EFFECTS OF FOREIGN EXCHANGE EXPOSURE ON PERFORMANCE OF FLOWER FIRMS IN KENYA. A CASE OF FINLAY LIMITED KENYA.

KIRUI VICTOR KIMUTAI

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Kenyan flower industry has grown considerably in the recent years. Agriculture is the backbone of the Kenyan Economy. As the Kenyan flower industry deals in export of its produces they face a myriad of risks including: translation exposure, transaction exposure and economic exposure. It is important for floriculture firms engaging in export trade to engage and use measures to hedge against foreign exchange exposure to help in increasing profitability and maintaining stability in earnings and ensure maximum return, which will go a long way in improving performance at floriculture firms and hence economic growth of a country. Hedges include both financial and operational hedges.

In Japan, exporting firms have continuously concerned and struggled with yen appreciation. A period of strong yen squeezes the profit of Japanese exporters either by lower sales with higher prices, in case yen appreciation is passed through to retail prices in the destination markets or by decline in profit margin, in case it is not passed through the destination markets (Takatoshi, Koibuchi, Sato & Shimizu 2015).

In Taiwan, Taiwan is a small open economy. Firms in Taiwan have been forced to direct most of their operations toward foreign countries due to the scarcity of natural resources and the small hoe markets. Unexpected fluctuations in foreign exchange have been important concern to firms with international business operations since future cash flows and therefore the value of the firms will be affected (Chiang & Lin 2017).

In Bangladesh, (Etal 2013) found that stock of money and increase in debt service burden results in real depreciation of currencies, while increasing foreign exchange reserves results in a real depreciation of domestic currency.

In Uganda, flowers are its main export and a major source of foreign exchange earnings. The main export destination of Uganda's flower export are Europe and United Arab Emirates. However, despite the increased investment the flower export has remained optimal partly due to supply rigidities, price fluctuations and global shocks. The later by account of trends in exchange rates and changes in demand. The volatility in exchange rates have affected flower exports (Okot & Nyanzi 2014).

In Sudan, to enhance their external balances and achieve economic stability, Sudan has adopted a number of different exchange rates regimes in the last five decades. These includes fixed, floating and dual exchange rates regimes. The exchange rate policy during such a period, resulted in remarkable exchange rate fluctuations, accompanied by dismal performance in the exports sector and the flow of private capital into Sudan. Moreover, the conditions of the Sudanese economy after secession of South Sudan and loss of most of its oil resources, rendered exchange rates stability an urgent strategy when it comes to enhancing export performance (Ebaidalla 2014).

In Nigeria, exchange rate policy has witnessed substantial transformation from the era of fixed parity with the British bound to the floating of the currency in the 19786. In each of these eras, the economy and political considerations the exchange rates had important repercussions for the structural evolutions of the economy, inflations, the balance of payments and real income (Akpan & Atan 2012). This summersault inconsistency in policies and lack of continuity in exchange rates policies aggravated the unstable nature of naira rate (Gbosi 2015). Hence, no

matter the type of exchange rate regime adopted by the country, it has an effect I business firm productivity in that particular country (Iwendi 2021). Foreign exchange rate influences trade by determining the relationship between international and domestic prices (Mary & Fajita 2014).

In Kenya, flower firm pay a significant role in Kenyan economic growth, however they face uncertain future on their operations due to overreliance on export earing which is affected by exchange rate fluctuations (Ombaba & Jerop 2019). In 2021, the flower industry in Kenya faced a myriad of challenges related to foreign exchange exposure, with a number of firms closing down as others shifted their focus to other businesses. Four firms closed down its operations as per the Kenya flower council. The Kenya flower councils' chief executive officer, Clement Tulezi attributed this to unpredictable prices because of exchange rate fluctuations, rising taxes and high price of farm inputs.

Exchange rate volatility creates a risky business setting where there are uncertainties concerning future profits and payments. These are particularly exacerbated in countries where monetary instruments for hedging against foreign exchange risk don't seem to be developed, which is the case in several developing countries like Kenya (World Bank & MTTI 2016).

1.2 Statement of the Problem

Flower firms in Kenya that engage in export trading of their produces face foreign exchange exposure risk as they deal with foreign currency. Changes in exchange rates as a result of factors such as; inflation in the country, political instability, negative balance of payments, monetary policy, banking operations and speculative transactions result in foreign exchange exposure. Finlay Kenya limited is a flower firm located in Kericho. The firm had (3) three flower farms

which are Chemirei, Tarakwet and Lemotit covering approximately 92 hectares. The firm engages in export trading, as its major market is overseas.

