b>Measurement</b>
Y	Profits	This is the measure of company performance of the company using profits before interest and tax.
X <sub>1</sub>	ROA	Return on assets which is the profits after interest and tax divide by the assets used to generate profits
X <sub>2</sub>	Inflation	This was measured using the average semiannual Change in Consumer Price Index
X <sub>3</sub>	Company Size	The general capital change over time or the capita inflation factor

### **3.5 Ethical Considerations**

Throughout the study, the researcher noticed a number of ethical issues. For instance, the researcher asked the Profeds management for permission to conduct the study. The confidentiality of the information sources used in the data collection process was also guaranteed by the researcher. Recognizing the contributions of various authors and academics whose work was used in the study was another ethical consideration that was made.

### **3.6 Chapter Summary**

The research methodology used for the study's objectives was the main topic of this chapter. The research design, in this case a descriptive case study research design, along with the research population, data presentation, and analysis plan, were all covered in the chapter. The presentation, examination, and discussion of the research findings are the major topics in the following chapter.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1 Introduction

The study's conclusions are presented in this chapter. The analysis and discussions of the study's findings are provided in this chapter.

#### 4.2 Descriptive Statistics

##### First stepwise regression results analysis

##### Descriptive Statistics

	Mean	Std. Deviation	N
Profits	3702.56	1535.499	39
ROA	8.31	3.019	39
INFLATION	126.9714%	70.02828%	39
COMPANYSI	82050087.82	27357755.822	39
ZE	1	2	

The researcher discovered that Profeeds profits had a mean of 3.703m and a degree of dispersion as indicated by the standard deviation of 1.535m for the relevant time period. According to their standard deviations, Profeeds was able to preserve an almost constant level of profitability and ROA during the relevant time period. The average return on assets was 8.31, with a standard deviation of 3.019; the average rate of inflation was 126.97%, with a standard deviation of 70.02%; and the average size of a company was 82.05 with a standard deviation of 27.36 points were tracked for the duration of the data collection.

Profits represent the period's shareholder returns calculated as the difference between sales and cost of sales plus period expenses. Inflation is the measurement of the change in price as a percentage over a period of time of point intervals, and return on assets is the profit after interest and tax over the assets used to generate profits. The company values, which are calculated using the total values of all Profeeds, are a gauge of a company's size. Patents and good will are examples of intangible assets that may or may not be included in the values.

## Correlations

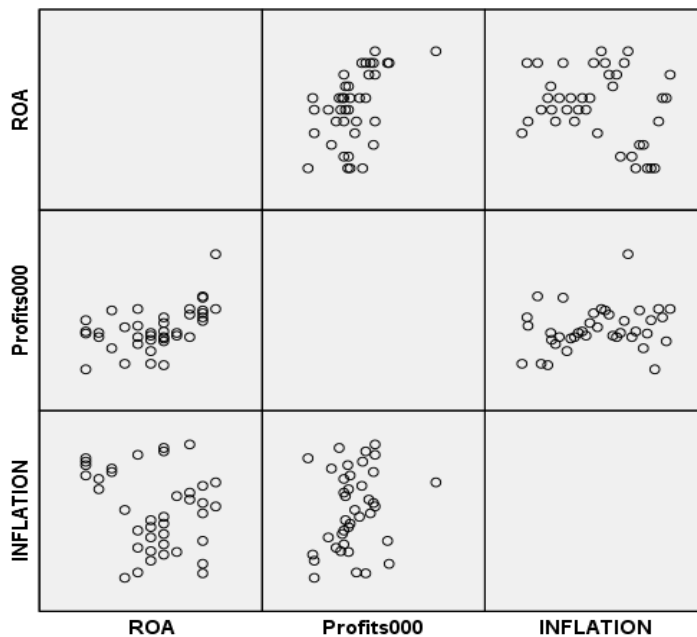
		Profits	ROA	INFLATIO N	COMPANYS IZE
Pearson Correlation	Profits	1.000	.508	.215	.231
	ROA	.508	1.000	-.276	-.278
	INFLATION	.215	-.276	1.000	.997
	COMPANYSI ZE	.231	-.278	.997	1.000
	Profits	.	.000	.094	.079
Sig. (1-tailed)	ROA	.000	.	.044	.043
	INFLATION	.094	.044	.	.000
	COMPANYSI ZE	.079	.043	.000	.
	Profits	39	39	39	39
	ROA	39	39	39	39
N	INFLATION	39	39	39	39
	COMPANYSI ZE	39	39	39	39

