CHALLENGES OF IMPLEMENTION OF FOREIGN EXCHANGE RISK MANAGEMENT STRATEGIES ON PERFORMANCE OF DONOR FUNDED PROJECTS AT AGA KHAN FOUNDATION, EAST AFRICA

BY

CYNTHIA K. ORANG'O

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE REQUIREMENTS FOR THE AWARD OF THE DEGREE IN MASTER BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS. UNIVERSITY OF NAIROBI.

November 2016

DECLARATION

This research project is my original work and that this document has not previously, in its entirety or in part, been submitted to any University, college or institution of higher learning in order to obtain an academic qualification.

Signature…………………………………………..Date………………………..

Cynthia K. Orang'o

D61/72957/2014

This research project has been submitted for examination with my approval as the university supervisor.

Signature………………………………………Date……………………………..

Prof. Z.B Awino (PhD)

Department of Business Administration

School of Business

University of Nairobi

ACKNOWLEDGEMENTS

First and foremost, I want to thank the Lord almighty, for the blessings of good health and gift of life that has enabled me to me come this far. Secondly, I want to thank my supervisor Prof. Awino for his continued guidance and support the entire period of this study, more especially for your time and availability that made it easy for me to hold endless consultations that have facilitated finalization of this study.

Thirdly I want to thank my dear friend and colleague Isaac Musoke who has provided endless support and encouragement throughout this study, my manager Mr. Patrick Sikana for granting me a flexible work schedule that made it possible for me to finalize this study.

Finally, to the rest of my colleagues who provided useful responses that informed the findings of this study and my MBA classmates for the motivation and intensive learning experiences.

DEDICATION

I dedicate this research work to my dear friend Isaac Musoke who has been a pillar of strength and support in this entire process. And to my daughter Keila for being patient and understanding with me through the entire period of conducting this study.

TABLE OF CONTENTS

LIST OF FIGURES

ABBREVIATIONS & ACRONYMS

AKF-EA: Aga Khan Foundation East Africa

AKDN: Aga Khan Development Network

CIDA: Canadian International Development Agency

DFID: Department for International Development

NGO: Non-Government Organization

ODA: Official Development Assistance

PPP: Purchasing Power Parity Theory

RDT: Resource Dependency Theory

TCE: Transaction Cost Economic Theory

UNHCR: United Nations High Commission for Refugees

USAID: United States Agency for International Development

UNICEF: United Nations International Children's Emergency Fund

ABSTRACT

Every business large or small must have a strategy that outlines the neatly devised plan of realizing the business vision and achieving the organizational goals. The lack of a robust strategy means the organization does not have a clear roadmap that guides it to success. The purpose of this study is to identify the challenges facing Aga Khan Foundation, East Africa in the implementation of foreign exchange risk management strategies and their impact on performance of donor funded projects within the organization. The research adopted a case study design. Data was collected through interviews with key managers and officers within the organization as respondents to the study. The data collected was analysed using the content analysis technique. The study identified the most frequent challenges facing the organization in implementation of foreign exchange risk management strategy to include; the lack of a clear written strategy, the lack of internal capacity to support the implementation of the strategy, the highly volatile nature of economic market the organization operates in, failure by management to understand the concept of foreign exchange risk management among others. As a result of these challenges, the organization has experienced income variability for some projects which has threatened the quality of project deliverables. The study also proposed measures that could be taken overcome the challenges identified above to include; the development of a clear strategy, the engagement of expert services to provide capacity support in foreign exchange risk management strategy formulation, implementation and monitoring among others. In conclusion, there are several challenges that can harm the successful implementation of a good strategy. However, using right methods, frameworks and timing may reduce or minimize these challenges.

CHAPTER ONE: INTRODUCTION

1.1 Background of study

In the ever changing business environment due to technological innovations, changes in customer behaviour and prevailing market conditions, organizations find themselves in changing contexts necessitating strategy changes to remain competitive. According to Davenport, “creating a brilliant strategy is nothing compared to executing it successfully”. (Davenport, 2007). Organization’s survival heavily depends on successful strategy implementation. Despite having a robust strategy formulation process, many organizations are faced with a challenge of sustaining their competitive advantages, due to lack of adequate processes in implementing the strategies (Rajasekar, 2014). As summarised by Rajasekar, a number of factors influence strategy implementation including the “leadership style, information availability and accuracy, uncertainty, organizational structure, organizational culture, human resources and technology among others” (Rajeskar,2014). These factors if not well managed can pose significant challenges to the strategy implementation process.

Organizations with international dealings are inevitably exposed to foreign exchange risks that can affect their performance if not well managed. Most of these organizations refrain from active management of their risk exposure due to challenges such as lack of proper understanding of the concept of foreign exchange risk management, greater focus on core business operations, lack of appropriate foreign exchange risk management strategies, weak governance structures among others (Giddy & Duffey, 1992).

Two theories will form the foundation of this study; The Resource Dependency Theory and the Transaction Cost Economic Theory. The contributions of these theories define how organizations focus efforts in identifying the strategic inputs needed to successfully formulate and implement strategies while maintaining strategic flexibility (Hitt, Hoskisson & Ireland, 2005). Proponents of the RDT argue that the resources organizations rely on for investment originate from an organization's environment which to a considerable extent is highly competitive. The TCE is a closely related theory that explains how the organization's behaviour is greatly influenced by the costs of carting out a transaction. This research examined the challenges facing the implementation of foreign exchange risk management strategies at AKF-EA which is currently implementing a number of projects funded by various international donors that have been affected by recent foreign currency fluctuations thus affecting the achievement of project goals and performance. By identifying these challenges, the organization can identify key actions that can contribute to successful implementation and achievement of strategic goals which have been formulated through a consultative planning process.

The rapid strengthening of the US dollar against major world currencies has emphasized the need for organizations to have and implement a robust foreign exchange strategy. High inflation, interest rates and other economic conditions have greatly contributed to the volatility in the market. Some of the major currencies have been greatly affected by these fluctuations include the Canadian dollar which has dropped from a high of 1.1 to the USD in 2012 to 0.79 in 2016, the Kenya shilling from 84.95 to 99.39 in 2016 among others (www.oanda.com).

These fluctuations have affected operations and performance of governments and NGOs which rely on donor funding that is mostly provided in foreign currencies. Such exposure occurs when there are delays in releasing funding, differences between budget rates and exchange rates and as a result of fluctuation in interest and inflation rates among others. To manage the impact governments and NGOs have developed policy papers and other material to guide key stakeholders in proper management of these risks, such include *Aide Memoire* dated 20/09/2005 by UNHCR.

1.1.1 Strategy Implementation

Scholes & Whittington define strategy as “the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations”. (Johnson, Scholes & Whittington, 2005). Strategy implementation is the putting into action a formulated strategy. It involves allocation of the firm's resources to key activities and motivation of the staff to achieve objectives (Ramesh, 2011). This strategic process is aimed at improving the organization’s performance. Notably, the strategic planning and formulation process should be live to the changes in the external environment and should take a consultative approach involving all the relevant stakeholders, unlike strategy formulation which takes a top-down approach, successful strategy implementation requires the collaboration of everyone. (Bayrami & Zaribaf 2010).

Strategy implementation and formulation processes are therefore closely interlinked; strategy implementation completes the cycle of the strategy formulation process by putting into work the desired plans developed during the formulation process. According to Davenport, “creating a brilliant strategy is nothing compared to executing it successfully” Davenport (2007), Proper implementation is vital to success of the organization, without a careful and systematic approach to implementation, the organization may not achieve its strategic goals. More often than not, organizations fail even when they have excellently formulated strategies that are not well implemented.

1.1.2 Challenges of Strategy Implementation

Strategy implementation links the formulation and control phase of the strategic cycle. Herbiniak (2006) argued that “while strategy formulation is difficult, making strategy work and executing it is even more difficult.” Similarly, Cater and Pucko (2010) concluded that out of 80% of firms that have the smart strategies, only 14% have managed to successfully implement them. According to the White Paper (2006) cited in Tabo (2013), strategy implementation has turn out to be “the most momentous management challenge that all kinds of organizations face at the moment”. A survey stated in that White Paper indicates that 83% of the sampled companies had significant challenges in implementing their strategies, and only 17% were viewed to have a steady strategy implementation process.

A number of researchers have attempted to examine the gaps to effective strategy implementation in organizations but could not give adequate recommendations of mitigating these challenges. Beer and Eisenstat (2000) highlight some of the main difficulties organizations face in effective strategy to include; “ineffective senior management team, unclear strategies and conflicting priorities, poor coordination across functions, poor vertical communication and inadequate down- the- line leadership skills and development”.

Additionally, Noble (1999) summarized some of the main problems of strategy implementation to include; “longer time duration than expected in implementing the strategy, unanticipated problems, ineffective coordination, distractions, inadequate preparation, external factors, leadership problems, key people leaving the organization, lack of clarity in objectives, poor communication, conflicting priorities, ineffective management, inter functional conflict, unclear strategies, lack of stakeholder commitment, failure to understand progress, lack of employee commitment and Inadequate resources”.

1.1.3 Organizational Performance

Organizations have play an important role in our day to day lives and therefore, successful organizations represent a key element for developing nations. Continuous improved performance should be the focus of any organization at it plays a significant role in the organization’s growth and progress. (Gavrea, Ileas & Stegerean 2011). Organizations performance can be viewed from different aspects depending on what one views as indicators of ‘successful performance’ and each of this perspectives can be argued to be unique.