The general manager at Finlay firm, Mr. Stephen Scoot announced that the firm has faced a myriad of challenges including exchange rates fluctuations and extreme weather conditions. These challenges resulted to decline in earnings, hence its inability to meet its obligations including sustaining its large workforce. In the year 2019, they were forced to lay off 900 workers. The firm was unable to meets its profitability goals. The further the decline in earnings resulted to closure of its two farms, which are Chemirei and Tarakwet.

Flower firms in Kenya that engage in export trade of its product bring about economic growth in the country. Finlay flower firms improved the living standards of the country and region as it contributed to huge employment opportunities to the region. Hence, it is important to ensure that flower firms in Kenya are able to achieve its profitability goals and achieve growth by engaging in measures to mitigate against foreign exchange exposure risk which will go a long way to improving a country's gross domestic products and better living standards of the people in the country. It is therefore important for firms to put measures in place to hedge against foreign exchange exposure, which will help the firms maintain stability in its earnings and achieve its profitability goals.

1.3 Research Objectives

1.3.1 General Objective

The general objective was to examine the effect of foreign exchange exposure on performance of Finlay Kenya.

1.3.2 Specific Objectives

i. To determine the effect of transaction exposure on Finlay Limited Kenya.

ii. To determine the effect of translation exposure on Finlay Limited Kenya.

iii. To determine the effect of economic exposure on Finlay Limited Kenya.

1.4 Research Hypotheses

$HO_{1:}$ Transaction exposure has no significant effect on performance of Finlay Limited Kenya.

$HO_{2:}$ Translation exposure has no significant effect on performance of Finlay Limited Kenya.

$HO_{3:}$ Economic exposure has no significant effect on performance of Finlay Limited Kenya.

1.5 Scope of the Study

This study is limited to foreign exchange exposure and financial performance in Finlay Kenya limited. Profitability ratios and liquidity ratios were the measures used to assess the financial performance of Finlay Kenya. The study respondents targeted were the sales managers, the general manager and the accountants of Finlay Kenya.

1.6 Significance of the Study

1.6.1 Policy and Practice

This study's findings will help the managers in understanding the nature of foreign exchange exposure and also help managers to put up measures to mitigate against these risks. This study will help the government in policy formulation geared to managing of foreign exchange exposure risk.

1.6.2 Theory and Literature

This study brings in new literature on the methods used by flower firms to manage foreign exchange exposure.

1.6.3 Further Studies

This study will go a long way to help researchers and learners in the event where they may be conducting research on foreign exchange exposure.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview of the chapter

This chapter reviewed relevant existing literature from other researchers who carried out their research in the same field of study. Specific emphasis was put on issues pertaining to the effects of foreign exchange exposure on performance of flower firms in Finlay Limited in Kenya.

2.1Theoretical framework

2.1.1 International Fisher Effect Theory

Irving Fisher is credited with this idea, which may be found in his book "The Speculation of Interest" (1930). Changes in market interest rates, rather than changes in inflation rates, are used as the major variable to characterize the evolution of currency exchange values through time. Changes in interest rates, according to the International Fisher effect, may balance out the impacts of changes in currency exchange rates. Real interest rates are the same in all nations, according to the Fisher hypothesis, since there are arbitrage opportunities across money markets. Capital transfers are often the source of these possibilities. This is the most persuasive argument in support of the idea that can be made. A nation with a higher interest rate should also have a higher inflation rate, according to real interest rate equality. In real terms, this would result in a gradual decline in the value of the country's currency over time. The interest rate theory of exchange rate expectations describes the relationship between relative interest rates and market expectations for currency exchange rates. Changes in relative exchange rates often reflect differences in nominal interest rates between two nations. Giddy (1977) created the phrase "international Fisher effect" to describe a phenomenon that has a direct relationship to "the Fisher effect," which was initially observed by Irving Fisher (1896).

If the international Fisher effect holds true, interest rates in appreciating currencies will be low enough to balance anticipated currency value gains and losses, whereas interest rates in decreasing currencies will be high enough to offset expected currency value gains and losses. The International Fisher effect (IFE) predicts that foreign currency depreciation will occur if interest rates are relatively high. This is the case because high nominal interest rates tend to reflect predicted inflation rates (Madura, 2016). Is it true that interest rate differentials make forecasting the future movement of a currency easier? The evidence available, such as that acquired in the instance of the PPP hypothesis, shows that the idea is incorrect. Long-term, interest rate differentials seem to be linked to future spot exchange rate movements. The market, on the other hand, exhibits massive short-term swings (Hill, 2014). Fisher's worldwide impact is typically regarded as a poor predictor of short-term fluctuations in spot currency prices (Cumby& Obstfeld, 2015).

