

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY



**STRATEGIES FOR MITIGATING EXCHANGE RISK FACED BY SMALL TO
MEDIUM ENTERPRISES FOR ENHANCING FINANCIAL PERFORMANCE.**

A CASE OF VALLEY SEEDS PVT LTD (2021-2025).

BY

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REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONOURS
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The undersigned attests to having overseen student B211281B's dissertation, which focused on Valley Seeds Pvt Ltd's financial performance and was titled "Strategies for mitigating exchange rate risk faced by small to medium enterprises for enhancing financial performance. (2021–2025)." This dissertation was turned in as a partial fulfillment of the requirements for Bindura University of Science Education's Bachelor of Accountancy Honors degree.

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DEDICATION

I dedicate this dissertation to my family, whose efforts, encouragement, and continuous support have served as the cornerstone of my academic career. Additionally, I dedicate this work to all Zimbabwean small- and medium-sized business owners and workers, particularly those in the agricultural sector, who persist in their pursuit of financial security in the face of economic hardship. I hope this study makes a significant contribution to improving sustainability and resistance to exchange rate fluctuations.

ABSTRACT

This study looks at how exchange rate risk affects the financial performance of SMEs in Zimbabwe, concentrating on Valley Seeds Private Limited, an agricultural company that produces and distributes seeds. SMEs are seriously threatened by Zimbabwe's unstable economic climate, especially its erratic currency, especially those that depend on imported inputs. The study's objectives were to determine how much financial exposure there was to exchange rate risk and how well risk-reduction tactics worked. A descriptive survey approach was used, and 30 Valley Seeds employees including managers, finance managers, accounts clerks, and the owner were given questionnaires. The study received 100% of the responses, which increased the validity and dependability of the results. The findings showed that most respondents reported losses ranging from 11% to 20% of yearly income, indicating that exchange rate fluctuations had a modest to large influence on financial performance. The most impacted areas were found to be cost structures and profit margins. Financial hedging was the most often used mitigation approach (56.7%), whilst supplier diversification and foreign reserve holding were less frequently used. A statistically significant correlation between financial performance and efficient exchange rate risk management was validated by regression analysis ($R^2 = 0.492$, $p < 0.001$). The study did, however, also find significant gaps in internal knowledge and Accounting Information Systems (AIS) usage, which impede the uptake of more sophisticated risk mitigation techniques. In order to improve financial resilience, competitiveness, and long-term sustainability, the study concludes that exchange rate risk is a systemic problem for Zimbabwean SMEs and suggests a multipronged strategy integrating financial, operational, and technology measures.

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LIST OF ABBREVIATIONS

SME	Small to Medium Enterprise
GDP	Gross Domestic Product
ROI	Return on Investment
ROE	Return on Equity
EBIT	Earnings Before Interest and Taxes

CHAPTER I

INTRODUCTION

1.0 Introduction

Exchange rate volatility poses a significant challenge to small and medium-sized enterprises (SMEs), impacting their financial performance and competitiveness. This study investigates the challenges SMEs face in managing exchange rate risk and explores strategies to mitigate the risks, using Valley Seeds as a case study. By examining existing literature and providing practical recommendations, this research aims to enhance the financial performance and competitiveness of SMEs in global markets.

1.1 Background of the study

The global economy has grown more integrated, and foreign investment and commerce are essential to the expansion and success of companies. Exchange rate risk is one of the new dangers brought about by this greater globalization. The possibility that fluctuations in exchange rates could impact a company's cash flow, liabilities, and asset values is known as exchange rate risk (Hibbert, 2020). The global economy has grown more integrated, and foreign investment and commerce are essential to the expansion and success of companies. Exchange rate risk is one of the new dangers brought about by this greater globalization. The possibility that fluctuations in exchange rates could impact a company's cash flows, liabilities, and asset values is known as exchange rate risk (Bartram, 2010). The US dollar served as the world's reserve currency under the Bretton Woods system, which was put into place in the 1940s and introduced a fixed but flexible exchange rate framework. But after it collapsed in the 1970s, floating exchange rates were adopted, which caused volatility in the world's currency markets (Eichengreen, 2008). According to Allay Annis, Ihrig, and Webb Eston (2001), foreign exchange risk has consequently emerged as a crucial element influencing businesses' cash flows and overall financial performance.

The literature has extensively demonstrated how exchange rate variations affect the financial performance of businesses. International market competitiveness, cash flow, and profitability

can all be impacted by exchange rate risk (Dominguez & Tesar, 2006). Small and medium-sized firms (SMEs) in Africa are especially concerned about this risk since they frequently do not have access to advanced financial products like derivatives (Unam et al., 2017). The African continent is also marked by macroeconomic instability, which further exacerbates currency volatility and its impact on SMEs (Adelegan, 2009).

In Zimbabwe, the economy has experienced significant challenges in recent years, including hyperinflation, which reached a world record of 231 million percent in 2008 (Nyawo & Rankin, 2020). The introduction of a multicurrency regime in 2009, primarily anchored by the US dollar, initially restored macroeconomic stability and curbed inflation. However, this regime also brought about new complications, including exposure to exchange rate fluctuations between multiple currencies used in domestic transactions (Makuyana, Mbulayi & Kang'ethe, 2020). SMEs in Zimbabwe are particularly exposed due to their limited financial capacity and lack of access to hedging mechanisms (Makuyana & Dzingirai, 2018; IMF, 2018).

Valley Seeds Private Limited, a leading seed production and distribution company in Zimbabwe, is no exception to the challenges posed by exchange rate risks. As a small- to medium-sized enterprise (SME) operating in the agricultural sector, Valley Seeds is exposed to significant exchange rate volatility, particularly due to its reliance on imported inputs and equipment (Mungai, 2015; World Bank, 2020). Exchange rate fluctuations can have a direct impact on the company's financial performance, affecting its profitability, cash flow, and competitiveness in the market (Yusuf, 2019; Shapiro, 2019). Studies have shown that SMEs in developing economies, such as Zimbabwe, often face heightened vulnerability to exchange rate risks due to limited financial resources and a lack of effective risk management strategies (Madura, 2021; Ndlela and Robinson, 2020). For agricultural businesses, exchange rate volatility is particularly concerning as it undermines operational planning and investment, especially when these firms rely on imported agricultural inputs and equipment (Mungai, 2015; Yusuf, 2019). This study, therefore, aims to investigate the impact of exchange rate risk on the financial performance of Valley Seeds Private Limited and explore effective exchange rate risk management strategies that the company can adopt to mitigate these challenges.

The agricultural sector in Zimbabwe is critical to the country's economy, accounting for approximately 15% of GDP and 40% of employment (Zimbabwe National Statistics Agency, 2020). However, the sector is vulnerable to various risks, including exchange rate risk, which can impact the profitability and competitiveness of agricultural businesses. Valley Seeds Private

Limited, as a leading player in the agricultural sector, is exposed to these risks and must develop effective strategies to manage them.

The company's exposure to exchange rate risk is exacerbated by its reliance on imported inputs and equipment. The majority of Valley Seeds' inputs, including seeds, fertilizers, and equipment, are imported from foreign countries, primarily using foreign currency. As a result, the company is vulnerable to exchange rate fluctuations, which can impact its profitability and competitiveness in the market (Agyemang Osei, 2019).

Therefore, the study will investigate the impact of exchange rate risk on the financial performance of Valley Seeds Private Limited and explore effective exchange rate risk management strategies that the company can adopt. The study will also provide valuable insights into the challenges faced by SMEs in managing exchange rate risk and the strategies they can adopt to mitigate this risk.

1.2 Problem statement

With 59.1% of the nominal GDP in 2018, Zimbabwe's small to medium enterprise (SME) sector is crucial to the nation's economy (Agency, 2019). However, because most SMEs lack the necessary tools and strategies to successfully manage their exposure to currency swings, foreign exchange risk is seriously impeding the sector's growth (Kwenda, 2017). For SMEs, the volatility of the Zimbabwean dollar has led to rising expenses, shrinking profit margins, and constrained prospects for expansion (Mlambo, 2018). Given the sector's crucial role in fostering economic stability and development, this exchange rate volatility has serious ramifications for the larger economy in addition to endangering the viability of individual SMEs (Chitambara, 2019). Therefore, it is imperative to investigate effective foreign exchange risk management strategies for SMEs in Zimbabwe.

1.3 Research objectives

The study seeks to achieve the following objectives:

- I. To investigate the effects of exchange rate risk on the financial performance of SMEs in Zimbabwe.
- II. To identify strategies that SMEs can use to mitigate exchange rate risk.

- III. To provide recommendations for Valley Seeds to implement effective exchange rate risk management strategies and enhance its financial performance.

1.4 Research questions

The research seeks answers to the following questions:

- I. What are the effects of exchange rate risk on the financial performance of SMEs in Zimbabwe?
- II. What strategies can SMEs use to mitigate exchange rate risk?
- III. How can Valley Seeds implement effective exchange rate risk management strategies to enhance its financial performance?

1.5 Significance of the study

This study aims to provide a model for mitigating exchange rate risk faced by small to medium enterprises (SMEs), particularly focusing on Valley Seeds Pvt Ltd. The significance of this research extends to several key stakeholders:

1. **1.Valley Seeds Pvt Ltd:** The results will provide insightful information about practical methods for lowering currency rate risk, facilitating improved decision-making, and improving performance all around. The study will enable Valley Seeds' decisionmakers to make well-informed decisions about their financial management procedures by clearly defining the advantages of different risk mitigation techniques.
2. **The Researcher:** By improving the researcher's research abilities and expanding their knowledge of exchange rate risks and associated models, this study will advance the researcher's academic career. It promotes both professional and personal development and is an essential step in completing the prerequisites for a Bachelor of Accounting Honours degree.
3. **The University:** Scholars and students interested in exchange rates and related dangers will be among the many readers who will be able to understand the conclusions of this study. By offering suggestions for additional reading and university library resources, the study will provide fresh perspectives to the corpus of existing material on exchange rate risks. In addition to improving students' educational experiences, this will help faculty members with their research projects.

1.6 Delimitations of the study

With a particular focus on Valley Seeds Pvt Ltd in Zimbabwe, the delimitations of this study specify its reach and the precise characteristics that direct the investigation of methods for reducing exchange rate risks that small and medium-sized businesses (SMEs) encounter. The study will focus on SMEs in the agriculture industry because of their dependence on imports and outside markets, which makes them susceptible to currency volatility. It will examine case studies and statistics from 2016 to 2024 to make sure they are pertinent to the state of the economy. Both quantitative analysis of financial performance metrics and qualitative methods, such as interviews and case studies with owners and managers of agricultural SMEs, will be used in this study. The research seeks to maintain a targeted approach by defining these boundaries, which allows comprehensive exploration of effective exchange rate risk management strategies relevant to the specified sector and context.

1.7 Limitations

This study has a number of limitations that could affect how thorough and generalizable its conclusions are. First, the study only looks at small and medium-sized businesses (SMEs) in Zimbabwe's agriculture industry, which might not fully represent the difficulties and issues that SMEs in other industries or regions encounter. As a result, the risk reduction techniques that have been developed might not be very applicable to companies operating in other contexts. Second, there is a chance of subjectivity and bias due to the dependence on qualitative data from case studies and interviews. The results of the survey may be skewed if participants give answers that represent their opinions rather than the facts.

Furthermore, the analysis is limited to the last five years, which can leave out longer-term patterns in exchange rate volatility and how they affect SMEs. This constraint may limit the study's capacity to offer a comprehensive comprehension of the dynamic character of exchange rate concerns. Lastly, even though the study concentrates on particular risk management techniques, it can ignore other important elements that affect SMEs' financial performance, like operational difficulties, market dynamics, and regulatory changes. The effectiveness of the suggested solutions may be significantly impacted by these outside variables, suggesting the need for more study in this field.