(Gavrea, Ileas & Stegerean, 2011) further elucidate the evolution of the concept of organizational performance from a mere focus on work, people and organizational structure in the early 50s to the current trends that realize organizational performance as more complex involving the use of minimum resources to achieve organizational goals. Strategy implementation focuses on transforming ideas into actions to attain the planned results. The ultimate assessment of excellent strategy implementation is a comparison of previous and actual organization performance to determine if it matches or exceeds the targets spelled out in the strategic plan. Underperformance points out to presence of a weak strategy, weak implementation or both. Successful implementation should affect performance of the specific aspects it was intended for. High organizational performance is therefore achieved when there is exceptional interlinkage of all sections of an organization to achieve exceptional results which are measured in terms of value addition to stakeholders.

1.1.4 Foreign exchange strategy implementation and performance of donor funded projects

Butler (2008) refers to foreign exchange risk as "the risk related with the unexpected changes in exchange rates and foreign exchange exposure as the extent to which unexpected changes in exchange rates affect the value of a firm's assets or liabilities". According to (Featherson, Littlefield & Mwangi 2006), "foreign exchange risk arises when fluctuation in the relative values of currencies affects the competitive position or viability of an organization". Organizations are exposed to foreign exchange risk if the outcomes of their projects depend on future exchange rates which in most cases cannot be fully predicted.

Organizations with international dealings inevitably will have transactions in foreign currencies which makes it all the more necessary for management to have a working knowledge of the existing foreign exchange regulations. Organizational performance is largely influenced by its ability to take an initiative in managing the impact of exchange rate fluctuations. Excellently implemented hedging strategy enhances predictability of its income and output leading to improved efficiency and effectiveness, these are key players to giving the organization a competitive advantage. The effective use of foreign exchange management strategies leads to reduced foreign exchange exposure hence minimizing losses for the organization. According to (Giddy & Duffey, 1992), "many organizations refrain from active management of foreign exchange risk even though they understand that foreign exchange rate fluctuation affects their value and performance". They further spell out some of the reasons for this to include; failure by management to understand the concept of foreign exchange risk management and the various tools available such as forwards, futures and options to minimize exposure.

Additionally, organizations consider the use of these risk management strategies as speculative while others lack a foreign exchange risk management policy, weak treasury function and lack of a risk governance structure also pose great challenges to management of foreign exchange risk strategies. Organizations therefore need to focus on controlling the extent of risk exposure and the impact from volatility of the foreign exchanges, decisions which must be coordinated in a coherent and integrated manner to minimize distractions to organization operations. (DPC Asia).

1.1.5 Donor funded projects: A global perspective

NGOs significantly depend on funding from a number of sources, including individual philanthropic donors, foundations, private corporations, and governments. Pratt, Hailey, Galo, Shadwick & Hayman, (2012) recognize that donor funding trends from international development partners appears to be changing considerably. Financing from official donors has come under pressure, largely because of global financial crisis and the emergence of other donors. At the same time, some countries have experienced continued economic growth, leading to changes in their needs thus changes in the nature of funding they receive in donations.

As a result of these changing dimensions, private philanthropic donors are playing an increasingly crucial role, by supporting international development issues either directly, or collaborating with governments, NGOs and Civil Society Organizations as donors and partners. With these changing dynamics, NGOs and Civil Society Organizations are expected to engage in more partnerships in the coming future. (Stoianova, 2012). As a result of the 2008 economic crisis and the consequential pressure on government budgets, aid funding has significantly reduced, especially government-funded Official Development Assistance (ODA).

Donor funded organizations have been forced to look for alternative sources of funding which has consequently exemplified the importance of private donors over time. According to a study conducted by UK think tank Development Initiatives in 2006, '51% of humanitarian funding for 114 NGOs studied comes from private sources'. Additionally, the study also indicates that since 2000, US$104 has been spent by government donors on international funding for various social development projects with Africa receiving the largest portion followed by Asia and the Middle East. Sudan has also received a considerable amount of funding from international donor governments over the past decade receiving about US$8.9 billion.

1.1.6 Donor funded Projects: East Africa Perspective

A study conducted by Organization for Economic Cooperation and Development cited in McCormick & Schmitz (2009) indicates disbursements for Official Development Assistance (ODA) in 2013 to Africa stand at USD 55M of which Kenya and Tanzania received 6% while Uganda received 3%. The Global Humanitarian Assistance further indicates that, "Kenya received $537 million in official humanitarian assistance in 2011, making it the world's eighth largest recipient of aid. NGOs received over $95 million in 2011 to be used on development projects throughout the country"**.** The study also revealed "United States, European Commission (EC), Japan, United Kingdom, International Development Agency (IDA), Germany, Netherlands, France, Sweden and the IMF as the top ten donors to Kenya". These account for 70% of the total gross ODA received in 2008.

The study further indicates that between 2005 and 2008, there has been a substantial increase in number of donor funded projects being implemented in Kenya, statistics indicating an increase of 25%. These statistics show the level of reliance on donor funding by organizations implementing activities within the region, which is largely provided by international donors that provide funds in foreign currencies which are volatile in the financial markets. Thus amplifying the need for proper implementation of foreign exchange risk management strategies by organizations to ensure project deliverables are achieved.

1.1.7 The Aga Khan Foundation, East Africa (AKF-EA)

The Aga Khan Foundation (AKF-EA) is a private, not-for-profit international development agency, founded in 1967. AKF focuses on finding sustainable solutions to problems of poverty, hunger, illiteracy and ill health in the poorest parts of South and Central Asia, Eastern and Western Africa, and the Middle East.by collaborating with local, national and international partners in order to improve quality of life in the 19 countries in which it works. The Foundation's head office is located in Geneva, Switzerland with offices in Canada, USA and East Africa among others. AKF mainly receives donations from volunteers interested in supporting the Foundation’s work major donors include the Global Affairs Canada (formerly CIDA), USAID, DFID, UNICEF among others. In 2013, AKF, Canada received funding to a tune of over C$ 100M (2013 CRA Report), while AKF, USA received about U$ 52M in 2015 and U$ 433M in 2014 to support their activities. (2015 Tax Return Report).

AKF East Africa had received funding from various donors to a tune of U$ 16.6M in 2013, U$29M in 2014 and 18M in 2015 to support projects on the various sectors. Due to the amount of funding received by AKF, EA from various donors and in different currencies, it is imperative that the organization puts in place a proper foreign exchange risk management strategy to mitigate impact on the achievement of project targets and deliverables as per donor commitments. The recent currency fluctuations have affected the projects differently, while others have experienced exchange gains, others have experienced exchange losses, the impact of project deliverables also varies from one project to another with some projects experiencing minimal impact compared to others.

1.2 Research problem

An excellent strategy may give an organization a competitive edge to improve its performance. Unfortunately, most organizations gamble with implementation and therefore do not achieve their objectives. Generic strategy implementation challenges emanate from the leadership and management of the organization employee's resistance to change and negative perceptions, limited resources (Awino, Muchara, Ogutu, & Oeba 2012). Foreign exchange risk management strategies provide an organization with a number of hedging options to reduce exchange risk exposure and impact. While commercial organizations have put emphasis on management of their foreign risk exposure, NGOs have refrained from active management of their foreign risk exposure, hence affecting their performance adversely.

The 2008 economic crisis has had significant consequences on aid funding, operations of most NGOs that rely on donor funding has been consequently affected. The recent fluctuations against most currencies has made the economic environment even more uncertain for such organizations to predict their income and sustain their operations. AKF EA like most development organizations relies on donor funding most of which is provided in foreign currency that is affected by currency fluctuations in the market. Such rapid fluctuations affect the amount of funds received to implement activities as per commitments to the donor hence affecting the performance of such organizations. For such organizations to survive in the changing environment, it is imperative to formulate and implement an extensive foreign exchange risk management strategy mitigate against the impact of such exposure. However, like many other organizations implementing strategies, a number of challenges have impeded the adequate implementation of such well-crafted strategies.

Although a number of studies have been undertaken locally and internationally on challenges of strategy implementation that compare equally well with this study, none of these studies have concentrated on challenges of implementing foreign exchange risk management strategies and their impact on organization performance especially among NGOs. Among the researches undertaken include; Elwak (2013) who studies challenges of strategy implementation at Mazeras Kenya which is a business consultancy firm, Tabo (2013) studied challenges of strategy implementation in private security companies in Kenya. Additionally, Nduva (2011) studied Strategy implementation challenges facing Kenya Bureau of Standards and Wangari (2011) conducted a study on Strategy implementation challenges faced by National Hospital Insurance Fund in Kenya.

In the International context, studies have been conducted by AL-Ghamdi (1998) on obstacles to successful implementation of strategic decisions, Koseolu et al, (2009) on barriers to strategic planning implementation, Nadar et al, (2011) and Rajasekar (2014) who studied the factors affecting effective strategy implementation in service industry. There still exists a gap as far as strategy implementation of foreign exchange risk management strategies among NGOs such as AKF-EA is concerned. In an attempt to bridge this gap, this research focused on determining the challenges of strategy implementation with a focus of foreign exchange risk management strategies by AKF-EA.

The research question for this study was; ‘What are the challenges in the implementation of foreign exchange risk management strategies and what are the effects on performance of donor funded projects at Aga Khan Foundation, East Africa?

1.3 Research Objective

The following specific objectives of the study are;

i. To find out the challenges facing Aga Khan Foundation East Africa in the implementation of foreign exchange risk management strategies on its funded projects.

ii. To establish the effect of the challenges on performance of the donor funded projects at Aga Khan Foundation

1.4 Value of Study

The findings of this study are important to strategic management policy makers in establishing the challenges of strategy implementation. Specifically, since strategy is implemented in turbulent environments, it offers insights as to how best to implement foreign exchange risk management strategies that are highly affected by volatile markets. It may also help donors and other NGOs such as AKF-EA by providing information on how they can effectively implement their foreign exchange strategies to improve performance and guide management practice. Stakeholders in humanitarian development sector will be able to draw policy implications from this study. Specifically, they will be in a position to identify the challenges of strategy implementation of foreign exchange risk and how best to tackle the challenges. With this knowledge they will be in a better position to steer their future donations, upcoming development projects in the right direction in terms of implementation of foreign exchange strategies.