The Pearson (r) correlation coefficient was used in the study to look into the nature of relationships between the variables. This correlation coefficient helped to clarify how the study variables interacted with one another. As a measure of normality, the table should not be above 0.7. The Pearson correlation between inflation and company size has a too-high value of 0,997, though. The two variables are measuring essentially the same relationship or they have fairly comparable effects on the dependent variable, depending on which is true. The stepwise regression analysis method will eventually result in the removal of one of the factors from the model. We are concerned about the variables in the following table whose correlation is less than 0.3. The model no longer included inflation, which rendered the entire regression irrelevant for this study. However, because the effects of inflation and company size on the dependent variable are similar, the regression can be run again while excluding company size from the model.

## Second stepwise regression results

The researcher repeated the regression after the initial round of the process failed to produce a clear conclusion because the software had rejected the inflation and replaced it with company size. Regression analysis was useless without the important independent factor in the model because we were trying to figure out how exchange rate volatility affected company performance.

## Scatter plot



We are interested in an elliptical pattern on this plot in terms of profits. Profits and inflation are forming an elliptical pattern when viewed together. An elliptical pattern is also developing in return on assets. The selection of independent variables thus perfectly fits the model.

## Tests of Normality

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Profits000	.117	39	.200*	.937	39	.029
ROA	.104	39	.200*	.940	39	.039
INFLATI ON	.067	39	.200*	.960	39	.178

\*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Using the Kolmogorov-Smirnov test, inflation, ROA, and profits have all returned to normal. This suggests that all of our variables passed the normality test, allowing us to move forward with our regression.

**Descriptive Statistics**

	Mean	Std. Deviation	N
Profits000	3702.56	1535.499	39
INFLATI ON	126.9714 %	70.02828%	39
ROA	8.31	3.019	39

From the table, our N for our data points is 39 which is greater than 20. Inflation has mean of 3.0703m and a dispersion from the mean of 1.535m. Inflation had a mean of 127% and dispersion from the mean of 70% and lastly ROA had 8.31 and a standard deviation from the mean of about 3%.

**Correlations**

		Profits000	INFLATI ON	ROA
Pearson Correlation	Profits000	1.000	.215	.508
	INFLATI ON	.215	1.000	-.276
	ROA	.508	-.276	1.000
	Profits000	.	.094	.000
Sig. (1-tailed)	INFLATI ON	.094	.	.044
	ROA	.000	.044	.
	Profits000	39	39	39
N	INFLATI ON	39	39	39
	ROA	39	39	39

Using the table, there are no multi collinearity concerns as we do not have a value greater than 0.7, however we have -0.27 which is less than 0.3 thus we must be cautious.

**Model Summary<sup>c</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2
1	.508 <sup>a</sup>	.258	.238	1340.173	.258	12.884	1	37
2	.629 <sup>b</sup>	.395	.362	1226.643	.137	8.166	1	36

a. Predictors: (Constant), ROA

b. Predictors: (Constant), ROA, INFLATION

c. Dependent Variable: Profits000

R square on model the first model is less than 30%, which means that only 26% of the variation in the dependent variable can be explained by a change of one unit in the independent variable. Therefore, we reject the first model on both the R square and the Adjusted R square because we can only accept the model if it is greater than 30%. The R Square and the Adjusted R Square on the second model are both higher than 30%. According to adjusted R square, a unit movement in the model's independent variable accounts for 37% of the movement in the dependent variable. Because it is the most suitable model in this situation, we are using the second regression model.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23140383.120	1	23140383.120	12.884	.001 <sup>b</sup>
	Residual	66454360.469	37	1796063.796		
	Total	89594743.590	38			
2	Regression	35427249.817	2	17713624.909	11.773	.000 <sup>c</sup>

Residual	54167493.77	36	1504652.605		
Total	89594743.59	38			

- a. Dependent Variable: Profits000
- b. Predictors: (Constant), ROA
- c. Predictors: (Constant), ROA, INFLATION

Using the analysis of variance, both models 1 and 2 are all significant since their significance level is less than 5%