The International Fisher Effect (IFE) predicts that if other countries' interest rates are high, their currencies will depreciate more rapidly. This is because high nominal interest rates imply that big inflation is predicted (Madura, 2010). Is it feasible to use interest rate differentials as a prediction of future currency movements? The evidence that is presently available is inconclusive, much as the evidence that supports the PPP hypothesis. In the long run, interest rate differentials and subsequent changes in the market exchange rate seem to be linked; nevertheless, major departures from this relationship occur in the short term (Hill, 2014). According to this idea, the single most significant factor influencing the value of a country's currency is inflation. This finding backs up the theory's importance in terms of the investigation's breadth. Inflation reduces the buying power of a country's currency by causing it to devalue on overseas markets. The international Fisher effect, on the other hand, is well-known for its

inability to predict short-term fluctuations in spot exchange risks the (Cumby & Obstfeld, 2015).

2.1.2 Purchasing Power Parity

In the 1920s, Gustav Cassel, a Swedish economist, used the term purchasing energy parity (PPP) to investigate the relationship between trade prices in different areas of the globe. The PPP will be used even if and until change fees are imposed to account for variances in inflation rates experienced by different nations. The PPP is known as the "cornerstone" of the "rule of one charge," which states that the cost of currency conversion should be equal to the ratio of charge levels for identical commodities and services in various nations. To put it another way, the one-charge rule states that the cost of currency conversion should be the same as the charge-level ratio. To put it another way, the PPP offers a framework based on the "rule of one charge." The Purchasing Power Parity (PPP) hypothesis describes how various price bids and relative commodity prices are connected. According to the PPP theorem, when the exchange rate is allowed to float, a relative change in purchasing power parity, defined as a price ratio of traded items, for any pair of currencies tends to be roughly equal to a trade in the equilibrium rate of change among these currencies. This is because a transaction in the equilibrium rate of change between two currencies is often equal to a trade in purchasing power parity, according to the PPP theorem. This theory was developed in the setting of a floating exchange rate monetary system (Shapiro & Rutenberg, 1976).

According to the PPP, when a country's quality of life increases, the value of its currency falls in contrast to the value of currencies in other countries. This will ensure that the relative costs of similar things in various nations are constant. In order to preserve the law of one charge, this hypothesis claims that price increases were compensated for by using identical fee indexes in addition to inflation. PPP is derived from the law of one rate, which stipulates that in a

competitive market, similar products priced in the same currency will sell for the same price. The phrase "public-private partnership" (PPP) is derived from this. Despite the fact that it is specific to one product, the PPP model as a whole is a generalization of that product. Rather than focusing on absolute rate phases, relative PPP investigates how changes in prices and trade quotes effect overall value. It demonstrates that trade in change costs is proportional to the exchange rate in the ratio of the rate levels of foreign locations, even when structural ties remain constant.

In order for PPP to be legal, all items are supposed to be interchangeable, there are no transportation expenses, data gaps, taxes or tariffs, or exchange limitations, and alternative fees only fluctuate in response to inflation prices. Economic varieties of exchange price willpower were adopted as a result of these limiting assumptions and real violations of the rule of one charge, which is a vital component of PPP. Exchange rates adapt to reflect global monetary property movements since currencies are considered assets. The asset pricing model is used to determine the value of currencies. Currency exchange rates are impacted by future forecasts in the same manner that other assets' values are.

2.1.3 Foreign Exchange Exposure Theory

Foreign currency exposure has been the subject of study since the work of Adler and Dumas (1984), who defined it as the impact of unanticipated changes in foreign exchange rates on cash flows and, by extension, business value. The popular foreign exchange exposure hypothesis states that a multinational corporation's international sales and foreign (net) assets must be denominated in the parent company's native currency. This is true even if the global corporation's subsidiaries are situated in separate nations (Buckley, 2000). Changes in the levels of multiple currency rates, according to this theory, should have a major influence on the value of a global

business. The results of this first empirical study on the subject showed that changes in exchange rates had little effect on the stock prices of multinational corporations. Despite the fact that the research focused on global corporations with significant operations in other countries, this is the case. The results of a recent study done by Hill (2014), on the other hand, are more compatible with financial theory. [Citation is required] Changes in exchange rates, according to this study, have a considerable influence on a company's worth because of the impact they have on sales and the value of its net assets. One of the reasons these investigations were carried out is because of this.