Finally, the study has theoretical value to enrich the discourse on challenges of strategy implementation while testing the validity of the theoretical foundations of this study. It provides a basis for further research by other scholars who are interested in deepening their understanding on challenges facing implementation of foreign exchange risk management strategies, paving way for advanced research in order to validate the findings and propose measures to overcome the identified challenges while contributing to the existing body of knowledge. This chapter provides highlights of key concepts that form the background to this study including a brief description of the problem, main research objectives and research questions. The next chapter will provide an overview of the background literature reviewed to inform this study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

A lot of studies both empirical and theoretical have been conducted on strategy implementation and its challenges. By reference to existing literature, this chapter provides an outline of the two broad theories on strategic management namely the Resource Dependency Theory (RDT) and the Transaction Cost Economic (TCE) theory which are relevant to this study. This is followed by the concepts of strategy and foreign exchange risk management strategy including challenges of its implementation as well as an empirical review of studies done on challenges of strategy implementation.

2.2 Theoretical foundation

Theories play a significant role in explaining, predicting, and helping one understand phenomena as well as to test and deepen understanding of existing knowledge within the limits of critical thinking assumptions. “The theoretical framework introduces and describes the theory that explains why the research problem under study exists” Swanson, (2013). Two theories form the basis of this study; the Resource Dependency Theory and Transaction Cost Economic Theory.

2.2.1 The Resource dependency theory

Pfeffer & Salancik (1978), define the resource depend theory as an, “external control organization theory that maintains that organizations employ various inter-organizational linkages to manage and control their resource dependence on other actors in the environment”. It emphasizes the ultimate goal of every organization is working towards minimizing its reliance on other organizations for supply of scarce resources in the environment (Jones, 2001).

This theory is important because an organisation's ability to take advantage of raw materials available within the environment faster than its competitors is fundamental to its success. Further, it explains how external resources of an organization significantly affect the organization's behaviour. Pfeffer and Salancik, (1978) argues that "in order to survive, an organization must acquire resources" Hitt et al (2005) further supports that an organization strategy is based on its unique resources and capabilities. This theory informs this study since in recent times NGOs have been under close scrutiny on their dependency on foreign funding to support their activities, with less grants from government and other donors, such NGOs are forced to come up with creative initiatives to compete with other private and commercial entities for resources.

The resource dependency and stiff competition for resources in the external environment has forced NGOs to compromise on quality of their deliverables hence impacting on organizational performance. An organization is exposed to external control when it significantly relies on its external environment for supply of the important resources that run the organization, such as funding (Pfeffer 2003). As a result of this dependency, NGOs have to be aware of how their funded resources are affected by foreign exchange risk which may negatively affect their ability to deliver project deliverables and hinder organization's performance in general.

2.2.2 The Transaction cost economic theory

The Transaction Cost Economic Theory receives contributions from Williamson, 1994. He asks the fundamental question of why firms exist. Transaction Cost Economic Theory (TCE) can be defined as "an explanation of how the costs of engaging in an action by an organization affects the behaviour of that organization". According to Williamson (1985), "transaction costs are the costs of negotiating, establishing, safeguarding and enforcing contractual agreements". The transaction costs can include costs incurred in personnel management and procuring other resources and capital items required to produce outputs. Williamson, (1985) expounds that the theory is based on two assumptions; "bounded rationality, and opportunism".

The bounded rationality concept assumes that the decision making process is determined by a number of things key among them the amount of information possessed by the decision maker, their ability to reason and the timeframe involved in making the decision. Opportunism on the other hand, is the idea of taking advantage of opportunities, irrespective of consequences to others. In addition to these two assumptions, transaction infrequency, transactions of high value as well as uncertainty often characterize the transaction costs (Williamson, 1985). Traditionally, this has been applied on profit making organizations where management decisions are aimed at maximizing profit for the organization, in recent years, its applicability to the development sector has become indispensable.

With the significant amount of donor funding received by NGOs, the need to manage foreign exchange risk exposure has become crucial to ensure organization performance. This theory therefore informs this study since foreign exchange risk management is highly informed by the organization's transaction exposure, accounting exposure and economic exposure. To mitigate the foreign exchange risk exposure, NGOs must implement appropriate strategies to hedge against such potential losses due to exchange rate volatility in the market. A successfully implemented foreign exchange hedging strategy will ensure organization achieves its goals and objectives.

2.3 Concept of strategy

The concept of business strategy has emerged as a field of study and practice in 1960s which largely focused on budgeting, before that, the words "strategy" and "competition" were a rare appearance in management writings. A decade later, strides have been made to move towards strategic management against strategic planning. In 1990s, the emphasis was on searching for new standards on strategic management (Bonn and Christodoulou, 1996). Chandler (1962) defines strategy as "the determination of the basic long-term goals of an enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out these goals".

Strategies are therefore formulated to set direction, focus effort and provide guidance on how the organization will respond to various issues in the external and internal environment. In most organizations, a strategy has an impact more likely to be felt across the whole organization rather than a single business unit. Strategy basically involves two steps; strategy formulation and implementation.

Formulation involves examining the environment, making an opinion, and coming up with guiding policies and includes such activities as strategic planning and thinking while implementation involves taking steps to action those plans taken to achieve the goals established by the guiding policy. Herderson (1981) in his work explains that “strategy depends upon the ability to foresee future consequences of present initiatives”. He further summarizes the core elements for strategy formulation to include; “extensive knowledge about the environment, market and competitors; ability to examine this knowledge as an interactive dynamic system; and the imagination and logic to choose between specific alternatives”. Notably, the strategic planning and formulation process should be live to the changes in the external environment and should take a consultative approach involving all the relevant stakeholders.

2.4 Foreign exchange risk management strategy

Organizations transacting in multiple currencies are faced with a risk (an unanticipated gain/loss) as a result of unanticipated changes in exchange rates, computed in terms of exposures. Butler (2008) refers foreign exchange risk as “the risk related with the unexpected changes in exchange rates and foreign exchange exposure as the extent to which unexpected changes in exchange rates affect the value of a firm’s assets or liabilities”. Taggert and McDermott (2000) emphasize that “firms trading in forex are subject to foreign exchange risk on the payables and receipts in foreign currencies”. Such organizations experience foreign exchange risk when there are fluctuations in the comparative values of currencies that have an effect on the competitiveness of the organizations.

Organizations are exposed to foreign exchange risk if the performance of their projects rely on future exchange rates which cannot be fully projected. Organizations therefore need to have in place appropriate exchange risk management policies. The risk management technique employed by an organization depends on the type of exposure (accounting or economic) and term of exposure. In general, as described by Sivakumar & Sarkar (2008), organizations are exposed to the following types of exposure; "Accounting exposure, also called translation exposure, which results from the need to restate foreign subsidiaries' financial statements into the parent's reporting currency and is the sensitivity of net income to the variation in the exchange rate between a foreign subsidiary and its parent. Economic exposure which is the extent to which a firm's market value, in any particular currency, is sensitive to unexpected changes in foreign currency. Currency fluctuations affect the value of the firm's operating cash flows, income statement, and competitive position, hence market share and stock price, it is also called balance sheet exposure".

Transaction Exposure occurs as a result of fixed price contracting in an environment of exchange-rate volatility. Four basic foreign exchange rate parity theories dominate financial academics today, these are; "Purchasing Power Parity (PPP), International Fisher relation, Foreign exchange expectations relation and Interest rate parity relation". These theories explain the relation between interest rate, inflation and exchange rate fluctuations. Barnat (2014) in his writing defines strategy formulation as "a process that involves determining appropriate courses of action for achieving objectives". He further explains that strategy formulation starts with conducting a SWOT analysis of the key factors in an organization's internal and external environment and ends with practical strategies aligned to the results of the SWOT.

To formulate the foreign exchange risk management strategy, the organization needs to undertake a currency risk assessment which requires an organization to define the level of exposure to loss from foreign exchange and make a decision whether it will put in place strategies to protect itself against the possibility of loss from exposure created by transactions denominated in other than domestic currency. Secondly, the organization needs to identify the existence of a currency risk. This involves the acknowledgement that the organization is exposed to such currency risks and there is need to manage the risk to the benefit of the organization. Organizations should identify the type and extent of foreign exchange exposure (Giddy & Dufey (1992).

Thirdly, there is need to quantify the risk following the identification of the nature of exposure. This will involve assessing the quantitative effect of exchange rate changes by identifying the proportion of organization's value at risk. (Giddy & Dufey 1992). Organizations need to undertake exchange rate forecasts and identify the expected gain or loss; which must be matched with the ultimate objective. Once an organization has completed the risk identification, quantification and determination of expected gain or loss and made a decision to manage its exposure levels it must put in place and action plan.

This action plan can involve the development of an extensive foreign exchange risk management strategy to guide the organization in managing the extent of exposure. The organization can explore the use of any currency risk management strategies under currency risk transfer, currency risk reduction, and control or currency risk retention. Giddy and Duffey (1992) explain some of the tools and techniques that can be used to hedge against foreign exchange risk, these tools serve effectively the same purpose in the short and long term, the organization however needs to know the type of risk to be hedged.