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero-order	Part
1	(Constant)	1555.057	635.611		2.447	.019		
	ROA	258.496	72.016	.508	3.589	.001	.508	.508
2	(Constant)	32.285	788.934		.041	.968		
	ROA	312.661	68.587	.615	4.559	.000	.508	.608
	INFLATIO	8.449	2.957	.385	2.858	.007	.215	.438
	N							

- a. Dependent Variable: Profits000

While the second model ROA is statistically insignificant in the model, the first model is statistically significant. We will continue to test our model using the data because the model did not remove inflation. Now, putting B first, 312.661 represents the size of the change in the dependent variable whenever the independent variable, ROA, changes by one unit. However, 8.449 represents the size of the change in the dependent variable whenever the independent variable, inflation, changes. It's interesting to note that while ROA was a rubric rather than a percentage, inflation was. Now that we've used beta, we can confidently say that ROA had a bigger impact on company profits than inflation, though both had impacts of more than 30%.

Using the regression model  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$  in the above regression coefficient results, our model becomes;



$$Y = 32.285 + 312.661X_2 + 8.449X_3 + \epsilon$$

Using the aforementioned regression equation, it was discovered that if the company performance were to be calculated with Zimbabwe dollar volatility as measured by inflation rate and ROA at a constant zero, it would be 32.285. The performance of Profeeds would improve by 312.661 for every unit increase in Zimbabwean dollar ROA. For each unit of change, inflation would cause the dependent variable to increase by 8.449 points. The study also showed that Zimbabwean dollar volatility was statistically significant in affecting the performance of the company as measured by inflation levels, with all p values (sig) being less than 0.05%.

#### **4.6 Discussion of Findings**

The factors that affected Profeeds Private Company's performance during the relevant period were identified by the research. The performance of Profeeds Private Limited was influenced by return on assets in a manner similar to that of inflation rate. This suggests that both factors may have had an impact on the company's ability to turn a profit. The ability of the business to generate income increases with the return on assets. Regarding inflation, the company's ability to generate revenue is impacted by the exchange rate's volatility because most of its revenues were eventually impacted over time by exchange rate movements. Even though the first regression process had removed inflation from the model, the company size was found to have some positive effects on the company's performance. The ability of a company to make a profit increases with its size, all else being equal.

The study's second goal was to determine how exchange rate volatility affected Profeeds private limited company performance. According to the study, there is a link between exchange rate volatility and Profeeds' performance as indicated by profitability. Although there was a positive relationship, it was weak and was influenced by other factors, such as inflation. The researcher was able to use inflation as a gauge of performance sensitivity. The ROA had an effect on the company's performance because it had a positive relationship with financial performance.

The results concur with those of Owoeye and Ogunmakin (2013), who found that the proxy method used to calculate performance had an impact on the effects of foreign exchange rates on company performance. As a result, Profeeds is subject to foreign exchange risks, which have a negative impact on its productivity. The results concur with those of Majok (2015), who looked into how Kenyan private companies' financial performance was impacted by exchange

rate fluctuations. According to the study, there is a correlation between changes in foreign exchange rates and a company's financial performance as measured by its returns on assets. The study's results also revealed that returns and changes in inflation only had a slender correlation.

The research findings for the sector of Agro-processing, for example, agreed with those from other sectors. According to Nyairo (2015), foreign exchange rate volatility has a negative impact on the success of Kenya's insurance sector because it lowers the industry's return on assets (ROA). The ROA of the companies that produce agricultural products is also adversely impacted by the GDP growth rate and inflation. By using daily observations for the given period, Kos et al. (2010) established a one directional interconnection owing from stock prices to exchange rates.

It was discovered that the USD/ZIM exchange rate had significantly increased during the study period, which is what caused the high inflation over time. Throughout the study period, the exchange rate fluctuated, generally with a depreciating volatility trend. This suggests that the nation's level of international competitiveness declined during the research period. Over the course of the entire study period, the price of the Zimbabwean dollar has decreased relative to the US dollar. Due to Zimbabwe's reliance on imports, this has hurt the country's economy by raising the cost of living there.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The study's summary, findings, and recommendations are presented in this chapter. The current chapter presents a conclusion based on the findings in the previous chapter, after which it formulates the policy recommendations. The recommendations were derived from the study's objectives while taking into account any limitations encountered during the course of the investigation. The study then makes suggestions for additional research areas. Due to the nation's heavy reliance on imports, living expenses are high.