The bulk of exposure research focuses on multinational corporations, however Aggerwal and Harper (2015) are more interested in small businesses. Local enterprises are exposed to a high level of foreign currency risk, equivalent to the risk faced by international corporations on average, according to the researchers. Most managers will find this conclusion perplexing since it contradicts the widely held belief that domestic enterprises are not exposed to significant risks associated with foreign currencies. As a result of the growing globalization of financial and product markets, domestic businesses are increasingly at risk of losing money due to changes in the value of foreign currencies. Interest rates and financial markets, as well as product markets such as rivals, suppliers, and consumers who may participate in cross-border transactions, may expose domestic enterprises to the risk of currency volatility. One of the reasons for this is that the financial and product markets are becoming more international as a result of it.

According to Jorion (2016), a company's variable indicating international sales has a positive relationship with the company's foreign currency risk. This is true, despite the fact that local businesses are exposed to foreign currency risk. The rising volume of exports will enhance currency market volatility, which is a negative consequence of the trend. As a result, one may

argue that a company's sensitivity to foreign exchange rate changes increases in direct proportion to how far it expands its global operations. The study's results refute this theory, indicating that the foreign currency exposure coefficients of multinational organizations are less important than those of local businesses. Jorion (2016) concludes that multinational corporations' foreign currency exposures are modest, if they exist at all, as a result of their research. According to the conclusions of a research conducted by (Jorion, 2016), just 5.2 percent of a sample of foreign enterprises are at risk of losing money owing to currency fluctuations.

2.2 Performance

According to Griffins (2016), performance is defined as the capacity of a firm to fulfill the expectations of its stakeholders as well as the criteria for the organization's own continued existence. The International Organization for Standardization (ISO) defines performance as the measurable consequences of an organization's proper administration and management of its activities and operations. Performance may be measured in a number of different ways. Alternately, performance may be seen as a measurable outcome of accomplishing organizational goals and objectives in a way that is both effective and efficient (ISO, 2015). According to Higgins (2015), performance may be defined as the overall outcomes of an organization or as an outcome achieved via the successful implementation of a plan. Both of these interpretations are referring to the same thing.

Because almost all researchers and academics attempt to link the topics they study to the performance of firms, the word "performance" is regarded as one of the most essential concepts in management. This is because almost all researchers and academics try to link the topics they study to the performance of firms (Sorooshian, Norzima, Yusuf, & Rosnah, 2017). According to Combs and colleagues' (2015) definition, performance is a "economic outcome coming from the

mix of organizational characteristics, behaviors, and environment." Performance is frequently evaluated in terms of monetary values (Barnat, 2016), and it can be segmented into the following three categories: (1) financial results (including earnings, return on assets, and return on investment); (2) market results (including sales and market share); and (3) shareholder returns (total shareholder return, economic value added).

2.3 Empirical Review

2.3.1 Transaction Exposure and Performance

If a firm sells, buys, borrows, or loans money in a foreign currency, or if it provides fixed assets from one of its overseas subsidiaries, the company may put itself at risk of being exposed to this risk. This takes into account the amount of time that passes between when you agree to a trade and when you begin to receive cash in installments. During this time period, it is anticipated that exchange rates may vary, which puts the company in a precarious position (Gachua, 2016).

Belk (2015) investigated a selection of businesses located in the United Kingdom and discovered a positive and statistically significant association between transaction risk and firm performance. The study was guided by the purchasing power parity theory, the interest rate parity theory, and the arbitrage pricing theory. The study used a made-up sample consisting of workers from 98 different organizations as its foundation. The authors found that there was a 4.87 percent risk associated with the transaction. The author came to the conclusion that there was a connection between transactional risk and the overall performance of the organization when looking at oil prices in the aviation industry. The author arrived at the conclusion that there is a significant connection between the transaction risk in oil trading among businesses in the UK and the performance of those businesses.

Laidler and Aba (2017) provided a way of measuring transaction exposure by making use of a single-factor market model. This was done with the intention of determining how sensitive the returns on firm shares are to changes in the value of the currency exchange rate. Both the international fisher effect hypothesis and the contingency theory served as the foundation for this study's methodology. The authors used a two-factor methodology to evaluate exposure, which has now evolved to become the industry standard for determining foreign currency exposure while simultaneously accounting for market risk. The authors looked at a sample of Fortune 500 companies and found that the degree of transaction exposure is directly proportionate to the degree of foreign engagement. This was the conclusion that they came to. After doing the comparison between the two variables, the authors found out that this was really the case.