Some of the tools and techniques include; foreign exchange forwards where organizations set a fixed currency rate to be used for transactions happening in the future usually know as forward contract. Currency future whose application is similar to forward contracts but involving standard amounts that are smaller is another tool organization can use, third tool is issuance of debt instead of forwards or futures to offset foreign currency payment and lastly currency options which is an agreement between two parties. An option gives the holder, the right but not the obligation, to buy or sell an item at a fixed price on or before a definite date in the future. The pros and cons for each of these options should be deeply investigated and deliberated on before formulating an optimal hedging strategy, based on the organization's business model, risk profile, strategic environment position and financial stability.

2.5 Trends in Foreign exchange rates

Other than interest rates and inflation, exchange rate plays a vital role in determining a country's level of economic growth. Because of their importance, exchange rates are among the most watched, analyzed and manipulated economic measures. Among NGOs and other development organizations, the volatility of exchange rates makes it a challenge for proper financial management by the organization. Such organizations face difficulties in phases when the USD strengthens or weakens against the major world currencies. Such fluctuations will either mean the organization has more or less money to implement activities depending on whether it's a gain or loss.

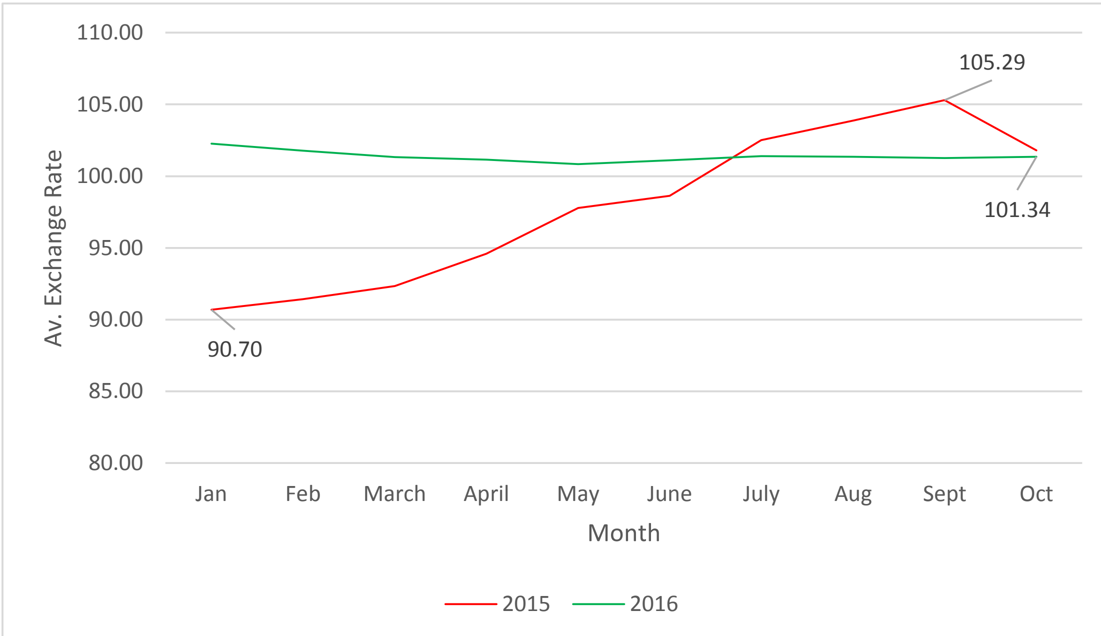
The main drivers of these foreign exchange rate fluctuations in donor funded projects include; period between when pledges are made and honored. According to UNHCR Aide Memoir (2005), “the timing of the pledge, the currency the pledge is denominated in, the date of payment of the pledge and the operational exchange rate in force on those dates have a significant effect on the currency exchange fluctuations on pledges”. The period between when a pledge is written and notice of award provided, fluctuations in exchange rates between the time of first transfer will mean gains or losses that have to be recorded until the award is honoured in full.

Further, the Memoir also identifies monthly revaluation of monetary assets as another determinant of exchange rate fluctuations for donor funded projects. At the end of each month, most international organizations as well as local governmental and non-governmental organizations revalue all their financial assets denominated in currencies other than the Kenya Shilling. This leads to exchange gains and/or losses as a result of the variance between the organizations’ working rate of exchange used when transactions are recorded and the rate of exchange at the end of month closing. Currency conversions also determine the exchange rate fluctuations development organizations face. The base currency in which donor funds for funded projects is received and held is different from the transaction currency for the organization Ngugi (2007). As a result of this multi-currency operational environment, foreign funded projects are forced to undertake frequent currency conversions to sustain operations which exposes the organization to gains and losses which arise from the volatility in the financial markets.

Organizations have had difficulties in eliminating all gains and losses as a result of fluctuations in foreign exchange rates in functional currencies and currency of its assets and liabilities The unavoidable inconsistencies between budget exchange rate and actual exchange rate have a more than distinct influence on the total projected expenditures for the year according to UNHCR *Aide Memoir* (2005). As an illustration, if the foreign currency strengthens against the Kenya Shilling during the year, holding all other factors constant, less expenditure would be incurred in foreign currency for the same budgeted activity level. Conversely, if the foreign currency weakens against the Kenya Shilling during the year, more expenditure will be recorded in the foreign currency for the same budgeted activity. Ideally, these decreases or increases in expenditure will be offset by an inverse movement on the income side.

Interest rates, inflation and exchange rates are all highly interconnected Pandey (2004). In cases where central bank manipulates interest rates, this triggers influence on inflation and exchange rates which consequently affect inflation and currency values. Higher interest rates mean lenders have higher economic return in one country relative to another therefore attracting foreign capital which ultimately leads to rise in exchange rate. The impact of higher interest rates is mitigated if the inflation rate of the country is higher than that of other countries or as a result of other factors which drive the currency down and vice versa. Other factors such as differentials in inflation, differentials in interest rates, public debt among others also determine the exchange rate between two countries. All these factors are inter-related and based on the trading relationship between two countries. The illustrations below show a highlight of the exchange rate fluctuation of the Kenya Shilling against the US Dollar and Canadian Dollar over the past two years.

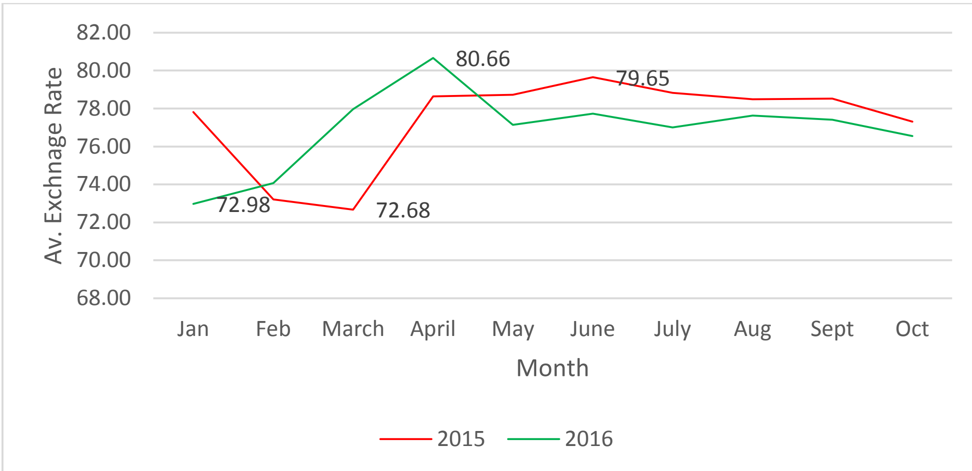
Figure 1.1 Movement of Ksh to USD over the past two years



Source: www.centralbank.go.ke as at 16th October 2016

As seen from the figure 1.1 above, there is high volatility of the USD to the Ksh throughout the year for the two years. The volatility of the Ksh to USD is seen to be more stable especially in 2016 where the rate is more constant at Ksh 101.34 with very minimal variations in 2016. In 2015, the Ksh is seen to weaken from Ksh 90.70 in January to Ksh 105.29 in October.

Figure 1.2 Movement of Ksh to CAD over the past two years



Source: www.centralbank.go.ke as at 16th Oct 2016

As seen from the figure 1.1 and 1.2 above, there is high volatility of both the USD and CAD to the Ksh throughout the year for the two years. However, more erratic movements are seen for the CAD which goes to a low of Ksh 72.68 in March 2015 and a high of Ksh 79.65 in June 2015. The same scenario is observed in 2016 where the exchange rates varies between a low of Ksh 72.98 in Jan 2016 and a high of Ksh 80.66 in April 2016. Although the USD is also seen to have periodic rapid fluctuations, it is observed to be more stable compared to the CAD. From the above snapshot, the high volatile nature of exchange rates means organizations have a higher burden of protecting themselves from effects sudden unfavourable changes that may affect their ability to achieve their goals and objectives. As such a foreign exchange risk management policy becomes a necessity rather than a secondary need for such an organization.

2.6 Empirical studies and knowledge gaps

Strategy implementation has been a focus of study both theoretically and empirically in the local and international context. Rajasekar (2014) studied the factors affecting effective strategy implementation in a service industry with a focus on Electricity distribution companies in the Sultanate of Oman. This study proposed seven factors that affect strategy implementation with leadership identified as the most important factor. Other factors identified include information availability & relevance, dynamism and uncertainty of the environment that make it difficult to implement the strategies as designed among others. The study identified cultural differences as great barrier to getting conclusive recommendations and recommends further study to be done on the topic with a focus on private firms, it therefore does not give recommendations that practioners can use to mitigate the main factors affecting strategy implementation.

Tabo (2013) in his study on challenges of implementing strategies in private security companies in Kenya also identified a number of challenges including environmental uncertainty, capacity of employees charged with implementing the strategies, poor leadership styles and lack of finance to support the implementation process among others. Tabo recommends firms to place emphasis on planning and strategy analysis to enable them prepare for possible challenges that may come up during implementation as once of the recommendations. This study focused on strategy implementation without putting much emphasis on strategy formulation which is a key determinant in the success of any strategy. Additionally, the study findings are in the context of private security firms, these challenges often change depending on the context and industry.