1.8 Assumptions of the study

- i. For the study to be successfully conducted, the researcher made the following assumptions.
- ii. The subjects will provide the researcher with unrestricted and honest information, essential for the study's validity.
- iii. The researcher assumes that the authorities of all respondents will offer adequate assistance and cooperation during data collection, ensuring smooth execution of the study.
- iv. The subjects selected to complete questionnaires are assumed to be familiar with the exchange rate risk model, ensuring that they can provide relevant and complete answers.
- v. It is assumed that there will be mutual understanding between the researcher and the respondents, leading to objective and unbiased responses.

1.9 Definition of terms

i. **Exchange Rate Risk:**

This refers to the financial risk that arises from changes in the exchange rate between two currencies, potentially affecting a business's profitability. It occurs when companies engage in international trade or financial activities involving foreign currencies, making them vulnerable to currency fluctuations (Madura, 2021)). For SMEs, exchange rate risk can affect operational costs, pricing, and overall financial performance (Eiteman, 2016).

ii. **Small and Medium Enterprises (SMEs):**

SMEs are defined as businesses with fewer than 250 employees and below a certain level of revenue, playing a crucial role in the economy (Nyoni and Bonga, 2018). They contribute to job creation, economic diversification, and poverty reduction but often face resource and financial constraints (OECD, 2017).

iii. **Risk Mitigation Strategies:**

These are actions and measures implemented by companies to minimize potential negative impacts from various risks, including exchange rate fluctuations. Common strategies include hedging, forward contracts, and currency swaps, which help stabilize cash flow and reduce exposure to adverse currency movements (Eiteman, 2016).

Financial Performance:

Financial performance refers to the measurement of a firm's overall financial health and its ability to generate profits. Key indicators include revenue, profitability, return on investment (ROI), and cash flow, which are used to assess how well a company is managing its resources and financial obligations (Pandey, 2015)

1.10 Summary

The first chapter established the foundation of the research, clearly defining its primary emphasis. A brief historical overview was provided to help understand the fundamental characteristics of the industry on which the study focuses. The problem statement, research objectives, and key research questions were crafted based on various elements presented in the chapter. Furthermore, the chapter justified the relevance and feasibility of the study, highlighting the importance of addressing the specific issue of exchange rate risk management in small to medium enterprises (SMEs). This justification focused on the practical application of the study's findings. The next chapter will delve into a review of the relevant literature, providing a more comprehensive understanding of the research topic and its existing theoretical framework.

CHAPTER II

LITERATURE REVIEW

2.1. Introduction

The available literature on methods for SMEs to reduce currency rate risk and its effects on financial performance is reviewed in this chapter. Case studies, empirical data, and theoretical frameworks pertaining to exchange rate risk management and its implications for SMEs are the main topics of the literature study. Using Valley Seeds as a case study, the main goal of this chapter is to determine the knowledge gap between the current study and previous studies.

2.2. Theoretical framework

The Risk Management Framework and the Financial Performance foundation serve as the theoretical cornerstones of the study. These two frameworks provide valuable insights into how small and medium-sized firms' (SMEs) exchange rate risk, risk management strategies, and financial performance are related. Among the main hypotheses that guide the research are the Efficient Market Hypothesis (EMH), Modern Portfolio Theory (MPT), and Transaction Cost Theory (TCT). Together, these ideas outline the important factors and connections that are pertinent to our study.

2.3 Theories of Exchange Rate Risk Management

There are several ideas that explain why small and medium sized businesses need to handle exchange rate risk. This study makes use of the Efficient Market Hypothesis (EMH), Transaction Cost Theory (TCT), and Modern Portfolio Theory (MPT), which collectively offer a strong basis for comprehending the complex connections among exchange rate risk, risk management tactics, and SMES financial performance. These theories are essential in determining how hypotheses are developed and how the entire research process is carried out. In particular, MPT emphasizes the value of diversity in risk mitigation, TCT looks at how transaction costs affect business decision making, and EMH guides the development of efficient exchange rate risk management techniques. The goal of the study is to provide a thorough

understanding of how SMEs may strategically manage exchange rate risks to enhance their financial performance.

2.3.1 Efficient Market Hypothesis (EMH) (Fama, E.F., 1965)

The Efficient Market Hypothesis (EMH), introduced by Fama (1965), suggests that exchange rate reflects all available information, shaped by the actions of market participants, including SMEs like Valley Seeds. As these participants process new information, it quickly becomes embedded in exchange rates, making it difficult for SMEs to predict movements or consistently profit (Albuquerque, 2017). EMH underscores the role of market forces in exchange rate determination (Brunnermeier et al., 2016), emphasizing that SMEs must adapt to market fluctuations. A solid grasp of EMH is essential for understanding exchange rate risk and developing effective risk management strategies (Gkillas et al., 2019; Ranaldo & Rossi, 2016).

2.3.2 Modern Portfolio Theory (MPT) (Markowitz, H., 1952)

Markowitz's Modern Portfolio Theory (MPT), developed in 1952, emphasizes diversification as a key strategy for managing risk and improving financial performance. For SMEs, this means spreading operations, income sources, and investments across different currencies and markets to reduce exposure to exchange rate volatility (Bender et al., 2017; Choi et al., 2018). MPT also stresses the importance of optimizing portfolio allocation to balance risk and return (DeMiguel et al., 2017). By applying these principles, SMEs can better manage exchange rate fluctuations, enhance financial performance, and support sustainable growth in an increasingly interconnected global economy.

2.3.3 Transaction Cost Theory (TCT) (Coase, R.H., 1937)

The essential role that transaction costs play in helping small and medium-sized businesses (SMEs) manage exchange rate risk is highlighted by Coase's 1937 formulation of Transaction Cost Theory (TCT). According to Williamson (2017), these expenses result from participating in market activities, such as negotiating and keeping an eye on forward or option contracts to protect against changes in exchange rates. According to Macher and Richman (2018), maximizing financial performance requires minimizing transaction costs. Hedging, diversification, and currency invoicing are just a few of the risk management techniques that

SMEs need to carefully weigh in order to lower transaction costs and improve financial results (Chen et al., 2019).

TCT emphasizes the significance of taking into account the costs related to information collection and processing, contract negotiation and monitoring, and guaranteeing regulatory compliance in the context of exchange rate risk management (Gleich et al., 2017). SMEs must carefully balance the benefits of risk management against the implementation costs because these expenses can be high (Klein, 2017). SMEs must also consider the possible expenses of risk management lapses, such as those brought on by financial difficulties or reputational harm (Boubakri et al., 2018)..

Small and medium-sized businesses can reduce transaction costs, improve financial performance, and mitigate exchange rate risk by implementing the TCT principles. This strategy could involve investing in technologies that automate risk management procedures or choosing risk management techniques that reduce transaction costs, including using online platforms or standardized contracts (Klein, 2017).

2.4 Exchange Rate Risk Management

Effective exchange rate risk management is essential for small and medium-sized enterprises (SMEs) like Valley Seeds to navigate the challenges posed by exchange rate fluctuations. This involves developing comprehensive strategies focused on identifying, assessing, and prioritizing exchange rate risks, as well as implementing measures to mitigate them. Financial hedging tools such as forward contracts, options, and swaps can help reduce exposure to currency volatility and lock in favourable exchange rates (Khan & Vieito, 2017; Hull, 2018). Additionally, non-financial strategies like adjusting pricing models or aligning revenues and expenses in the same currency are also effective (Bender et al., 2017). SMEs can further enhance financial performance by improving transaction visibility, streamlining operations, and aligning revenue models with consumer demand through better integration of financial data and organizational coordination (Kareem et al., 2021). A well-structured approach to exchange rate risk management not only harmonizes decision-making and reduces operational disputes but also enhances overall resilience and competitiveness in today's volatile global market (Li et al., 2017).

2.5 Strategies for Mitigating Exchange Rate Risk

To effectively mitigate exchange rate risk, businesses like Valley Seeds must adopt proactive strategies that anticipate and prepare for potential currency fluctuations. This involves implementing policies designed to minimize the negative impact of exchange rate volatility on financial outcomes, with key tactics including currency invoicing, hedging, and market diversification. Diversification reduces reliance on any single market or currency by spreading operations and revenue streams across multiple regions (Hull, 2018), while hedging uses financial instruments such as forward contracts, options, and swaps to protect against adverse currency movements (Khan & Vieito, 2017). Currency invoicing, a non-financial strategy, involves pricing exports in the local currency to limit exposure to exchange rate changes (Boz et al., 2020). Integrating these strategies into their operational frameworks enables SMEs like Valley Seeds to enhance resilience to currency risk. For example, diversification balances potential losses in one market with gains in another, hedging provides a financial buffer against unexpected exchange rate shifts, and currency invoicing simplifies foreign exchange exposure management. Collectively, these approaches support financial stability while enhancing profitability and competitiveness in an ever-evolving global economy.

2.5.1 Diversification

A key tactic for controlling exchange rate risk is diversification, particularly for small and medium-sized businesses (SMEs) doing business internationally. Small and medium-sized businesses can lessen their exposure to exchange rate volatility by diversifying their activities, revenue sources, and investments across multiple countries and currencies (Hull, 2018). Through diversification, SMEs can lower their overall risk by offsetting possible losses in one area or currency with gains in another. Exporting to several nations with various currencies, for instance, can lessen the effects of adverse fluctuations in exchange rates (Khan and Vieito, 2017). Exchange rate risks can also be decreased by implementing tactics like investing in overseas companies and carrying out transactions in several currencies (Boz et al., 2020).

By employing diversification as part of their broader risk management framework, SMEs like Valley Seeds can safeguard their financial performance and remain competitive in the global marketplace.

2.5.2 Hedging

Small and medium-sized businesses (SMEs) use hedging as a primary tactic to reduce currency rate risk. In order to reduce or completely remove exposure to currency swings, financial instruments like forward contracts, options, and swaps are used. By locking in a set currency rate for a future transaction, forward contracts give SMEs financial planning certainty (Hull, 2018). Offering flexibility in risk management, options provide you the right—but not the obligation—to purchase or sell foreign currency at a fixed exchange rate (Khan and Vieito,

2017). Likewise, currency swaps allow SMEs to convert one currency into another at a fixed rate, so reducing their exposure to adverse rate fluctuations. (Boz et al., 2020). By utilizing these tools, SMEs can protect their financial performance from the negative impacts of exchange rate volatility. This approach provides a proactive mechanism to stabilize revenues and costs, ensuring better financial predictability and resilience in the global market.

2.5.3 Currency Invoicing

Currency invoicing pricing goods or services in the local currency is an effective strategy for SMEs to mitigate exchange rate risks. By stabilizing revenue streams, it enhances predictability in cash flows, supports consistent profit margins, and improves financial planning and cost control (Boz et al., 2020). This approach reduces SMEs' vulnerability to currency fluctuations and offers greater control over pricing strategies. However, its effectiveness can be influenced by external factors. For instance, foreign buyers may prefer to transact in their own currency, limiting SMEs' ability to invoice in domestic currency. In such scenarios, SMEs should consider complementary risk management tools such as forward contracts, currency options, or diversifying across multiple markets and currencies to spread exposure and ensure financial stability (Madura, 2020; Shapiro, 2018). Combining currency invoicing with other hedging strategies allows SMEs to develop a more robust defence against exchange rate volatility.