Onyancha (2011) conducted a research to investigate the influence that transaction profits and losses have on the financial performance of international non-governmental agricultural organizations. The notion of purchasing power parity as well as the foreign currency exposure hypothesis served as the foundation for this investigation. In the course of this investigation, the research method that was used was a survey. According to his results, the potential risk posed by fluctuations in currency rates might have a negative impact on the financial performance of non-governmental agricultural groups. Alterations in the rates at which currencies are traded might potentially have an effect on the financial success of non-governmental organizations. The significant reduction in foreign currency reserves has a detrimental effect on the overall financial performance of the companies.

Muriithi (2018) carried out research to determine whether or not there is a connection between the transactional risk that flower exporting companies in Kenya face and the overall market performance of those companies. During the course of the research, all three of these theories—

the interest rate parity theory, the arbitrage theory, and the foreign exchange exposure theory—were taken into consideration. A descriptive research design was utilized for the purposes of this study. According to his findings, the rate of exchange had a beneficial effect on the market performance of Kenyan flower exporting companies.

Irene (2016) also carried out research in Kenya on the subject of the connection between exposure to foreign exchange transactions and the financial performance of airlines. The purpose of this research was to determine whether or not there was a correlation between Kenya Airways' overall success and the ebb and flow of the value of the shilling. Her focus was on Kenya Airways Limited, and she approached the topic with a case study methodology. According to her investigation's findings, the possibility of losing money when trading in foreign currencies has a direct bearing on the overall financial performance of a business. Currency fluctuations result in price changes, which have a negative impact on revenues and expenses denominated in other currencies due to the fact that the revenues and expenses are denominated in other currencies.

2.3.2 Translation Exposure and Performance

Translation risk may be seen of as a kind of exchange rate risk encountered by multinational firms with subsidiaries in many countries. When merging budgetary proclamations, variations in the foreign exchange rate may have an undesirable influence on the interpretation of the auxiliary organization's advantages and liabilities that are signified in outside cash and translated into the parent organization's money. It's also known as accounting exposure or translation risk in certain quarters (Hollensen, 2016). According to Bartram (2016), assets, liabilities, and also value on a balance sheet are communicated in recorded qualities, and the outside exchange rate at which the monetary standards exchange toward the end of the bookkeeping period is most likely not the

same remote exchange rate when the records were reserved. According to Bartram (2016), assets, liabilities, and the value on a balance sheet are all conveyed via documented attributes.

Takatoshi (2015) investigated how the management of an organization's exposure to the risk of currency rate translation influenced its performance. The underpinning for this study was the international fisher effect theory, contingency theory, and risk management theory. The descriptive research design was adopted in this study. They concluded that enterprises that are more reliant on international markets are more vulnerable to foreign currency translation risk, which grows proportionately with the amount of revenue earned in US dollars invoiced by the company. They also observed that invoicing in the local currency (Yen) reduces the risk of translation into a foreign currency. Depending on the currency in which they opted to invoice their clients, Japanese firms utilized various operational and financial hedging techniques, as well as a price revision approach, according to their findings.

El-Masry (2016) conducted research on the foreign currency translation exposure of non-financial enterprises in the United Kingdom between the years 1981 and 2001. (364 in total). The OLS model was used to determine the degree to which real and unanticipated shifts in exchange rates had an impact on the stock returns of companies and sectors. According to the data, a greater proportion of businesses located in the United Kingdom were affected by simultaneous exchange translational adjustments than had been shown in earlier observations. According to the data, a greater proportion of businesses located in the United Kingdom were affected by simultaneous exchange translational adjustments than had been shown in earlier observations.

Lee and Suh (2015) conducted a study to investigate the link between changes in the translational effect of currency rates and the profitability of foreign operations. For their research, they employed a sample of 261 US multinational businesses that were operational

between 1984 and 2002. According to the findings of the study, the effect that shifts in the translational value of the currency rate have on the profitability of international operations is not statistically significant in the majority of business sectors. This is the conclusion drawn from the data collected in the course of the research. In addition, the translational effects of changes in exchange rates accounted for less than two percent of the variance in the profitability of foreign operations for the vast majority of businesses. According to the findings of the study, variations in the translational effect of currency rates do not have a significant impact on the profitability of foreign operations for non-US multinational businesses that are located in Australia, Canada, Japan, or the United Kingdom. Instead, these businesses experience a negligible impact. In the analysis, trade-weighted exchange rates were used rather than the translational implications of contemporaneous exchange rates. Reproducing the research with real-time translational changes to exchange rates would shed light on the dynamic linkages that exist between currency exchange rates and the success of companies.