Other studies have been conducted by Elwak (2013) on challenges of strategy implementation at Mazeras Kenya also identifies poor communication and coordination of human resources as a key challenges in successful implementation of strategies, while a number of challenges were identified, Elwak only suggests recommendations to a few of the challenges, further studies need to be undertaken to provide recommendations to these challenges and explore the impact of strategy implementation and organization performance which has not been explored by any of the studies mentioned above.

In summary, this chapter has highlighted the key steps such organizations can take to formulate such a strategy and has equally highlighted a number of challenges such organizations face in the implementation of such strategies. Additionally, the two theories identified to inform this study have also been discussed in detail. To answer the research question and objectives for this study, a detailed description of the appropriate research design, data collection and analysis process is discussed in chapter three, the findings will be used to draw conclusions and provide recommendations to guide management in addressing the implementation challenges identified.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

Research methodology provides a roadmap that is used to solve the research problem. It can be regarded as the "how" of collecting and analysing the data thereof. It generally provides the various steps that are will be adopted by the researcher in studying the research problem along with the rationale. This chapter covers various stages and phases that were followed in completing the study. It involves a proposal for the collection, measurement and analysis of data. Specifically, the chapter provides a detailed description of the research design deployed for the study, data collection methods and data analysis techniques used to come up with meaningful information that has informed the research findings and recommendations.

3.2 Research Design

Welman, Kruger & Mitchel (2006) define research design as "a plan to obtain appropriate data for investigating the research hypothesis and / or questions". This can be regarded as a plan or an outline of how the research will be done. This study was conducted through a case study. A case study is one of several means of undertaking research whether it is a scientific or social study. It involves an exhaustive study of a specific condition rather than a comprehensive statistical survey. It helps the researcher to focus a comprehensive field of research into one easily researchable topic. It is argued that because case studies focus on one phenomenon, they provide more realistic responses than a purely statistical survey. Additionally, as it involves a detailed investigation of a particular event, it provides a logical way analysing events, collecting data, analysing information, and reporting the results.

As a result, the researcher gets a refined understanding of the reason behind the occurrence, and what other areas future researches need to explore extensively. The aim of this study was to equip the researcher with a deep understanding on what challenges AKF-EA is facing in the implementation of foreign exchange risk management strategies and their effect on performance of the donor funded projects at the foundation. This design was therefore considered suitable as it would undertake an in-depth study of AKF-EA as a unit hence facilitates detailed study of the same.

3.3 Data Collection

To enable the researcher, gain an in-depth understanding of the study, primary data was collected through interviews with the Regional Chief Operations Officer, SESEA Project Director, Country Finance Manager, Regional Grants Officer, and one Field Project Finance officers. The Regional Internal Auditor and one field project accountant were not available. The preferred data collection instrument for this study was an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing. They vary from highly scripted to relatively loose and help to know what to ask about and in what sequence. An in-depth interview allows more interaction between interviewer and interviewee.

This method is preferred by researchers as it provides more qualitative information, more depth, more representation, more efficiency, more statistics, and more value. Most of the interviews were done face to face with an exception of a few which were done virtually via Skype due to geographical locations of the interviewees. They were self- administered to top and middle level finance and program managers who are key in overseeing successful implementation of donor funded projects within the organization.

The first part of the guide generally covers general information about the interviewee, the second part aims to capture sources of the challenges in the implementation of the foreign exchange risk strategies. Part three aims to establish the effect of these challenges on performance of the donor funded projects and lastly seek for suggestions and recommendations that if put in place will overcome this challenges.

3.4 Data analysis

Data analysis involves the process of inspecting, cleaning and transforming data with an aim of coming up with useful information that can be used to inform decision making. This study employed a qualitative content analysis approach to derive themes and conclusions from the body of data collected. Qualitative data analysis involves "a range of processes and procedures that move the qualitative data that has been collected into a form of explanation, understanding and interpretation of the situation under investigation" Taylor & Gibbs (2010). Content analysis technique was used to analyse data collected from this study. It involved the categorization of verbal responses collected into thematic topics for each of the key interview questions. The understanding and interpretation of deeper meaning of these themes was informed by literature reviewed in line with the research topic.

This chapter therefore provides a summary of how data was collected, analysed and presented to inform the findings and recommendations that this study provides in the next chapter. Attached as an appendix to this paper is the interview guide used for data collection. The next chapter will provide a critical discussion of the findings and proposed recommendations that can be adopted to improve implementation of foreign exchange risk management strategies within AKF-EA and other similar NGOs.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter reports on the findings of the data collected from interviews with the respondents. The chapter discusses the findings in relation to the existence of foreign exchange risk policies and strategies, it further highlights the challenges of implementation of such strategy within the organization as well as the effects of these challenges of performance of donor funded projects within the organization.

The study sort to collect data from seven staff within the organization however, only five were available to provide responses which have informed the findings of this study as discussed below. The study sort to address two objectives; first was to find out the challenges facing the organization in the implementation of foreign exchange risk management strategies on its funded projects and the second objective was to establish the effect of the challenges on performance of the donor funded project

4.2 Foreign Exchange Risk Management Policies and strategy

Using the interview guide the researcher set out to find out if there were any organisational policies and strategies to manage foreign exchange risk within the organisation. From the researcher’s perspective derived from a review of literature, a policy/strategy for the management of foreign exchange risks refers to measures deliberately instituted by the organization to provide guidance on the steps the organization can take to reduce the risk to potential losses due to foreign currency fluctuations. Such a policy can provide guidelines on the frequent monitoring of market trends to inform management decision making, establishing a clear structure for the monitoring of such trends, it can also outline the measures available to the organization to mitigate against these potential effects.

From the interviews it was established that there is no existing written organisation policy, guidelines or strategy to address the foreign exchange risks within the organisation or specific donor funded projects at AKF EA. Most of the decisions relating to foreign exchange are situational for example funds for activity implementation are converted to local currency on need basis, payments are made using spot rates negotiated with the bank, some contracts are issued in USD while others are issued in local currency among other day to day operation decisions. Any steps to managing effects of exchange currency fluctuations were reactionary and responsive to the challenges that arose during the designing, budgeting and implementing of projects.

Most of these steps and approaches to address the foreign currency exchange risks were informed by previous experiences with past projects and information on economic trends. Therefore, the lack of existing policy itself was a huge challenge in addressing the exchange rate challenges experienced within the organisation. In addition, the task of addressing these challenges was placed duly on the finance departments perhaps pointing to the reasons policy involving the whole organisation has not been created yet. This is despite the far reaching effects of exchange rate losses to the operations of the entire institution and specific projects.

Lack of organisation policy on how to address the currency exchange risks does not mean that the organisation did not take any action to address this challenge as it arose, the strategies employed where informed by experience with previous projects and economic trend monitoring. They fell into mostly three categories, budgetary strategies, economic monitoring, and project implementation strategies.

"A written organization policy would be an exciting thing for management because exchange losses are real within the organization"

Anticipating the risks during organisational and project budgeting was mentioned as one of the key actions when it came to managing exchange rate risks within donor funded projects, from the onset with attempts being made to reduce the gap between the budget rate and exchange rate. The idea of the budget rate and the exchange rate was mentioned as an anticipatory strategy of using information on the economy to predict exchange rate and therefore incorporate them to project budget. In addition, during this stage financial agreement with foreign exchange institutions, contractors and suppliers are other steps that cap rates and mitigate the effects of exchange rate fluctuations.

The importance of understanding the economic trends was highlighted in the interviews as an important aspect of anticipating and managing the effects of exchange rates and other economic concepts such as inflation rates. There was agreement amongst the officers of the need to increase the access and use of this information on foreign exchange trends from the initial design and budgeting for projects to the final stages of implementation of the projects. This could be done either by engaging services of external institutions that monitor such trends and give forecast on foreign exchange market trends or building that capacity within the organisation. In the case of AKF-EA it is not clear how economic trends information was used to manage foreign exchange risk and especially at the time of developing and negotiating new project proposals.

Finally, steps during the implementation of projects were also taken to mitigate risks, due to the long term nature of some projects and the nature of funding it is inevitable that fluctuations in currency markets affect the capacity of projects during their implementation. Various steps were identified at the stages of project implementation such as cost cutting, reduced output were some of the highlighted steps taken to salvage. The adoption of some of these mitigation measures may have affected project output in terms of quantity and quality of project deliverables.

4.3 Challenges Facing Implementation of Policies and Strategies.

The lack of a written foreign exchange risk management strategy posed the main challenge to AKF-EA in ensuring proper management of foreign exchange risk. The lack of organisation strategy and policy means that there is no agreed upon steps to be taken to prevent or deal with foreign exchange rate loss when it does occur. As a growing organization that has seen the funding portfolio significantly growing in the past few years, a unified approach to this issue as an organisation through specific policy is no doubt a stronger way of dealing with the issue and would provide support for some of the strategies that the finance department may implement. Perhaps then it would be the role of the finance to bring forward the need and benefits of putting in place such strategies.

The lack of emphasis on the risk posed by foreign exchange rate fluctuations on funding and thus activities of the organisation, a lack of quantification of the actual figures lost due to exchange rates fluctuations and thus not creating a compelling case for development of such a strategy as well as lack of information on exchange rate trends during budget were also identified as some of the challenges that face the organization.