2.5.4 Pricing Strategies

Small to medium-sized businesses (SMEs) that operate in foreign markets can effectively reduce exchange rate risk by using pricing techniques. SMEs can safeguard their profit margins and reduce financial risk by modifying prices to reflect changes in exchange rates (Hull, 2018). One way to ensure that the impact of currency volatility is represented in the final costs is to incorporate exchange rate adjustments into pricing algorithms. Implementing price adjustment mechanisms, which allow companies to modify pricing in response to currency fluctuations, is another popular strategy (Boz et al., 2020). In order to shift the exchange rate risk to the foreign

buyer and lessen their direct exposure to currency swings, SMEs may also choose to establish prices in their own currency (Khan and Vieito, 2017).

While pricing strategies can offer significant benefits, their effectiveness depends on market conditions and buyer preferences. For instance, foreign buyers may resist pricing in the seller's domestic currency, requiring SMEs to consider alternative approaches such as hedging or diversification. Nevertheless, implementing proactive and adaptive pricing strategies can help SMEs like Valley Seeds maintain competitiveness and financial stability in international market

2.5.5 Risk Management Tools

In addition to broader strategic approaches, SMEs can utilize various financial risk management tools to reduce exchange rate risk, including currency swaps, futures, and options. Currency options provide flexibility by granting the right, but not the obligation, to buy or sell a specified amount of foreign currency at a predetermined exchange rate, helping SMEs manage currency risk more dynamically (Hull, 2018). Currency futures, on the other hand, are standardized contracts that obligate the exchange of a set amount of foreign currency at a fixed rate on a specific future date, thereby stabilizing cash flows for future transactions (Khan & Vieito, 2017). Currency swaps enable SMEs to convert cash flows from one currency to another, often at agreed-upon rates, effectively reducing exposure to exchange rate volatility (Boz et al., 2020). By employing these tools, SMEs can improve financial predictability and protect themselves from potential losses caused by unfavourable currency movements. For instance, futures provide certainty for planned transactions, while options offer protection against sudden adverse changes in exchange rates. When used alongside other strategies such as pricing adjustments, hedging, and market diversification, these financial instruments empower SMEs like Valley Seeds to enhance financial stability and successfully navigate the complexities of international markets..

2.6 Financial Performance

Financial performance is a key indicator of a company's ability to generate revenue, control costs, and achieve profitability, and for SMEs, strong financial performance is vital for competitiveness and long-term growth—especially in the face of exchange rate volatility. Fluctuating currency rates present significant challenges in international markets, impacting operating costs, profit margins, and overall financial stability (Madura, 2020; Shapiro, 2018). To mitigate these risks and strengthen financial outcomes, effective exchange rate risk

management is essential. Common performance metrics such as earnings before interest and taxes (EBIT), return on equity (ROE), and return on investment (ROI) provide critical insights into a firm's profitability and financial health. Research shows that SMEs can enhance their ability to manage currency risks, sustain competitiveness, and build financial resilience by adopting robust strategies such as hedging, market diversification, and pricing adjustments (Al Mansoori et al., 2024; Hull, 2018). By leveraging these tools, SMEs can not only shield themselves from adverse currency movements but also improve their financial metrics, ultimately leading to increased profitability and sustainability in a volatile global market.

2.7 Metrics of Financial Performance

Metrics of financial performance are essential for evaluating a company's effectiveness, profitability, and general health. These metrics provide insight into a business's ability to generate revenue, control costs, and generate a profit. They are particularly useful for assessing the effectiveness of strategies such as exchange rate risk management (Hull, 2018). Examples of commonly used metrics are Return on Equity (ROE), Return on Investment (ROI), Earnings Before Interest and Taxes (EBIT), Net Profit Margin, Current Ratio, Debt-to-Equity Ratio, and Asset Turnover. By monitoring and assessing, businesses can identify areas for improvement, make informed decisions, and enhance overall performance. these indicators.(Boz et al., 2020).

2.7.1 Return on Investment (ROI)

ROI measures the return on a company's investments and is calculated by dividing net income by the total investment. It provides data on a business's potential to generate profits from its investments and is widely used to evaluate the profitability of specific business units or initiatives.es. (Hull, 2018).

2.7.2 Return on Equity (ROE)

Calculated by dividing net income by total shareholder equity, ROE evaluates profitability from the viewpoint of the shareholders. It shows how effectively a company makes money off of its equity foundation. (Boz et al., 2020).

2.7.3 Earnings Before Interest and Taxes (EBIT)

EBIT measures a company's ability to make money from operations, which gives information about its operating profitability. Revenue less operating expenses and cost of goods sold is how it is determined, and it is very helpful for evaluating operational performance. (Hull, 2018).

2.7.4 Net Profit Margin

By dividing net income by revenue, the net profit margin is computed, which expresses profitability as a percentage of revenue. A company's ability to convert revenues into real profit is shown by this measure.

2.7.5 Current Ratio

A company's liquidity and capacity to fulfill short-term obligations are gauged by the current ratio. It gives information on a company's financial stability and is computed as current assets divided by current liabilities (Boz et al., 2020).

2.7.6 Ratio of Debt to Equity

The debt-to-equity ratio calculates how much debt and financial leverage a company has. It provides a measure of the harmony between debt and equity financing and is computed as total debt divided by total shareholder equity (Hull, 2018).

2.7.7 Turnover of Assets

Asset turnover measures how effectively a business generates revenue from its resources. It is calculated as revenue divided by total assets and gives information on how successfully a business uses its asset base to drive sales.(Boz).et al., 2020).

2.8 Risk Management Strategies and Financial Performance

2.8.1 Effects of Diversification on Financial Performance

The financial performance of small and medium-sized businesses (SMEs) can be greatly impacted by diversification, which is a crucial exchange rate risk management tactic. SMEs can lessen their exposure to currency rate volatility and decrease their dependence on any one market by spreading their activities and income sources across several markets and currencies (Hull, 2018). Diversification can result in better financial outcomes, such as increased revenue,

profitability, and market share, according to research. (Boz et al., 2020). It enables SMEs to minimize potential losses while tapping into new opportunities, making it an effective approach for long-term growth and financial resilience

2.8.2 Effects of Hedging on Financial Performance

One popular method for reducing exchange rate risk is hedging, which helps SMEs cut expenses, increase profitability, and stabilize cash flows. SMEs can reduce their exposure to adverse currency changes by using financial products including forward contracts, options, and swaps. For instance, options offer flexibility by giving traders the right but not the responsibility to trade at a preset rate, whereas forward contracts enable companies to lock in exchange rates for upcoming transactions (Hull, 2018). Conversely, currency swaps lessen the impact of exchange rate volatility by making it easier to interchange cash flows in various currencies. (Mburugu, 2014).

Effective hedging techniques have been linked to better financial outcomes, such as higher revenue, profitability, and market share, according to research. Hedging strategies and financial resilience, for example, are positively correlated, especially when employing instruments like futures and swaps, according to a study on the financial performance of companies listed on the Zimbabwe Stock Exchange (Basvi, 2024). In a similar vein, Mediatrix Machio (2021) emphasized the significance of timing and instrument selection in hedging's contribution to the financial stability of Kenya's commercial banks.

The effectiveness of hedging depends on various factors, including the type of instrument used, the level of hedging, and the timing of implementation. SMEs must carefully analyze these factors to ensure that their hedging strategies are effective in reducing exchange rate risk and enhancing financial performance. By reducing their exposure to currency fluctuations, SMEs can minimize potential losses, stabilize operations, and achieve sustainable growth.

2.8.3 Effects of Currency Invoicing on Financial Performance

The financial success of small and medium-sized businesses (SMEs) is significantly influenced by the currency used for export invoices. While a foreign currency invoice can lower the buyer's exposure to exchange rate risk, it also exposes the SME to possible losses in the event that the foreign currency gains. Invoicing in the home currency, on the other hand, transfers exchange

rate risk to the buyer, assisting the SME in maintaining steady profits but possibly decreasing its ability to compete in global markets. (Mbubi, 2013).

A number of variables, such as the firm's pricing strategy, demand elasticity, and market rivalry, affect how currency invoicing affects financial performance. For example, companies with great pricing power may choose to use domestic currency invoicing to stable revenues, whereas those operating in highly competitive markets may prefer to use the buyer's currency to maintain market share. (Accounting Insights, 2025).

Research has shown that a SME's income, expenses, and profitability are all greatly impacted by the currency used for invoicing. For instance, studies conducted on companies listed on the Nairobi Securities Exchange revealed that currency invoicing practices had a direct impact on financial results, especially in situations where exchange rates were unstable (Mbubi, 2013). Furthermore, good currency invoicing procedures can lower transaction costs and increase financial predictability, both of which boost financial performance (Accounting Insights, 2024).

SMEs can efficiently manage exchange rate risk and improve their financial performance by carefully examining market conditions and comprehending the ramifications of currency invoicing.

2.8.4 Effects of Pricing Strategies on Financial Performance

Pricing strategies are crucial for Small to Medium Enterprises (SMEs) operating in international markets, as they directly influence revenue, profitability, and competitiveness. Adopting a flexible pricing strategy, where prices are adjusted to reflect changes in exchange rates, can help SMEs reduce their exposure to exchange rate risk and maintain their market position. Conversely, a fixed pricing strategy, in which prices remain constant despite exchange rate movements, may risk reduced profitability if exchange rates shift unfavourably (Madura, 2020).

The impact of pricing strategies on financial performance is also shaped by market-specific factors such as competition, demand elasticity, and cost structures. For example, SMEs in highly competitive markets may need to align pricing strategies with prevailing exchange rates to remain attractive to buyers (Chowdhury and Islam, 2022). Additionally, firms with elastic demand might adopt exchange rate-adjusted pricing mechanisms to manage customer retention while mitigating risks associated with currency fluctuations (Boz et al., 2020).

Empirical studies have revealed that businesses incorporating dynamic pricing strategies, which account for exchange rate fluctuations, often report improved financial performance. This includes increased profitability, stabilized revenues, and sustained competitiveness in global markets (Chowdhury and Islam, 2022). SMEs must therefore assess the external environment and their internal capabilities to select the most effective pricing strategies, ensuring financial stability and growth

2.8.5 Effects of Risk Management Tools on Financial Performance

Derivatives, options, and futures are vital risk management tools that enable SMEs to enhance financial performance and mitigate exchange rate risks. These instruments help stabilize financial outcomes, reduce potential losses, and manage currency volatility. For example, currency futures provide a fixed exchange rate for future transactions, ensuring certainty in financial planning, while currency options offer flexibility by allowing businesses to hedge against unfavorable exchange rate movements without obligating them to execute the trade (Hull, 2018). The effectiveness of these tools depends on factors such as the type of instrument used, timing of implementation, and the extent of hedging applied. Research indicates that firms that strategically deploy derivatives to manage exchange rate risks often experience better operational efficiency, profitability, and revenue stability. Al Mansoori et al. (2024) found that companies using derivatives for active risk management tend to outperform others financially due to reduced exposure to market volatility. Additionally, these tools can help lower transaction costs and boost operational efficiency. Boz et al. (2020) noted that firms utilizing financial derivatives are better positioned to offset the negative impacts of currency fluctuations, thereby strengthening their competitiveness in global markets. Tools like currency swaps can also align cash flows with foreign currency obligations, supporting long-term financial sustainability (Madura, 2020). For SMEs like Valley Seeds, integrating such risk management tools into their financial strategies can significantly increase resilience to exchange rate volatility and improve overall financial performance. However, to maximize these benefits, SMEs must carefully assess their financial needs, prevailing market conditions, and the suitability of each instrument.