For a sample of one hundred European blue chip businesses from 2001 to 2012, Mozumder, De Vita, Larkin, and Kyaw (2015) evaluated the sensitivity of company value to changes in translational exchange rates (ER) and the reasons that lead to such vulnerability. According to the findings, there is a positive relationship between ER movements and company market value, implying that a depreciation of translational ERs (indirect quotation) is expected to have a favorable impact on the market value of European enterprises. The fact that the investigation discovered a favorable relationship between ER fluctuations and the market value of enterprises demonstrates this. Although it was shown that there was only a modest link between exposure and firm characteristics, organizations with a smaller size were much more vulnerable to changes in translational ER than those with a bigger size. The research placed an undue reliance on

Eurozone nations, with the United Kingdom being the only country outside the Eurozone included in the analysis.

2.3.3 Economic Exposure and Performance

Ndung'u (2018) investigated the effects of economic exposure to foreign currencies on agricultural firms in Kenya as well as the issue of short-term capital flows. The research was based on three different theories: interest rate parity, purchasing power parity, and the international fisher effect. The Vector Autoregressive model was used for the research (VEM). The findings backed up the theory that both internal and external shocks have an effect on the movements of the real exchange rate and the real interest rate difference, which in turn either directly affects capital flow or sets it off.

Li, Lin, and Hong (2018) conducted research in Taiwan to investigate how unanticipated shifts in economic risks affect the value of companies. The Generalized Autoregressive Conditional Heteroskedasticity Model (GARCH) and the Classical Linear Regression Model were both used in this research in order to investigate the degree to which companies' economies are vulnerable to changes in the value of the currency exchange rate (CLRM). Panel regression analysis was used in order to determine the factors that determine economic exposure to exchange rates. These factors include company size, export ratio, quick ratio, and long-term loan ratio. The following is a synopsis of the empirical results obtained from the current investigation: It was a favorable and considerable exposure to the risk of foreign currency exchange. Companies that were bigger in size, had a greater quick ratio, or had a higher percentage of long-term debt were more likely to have a reduced economic vulnerability in exchange rate fluctuations. However, the export ratio of a company has minimal influence on the company's susceptibility to fluctuations in exchange rates.

Musyoki, Pokhariyal, and Pundo (2014) conducted research to determine how changes in the real exchange rate affect the pace at which economic growth occurs in Kenya. The Generalized Autoregressive Condition of Heteroscedasticity (GARCH) and the unconditional standard deviation of the changes were used in the study to quantify volatility. The Generalized Method Moments (GMM) was used to the data spanning the time period beginning in January 1993 and ending in December 2009 in order to conduct research on the impact that real exchange rate volatility has on economic growth. According to the findings of the research, the RER Volatility has a detrimental impact on the economy. The investigation focused on the economy as a whole rather than analyzing the performance of the stock market specifically.

Kiptui and Kipyegon (2018) did research on the economic vulnerability of Kenya's processing sectors as well as their financial performance. The primary point of emphasis was placed on the manner in which Kenya's processing companies' exposure to economic risk results in unexpected variances in their financial performance. An error correction model (ECM) was used to monthly data from 1996 to 2007 in order to capture the long-run and short-run dynamics of the influence of economic exposures on the financial performance of processing enterprises in Kenya. These dynamics were studied using data from 1996 to 2007. The investigation was carried out over the course of a period of time that started in Kenya and concluded in the United States. According to the statistics, changes in financial performance were caused by economic instability in the majority of cases. Economic instability may often lead to unanticipated fluctuations in currency rates.

2.4 Summary and Research Gaps

A number of studies give evidence for the connection between exposure to fluctuations in foreign currency rates and the performance of companies located in other regions of the globe,