#### 5.2 Summary of Findings

The company's performance, as measured by company profitability, was impacted by the exchange rate as measured by inflation. These elements played a significant role in the performance as a whole during the relevant time period. However, it was also discovered that ROA had an impact on the business's performance as indicated by its profitability. A constant ROA and inflation rate for Zimbabwean dollars revealed that the performance of the company would be 32.285. The performance of Profceeds would improve by 312.661 for every unit increase in Zimbabwean dollar ROA. For each unit of change, inflation would cause the dependent variable to increase by 8.449 points.

The study also showed that Zimbabwean dollar volatility was statistically significant in affecting the performance of the company as measured by inflation levels, with all p values (sig) being less than 0.05%.

First, the research's findings demonstrate that Zimbabwe's private company performance during the study period was impacted by exchange rate volatility (appreciation, stability, and depression). The co-relation results showed a shaky inverse relationship between Profceeds' profits over the study period and exchange rate volatility. Throughout the entire study period, the Zimbabwean dollar fluctuated, with brief periods of appreciation and stability.

Second, it was discovered that variations in inflation rates were linked to the volatility of exchange rates. Statistics proved that each P value was significant. Since there was little correlation between inflation and exchange rate volatility, the Zimbabwe dollar lost value as

inflation rates rose and the USD rate also rose. Third, according to the research's findings, Profceeds' total assets, as calculated by ROA, had grown during the study period.

### **5.3 Conclusions**

The results of the study provide strong evidence for a weak positive correlation between exchange rate volatility and company performance in Zimbabwe during the study period. Additionally, it was noted that during the study period, the Zimbabwe dollar's exchange rate against the US dollar was incredibly unstable. Profceeds' return has suffered as a result of the recent decline in the value of the Zimbabwean dollar in comparison to other currencies.

Second, the annual inflation rates were rapidly declining throughout the entire study period. The performance was negatively impacted by the fact that there was a negative correlation between inflation and asset return rates. Over the years, exchange rates remained constant. Because the volatility clusters were brought on by arbitrary market shocks, they were probably going to persist. This suggests that new market data is not immediately factored into exchange rates. As a result, there may be irrational or widely disparate expectations among the market's participants.

The company's value had risen throughout the research. The results demonstrate how volatile the foreign exchange market was on average. The results of the study recommend that the government put in place adequate safeguards to protect the domestic currency. It should promote foreign direct investment to support economic growth and, consequently, the local currency's value. In comparison to other currencies, the currency would be more stable as a result. As a result, borrowing expenses would be lower, increasing the affordability of loans.

### **5.4 Recommendations**

Numerous economic repercussions on business and governmental policy resulted from these discoveries. According to the study, rising foreign exchange volatility reduces company value by adversely affecting financial performance. Therefore, management of businesses doing business in Zimbabwe must first safeguard themselves from exposure to foreign exchange. To achieve this, they must create better strategies to guarantee that fluctuations in foreign exchange rates do not affect financial performance.

Second, the department of fiscal and monetary policy within that government must consider how changes in exchange rates impact businesses, particularly those that are publicly traded. This is because, despite their best efforts, their policies might have a negative impact on performance. The monetary Committee division of the Reserve Company of Zimbabwe is responsible for preserving a stable foreign exchange rate. This is as a result of the fact that sizable exchange rate fluctuations distort trends in stock market performance, leaving investors unsure of their next course of action because they might not be able to predict the future state of the economy with certainty.

Finally, in order to help reduce sizable balance of payments deficits, the Reserve Company of Zimbabwe should put into place effective monetary and fiscal policies. The entire government should implement policies aimed at boosting national income through locally funded investments. This would support exchange rate stabilization and ensure overall company growth.

### **5.5 Suggestions for Further Studies**

The effects of exchange rate volatility should be studied from a wider perspective. Due to the fact that it is an academic study, the research has only considered a small scale. This will make it easier to understand how exchange rate volatility affects the business operations of private companies in the agro processing sector. The time factor has had a significant impact on the research's viability, but the findings are crucial and should serve as an eye opener.

It is possible to conduct more research on companies in the energy, production, manufacturing, tourism, and other sectors in addition to agro-processing. This would offer a large pool of research findings that could be compared among business professionals in order to formulate the best policies possible.

Future studies can examine the efficiency of hedging strategies, such as the use of forward contracts to lower foreign exchange risks, as well as their effects on business performance in Zimbabwe.