2.9 Conceptual Framework

The conceptual framework for this study depicts the relationship between the dependent variable (Financial Performance) and the independent variables (strategies for mitigating

exchange rate risk). The framework is based on the literature review and the research objectives (Kareem et al., 2021; Al Mansoori et al., 2024).

Figure 1: Conceptual Framework

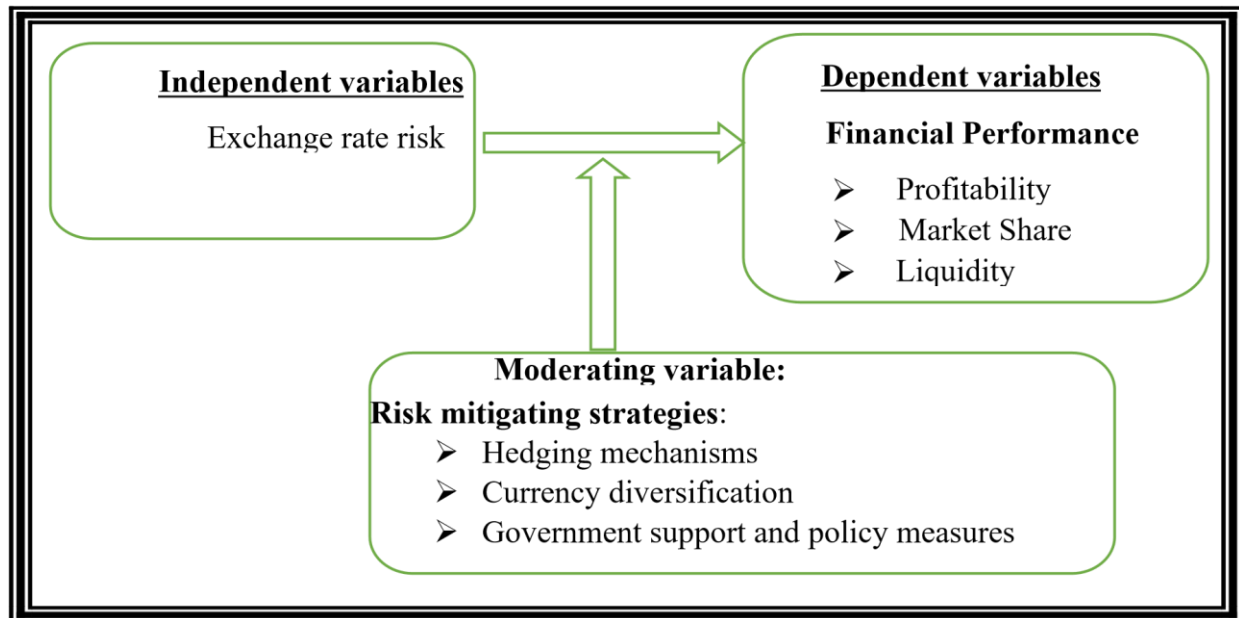


Figure 1: Conceptual Framework

Dependent Variable:

Financial Performance (measured by Return on Investment (ROI), Return on Equity (ROE), Earnings Before Interest and Taxes (EBIT), Net Profit Margin, Current Ratio, Debt-to-Equity Ratio, and Asset Turnover)

2.10 Empirical evidence

The empirical evidence refers to past research similar to this study. Empirical evidence shows how these researches relate to or differ from this current study. It was very important in establishing the research gap. The literature below begins with the most recent publication.

2.10.1 Civelek, M., Erben, M., Kuděj, M., Vincúrová, Z., and Hussain, W. M. H. (2024)

Civelek et al. investigated the impact of risk management capabilities on the export intentions of small and medium-sized enterprises (SMEs) across various countries, aiming to explore how financial, legal, and market risk management strategies influence SMEs' ability to handle external challenges, including exchange rate volatility. The study used a quantitative approach, gathering information from a sample of 250 export-focused SMEs in Europe and Asia using

structured questionnaires. Currency hedging, market diversity, and the use of digital tools for risk assessment were identified as essential measures. The results showed that SMEs with strong risk management frameworks were more likely to increase their export activities and achieve superior financial performance. In order to improve their export capabilities, the authors advised SMEs to invest in thorough risk management training and resources. They also suggested that they investigate cutting-edge digital solutions to better evaluate and reduce risks associated with exchange rate fluctuations and other external factors.

2.10.2 Smith, J. P., and Brown, L. R. (2023)

An extensive study of the effects of exchange rate volatility on the financial stability of 170 small and medium-sized businesses (SMEs) in the UK was carried out by Smith and Brown (2023). The authors sought to capture the complex links between exchange rate swings and these enterprises' financial performance by using advanced econometric modelling as their research methodology. According to the study, SMEs who actively used risk management tools like currency swaps and forward contracts showed notable improvements in their financial resilience, making it easier for them to endure the negative consequences of fluctuating exchange rates. The study's conclusions demonstrated that companies that were skilled at hedging against currency risk were able to preserve steady cash flows during volatile times in addition to safeguarding their profit margins. Economic periods, which was crucial for sustaining operations and pursuing growth in dynamic market environments. In addition, the authors promoted a proactive approach to financial planning and underlined the vital significance of including exchange rate risk management within the larger framework of company financial strategy. Based on these observations, Smith and Brown offered SMEs a number of important suggestions, advising them to actively integrate a wide range of risk management instruments, especially currency swaps and forward contracts, into their financial procedures in order to greatly reduce the potentially negative impacts of exchange rate volatility on their business operations. They also recommended that SMEs should spend money on resources and training to improve their knowledge of these financial instruments so that company executives are prepared to make wise choices. In the end, the study emphasized the need for an all-encompassing approach to risk management since it not only

2.10.3 Vijayalakshmi, B., Subashini, G., Jayalakshmi, M., and Umayal, C. (2022)

Vijayalakshmi et al. (2022) conducted a comprehensive examination of the perceptions of small and medium-sized enterprises (SMEs) regarding foreign exchange risk management, utilizing

primary data collected from a sample of 71 export-oriented SMEs located in South India. Employing a qualitative research methodology, the study aimed to analyze the adoption and effectiveness of various hedging strategies, including forward contracts and natural hedging, in managing currency risk. The findings indicated that SMEs with higher revenue levels were more inclined to employ sophisticated financial instruments such as derivatives, which provided them with enhanced capabilities to mitigate foreign exchange risks. In contrast, smaller firms tended to rely on more cost-effective and simpler risk management methods, reflecting their limited resources and financial literacy. Based on these insights, the study emphasized the critical need for financial education tailored to SMEs, recommending that targeted training programs be established to improve their understanding of risk management practices. By enhancing their knowledge and skills in advanced hedging strategies, SMEs could better navigate the challenges posed by foreign exchange volatility, ultimately leading to greater financial stability and improved performance in the global market.

2.10.4 Chowdhury, M. A., and Islam, M. S. (2022)

Chowdhury and Islam (2022) conducted a detailed investigation into the role of financial literacy in managing exchange rate risks among small and medium-sized enterprises (SMEs) in Bangladesh. The study involved a comprehensive survey of a sample consisting of 100 SMEs across various industries, specifically designed to evaluate their levels of financial literacy and the risk management strategies they employed to navigate currency volatility. Adopting a quantitative research methodology, the researchers analyzed how financial literacy influenced the firms' capabilities to implement hedging and diversification strategies. The findings revealed that SMEs with higher levels of financial literacy were significantly more adept at utilizing effective risk management practices, which led to notable improvements in profitability and a marked reduction in financial stress during periods of currency volatility. Moreover, these financially literate firms displayed greater overall resilience, enabling them to withstand adverse economic conditions more effectively than their less literate counterparts. In light of these insights, the authors strongly recommended that SMEs prioritize enhancing their financial literacy through targeted training programs, workshops, and resources tailored to their specific needs. By fostering a deeper understanding of financial concepts and risk management techniques, SMEs would be better equipped to make informed decisions regarding currency risk, ultimately leading to enhanced financial stability and performance in the competitive global marketplace.

2.10.5 Nguyen, T. T., and Nguyen, H. T. (2021)

A thorough evaluation of the effect of exchange rate risk management on the profitability of 125 export-oriented small and medium-sized businesses (SMEs) in Vietnam was carried out by Nguyen and Nguyen (2021). Using a strong approach that comprised questionnaires and financial data analysis, the study evaluated the efficacy of several hedging strategies employed by these companies. According to the research, businesses that actively used hedging techniques, like currency options and futures contracts, saw noticeably better financial results than those that relied on more passive methods of managing exchange rate risks. In particular, businesses that used these advanced financial tools showed improved overall financial stability and profit margins, both of which are critical in the fiercely competitive export market. Understanding how crucial it is to implement efficient risk management techniques, the authors highlighted the need for governmental intervention to facilitate and support SMEs. They recommended the establishment of tailored programs that provide both financial aid and training aimed at helping SMEs implement effective risk management strategies. Such initiatives would not only equip SMEs with the necessary knowledge and tools to navigate the complexities of exchange rate volatility but also foster an environment conducive to sustained growth and profitability, ultimately contributing to the overall economic development of Vietnam.

2.10.6 Ali, S., and Khan, R. (2021)

In a study involving 150 export-oriented small and medium-sized businesses (SMEs) in Pakistan, Ali and Khan (2021) thoroughly examined the connection between currency rate risk management and financial success. By employing a range of quantitative research techniques, such as thorough surveys and meticulous financial performance analysis, the researchers aimed to identify the ways in which various risk management approaches affected these companies' profitability. Businesses that used currency derivatives, like forward contracts, saw a notable 15% increase in profitability over those that did not use any risk management techniques, according to the study, highlighting the vital role that efficient exchange rate risk management plays in improving financial outcomes, particularly for SMEs operating in the volatile and international trade's competitive environment. Additionally, proactive hedging helped businesses safeguard their profit margins and increase financial stability, which allowed them to make well-informed growth decisions in spite of external economic uncertainty. Given these strong findings, the authors argued for more access to financial derivatives and hedging tools in developing nations, pointing out that many SMEs are frequently hampered by a lack of

knowledge and availability of these instruments. They underlined the need for financial institutions and governments to improve the business environment for SMEs, notably through financial education-promoting programs and laws. Such a strategy could greatly improve financial results for SMEs by enabling these companies to efficiently control their exposure to currency swings while also bolstering the

2.10.7 Badshah, I., and Borgersen, T.-A. (2020)

Using data gathered from 160 Norwegian SMEs involved in foreign commerce, Badshah and Borgersen (2020) carried out a thorough investigation of how SMEs handle currency rate risks to safeguard their profitability. To obtain a thorough grasp of the risk management techniques used by these companies, the study used a mixed-methods approach, including quantitative surveys and qualitative interviews. The researchers found that operational hedging, external hedging strategies like options and swaps, and natural hedging are some of the most important ways to manage exchange rate risks. The fact that companies using a variety of hedging techniques reported being more resilient to currency swings was one of the important findings, highlighting how crucial it is to include risk management procedures into everyday business operations. Given these results, the authors suggested that SMEs adopt a multifaceted approach to exchange rate risk management and emphasized the need for ongoing education and training for business owners to enhance their understanding of available hedging techniques. They suggested that policymakers and industry associations should facilitate access to resources and knowledge that can empower SMEs to implement effective risk management strategies, ultimately strengthening their financial stability and competitiveness in the global market.