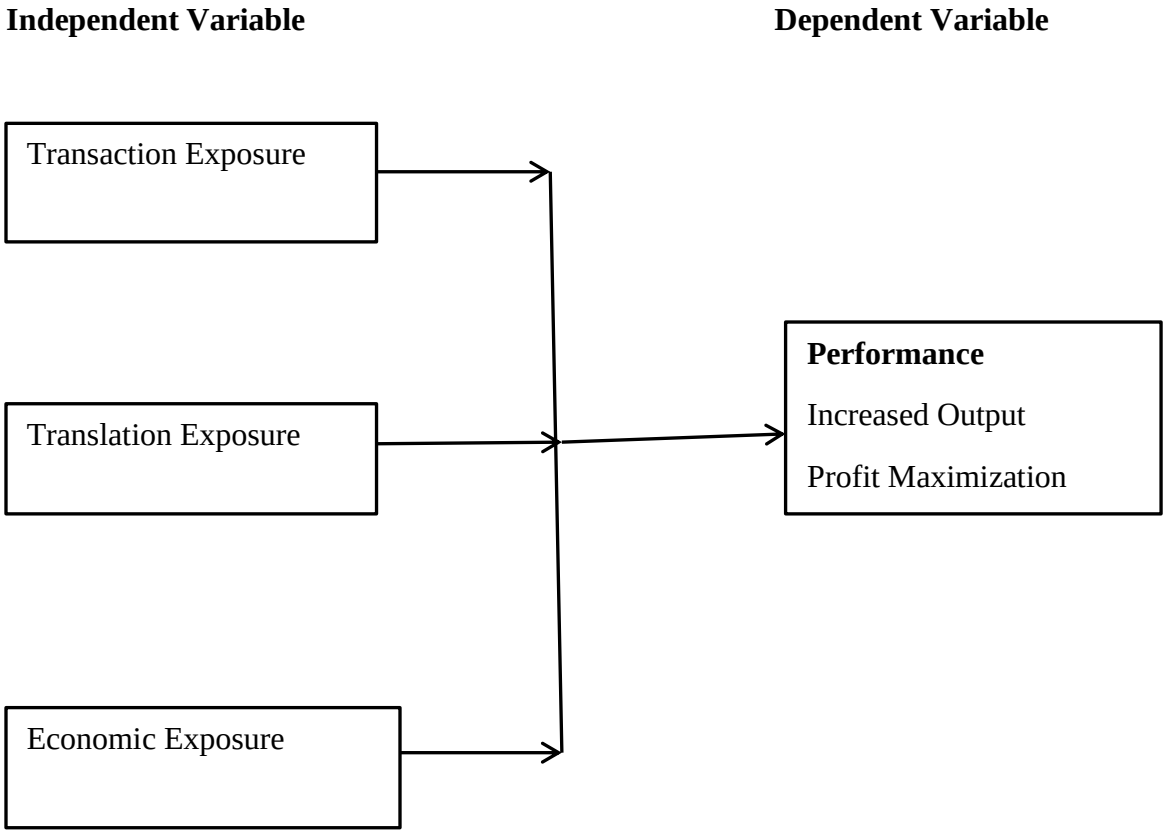
notably in developed nations (El-Masry, 2016; Lee & Suh, 2017; Mozumder, De Vita, Larkin, & Kyaw, 2015; El-Masry, 2016; Jeon, Zheng, & Zhu, 2017; Glaum, 2015; Li, Lin & Hong, 2017). Nevertheless, the empirical data on the influence of exposure to currency rates on business value is inconclusive and has produced contradictory findings. In addition, the bulk of the researches done in this field concentrate on the repercussions for valuation of being exposed to fluctuations in currency rates. These kinds of research often center on the United States of America and other industrialized nations. For instance, a number of empirical studies in the UK have investigated the strategy that corporate treasurers use in order to manage their exposure to fluctuations in foreign currency rates (Marshall, 2019; Bradley & Moles, 2016; Belk, 2017; Bradley & Moles, 2016; Faff & Marshall, 2015; Dhanani, 2017; El-Masry, 2016; Katechos, 2017). However, these researches did not adequately evaluate the impacts of translation, economic, and transactional foreign currency exposures on the performance of flower companies in Kenya together.

In the context of Kenya, there is a paucity of empirical information about the connection between foreign currency risks and the performance of businesses. The previous research aimed to explain the factors that determine the behavior of exchange rates, with a particular emphasis on the part played by macroeconomic variables such as monetary policy shocks (Ndung'u, 2019; Kiptoo, 2017; Sifunjo, 2015; Musyoki, Pokhariayal, & Pundo, 2014; Olweny & Omondi, 2016; Olweny, 2017; Sifunjo, 2015). As a result, the purpose of this study is to contribute to the ongoing discussion by addressing the aforementioned knowledge gaps and shedding additional light by offering empirical evidence on the effects of transaction, translation, and economic foreign exchange exposures on the overall performance of flower companies in Kenya.

2.5 Conceptual Framework

The conceptual framework refers to the diagrammatic representation showing the relationship between the independent variables; transaction exposure, translation exposure and economic exposure and the dependent variable; performance of the Finlay limited Company in Kenya.