## REFERENCES

1. Abreu, M. and Mendes, V. (2000). *Commercial bank interest margins and profitability: Evidence for some EU countries*, presented on the 50th International Atlantic Economic Conference
2. Adam, H. (2012). Exchange rate options for South Sudan, Unpublished Working paper, World bank Group
3. Allayannis, G. Ihrig, J. and Weston, J. (2001). Exchange-Rate Hedging: Financial vs. Operational Strategies. *American Economic Review Papers and Proceedings*, 91, 391-395.
4. Athanasoglou, P. P., Brissimis, S. N. and Delis, M. D. (2008). Bank -specific, industry-specific and macroeconomic determinants of bank profitability. *International Financial Markets Institutions & Money*, 18, 121-136.
5. Bartov, E., and Bodnar, G. M. (1994). Firm valuation, earnings expectations and the exchange rate Exposure effect, *Journal of Finance*, 1755-1785.
6. Bodnar, G.M. and Gentry, W. M. (1993). Exchange rate exposure and industry characteristics: Evidence from Canada, Japan and the USA, *Journal of International Money and Finance*, February 29-45.
7. Baum, F., Mustafa, C., and Neslihan, O., (2009). The Second Moments Matter: *The Impact of Macroeconomic Uncertainty on the Allocation of Loanable Funds*. *Economics Letters*. 27-29
8. Berger, A. and Bouwman, C. (2010). How does capital affect bank performance during Financial Crises? *Wharton Financial Working paper*, 11-22.
9. Bradley, K. and Moles, P. (2002) Managing Strategic Exchange Risk Exposure- Evidence from UK Firms, *Managerial Finance*, 5(28), 29-39.
10. Brealey, R.A., Myers, S. C. and Allan, F. (2008). Principles of corporate finance (9<sup>th</sup> edition ed.), New York: McGraw-Hill.
11. Carter D.A, Pantzalis, C and Simkins, B.J (2003). Firm wide Risk Management of Foreign Exchange Exposure by U.S. Multinational Corporations Version of April 28, 2003.
12. Reserve Company of Zimbabwe (2011). Company Supervision Annual Report, Zimbabwe.
14. Elhiraika, J. and Ismail, A. (2006). Financial sector policy and poverty reduction in Sudan. *Journal of Finance*, 2(1), 176-182.

- Easterly, W., Islam, R., and Stiglitz, J., (1999). Shaken and stirred, explaining growth volatility. *Annual banking Conference on Development Economics, the World Company*. 34- 69.
15. El-Masry, A. (2006). Derivatives use and risk management practices by UK nonfinancial Companies. *Managerial Finance* volume 32 number 2, pp.137-159.
  16. Gatobu, E.M. (2012). Role of Private Equity in Emerging Markets to the Economy: Case study of Kenya. Unpublished MIS Project, University of Nairobi, 27-28
  17. Franklin A. N. and Elena, C. (2008) The Roles of banks in Financial systems, University of Pennsylvania and University of Frankfurt and CFS 15, 29-31.
  18. George, E. H. and Dimitrios, S. S. (2004). Efficiency measurement of the Greek private banking with the use of financial ratios: A data envelope analysis approach. *Management Accounting Research*, 15(2), 201-224.
  19. Gilchris, M., (2013). Influence of bank Specific and Macroeconomic Factors on the Profitability of 25 Private bank in Pakistan during the Time Period 2007 – 2011. *American Journal of Business and Finance*.
  20. Kombo, D.K., & Tromp, D.L.A. (2009). *Proposal and Thesis Writing: An Introduction*. Paulines Publications Africa, Don Bosco Printing Press, Nairobi Kenya.
  21. Koutmos, G. & Martin, A.D. (2003). Asymmetric Exchange Rate Exposure: Theory and Evidence. *Journal of international Money and Finance*, 22, 365-383
  22. Macharia, E., (2013). The effects of global financial crisis on the financial performance of Commercial banks offering mortgage finance in Kenya. *International Journal of Social Sciences and Entrepreneurship*, 688-701.
  23. Majok, E. (2015) *Effects of exchange rate fluctuations on financial Performance of commercial banks in Kenya*, Unpublished MBA project, University of Nairobi, Kenya
  - 24 Murthy, Y., and Sree, R. (2003). A Study on Financial Ratios of major Commercial Companies. Research Studies, College of banking & Financial Studies, Sultanate of Oman.
  - 25 Njunge, G.T. (2012). A survey of the foreign exchange rate risk management practices adopted by microfinance institutions in Kenya. MBA Thesis at the University of Nairobi
  26. Nydahl, S. (1999). Exchange Rate exposure, Foreign Involvement and currency Hedging of firms: Some Swedish evidence, *European Financial Management* 5 (1999), pp 241- 257.
  27. Oduori, C.A. (2012). A survey of strategies used by microfinance institutions in combating emerging operational, strategic and credit risks. MBA Thesis at the University of Nairobi.