2.10.8 Moyo, T., and Dube, S. (2020)

Moyo and Dube (2020) conducted an insightful study examining the strategies employed by 120 small and medium-sized enterprises (SMEs) in Zimbabwe to mitigate exchange rate risks within a hyperinflationary context. Utilizing a mixed-methods research approach, the study combined quantitative data collection, through structured surveys, with qualitative interviews to gain a comprehensive understanding of the innovative strategies utilized by these firms. The research identified several effective mechanisms for reducing financial risk, including multicurrency pricing, barter trade, and the formation of strategic alliances. Firms that adopted these innovative strategies reported significant improvements in financial stability and business continuity, despite experiencing severe currency fluctuations. Based on their findings, the authors recommended that SMEs cultivate a culture of innovation in their approach to risk

management, urging them to explore and implement alternative strategies that could further enhance their resilience to economic instability. Additionally, they suggested that policymakers should create a supportive environment that facilitates access to diverse financial instruments and promotes educational initiatives to help SMEs better understand and navigate the complexities of exchange rate risk management, ultimately reinforcing their ability to thrive in challenging economic circumstances.

2.10.9 Osei, K. A., and Agyeman, J. (2019)

The currency rate risk issues that 140 small and medium-sized businesses (SMEs) in Ghana confront were thoroughly examined by Osei and Agyeman (2019). The study used a quantitative research technique and structured surveys to gather information about the challenges these businesses face when it comes to managing exchange rate risks. The study found that two major barriers to SMEs' ability to successfully manage currency swings are limited access to financial instruments and a lack of awareness about risk management. It is noteworthy that businesses that used natural hedging strategies, including matching costs and revenues in the same currency, were less vulnerable to unfavourable currency fluctuations. The authors came to the conclusion that putting in place capacity-building programs targeted at improving SMEs' knowledge and use of financial instruments and risk management techniques might significantly improve their financial performance. To support this, they suggested that industry players and policymakers work together to create training materials and programs that enable SMEs to successfully reduce exchange rate risks, promoting increased financial stability and resilience in this crucial economic sector.

2.10.10 Mahapa, M. (2016)

Mahapa (2016) surveyed 200 SMEs from a range of industries in order to investigate how South African SMEs manage their exposure to foreign exchange risk. The study collected information via structured questionnaires using a quantitative research approach in order to examine the risk management tactics used by these companies. The study found that hybrid strategies which combine multi-currency spot rates and hedging tools were very successful in reducing foreign exchange risk. The results demonstrated the importance of financial literacy in effectively managing currency swings by showing that SMEs with organized financial plans and instruments had better financial stability. In light of these findings, Mahapa suggested that SMEs make an investment to improve their financial literacy by giving them access to resources and training on managing foreign exchange risk. The author also recommended that financial

institutions and legislators work together to provide customized financial products and advisory services that help SMEs create strong risk management plans, which will ultimately create a more resilient business climate for these companies.

2.11 Research gap

Although exchange rate risk management and its effects on financial performance have been the subject of much research, there is a noticeable dearth of studies that particularly address SMEs in the agricultural seed sector. A large portion of the literature examines general or region-specific strategies such hybrid hedging techniques and multi-currency pricing, as demonstrated by research by Mahapa (2016) and Moyo and Dube (2020). However, little is known about the sector-specific difficulties that SMEs like Valley Seeds, which mostly depend on foreign alliances and import-export activities, confront. Furthermore, SMEs with limited access to financial instruments and resources have received less attention, despite the fact that more general research by Smith and Brown (2023) and Nguyen and Nguyen (2021) highlight proactive tactics including market diversification and natural hedging. In order to close this gap, this study will look at the effectiveness of exchange rate risk management strategies tailored to the operational and financial constraints of SMEs in the agricultural seed sector, contributing to practical knowledge and offering actionable recommendations for enhanced financial resilience (Civelek et al., 2024; Ali and Khan, 2021).

2.12 Summary

This chapter provides a comprehensive analysis of the concepts related to strategies for mitigating exchange rate risk faced by small to medium enterprises (SMEs) for enhancing financial performance, with a specific focus on Valley Seeds. It discusses the theoretical frameworks underpinning exchange rate risk management strategies and their implications for financial stability. The chapter also reviews empirical evidence from previous studies, highlighting effective strategies such as hedging, natural hedging, market diversification, and financial literacy. Furthermore, it identifies gaps in the existing literature, particularly the need for sector-specific research tailored to SMEs in the agricultural seed industry. The following chapter will outline the research design and methodology adopted for this study.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter's goal is to give a summary of the methods and approaches used to look at ways small and medium-sized businesses (SMEs) might improve their financial performance by reducing exchange rate risk, using Valley Seeds as a case study. In order to accomplish the goals of the study, this chapter covers the research philosophy, design, sample size, research tools, and data collection techniques.

3.2 Research paradigm

To address the limitations of both qualitative and quantitative methods, the researcher adopted a pragmatic paradigm using a mixed-methods approach with Valley Seeds as a case study (Creswell & Plano Clark, 2018). Quantitative (positivist) research helps explore relationships between measurable variables, such as the impact of exchange rate fluctuations on financial performance, and allows for generalization across a large sample (Bryman, 2016). In contrast, qualitative (interpretive) research examines complex issues like decision-making processes and risk mitigation strategies, offering deep, contextual insights that are not generalizable (Denzin & Lincoln, 2018). By integrating both approaches, the study aimed to provide a well-rounded understanding of how SMEs manage exchange rate risk and its effect on financial performance (Tashakkori & Teddlie, 2010).

3.3 Research Design

The study adopted a descriptive survey research design to analyze Valley Seeds' exchange rate risk mitigation strategies. This design was chosen for its ability to collect both qualitative and quantitative data, offering a comprehensive understanding of the topic. It allowed the researcher to accurately describe key variables, such as the impact of exchange rate fluctuations on financial performance, and to identify trends and correlations through quantifiable data. Descriptive survey designs are particularly effective in financial research, providing valuable insights with reduced bias compared to methods like in-depth case studies (Kareem et al., 2021;

Al Mansoori et al., 2024). Additionally, by using Valley Seeds as the unit of analysis, a case study approach enabled an in-depth examination of the company's experiences and risk mitigation strategies. Data collection through questionnaires and interviews supported a rich understanding of both the quantitative trends and the qualitative context surrounding the case.

This design is also cost-effective and can greatly reduce financial constraints without negatively affecting the effectiveness of the research. Overall, the descriptive survey research design provided a suitable framework for examining the strategies used by Valley Seeds to mitigate exchange rate risk and enhance financial performance.

3.3.1 Justification

The descriptive survey research design is well-suited for this study as it enables an in-depth analysis of Valley Seeds' exchange rate risk mitigation strategies without requiring a large sample size. It allows researchers to observe and report phenomena as they occur, offering an authentic view of the issue an approach supported by recent literature (Kareem et al., 2021; Al Mansoori et al., 2024). This design facilitates the collection of detailed data on the specific strategies employed by the company, helping to uncover how effectively it manages exchange rate risks. It also minimizes bias and preconceptions, allowing for the identification of patterns and relationships between variables. Moreover, the descriptive survey provides a structured framework for examining Valley Seeds' risk management practices within the context of its business operations, offering a comprehensive understanding of its experiences, challenges, and mitigation tactics.

3.4 Target Population

The study targeted the 50 employees and management of Valley Seeds, a small-to-mediumsized enterprise (SME) in Zimbabwe. Defining a clear target population is essential for gathering relevant data on the strategies used to mitigate exchange rate risk and their impact on financial performance. This clarity enables accurate evaluation of the effectiveness of various risk management techniques in response to currency volatility (Kareem et al., 2021; Al Mansoori et al., 2024). The target group included staff with experience in managing exchange rate risk across departments such as accounting, finance, and management, as well as senior leadership responsible for strategic decision-making. Focusing on this specific group allowed the study to gain detailed and contextualized insights into how SMEs like Valley Seeds navigate exchange rate risks to enhance financial performance.

3.5 Sample Size

The sample size calculation procedure developed by Krejcie-Morgan (1970) was used to establish the sample size for this investigation. The 50 Valley Seeds employees were the target population.

Applying the Krejcie-Morgan formula, which is $(X^2 NP(1-P))/(d^2 (N-1)+X^2 P(1-P))$,
Where:

S = required sample size

X = Z value (1.96 for 95% confidence level)

N = population size (50 employees)

P = population proportion expressed as a decimal (assumed to be 0.5, i.e., 50%) **d** = degree of accuracy (5%), expressed as a proportion (0.05); it is the margin of error.

Substituting the values into the formula, the required sample size was calculated to be 36 employees.

However, the sample size was changed to 30 employees because the case study is cantered on a single company (Valley Seeds). It is believed that this sample size will yield accurate and trustworthy study data. 30 employees will make up the sample size, and information will be gathered via questionnaires and interviews to give a thorough grasp of Valley Seeds' methods for reducing currency rate risk and improving financial performance.

3.6 Sampling Techniques

To choose the sample, the researcher employed probability sampling more especially, simple random sampling. Every member of the population had an equal chance of getting chosen thanks to this method. Out of the target population of 50 Valley Seeds employees, a sample size of 30 employees was selected. The Krejcie-Morgan (1970) sample size calculation formula was used to determine the sample size. Because it eliminates bias and guarantees that the sample is representative of the population, the simple random sampling technique was employed to

choose the sample. The researcher can also draw conclusions about the population from the sample data by using this technique.

3.6.1 Simple Random Sampling

For the questionnaire, the researcher employed simple random sampling, a probability sampling technique. Every employee in Valley Seeds' demographic had an equal probability ($0 < X < 1$) of being chosen for the sample thanks to this technique. Reducing selection bias and calculating sampling error are two benefits of simple random sampling (IJARESM Publication, 2024). Additionally, this technique is the simplest way to use probability sampling.

Simple random sampling, however, has certain drawbacks as well. It might not choose enough people who possess the desired trait, for example, particularly if it is rare. Furthermore, it could be difficult to define a comprehensive sample frame and get in touch with the chosen participants, especially if they are dispersed over a large geographic area. Out of the 50 employees of Valley Seeds, a sample of 30 employees was chosen for this study using simple random selection. This approach guaranteed the sample's population representation and the accuracy and dependability of the data gathered.

3.7 Research Instruments

Primary data for this study was gathered using questionnaires. The researcher aimed to increase the validity and reliability of the research findings by utilizing a variety of research instruments. The questionnaire was structured to gather information on the strategies used by Valley Seeds to mitigate exchange rate risk, while the interviews were used to gather more in-depth and contextual information on the company's experiences, challenges, and strategies for managing exchange rate risk.

3.7.1 Questionnaires

In order to obtain both quantitative and qualitative data from Valley Seeds employees, the researcher employed the questionnaire method. In order to get as much information as possible and keep things simple, closed-ended questions were employed (Taherdoost, 2021). The use of questionnaires provided several advantages, including quick collection of information, precise responses, and the ability to collect data from a large number of respondents. Additionally, the

questionnaire format is familiar to most respondents, making it simple and quick for them to complete, thereby giving the researcher enough time to analyze the data collected.

However, a significant disadvantage of questionnaires is that individuals may have a tendency to overlook crucial details. In order to counteract this, the researcher thoroughly examined the questionnaire, taking into account the respondents' educational backgrounds before distributing it, to guarantee that it would yield accurate, genuine, and trustworthy results. Additionally, the questionnaires were selected due to their ease of administration and the ease of analysis of the collected data (Akinci and Saunders, 2015). The purpose of the questionnaire was to collect data on Valley Seeds' exchange rate risk mitigation tactics and how these tactics affected the company's financial results.

3.8 Data Sources

The researcher used primary data for this study.