2.1 Conceptual Framework



CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Overview of the Chapter

This chapter detailed the procedures employed in the research investigation. The aspects addressed under this subject include the research design, research population, the sample framework and data collecting processes, reliability, validity, data analysis as well as presentation and ethical contribution of the study,

3.1 Research Design

The descriptive survey approach was determined to be the most useful for the purposes of this investigation. In scientific study, the goal of observation and characterisation of behavior is to observe and describe behavior in a way that does not encourage the person being studied to change his or her own behavior in any way (Burns, 2015). It was decided to conduct a cross-sectional study to determine the extent to which foreign exchange exposure affects performance of Finlay Limited Company in general. The information was gathered using quantitative data collection methods. Because the nature of survey research makes it less challenging than other types of inquiries, responding to survey questions is easier than responding to other types of inquiries (Gall & Borg, 2019).

3.2 Target Population

Specifically, the target population is defined as the whole set of persons, events, or objects that have certain observable characteristics in common with one another, as defined by the definition (Mugenda & Mugenda, 2016). According to the findings, the study's target audience consisted of the study targeted a population of 215 employees from the Finlay Limited Company.

3.3 Sample Population

The sample size refers to the number of things researched as well as the number of people that took part in the study. Sampling methodology, on the other hand, is a scientific method of selecting sample objects (Mugenda & Mugenda, 2015). To guarantee that the sample for this research was representative of the whole population, a stratified random sampling approach was adopted. To meet Mugenda et al. (2015)'s criteria of at least 10% sample size, a sample size of 30% of the target population was established, and 30% of the targeted workers were selected as participants. As a consequence, 70 employees were sampled from the two departments. The table below shows target population and sample size for each respondent's category.

3.4 Research Instruments

It was be essential to collect data from a variety of sources, including primary and secondary sources, in order to complete this research. Information was acquired for this study using a range of primary data collection methods, including personal interviews (personal interviews) and researcher-administered questionnaires (researcher-administered questionnaires). There were both closed-ended and open-ended questions on these surveys. It was considerably easier for the researcher to collect data using questionnaires and other techniques since the community being examined was literate.

3.5 Data Collection Procedures

A visit to the Finlay Limited Company was done and the questionnaires were issued out to the respondents and after filling the researcher collected all the questionnaires for analysis purpose. The researcher also conducted personal interviews with the managers of the sampled companies to collect more information.

3.6 Piloting of Research Instruments

3.6.1Validity

This refers to the degree to which research investigations measure whatever it is they are supposed to measure (Macharia, 2019). Expert opinion, according to Soaga (2016), is the most trustworthy method for determining whether or not a study is credible. The research supervisor's advice was sought and received in order to improve the study's accuracy. The questionnaires showed they had validity since the content in it covered al; aspects of the construct being measured.

3.6.2Reliability

According to Macharia, dependability refers to the capacity of research testing equipment to provide consistent findings throughout several trials (2019). Every research project will have some amount of unreliability, however dependability evaluations may help to minimize this level of unreliability as much as feasible (Macharia, 2019). In order to provide a high degree of dependability, the test-retest technique was adopted in this investigation. Over the course of a month, the same techniques (including questionnaires given by the researchers and face-to-face interviews with the entrepreneurs) were utilized to examine and re-evaluate 15 employees from the Finlay Limited Company (Questionnaires and face-to-face interviews were conducted by the researcher.). As a consequence, the research tools were as precise as possible.

3.7 Data Analysis and Presentation

Descriptive statistics are used to conduct the analysis of the data gathered for this study. According to Mugenda and Mugenda (2017), descriptive statistics allow the researcher to gain a meaningful description of the study's scores and measurements by utilizing a few indices or statistics. In other words, descriptive statistics are a subset of inferential statistics. Adjustments were made to, and then coding was performed on, the data obtained from the surveys in order to prepare it for analysis. It was also described using descriptive statistics, which normally contain measures of central tendency, variability, dependability, and frequency, amongst other things. This was done in order to characterize it. There are three different measures of central tendency that give the best estimate of the predicted score or measure from a group of scores in a research. These measures are the mean, the median, and the mode. The results of the investigation were presented with the use of tables, pie charts, and bar graphs.

3.8 Limitations of the Study

The challenge that was faced during the study was that some respondents were hesitant to be part of the study as the topic of financial performance is a very sensitive topic and many were no reluctant in giving the information. The researcher overcame this by assuring to the respondents that the study was only for studies only and that their identity would not be disclosed.