28. Ongore, V., (2013). Determinants of Financial Performance of Commercial Companies in Kenya. *International Journal of Economics and Financial Issues*, ISSN: 2146 4138
- 29 Opaluwa, H. Umeh, O. and Ame, A. (2010). The effect of exchange rate fluctuations on the Nigerian manufacturing sector, *Journal African Finance*, 3(1), 145-156
- 30 Owoeye, T., and Ogunmakin, A., (2013). Exchange Rate Volatility and banking Performance in Nigeria. *Asian Economic and Financial Review*, 3(2):178-185
- 31 Panayiotis P., Athanasoglou, P., Delis, M., & Staikouras, C., (2006). "Determinants of Bank Profitability in the South Eastern European Region". Bank of Greece Economic Research Department –Workig Paper No.47. ISSN 1109-6691
- 32 Rachdi, H., (2013). What Determines the Profitability of Banking During and Before the International Financial Crisis? Evidence from Tunisia. *International Journal of Economics, Finance and Management*
- 33 Sayedi, S., (2013). Bank specific, industrial specific and macroeconomic determinants of Banks profitability in Nigeria. *Journal of Finance*, 47-48
- 34 Smyth, R. (2004). Exploring the usefulness of a conceptual framework as a research tool: A researcher's reflection. *Issues In Education Research*, 14(2), 167-180.
35. Staikouras, C., and Wood, G., (2004). The determinants of European Banking profitability. *International Business and Economics Research Journal*, 3 (6), 57-68.
- 36 Tabari, N. A. Y., Ahmadi, M. and Emami, M. (2013). The Effect of Liquidity Risk on the Performance of Commercial Banks, *International Research Journal of Applied and Basic Sciences*. 4 (6): 1624-1631.
- 37 Ubindi, B. S., (2006). *A Survey of Foreign Exchange Risk Management Practices by Forex Bureaus in Kenya*, Unpublished MBA project, University of Zimbabwe, Harare.
- 38 Vong, A, Hoi, S. (2009). *Determinants of Banking Profitability in Macao*. Faculty of Business Administration, University of Macau
- 39 Waheed, M. (2009). Forward rate unbiased hypothesis, risk premium and exchange rate expectations: estimates on Pakistan Rupee-US Dollar. *Munich Personal RePEc Archive*, Paper No. 33167.
- 40 Wainaina, G., (2013). Effect of macroeconomic factors on commercial Banking' lending to agricultural sector in Kenya. MBA Project, University of Nairobi
- 41 Wild J.J., Wild K. L. & Han J. C. (2010). *International Business, The challenges of globalization*. 5th ed. Pearson Education, Inc