Over the past few years, it is evident that the funding portfolio has grown with more projects being funded by various donors. Although the organization has managed to come up with reactionary measures to manage the losses and gains as in the case of the SESEA Project, such uncertainty in income has posed a threat to project performance. Most of the organization activities are funded by as projects by different donors. The organization currently has different donors from different countries however the main donors are Global Affairs Canada (formerly CIDA), European Union, DFID and USAID.

All of these donors come on board with different grant conditions and flexibility of the donors pose a challenge when addressing the exchange rate risks, for instance renegotiating funds after losses with the donors may not be an option, and how flexible are donors to adjusting project targets and deliverables once significant changes occur in the financial markets. Additionally, the operating currencies of these donors behave differently against the local currencies of the counties of operation. Most projects are funded for a period of five years, over the period of implementation, the volatility of the exchange rate and uncertainty of market trends have also posed a great challenge in the formulation and implementation of such foreign exchange risk management strategies.

Another significant challenge of implementing foreign exchange risk management strategies highlighted was the different microcosms of the organisations various branches, headquarters and existing projects. The operations of AKF-EA are spread in Kenya, Uganda and Tanzania countries that have different economic standards. The lack of homogeneity means that strategy to address foreign exchange rate in different countries may vary due to the difference in exchange rates.

Such challenges require flexibility however this should not undercut the importance of organisation led policy and strategies to manage foreign exchange rate risks. Presence of appropriate structures and forums such as monthly fund utilization updates, quarterly updates and leadership meetings within the organisation are operational but inability to bring forward the issues of exchange rate losses and importance of such strategy so that it may be addressed and taken seriously by management was also identified as a challenge. It was noted that the agenda on such leadership meetings and updates mostly focuses on spending trends, progress of activity implementation as well as opportunities for new funding without mentioning the impact of foreign exchange risk management on organization activities. Quantifying the losses was suggested as a way of shedding light into the issues, by providing management with the actual figures that organisations lose due to exchange rates in financial reports this could help garner more action to formulate policy and put into place the strategies to address the losses.

Lack of analysis of the operating cycle of organisation projects and global financial markets trends in the initial stages of projects was cited as another challenge of implementing strategies that address foreign exchange loss. Information is power and having key information that can be used to predict and anticipate the progress of project in light of economic trends and other factors is critical in formulation and implementing strategies to deal with foreign exchange risk. Inability to adequately adopt and implement most of hedging strategies which are key in foreign exchange risk management strategies by the organization was also cited as one of the challenges to the formulation and implementation of these strategies.

As a development agency that heavily relies on donor funding, the organization does not have the flexibility to adopt some of the hedging strategies which are rated high risk options and restricted by the donors. Additionally, these funds are disbursed in traches as per project implementation needs. Therefore, the availability of funds which can be used for implementation of this options is not adequate. This does not mean the organization cannot employ some of the options such as fixing exchange rates in contracts denominated in foreign currencies, minimizing number of foreign exchange transactions and conversions among others. Finally, the lack of adequate capacity and expertise within the organization was also cited as a significant challenge in formulation and implementation of these strategies. The role of foreign exchange risk management has been placed on the finance department, however the lack of professional expertise within the organization that can provide technical input on issues of foreign exchange risk management is evident.

According to (Giddy & Duffey, 1992), "many organizations especially non-governmental refrain from active management of foreign exchange risk even though they understand that foreign exchange rate fluctuation affects their value and performance".

4.4 Effects of Challenges on Performance of Donor Funded Projects

The performance of specific dimensions of an organization depends on the effectiveness with which the strategy is implemented. The lack of a clear foreign exchange risk management strategy means; uncertainty in income and variability in income for implementation of activities as a result reduced project output is the main reported consequence, for instance losses due to foreign exchange fluctuations could result in reduces activities thus reduced project targets, reduced project duration, reduced staffing costs all of which pose a threat to quality of the project.

SESEA Project funded by GAC was identified as one of the projects which has suffered significant losses necessitating reactive measures to manage the effect of these losses on project targets, duration and overall quality in general.

> *"Foreign exchange rate fluctuations mean either more money or less money for a project"*

Secondly, it led to the need to increase efficiency within projects, to anticipating losses, and relying on multiple or alternative sources of funding. The sustainability of such project interventions is also threatened as a result of minimal budget availability to adequately support these activities.

4.5 Measures to overcome the challenges identified

The recommendations put forward by the officers interviewed strongly emphasised the need to establish a standardized foreign exchange risk policy to guide the organisation on how to manage exchange rate gains and losses. The existence of such clear strategy will play a crucial role in providing a clear reference document for both finance and program teams when developing and negotiating new grants. The officers also recommended the deployment of expert services to support the organization to develop a customised foreign exchange risk management strategy considering the complexities of the organization in relation to donor variability and countries of operations. As a short term measure, the availability of information on the projected market trends especially at the point of proposal development, budgeting and negotiation with the donors for full project cycle.

Implementing budget strategies that cushion the organisation and donor funded projects against the effects of exchange rate fluctuations, using the available internal structures such as leadership meetings to amplify the need for formulation of a foreign exchange risk management strategy as well as keeping management updated on the changes in the market and how they impact on projects, keeping donors in the loop in case market changes that affect projects do occur was also suggested.

4.6 Discussion

From the results, the lack of a clear foreign exchange risk management strategy can be a great challenge during strategy implementation. This finding agrees with that of Beer and Eisenstat (2000) who identify the lack of a clear strategy as a main challenge in strategy implementation. Strategy provides direction to the organization, without which the organization may not succeed in achieving its objectives. The strategic formulation process needs to be consultative involving all employees, this fosters understanding and ownership of the strategy for more effective implementation. Further, there is great need for the management at AKF-EA to consider deploying services of an expert who can assist in providing technical support in development of such a strategy as well as frequent monitoring and reporting to senior management the effects of the changes in foreign exchange risk to organization project activities, this will amplify the need for formulation of such an important strategy.

These findings also support those of (Rajeskar 2014) who identifies management commitment, availability and accuracy of information, uncertainty, organizational structure and organizational culture, as key factors that influence the implementation of strategy. Davenport (2007) further indicates that implementation of strategy is far more demanding than its formulation. It is however important to recognize that successful implementation heavily relies on a well-crafted and clearly formulated strategy, without which the cycle cannot be complete. Strategy implementation only puts into action an already existing strategy. As in the case of AKF-EA, the inherent need to have a clear strategy which can then be implemented is necessary.

Organizations with international dealings will inevitably have transactions in foreign currencies which makes it all the more necessary for management to have a working knowledge of the existing foreign exchange regulations. According to (Giddy & Duffey, 1992)," many organizations especially non-governmental do not engage in active management of foreign exchange risk even though they understand that foreign exchange rate fluctuation affects their value and performance". The uncertainty in the financial market has been identified by (Rajasker 2014) to be a great challenge in implementation of strategy, especially for organizations like AKF-EA that operate in developing economies that have highly volatile currencies.

Additional challenges identified by Hong Kong CPA society (2016) which include the lack of internal governance structure to support the implementation of the strategies and inappropriate choice of hedging instruments also agrees with the findings of this study which identify that strategy implementation may fail if there is no internal capacity to support its implementation.

The deployment of expert services of a foreign risk management consultant or the establishment of such a position within the internal structure will play a great role in supporting the proper formulation and implementation of such a strategy. (Giddy and Duffey 1992) identify the failure by management to understand the concept of foreign exchange risk management and the various tools available such as forwards, futures and options to minimize exposure as a great challenge in implementation of such strategies. This is coupled with "the lack of adequate internal resources to monitor dynamically the organization's exposure and maintain an adequate hedging strategy, the lack of visibility and trust in the organization's real exposure to multiple currencies and the real or presumed cost of the implementation of an efficient hedging strategy also prevent such implementation".

There is need to create more awareness within the management on the need and importance of developing and documenting such a clear strategy, the use of the existing internal governance structures such as management meetings and project governance committees will be helpful in helping management to understand the risks facing the organization due to lack of such clear policies and strategies. The findings of this study also identify the complexities the organization is experiencing in implementing a uniform strategy because of the different grant requirements of the donors that fund the projects being implemented by the organization as identified by CPA Hong Kong (2016). The results indicate that most of the donor funds are fixed and cannot be used for any other purposes other than as prescribed in the donor agreements, the disbursement mechanisms and economic markets of the donors also varies.

These findings validate the prepositions of the resource dependency theory upon which this study is founded. Proponents of the RDT (Pfeffer & Salancik, 1978) argue that for organizations to succeed, they must engage a number of inter-organizational linkages to manage and control their resources. Too much reliance on external resources restricts the organization's flexibility in implementing some of the strategies that it may want to put into action. In the case of AKF-EA, where a significant proportion of the resources is from donors who come on board with stringent rules and regulations thus restricting the organization's ability to formulate and implement a 'one size fit all' strategy that will meet all donor regulations. Additionally, NGOs have been under close scrutiny on their dependency on foreign funding to support their activities, with less grants from government and other donors, such NGOs are forced to come up with creative initiatives to compete with other private and commercial entities for resources.

The resource dependency and stiff competition for resources in the external environment has forced NGOs to compromise on quality of their deliverables hence impacting on organizational performance (Pfeffer2003). Such dependency also poses a challenge to implementation of such policies within the organization. With the significant amount of donor funding received by NGOs, the need to manage foreign exchange risk exposure has become crucial to ensure organization performance. The findings also validate to a large extent the assumptions that form the foundation of the transaction cost economic theory which is the second theory upon which this study is founded on.

The fact that implementation of foreign exchange risk management strategy is affected by the level of uncertainty in the financial market, supports the bounded rationality concept of the TCE proposed by (Williamson,1985), which means that the decision making process by the organization trying to minimize transaction costs is restricted by the amount of data available, ability to reason and timeframe involved in making the decision. This speaks to the findings of this study that point towards a great challenge in implementing strategy in a highly volatile environment which promotes a culture of situational decision making.