3.8.1 Primary Data

Primary data for the study came from questionnaires given to Valley Seeds' management and staff. Respondents with expertise and experience in managing exchange rate risk and financial performance provided the primary data. This research benefited from the use of primary data since it gathered particular information that met the study's goals. Primary data is up to date and pertinent to the issue being studied (Ajayi, 2016). In this instance, the key data gathered shows Valley Seeds' present currency rate risk mitigation tactics and their effects on financial performance. The use of primary data ensured that the research findings were accurate, reliable, and relevant to the research problem, providing valuable insights into the strategies used by Valley Seeds to mitigate exchange rate risk and enhance financial performance.

3.9 Validity and Reliability

This section discusses the validity and reliability of the study.

3.9.1 Validity

To ensure validity, a pilot test was conducted before issuing the questionnaire to 10 employees of Valley Seeds. The pilot test enabled the researcher to adjust the technical jargon and ensure that the questions in the questionnaire were clear and concise. Pre-testing is a means to test the

sample procedure (Hilton, 2015). The questionnaire assisted in gathering the necessary data, and the research tools employed were precise. In order to estimate the time and resources required to conduct the research and to identify sampling issues, the questionnaires and sample designs were also first pretested. As Creswell (2012) posits that the validity of questionnaires should be logical and factually sound, this exercise also allowed the researcher to make sure that the questionnaires generated the necessary data and that the targeted respondents comprehended the technical jargon.

3.9.2 Reliability

The Cronbach Alpha test was conducted to test the reliability of the questionnaire results.

Cronbach alpha coefficients measure the consistency reliabilities of the research instrument (Bonett and Wright, 2015). A reliability coefficient of 0.80 or higher is regarded as good, and the higher the coefficient, the more reliable the research instrument is (Bonett and Wright, 2015). Therefore, the reliability coefficient of 0.974 was higher and regarded as good and acceptable. Reliability was achieved by using well-designed questionnaires to avoid ambiguous questions as well as conducting interviews to ensure that the representatives of the chosen samples answered the same set of questions and that each representative of the chosen sample answered the same questionnaire, which contained the same questions (Yin, 2011).

3.10 Pilot Study

Using Cronbach's alpha, the researcher tested the questionnaire's validity and reliability in a pilot study. The findings assisted the researcher in removing and changing inquiries that failed to adequately assess the study's constructs. Hilton (2015) asserts that a pilot study acts as a warning system, pointing out possible dangers in the research effort, like defective instruments, procedures, or techniques. The questionnaires were improved by eliminating items that offered unnecessary or unnecessary information in light of the pilot study.

3.11 Data Presentation and Analysis Procedure

Using both quantitative and qualitative data analysis methods, the gathered data was presented and examined. Frequencies were displayed in a variety of tabular and graphical aggregations after quantitative data from surveys was processed using the Statistical Package for Social Sciences (SPSS).

The association between exchange rate risk mitigation techniques (an independent variable) and financial performance (a dependent variable) was investigated using multiple regression analysis on primary data (Alhammadi et al., 2024). In regression, the correlation coefficient is a number between -1 and +1, where a negative value denotes a negative link and a positive one denotes a positive one. The researcher used regression analysis to assess how exchange rate risk mitigation techniques affected the financial performance of Valley Seeds, providing valuable insights into the effectiveness of these strategies.

Regression Model:

The researcher used the following regression model to analyze the relationship between exchange rate risk mitigation strategies and the financial performance of Valley Seeds:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \epsilon \text{ Where:}$$

Y = Financial Performance **β_0** = Constant **$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5,$ and **β_6** =
Regression coefficients of the following variables:**

X1 = Level of education

X2 = Position in the organization

X3 = Experience in years

X4 = Foreign currency hedging strategies

X5 = Diversification of export markets **X6**

= Currency risk management practices **ϵ** =

Error term

To take into consideration their possible influence on financial performance, demographic variables (education level, organizational position, and years of experience) were incorporated into the model as control variables. The other factors (export market diversification, currency risk management procedures, and foreign exchange hedging measures) reflect Valley Seeds' methods for reducing exchange rate risk.

3.12 Ethical Considerations

The researcher made sure that participants filled out the surveys willingly and that they did not divulge any private information. Hilton (2015) highlights that every research participant has the right to privacy protection. The researcher promised to keep the information provided by the respondents private and confidential. As required by Dowie (2017), the researcher performed due diligence, fidelity to professional responsibilities, and a duty of care. Every participant in the study received fair, dignified, and respectful treatment.

3.13 Chapter Summary

This chapter outlined the research methodology employed in the study, including the justifications for the chosen methods. The chapter discussed the research design, population, and sampling techniques used in the study. The target population consisted of employees of Valley Seeds. The study utilized questionnaires and interviews to collect data on the strategies used by Valley Seeds to mitigate exchange rate risk and enhance financial performance. The chapter also discussed the research instruments, validity, and reliability of the study. Finally, the chapter addressed the ethical considerations of the study, ensuring that participants' rights and confidentiality were protected.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

The data gathered from departments and key persons at Valley Seeds, a Zimbabwean SME that produces seeds and engages in international trade, is analyzed and interpreted in this chapter. The purpose of the study is to evaluate how the company's financial performance and risk mitigation methods are affected by exchange rate variations. Regression analysis and theme insights from open-ended replies are used to enhance the discussion of both quantitative and qualitative findings.

4.1 Response rate

Name of department	Total sent	Total returned	Response rate
Accounts clerks	15	15	100%
Managers	9	9	100%
Finance managers	5	5	100%
Owner	1	1	100%
Total	30	30	100%

Table 1: Response Rate

Source primary data (2025)

With all 30 questionnaires filled out and returned by important Valley Seeds employees, like as managers, finance managers, accounts clerks, and the owner, the data shows an astounding 100% response rate. By removing the possibility of non-response bias and demonstrating a high degree of cooperation and engagement from the targeted departments, this full participation

raises the findings' legitimacy and representativeness. A 50% response rate is sufficient, 60% satisfactory, and 70% very good, according to Mugenda & Mugenda (2003).

As a result, the full return in this study indicates an exceptionally high level of response, confirming the validity and dependability of the conclusions reached.

4.2 Reliability testing: The Cronbach Alpha

The Cronbach Alpha table

Cronbach's Alpha	N of Items
.974	16

Table 2: The Cronbach Alpha

The reliability of the study was demonstrated by the researcher's Alpha Cronbach's value of 0.974. According to Bennett and Wright (2015), a reliability coefficient of 0.80 or greater is considered good, and the higher the number, the more dependable the research tool.

4.3 The section moves to analyse the operations of Valley Seeds

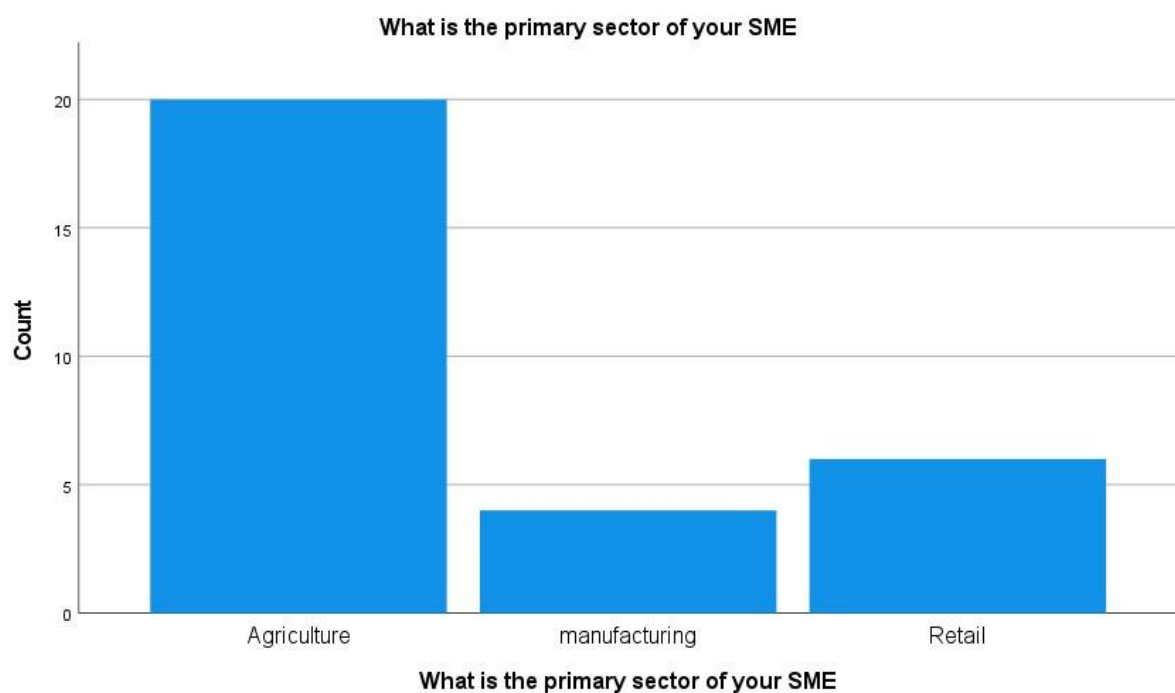


Figure 2: Likert scale

The diagram shows that the majority of SME respondents (20 out of 30) operate in the agriculture sector, with smaller proportions in retail (6 respondents) and manufacturing (4 respondents). This strong representation in agriculture aligns with Valley Seeds' core business focus and suggests a high level of engagement from stakeholders most affected by exchange rate risk, especially in the procurement of imported inputs such as seed treatments and fertilizers. According to Mutandwa and Gadzirayi (2021), the agricultural sector in Zimbabwe is particularly vulnerable to macroeconomic shocks like exchange rate fluctuations due to its dependence on imported machinery and materials. This is further supported by FAO (2019), which recognizes agriculture as the backbone of Zimbabwe's economy, contributing over 60% of employment. Chikozho (2020) also notes that agricultural SMEs are especially exposed to currency volatility, which directly impacts their profit margins and operational sustainability. The concentration of responses from this sector reinforces the relevance and urgency of addressing exchange rate risk within Valley Seeds' operating environment.