**Appendix 1:**

**Results of first regression were dropped from this research as they were insignificant.**

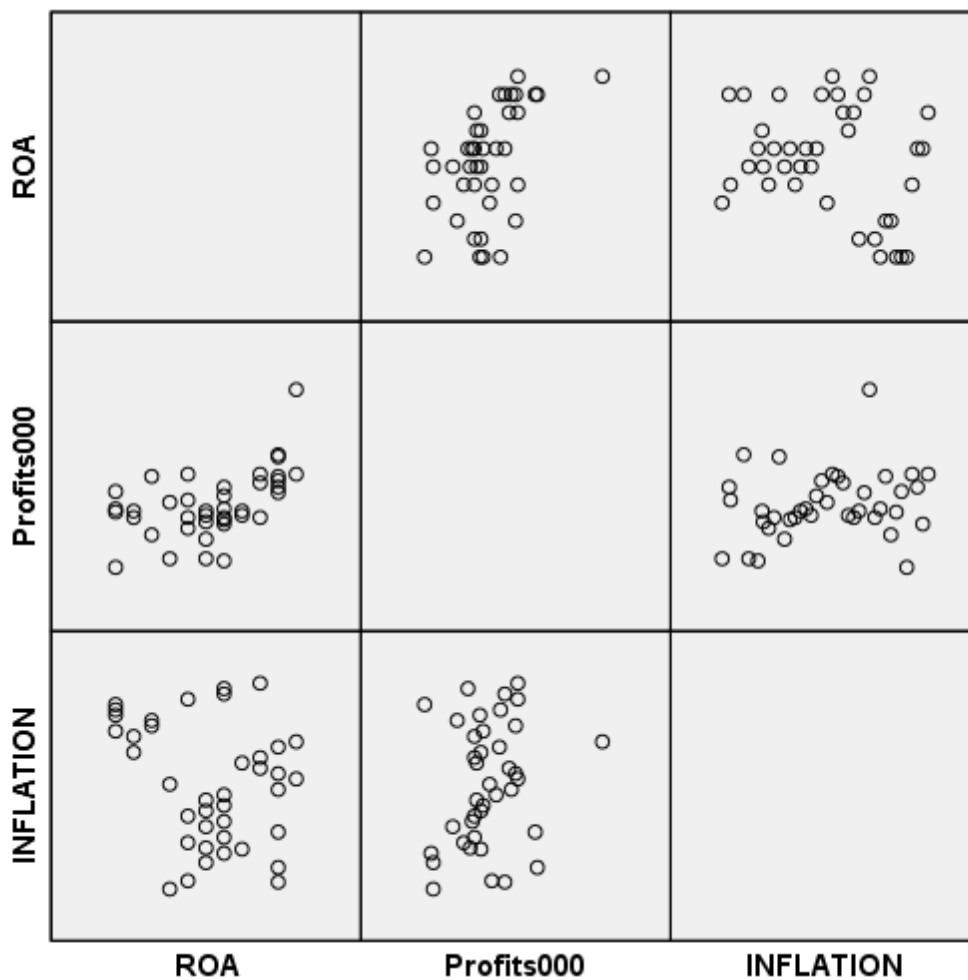
**Second regression results**

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	ROA, INFLATION <sup>b</sup>		Enter

a. Dependent Variable: Profits000

b. All requested variables entered.



**Descriptive Statistics**

	Mean	Std. Deviation	N
Profits000	3702.56	1535.499	39

INFLATION	126.9714%	70.02828%	39
ROA	8.31	3.019	39

**Correlations**

		Profits000	INFLATION	ROA
Pearson Correlation	Profits000	1.000	.215	.508
	INFLATION	.215	1.000	-.276
	ROA	.508	-.276	1.000
Sig. (1-tailed)	Profits000	.	.094	.000
	INFLATION	.094	.	.044
	ROA	.000	.044	.
N	Profits000	39	39	39
	INFLATION	39	39	39
	ROA	39	39	39

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	ROA		Stepwise (Criteria: Probability-of-F- to-enter <= .050, Probability-of-F- to-remove >= .100).
2	INFLATION		Stepwise (Criteria: Probability-of-F- to-enter <= .050, Probability-of-F- to-remove >= .100).

a. Dependent Variable: Profits000

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlation	
		B	Std. Error	Beta			Zero-order	Partial
1	(Constant)	1555.057	635.611		2.447	.019		
	ROA	258.496	72.016	.508	3.589	.001	.508	
2	(Constant)	32.285	788.934		.041	.968		
	ROA	312.661	68.587	.615	4.559	.000	.508	
	INFLATION	8.449	2.957	.385	2.858	.007	.215	

a. Dependent Variable: Profits000

#### Excluded Variables<sup>a</sup>

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
						Tolerance	VIF	Minimum Tolerance
1	INFLATION	.385 <sup>b</sup>	2.858	.007	.430	.924	1.083	.924

a. Dependent Variable: Profits000

b. Predictors in the Model: (Constant), ROA

#### Coefficient Correlations<sup>a</sup>

Model		ROA	INFLATION
1	Correlations	ROA	1.000
	Covariances	ROA	5186.324
2	Correlations	ROA	.276
	Correlations	INFLATION	.276
	Covariances	ROA	4704.121
	Covariances	INFLATION	56.043