Transaction costs play a significant role in guiding management to know which strategies to put in place to minimize losses as a result of exchange rate fluctuations. As such there is need for the organization to clearly understand the nature of their operations, so as to appreciate the importance of such a strategy. Most NGOs have taken a back seat in understanding and managing their transaction costs, unlike profit making organizations that have put a lot of emphasis on such issues. As a result, strategies formulated to manage exchange risk are not robust and in some cases organizations end up with the wrong choice of options to manage their foreign exchange risk.

In conclusion, formulating an innovative and unique strategy is not the key to success of an organization, it is important for management to ensure such a strategy is carefully implemented for the organization to experience the full value of such an initiative (Davenport, 2007). Management should pay careful attention to the implementation of strategies to avoid common snags that lead to failure. It is important for management to integrate strategies such as foreign exchange risk management in other organization's strategies and polices for example the financial management policy and in doing so ensure there is a clear competitive advantage in addressing it.

Implementing an effective foreign exchange hedging strategy allows the organization to reduce inconsistencies in income as a result of exchange rate variations, allowing the organization some time to adopt its strategy to the changing shifts, which gives it an edge over its competitors who are less prepared. (DPC Asia). To mitigate the foreign exchange risk exposure, NGOs must implement appropriate strategies to hedge against such potential losses due to exchange rate volatility in the market. A successfully implemented foreign exchange hedging strategy will ensure organization achieves its goals and objectives (Giddy&Duffey,1992). The next chapter highlights a summary of the findings and conclusions while providing recommendations that the organization can put in place to address the challenges identified above. Additionally, it will highlight the value add various stakeholders can draw from this study.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of the findings of the study, conclusions drawn, and recommendations given. The objectives of the study were to identify the challenges of implementation of foreign exchange risk management strategies by Aga Khan Foundation, East Africa and to establish how they affect performance of donor funded projects as well as providing recommendations of how these challenges can be addressed. This chapter also highlights the limitations of the current study and provides recommendations areas of further study.

5.2 Summary

The results indicated that the organization does not have a clear written policy or strategy that provides guidance to staff on management of foreign exchange risk across the different projects implemented by the organization. Any steps to managing effects of exchange currency fluctuations were reactionary and responsive to the challenges that arose during the designing, budgeting and implementing of projects. Most of these steps and approaches to address the foreign currency exchange risks were informed by previous experiences with past projects and information on economic trends. Therefore, the lack of existing policy itself was a huge challenge in addressing the exchange rate challenges experienced within the organisation.

Other challenges identified include the lack of capacity within the organization to provide technical support on the formulation of a customized foreign exchange risk management strategy as well as support in its implementation. The results also indicate that the lack of emphasis to management on the effect of foreign exchange movements on the projects implemented by the organization although the organization has adequate internal governance structures to support the continuous monitoring of such a strategy.

The volatility of exchange rates in the financial markets coupled with the different economic standards of the countries the organization operates in also posed a significant challenge in the formulation and implementation of a uniform strategy. On the impact of these challenges on the performance of the projects, the results indicated that the organization has had to negotiate with the donors to adjust project outputs in terms of number of targets, the activities to be conducted, duration of the project among others. As to whether this adjustment was positive or negative depends on the operating currency of the donor since the project budgets and commitments are denominated in the donor's operating currency. In this case projects denominated in USD had gains and therefore positive adjustments while those denominated in CAD experienced losses therefore negative adjustments. Quality of project was also ultimately affected depending on whether the project had gains or losses.

To overcome the challenges identified, the results strongly recommended the formulation of a clear foreign exchange risk management strategy to provide guidance to both finance and program teams. This strategy can be customised for each country of AKF operation so as to accommodate the different economic environment of the countries. Additionally, the strategy can be a key reference point for negotiations with new and existing donors in addition to being made part of all future agreements. The need to seek services of an expert to support the formulation and monitoring of such a strategy was also strongly recommended in addition to building capacity and availability of information on market trends to existing staff.

5.3 Conclusion

From the results, conclusions can be made that the greatest challenge to implementation of any strategy is the lack of existence of a clear and documented strategy to begin with. Successful strategy implementation relies on existence of a successfully formulated strategy formulated. Notably, the strategic planning and formulation process should be live to the changes in the external environment and should take a consultative approach involving all the relevant stakeholders, unlike strategy formulation which takes a top-down approach, successful strategy implementation requires the collaboration of everyone. (Zaribaf and Bayrami 2010). The lack of capacity to support the formulation and implementation of such a strategy also pose a great challenge to the organization.

The study also concludes that; as a result of the challenges identified above, the performance of donor funded projects within the organization is affected mainly as a result of income unpredictability in case of exchange rate variations. In most cases the organization is forced to engage the donor to allow an adjustment of project output targets, activities and duration among others. The threat to quality is inevitable especially in cases where there are significant exchange losses.

Organizational performance is largely influenced by the ability of the organization to take a proactive approach to managing exchange rate fluctuations. Excellently implemented hedging strategy enhances predictability of its income and output leading to improved efficiency and effectiveness, these are key players to giving the organization a competitive advantage. Organizations that employ effective foreign exchange management strategies experience reduced foreign exchange exposure hence minimal losses.

5.4 Recommendations and Implications on Policy, Practice and Theory

The study makes the following recommendations based on the results of the study. Of utmost importance is the organization to consider formulation of a clear documented foreign exchange risk management strategy that can be used to provide guidance to staff both program and finance in the management of foreign exchange risk. Further the organization can explore the possibility of customizing the strategy to suite the economic environment of each country where it operates. This strategy should be used for negotiating new donor grants and if possible made part of the all future agreements. The formulation of these strategy should be live to the volatile nature of the foreign exchange markets.

The organization should also consider engaging the service of an expert to support in formulation of the strategy as well as monitoring its implementation in addition to providing expert advice during project start up by providing market trend analysis that can inform the organizations the expected impact of such fluctuations on the project. This will enable the organization to be proactive rather than reactive to mitigate the impact of these unexpected fluctuations on performance of projects. If resources cannot allow for engagement of an expert, the organization can consider building the capacity of finance teams and assigning the responsibility of monitoring such movements to a particular position within the organization.

The frequent monitoring and provision of updates to the management on the movement of foreign exchange rates of major currencies of the projects implemented by the organization is also strongly recommended. Project managers and finance teams can use the existing structures such as quarterly management meetings, quarterly project governance body meetings for the various projects, as well as monthly updates to the organization to create awareness on the expected impact of such currency movements and provide measures to be put in place to reduce impact on project performance. Further, the organization can consider the use of some of the applicable hedging options that do not put the donor funds at risk as a short term alternative to management of losses to the projects in case of rapid foreign currency fluctuations. Some of the options available include the setting of fixed exchange rate for contracts denominated in foreign currencies, encourage the issuance of contracts in local currency where possible, manage the number of currency conversions as well as adoption of conservative budgeting including the use of a realistic budget exchange rate among others.

The concept of foreign exchange risk management is still an area that most NGOs have refrained from, however, some of the development agencies and NGOs have recognised the need for putting in place appropriate policies and strategies that guide their management of foreign exchange risk. AKF-EA can consider consulting such organizations such as UNICEF, World Vision to learn from their experience to inform the effective formulation and implementation of such similar strategy for the organization.

The study should be important to management of AKF-EA. It will help them understand the challenges of foreign exchange risk management strategy implementation and how to overcome them as well as the effect of these challenges on performance of donor funded projects in the organization. The study should also help other related development agencies and NGOs operating in the same environment to know the measures they can put in place to successfully implement this kind of strategy.

Stakeholders in humanitarian development sector should be able to draw policy implications from this study. Specifically, they will be in a position to identify the challenges of strategy implementation of foreign exchange risk and how best to tackle the challenges. With these information, they will be in a better position to steer their future donations, upcoming development projects in the right direction in terms of implementation of foreign exchange strategies.

Finally, the study should also have theoretical value as it will enrich the discourse on challenges of strategy implementation. It provides a basis for further research by other scholars who may want to broaden their understanding on challenges facing implementation of foreign exchange risk management strategies, this will pave way for further research in order to verify the findings and propose measures to overcome the identified challenges while contributing to the existing body of knowledge.

5.5 Limitations of the Study

The study focused only on the strategy implementation aspect of strategic management process. Thus did not focus on other aspects of the strategic management process which includes formulation as well as the control, monitoring and evaluation aspect which are important components part of strategic management process and should not be ignored. Secondly, some of the identified interviewees were not available to provide responses to inform the findings of the study as anticipated. However, interviews from those who were available were exhaustive to enable the researcher collect adequate data to make meaningful analysis and recommendations.

The study was also limited by the financial and time constraints. The period over which the study was to be conducted was short, hence exhaustive and therefore comprehensive research could not be undertaken to compare the experiences of other development agencies and NGOs in implementing foreign exchange risk management strategies with those of AKF-EA.

5.6 Suggestions for Further Research

The current study focused on identifying challenges of implementation of policies and strategies of foreign exchange risk management in donor funded projects of one institution that is the Aga Khan foundation- EA, the findings cannot be correctly applied to other organisations and it would be important to investigate how other organisations within the social development sector experience and manage foreign exchange risks. This will be helpful to compare whether the challenges identified at AKF-EA also apply to other development agencies of similar size and operations, such a study will also be important to validate the findings of this study as well as adding to the body of knowledge. Secondly, the study focused on exploring challenges of implementing foreign exchange risk management strategies, it will be important to explore the challenges development agencies and NGOs could be facing in formulation of such unique strategies an area that was not explored by this study.