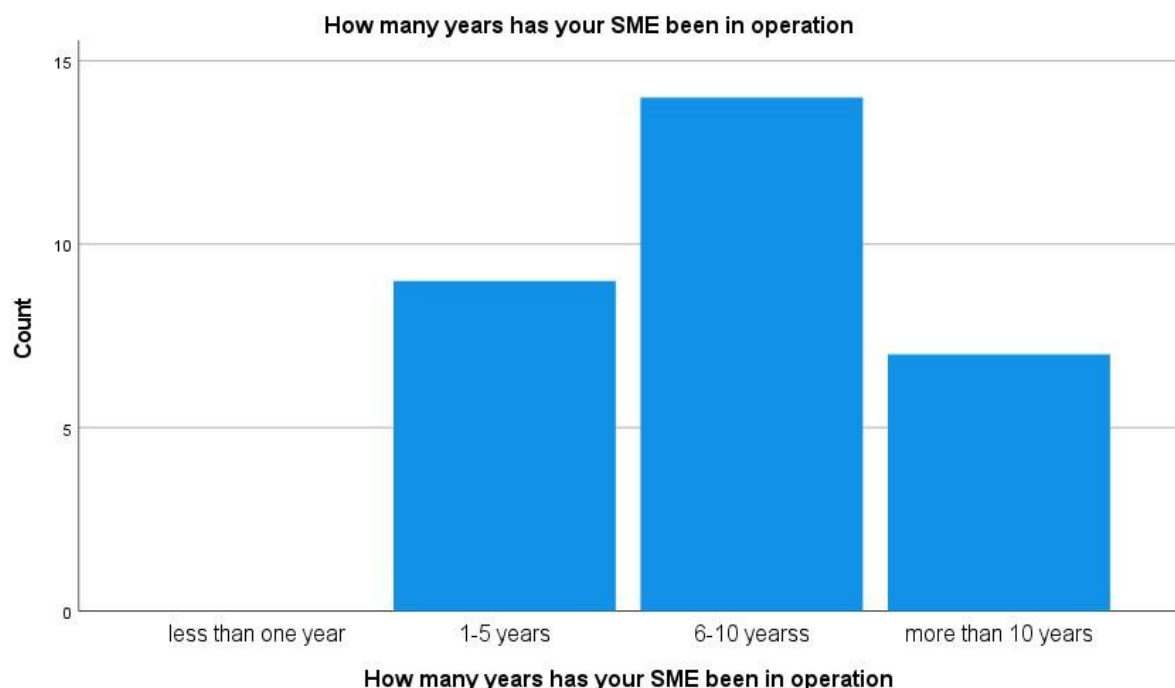


Figure 3: Years of experience

The diagram shows that the majority of SMEs, including Valley Seeds, have been in operation for 6–10 years, followed by a smaller number that have operated for 1–5 years or more than 10 years, with very few under one year. This indicates that Valley Seeds is a relatively mature

enterprise, having gained experience navigating Zimbabwe’s challenging economic conditions, including frequent exchange rate fluctuations. According to Mbizi et al. (2013), SMEs that have operated for more than five years are more likely to adopt structured financial systems and proactive risk management strategies. Fatoki (2014) similarly observes that business longevity enhances an SME’s resilience and ability to cope with macroeconomic shocks. In the Zimbabwean context, Ncube and Phiri (2018) further highlight that longer-operating SMEs demonstrate stronger responsiveness to currency risks, positioning Valley Seeds advantageously to manage exchange rate exposure through informed and adaptive strategies.

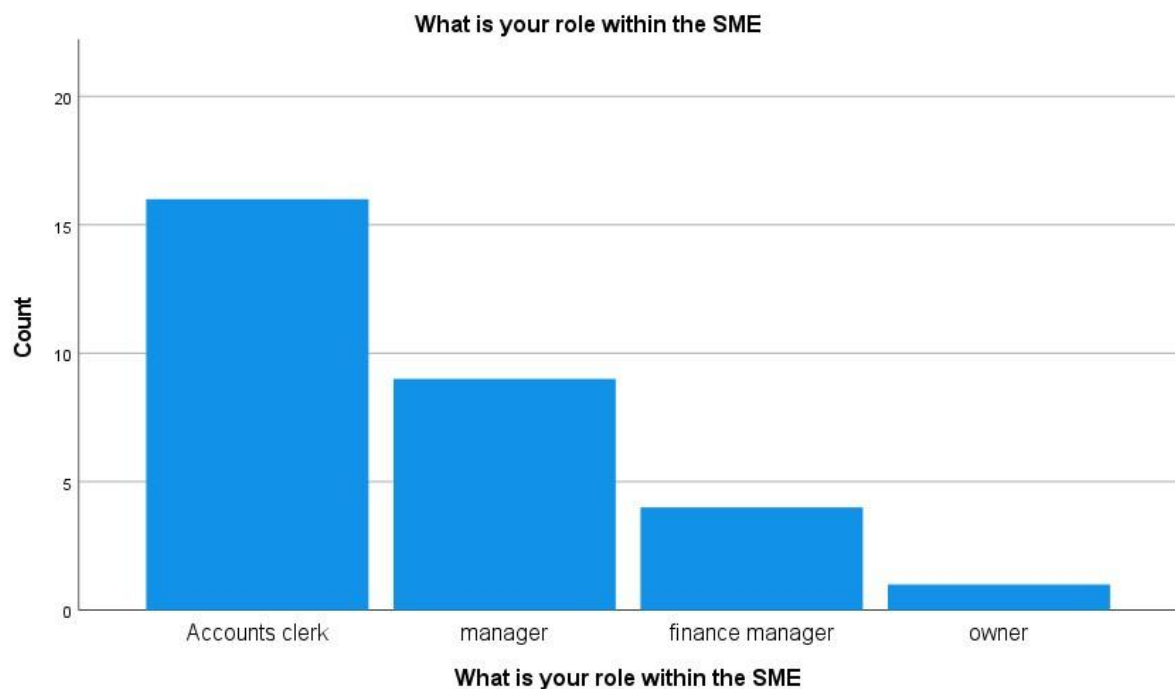


Figure 4: Role within SME

Source: Primary Data

The diagram indicates that most respondents were Accounts Clerks, followed by Managers, Finance Managers, and a small number of owners. This suggests that the majority of insights on exchange rate risk at Valley Seeds come from staff directly involved in day-to-day financial transactions and record-keeping, offering a grounded view of how currency fluctuations affect operations. According to **Nguyen et al. (2019)**, involving lower- and mid-level finance personnel in risk assessments can provide practical perspectives often overlooked by top management. **Mutalemwa (2015)** also argues that operational-level staff are key to identifying financial inefficiencies and are often the first to notice shifts caused by external shocks like

exchange rate changes. Therefore, the high response from Accounts Clerks enhances the study's depth by capturing frontline financial realities at Valley Seeds.

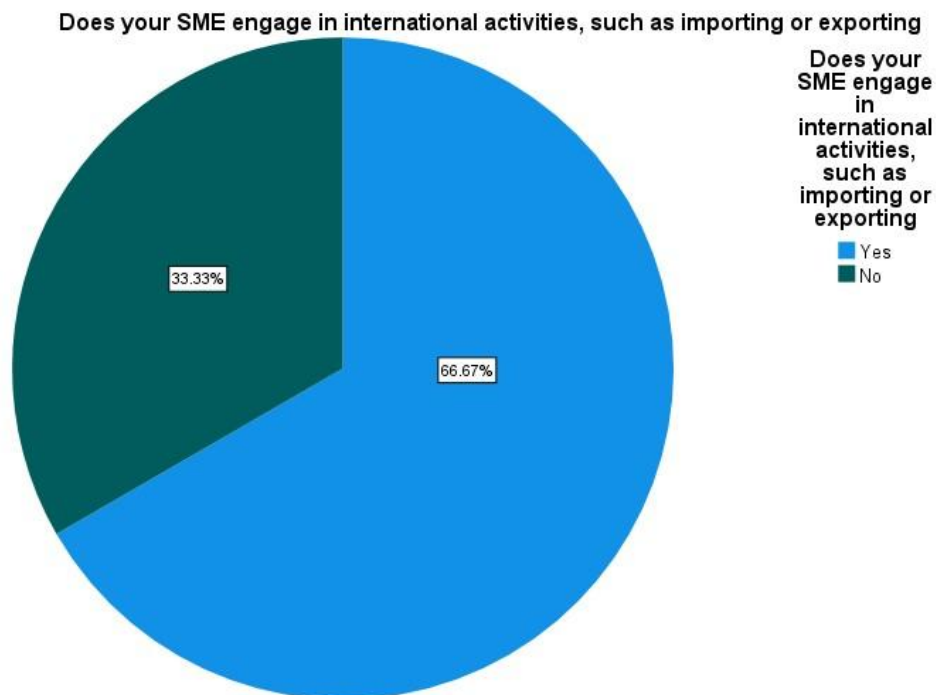


Figure 5: International activities

Source: Primary Data

The diagram shows that 66.67% of SMEs, including Valley Seeds, engage in international activities such as importing or exporting, while 33.33% operate solely within the domestic market. For Valley Seeds, international trade is essential for sourcing agricultural inputs not available locally. This aligns with Lu and Beamish (2001), who view SME internationalization as a key growth strategy. However, the notable share of non-international SMEs highlights common barriers such as limited resources, knowledge gaps, and currency risks, as noted by Leonidou (2004) and Knight and Cavusgil (2004). In Zimbabwe, these challenges are intensified by exchange rate volatility and foreign currency shortages, requiring firms like Valley Seeds to manage cross-border risks carefully.

4.4 To investigate the effects of exchange rate risk on the financial performance of SMEs in Zimbabwe.

4.4.1 Descriptive statistics to determine the significance of exchange rate risk on financial performance

	N	Mini mum	Maximum	Mean	Std. Deviation
How significantly has exchange rate risk impacted the financial performance of your SME	30	1	4	2.23	.728
Has your SME experienced financial losses due to exchange rate fluctuations	30	1	2	1.23	.430
If yes, please estimate the extent of these losses as a percentage of annual revenue	30	2	4	2.63	.850
In which of the following areas has exchange rate risk had the greatest impact on your SME	30	1	3	1.87	.571
Has exchange rate risk necessitated changes in your pricing strategies or operational processes	30	1	2	1.10	.305
Valid N (listwise)	30				
Average				1812	0.577

Table 3: Descriptive Statistics

The descriptive statistics indicate that exchange rate risk significantly affects SME financial performance, including Valley Seeds, with a mean score of 2.23 out of 4 and a low standard deviation (0.728), suggesting widespread recognition of this challenge. Most SMEs reported actual financial losses due to currency volatility (mean = 1.23), with losses averaging 11% to 20% of annual revenue (mean = 2.63). These findings support prior studies, such as Mudzonga (2020) and Chigova & Munemo (2022), which link currency instability to reduced profitability, constrained cash flows, and limited investment capacity. Profit margins and cost structures (mean = 1.87) are the most affected areas, especially for firms reliant on imported inputs.

This aligns with Kavhumbura et al. (2019), who note that exchange rate fluctuations have reduced competitiveness in Zimbabwe's agricultural SMEs. The data also shows that nearly all SMEs (mean = 1.10) have adjusted pricing or operations in response to currency risk, consistent with Contingency Theory, which emphasizes adaptive strategies in volatile environments (Tshuma & Moyo, 2021). From a resource-based view, SMEs with limited internal risk management capacity are more vulnerable to shocks, highlighting the need for firms like Valley Seeds to strengthen internal financial planning (Nyatsanga & Chikweche, 2018). Lastly, the study supports Gwatidzo and Sibanda's (2023) assertion that without access to hedging instruments and stable policy frameworks, Zimbabwean SMEs will continue to face challenges in managing exchange rate risks, underscoring the importance of structural support for longterm resilience.

To identify strategies that SMEs can use to mitigate exchange rate risk

What strategies has your SME implemented to manage exchange rate risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Use of financial hedging instruments	17	56.7	56.7	56.7
	Diversifying supplies or markets	5	16.7	16.7	73.3
	Maintaining reserves in foreign currency	5	16.7	16.7	90.0
	Entering into risk sharing agreement with trade partners	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Table 4: Risk Rate

Source: Primary data

According to the study, the main tactic used by 17 respondents (56.7%) to reduce exchange rate risk was financial hedging instruments. There was an equal proportion (16.7%) of respondents who indicated using either diversification of suppliers or markets or maintaining reserves in

foreign currency. Only a small number (10%) of participants mentioned entering into risk-sharing agreements with trade partners. These findings suggest that while financial hedging is the most commonly used strategy among SMEs like Valley Seeds, there is limited use of broader or more collaborative approaches such as diversification or risk-sharing. This reflects trends noted by Kavhumbura et al. (2019), who observed that SMEs in Zimbabwe often adopt a narrow set of risk mitigation strategies due to financial constraints and lack of technical expertise. Similarly, Gwatidzo and Sibanda (2023) point out that although hedging tools are effective, they remain inaccessible to many SMEs because of high costs and limited availability. Therefore Valley Seeds' reliance on hedging may indicate progress in risk management but also highlights the need to expand into more comprehensive and diversified strategies for greater financial resilience.