a. Dependent Variable: Profits000

#### Collinearity Diagnostics<sup>a</sup>

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	ROA	INFLATION
1	1	1.941	1.000	.03	.03	
	2	.059	5.750	.97	.97	
2	1	2.736	1.000	.01	.01	.02
	2	.225	3.489	.01	.17	.57
	3	.039	8.361	.99	.82	.40

a. Dependent Variable: Profits000

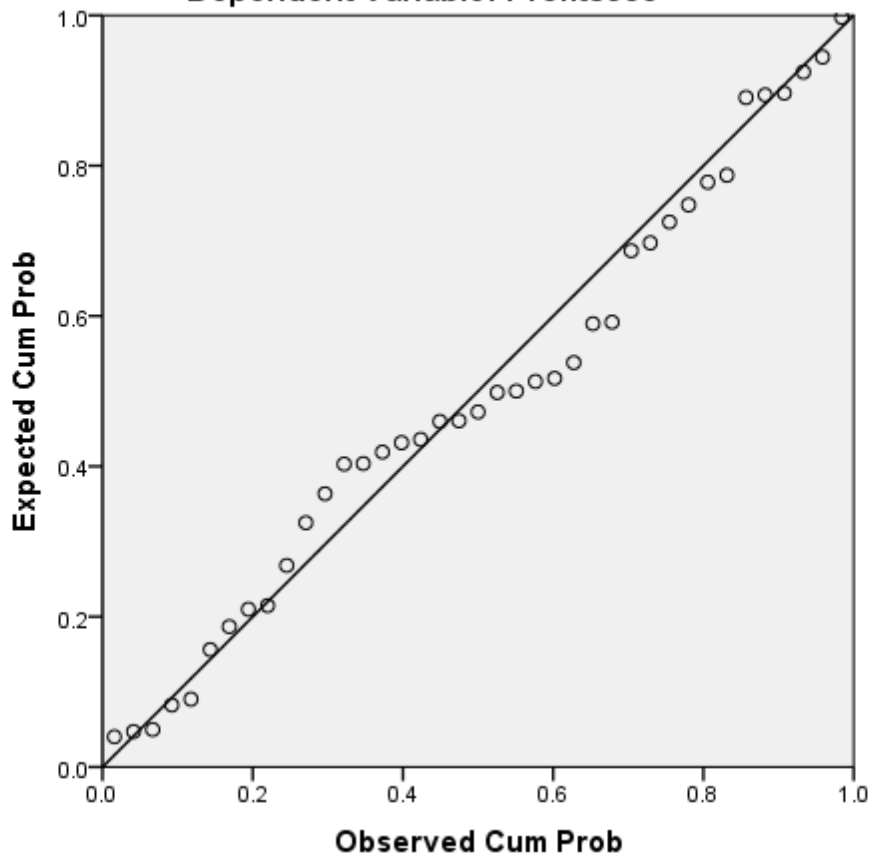
**Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1958.95	5583.91	3702.56	965.555	39
Std. Predicted Value	-1.806	1.948	.000	1.000	39
Standard Error of Predicted Value	202.972	475.762	331.810	76.114	39
Adjusted Predicted Value	2090.90	5603.99	3693.62	968.336	39
Residual	-2145.875	3416.089	.000	1193.926	39
Std. Residual	-1.749	2.785	.000	.973	39
Stud. Residual	-1.804	2.978	.004	1.023	39
Deleted Residual	-2312.181	3906.694	8.945	1320.801	39
Stud. Deleted Residual	-1.865	3.383	.011	1.068	39
Mahal. Distance	.066	4.742	1.949	1.291	39
Cook's Distance	.000	.425	.036	.074	39
Centered Leverage Value	.002	.125	.051	.034	39

a. Dependent Variable: Profits000

**Normal P-P Plot of Regression Standardized Residual**

**Dependent Variable: Profits000**



ORIGINALITY REPORT

17%

SIMILARITY INDEX

14%

INTERNET SOURCES

2%

PUBLICATIONS

8%

STUDENT PAPERS

PRIMARY SOURCES

1

[erepository.uonbi.ac.ke](http://erepository.uonbi.ac.ke)

Internet Source

6%

2

[www.econstor.eu](http://www.econstor.eu)

Internet Source

4%

3

Submitted to HELP UNIVERSITY

Student Paper

1%

4

Submitted to Midlands State University

Student Paper

<1%

5

[etd.aau.edu.et](http://etd.aau.edu.et)

Internet Source

<1%