REFERENCES

Al Ghamdi, S. M. (1998). *Obstacles to successful implementation of strategic decisions: The British experience.* European Business Review, Vol. 98 No.6, p.322-7.

Awino, Z.B, Muchara, M., Ogutu, M, and Oeba, L. K. (2012). *Total quality and competitive advantage of firms in the horticultural industry in Kenya.* Prime Journal of Business Administration and Management. Volume 2, Issue 4, pp. 521-532

Barnat Ryszard (2014). *Strategic Management: Formulation and Implementation'* http://www.24xls.com/ last accessed on 22nd June 2016

Beer, M., Eisenstat, R. A., (2000). *The Silent Killers of Strategy Implementation and Learning*, Sloan Management. Review Summer 2000.

Butler, K. C. (2008). *Multinational Finance*. John Wiley & Sons, Ltd.

Cater, T., & Pucko, D. (2010). *Factors of effective strategy implementation: Empirical evidence from Slovenian business practice.* Journal for East European Management Studies, 15(3), 207-236.

Chandler, A. (1962): *Strategy and structure: Chapters in the History of American industrial Enterprise.* Cambridge Massachusetts, I T Press.

CPA Hong Kong (2016). *Foreign Exchange Risk Management*. Summer 2016. Issue No.107

Davenport, T. (2007), *Strategy Execution: Avoid the Extremes*", Harvard Business Review. (Last accessed 24th June 2016): https://hbr.org/2007/12/strategy-execution-avoid-the-e

Elwak.R (2013). *Challenges of Strategy implementation at Mazaras Kenya.* Unpublished MBA Project. UON

Featherson, S., Littlefield, E. & Mwangi, P. (2006). *Foreign Exchange Management. Microfinance: What is it and how can it be managed?* Retrieved from http://www.cgap.org/sites/default/files/CGAP-Focus-Note-Foreign-Exchange-Rate-Risk-in-Microfinance-What-Is-It-and-How-Can-It-Be-Managed-Jan-2006.pdf last accessed on 15th June 2016

Giddy, Ian H and Dufey, Gunter, (1992), *The Management of Foreign Exchange Risk*, Available at: http://pages.stern.nyu.edu/~igiddy/fxrisk.htm . (last accessed: June 22,2016)

Gavrea. C, Ileas.L. &, R. (2011). *Determinants of Organizational Performance. The case of Romania,* Management & Marketing. Vol 6(2) pp 285-300

Henderson, Bruce (1 January 1981). *The Concept of Strategy*. Boston Consulting Group. Last accessed June 21, 2016..

Herbiniak, L.G. (2006). *Obstacles to effective strategy implementation*. Organizational dynamics, 35, 12-31.

Johnson, G., Scholes, K. and Whittington, R. (2005), *Exploring Corporate Strategy*. 7th Edition, Prentice Hall

Jones, G. R. (2001). *Organizational theory:* Text and cases. Upper Saddle River, NJ: Prentice Hall

Koseolu M. A., Barca M., & Karayormuk K. (2009): *A study on the causes of strategies failing to success.* Journal of Global Strategic Management Vol 6

Nader S. K., Mohammed R. A., Ali A. A. & Davod K. D. (2011): *Why does strategic plans implementation fails?* A study in the health service sector of Iran

Noble, C. H., (1999). *Building the Strategy Implementation Network* ", Business Horizons ", November- December.

Nduva, C. (2011). *Strategy Implementation Challenges Facing Kenya Bureau of Standards*. (Unpublished MBA Research project). University of Nairobi, Kenya.

McCormick. D and Schmitz. H. (2009). *Donor Proliferation and Co-ordination: Experiences in Kenya and Indonesia.*

Okumu, F., (2003). *A framework to implement strategies in organizations*. Management Decision. Vol 41(9). p. 871-882.

Okumus, F. and Hemmington, N. (1998). *Barriers and Resistance to Change in Hotel Firms: An Investigation at Unit Level*, International Journal of Contemporary Hospitality Management, 10(7), 283–288

Pratt B Hailey J, Gallo M, Shadwick R, and Hayman R. (July 2012*). Understanding private donors in international development.* Policy Briefing Paper No.1

Preffer, J., & Salancik, G. (1978). *The external control of organizations: A resource dependence perspective.*

Pfeffer, J. (2003), *"Introduction to the classic edition,"* in Pfeffer, J. and Salancik, G. R., The External Control of organizations: A Resource Dependence Perspective (classic edition), Stanford University Press, Stanford, CA

Ramesh, R., (2011). *Strategic Management*. Structured Notes as per the Syllabus of MD University, Rohtak, Haryana

Rajasekar, J, August 2014. *Factors affecting Effective Strategy Implementation in a Service Industry: A Study of Electricity Distribution Companies in the Sultanate of Oman.* International Journal of Business and Social Science.Vol 5 No.9(1) pp.169-181

Sivakumar,A & Sarkar. R (2008). *Corporate Hedging for Foreign Exchange Risk in India*. http://www.iitk.ac.in/infocell/announce/convention/papers/Marketing,%20Finance%20and%20International%20Strategy-07-Anuradha%20Sivakumar%20Runa%20Sarkar.pdf. Last accessed 15th June 2016

Stoianova, V. April 2012. *Private Funding, An emerging trend in humanitarian donorship*, Ver.1

Swanson, Richard A. *Theory Building in Applied Disciplines. San Francisco,* CA: Berrett-Koehler Publishers 2013.

Tabo, V. (2013). *Challenges of Strategy Implementation in Private Security Companies in Kenya*. Unpublished MBA Project. University of Nairobi.

Taylor C and Gibbs G. (2010). *What is Qualitative Data Analysis? (QDA)* Online QDA Web Site, [onlineqda.hud.ac.uk/Intro_QDA/what_is_qda.php] last accessed on 5th July, 2016

Taggert J.H & McDermott,M.C (2000). *The Essence of International Business* (4th Ed) New Delhi: Prentice Hall pp 107- 113

UNHCR Aide Memoir dated 20/09/2005. *Impact of Currency Exchange Fluctuations on UNHCR's Operations*

Kumar, V (2013) *Significance of Forex Management.* Accessed at http://www.svtuition.org/2013/01/significance-of-fore-management.html last accessed on 22nd June 2016

Wangari, H (2011). *Strategy implementation challenges faced by National Hospital Insurance Fund in Kenya:* Unpublished MBA Project. UON

Williamson, O. E. (1994). *Transaction cost economics and organization theory. Organization theory:* from Chester Barnard to the present and beyong, 207-256.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism: Firms, markets, relational Contracting*. Free Press.

Zaribaf, M., & Bayrami, H. (2010). *An effective factors pattern affecting implementation of strategic plans.* Academic and Business Research Institute

www.oanda.com last accessed on 13th June 2016

http://www.akfc.ca/en/about-us/annual-reports

http://www.akfusa.org/wp-content/uploads/AGA-KHAN-FOUNDATION-U.S.A._TAX-RETURN_990-PUBLIC-INSPECTION_2015.pdf

APPENDICES

APPENDIX I: INTERVIEW GUIDE

Confidentiality Declaration: The responses provided in this interview will be used exclusively to inform findings for this research and not for any other use, personal details and any other personal information obtained through this interview will be treated as confidential.

Section A: Interviewee details

1. Name (optional)………………………………………….
2. Position in the organization…………………………………
3. Period in the position………………………………….
4. Period in the organization……………………………………

Section B: Challenges of the implementation of foreign exchange risk management strategies

I. Internal structures and polices

a) Please tell me which policies exist that outline strategies to manage foreign exchange risk within the organization…..……………When were these policies established? ……………………….
b) What prompted the establishment of these policies?……………..
c) What in your view have been the constraints to the implementation of these strategies for the organization………………………………….

d) How does the current organization structure support the implementation of these strategies…………………………….

II. Macro-Environment

a) How has the current economic climate affected foreign exchange strategy implementation by the organization (probe on of volatility of exchange rate, inflation rates) …...........

Section C: Effect of these challenges on the performance of donor funded projects in the organization

a) How has project performance been affected by the challenges (probe for effect on;

i. Quantity – Project outputs and results

ii. Quality- Timeliness of activity implementation, duration of project, sustainability

SECTION D: Suggestions and recommendations to overcome the challenges

a) What should the organization do to overcome the challenges stated above……

b) Is there any other comments you would like to make related to our discussion?........

APPENDIX II: INTRODUCTION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE. 2/09/2016.

TO WHOM IT MAY CONCERN

The bearer of this letter ..CYNTHIA K. ORANGO..........................

Registration No... D61/72957/2014. ....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
02 SEP 2016
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX III: CONFIRMATION LETTER FROM ORGANIZATION

AGA KHAN FOUNDATION

10th October 2016

To whom it may concern.

Dear Sir/Madam,

Re: Data collection for MBA Research by Cynthia K. Orang'o

In reference to the University's introductory letter dated 2nd September 2016, requesting the organization to support the above named student to collect data from our institution as part of the requirements for completion of her MBA research project. This is to confirm that the student had various interviews with key organization officials as identified in her data collection plan. The interviews were held between 14th and 21st September 2016.

Do not hesitate to contact me on patrick.sikana@akfea.org should you have any queries in this regard.

Sincerely,

Patrick Sikana
Regional Program Director
Aga Khan Foundation

An agency of the Aga Khan Development Network

The Courtyard, 3rd Floor, General Mathenge Drive, Westlands - Postal Address: P.O. Box 40898, 00100 - Nairobi, Kenya
Telephone: +254 41 2005358/2002879, Mobile: +254 (0)707 386353 / (0)733 256640 / (0)774 275298, Web: www.akdn.org
Incorporated in Geneva, Switzerland

Source: Aga Khan Foundation East Africa, October 2016