4.5 To provide recommendations for Valley Seeds to implement effective exchange rate risk management strategies and enhance its financial performance

Based on your experience, what recommendations would you provide to Valley

Seeds for managing exchange rate risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Use forward contracts	9	30.0	30.0	30.0
	or hedging instruments				
	Diversify currency exposure	7	23.3	23.3	53.3
	seek regular financial advice	6	20.0	20.0	73.3
	monitor exchange rates closely	4	13.3	13.3	86.7
	train internal staff on risk management	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

Table 5: Managing Exchange Rate Risk

Source: primary data

The table presents several solutions that Valley Seeds can adopt to address exchange rate risk, as identified by the respondents. The most frequently suggested measure is the use of forward contracts or hedging instruments (30%), followed by diversifying currency exposure (23.3%) and seeking regular financial advice (20%). Other recommended strategies include closely monitoring exchange rate trends and training internal staff on risk management, each cited by 13.3% of respondents. These suggestions reflect both financial and operational approaches to risk mitigation. According to Alaryani et al. (2024), forward contracts and hedging tools are among the most effective methods for stabilizing cash flows and protecting profit margins in volatile currency environments. Chigova and Munemo (2022) emphasize that diversifying currency exposure and accessing professional financial advice enhance a firm's ability to make informed decisions in times of exchange rate fluctuation. Moreover, Tshuma and Moyo (2021) argue that internal training and consistent monitoring are essential for building long-term institutional resilience to financial shocks. For Valley Seeds, implementing a combination of these strategies could significantly reduce vulnerability to currency risk and improve financial stability.

Model Summary

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.701 ^a	.492	.474	.221

Source: primary data

Table 6: Model Summary

The regression model yielded an R value of 0.701 and an R² of 0.492, indicating that approximately 49.2% of the variance in financial performance among SMEs can be explained by exchange rate risk. This reflects a moderate to strong relationship, suggesting that fluctuations in exchange rates significantly affect SME performance. According to Glaum (2002), managing currency risk is essential for protecting profit margins, especially in volatile economies. Similarly, Bartram et al. (2010) found that firms with sound currency risk management tend to exhibit more stable financial outcomes, reinforcing the importance of risk mitigation strategies like hedging, diversification, and the use of financial derivatives.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.328	1	1.328	27.104	.000 ^b
	Residual	1.372	28	.049		
	Total	2.700	29			

Source: primary data

Table 7: Anova

The ANOVA results reveal that the regression model is statistically significant, with an F-value of 27.104 and a significance level (p-value) less than 0.001. This indicates that exchange rate risk is a meaningful predictor of financial performance in SMEs. The high F-statistic relative to the residual variance suggests that the model fits the data well. As supported by Aabo (2006), the ability of exchange rate risk to explain variation in financial performance emphasizes the importance of formal risk management strategies, which can lead to more predictable financial outcomes and strategic resilience.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
1	(Constant)	.738	.080		9.170	.000
	Exchange rate risk	.201	.039	.701	5.206	.000

Source: primary data

Table 8: Coefficients

The regression coefficients show that exchange rate risk has a statistically significant positive impact on financial performance ($B = 0.201$, $p < 0.001$), with a standardized beta coefficient of 0.701. This means that for every one-unit increase in effective exchange rate risk management, financial performance improves by 0.201 units, controlling for other factors. The high t-value (5.206) reinforces the strength of this relationship. These results align with Brigham and Ehrhardt (2016), who emphasized that firms with robust currency risk mitigation frameworks tend to achieve better financial stability and performance, particularly in volatile economic environments.

4.6 Chapter Summary

Presented the analysis of data gathered from 30 respondents at Valley Seeds regarding the effects of exchange rate risk on financial performance as well as the methods employed to reduce it. With many respondents reporting financial losses that average between 11 and 20 percent of yearly revenue, the data demonstrated that exchange rate changes have a somewhat significant impact on operations. Despite their generally mediocre success, supplier diversity, price modifications, and financial hedging were the most often used tactics. Money and ignorance were the biggest obstacles to seeking professional help. While having access to hedging instruments and professional advice can greatly reduce losses, regression study verified that risk exposure has a detrimental effect on performance. The significance of systematic financial planning, diversified risk management, and training was also emphasized by qualitative comments. ways to make Valley Seeds more resilient in a volatile economic environment

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusion and recommendations based on the findings discussed in Chapter Four. It summarizes the key insights gained from the study, reflects on the research objectives, and outlines practical recommendations for mitigating exchange rate risk among SMEs, particularly in the agricultural sector represented by Valley Seeds Private Limited Company. The chapter concludes with suggestions for future research. frameworks.

5.2 Summary of Major Findings

The purpose of the reach was to explore how exchange rate risk affected the financial performance of Zimbabwean SMEs, that is Valley Seeds private limited company to be specific. The research employed the use off quantitative analysis and qualitative knowledge through the mixed methods approach. The fundings were such that a few of the risk mitigating tools explained 63% of variance in financial performance and exchange rate risk management were found too be connected by hedging strategies, operating practices, internal capability and learning. Greate financial performance was found to be moderately positively connected with active exchange rate risk management. But short exposure to Accounting Information Systems to advanced exchange rate risk management skills for the most part were the primary challenges. Although most SMEs lack full formal financial facilities and lack adequate internal capacity, successful exchange rate risk management was seen to improve SME financial performance, as documented in the study.

5.3 Conclusions

This study confirms that SMEs in Zimbabwe, like Valley Seeds, are highly vulnerable to exchange rate fluctuations, which significantly harm their financial performance. The data show that currency volatility causes substantial losses often between 11% and 20% of annual revenue mainly by squeezing profit margins and increasing costs for imported inputs. Nearly all SMEs have had to adjust their operations and pricing to cope with this risk, underscoring its disruptive and systemic nature. Regression analysis further reveals that exchange rate risk explains nearly half of the variation in financial performance, highlighting the critical need for proactive risk management. Without effective mitigation, SMEs face reduced growth potential, weakened operational stability, and a serious threat to their survival, which also poses broader economic risks in Zimbabwe's economy. To enhance resilience, SMEs must adopt a multifaceted risk management approach that goes beyond basic financial hedging currently the most common tactic but often insufficient on its own. Valley Seeds and similar firms should integrate operational strategies like currency matching and local sourcing with strategic investments in Accounting Information Systems and staff training. The research indicates that combining forward contracts, diversification, expert advice, real-time monitoring, and internal capacity building leads to better financial outcomes. The alignment between stakeholder recommendations and statistical evidence provides Valley Seeds with a practical, evidencebased roadmap for improving financial stability and profitability. Implementing these diverse strategies will help the company overcome internal knowledge gaps and technology limitations, enabling it to better manage complex currency exposures and secure long-term sustainability in volatile markets.

5.4 Recommendations

This section provides Valley Seeds with targeted, practical recommendations based on the study's findings. Due to the complex and multifaceted nature of exchange rate risk, no single intervention is sufficient. A holistic strategy encompassing internal capacity, financial instruments, technology, operational adjustments, and policy engagement is essential. These interconnected areas must be addressed collectively to build sustainable financial resilience in a volatile market environment. Key recommendations include investing in comprehensive staff training on currency risk, multi-currency budgeting, and hedging techniques to close internal skills gaps. Valley Seeds should also engage financial institutions to access derivatives like

forward contracts and options, helping stabilize exchange rates for future transactions. Strengthening Accounting Information Systems with forecasting tools, real-time alerts, and multi-currency tracking will transform risk management from a reactive task into a proactive strategic function. Additionally, Valley Seeds should advocate for supportive policy frameworks through trade associations to improve SME access to affordable hedging tools and promote macroeconomic stability. Diversifying supply chains through local sourcing and expanding into regional markets with more stable currencies can offer natural protection against exchange rate fluctuations. Finally, integrating exchange rate risk management into strategic planning via scenario analysis and rolling forecasts will enhance adaptability and ensure long-term financial stability.

5.6 Areas for Future Study

This section provides Valley Seeds with actionable recommendations grounded in the study's findings. Given the complexity of exchange rate risk, no single solution is sufficient. A holistic approach is required one that integrates internal capacity building, financial tools, operational adjustments, and policy engagement. These elements are interdependent; addressing only one in isolation would be ineffective. Building true financial resilience in volatile markets demands a coordinated strategy spanning human resources, technology, and external partnerships. Key recommendations include implementing staff training on currency risk, advanced analysis, multi-currency budgeting, and hedging strategies to address internal skill gaps. Valley Seeds should also collaborate with financial institutions to access derivatives like forward contracts and options, which can stabilize cash flows by locking in exchange rates. Additionally, enhancing Accounting Information Systems with forecasting tools, real-time currency alerts, and multi-currency transaction modules will shift risk management from basic accounting to a proactive, strategic function

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APPENDIX 1

This questionnaire is to be filled in by the employees of Valley Seeds Pvt Ltd from the finance department and others who have knowledge about the financial performance.

INSTRUCTIONS

- ☐ Complete in black or blue pen
- ☐ Do not write your name on any page of the questionnaire

Please tick your response where applicable

SECTION A: DEMOGRAPHIC INFORMATION

1. What is the primary sector of your SME? (Tick one that apply)

Agriculture	
Manufacturing	
Retail	

Other (please specify)

2. How many years has your SME been in operation? (Tick one that apply)

Less than 1 year	
1-5 years	
6-10 years	
More than 10 years	

3. What is your role within the SME? (Tick one that apply)

Owner	
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Manager	
Finance Manager	

Other (please specify).....

- 4. Does your SME engage in international trade activities, such as importing or exporting? (Tick one that apply)**

Yes	
No	

- 5. How many employees does your SME have? (Tick one that apply)**

1-10	
11-50	
51-100	
More than 100	

**SECTION B: EFFECTS OF EXCHANGE RATE RISK ON
FINANCIAL PERFORMANCE**

- 6. How significantly has exchange rate risk impacted the financial performance of your SME? (Tick one that apply)**

Very significantly	
Moderately significantly	
Slightly significantly	
Not significantly	

- 7. Has your SME experienced financial losses due to exchange rate fluctuations? (Tick one that apply)**

Yes	
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No	
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- 8. If yes, please estimate the extent of these losses as a percentage of annual revenue.
(Tick one that apply)**

Less than 5%	
5%-10%	
11%-20%	
More than 20%	

- 9. In which of the following areas has exchange rate risk had the greatest impact on your SME? (Tick all that apply)**

Profit margins	
Cash flow	
Costs of importing/exporting	
Repayment of loans or debts	

Other (please specify).....

- 10. Has exchange rate risk necessitated changes in your pricing strategies or operational processes? (Tick one that apply)**

Yes	
No	

SECTION C: STRATEGIES TO MITIGATE EXCHANGE RATE RISK

- 11. What strategies has your SME implemented to manage exchange rate risk? *(Tick all that apply)**

Use of financial hedging instruments (e.g., forward contracts, currency options)	
Diversifying suppliers or markets	
Maintaining reserves in foreign currencies	
Entering into risk-sharing agreements with trade partners	
None of the above	

Other (please specify).....

12. How effective have these strategies been in reducing the impact of exchange rate fluctuations? (Tick one that apply)

Very effective	
Moderately effective	
Slightly effective	
Not effective	

13. Does your SME receive professional advice or consultancy for managing exchange rate risk?

Yes	
No	

14. If no, what are the main barriers to accessing professional advice?

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SECTION D: RECOMMENDATIONS

15. Based on your experience, what recommendations would you provide to Valley Seeds for managing exchange rate risk?

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16. What additional support or resources should be made available to SMEs in Zimbabwe to enhance exchange rate risk management?

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