The Effect Of Foreign Exchange Rate Fluctuation On The Financial Performance Of Listed Companies In Kenya

This study developed a model of foreign exchange exposure dependent on three variables, the firm's imports, exports and their effect on profits formulating the problem statement of the effects (if any) that variations in the exchange rate has in the financial performance of the selected listed companies in the Nairobi Stock Exchange for the period covering years 2001 to 2010. The study is to find out whether foreign exchange exposure is minimized where firms have been able to match their foreign currency revenues and costs leaving them with little net exposure.

The research design was descriptive which involved the use of both qualitative and quantitative data. The sample size constituted of 38 firms except for financial and investment but the results of 32 firms were analysed after eliminating spoilt and inconsistent questionnaires. The r esear ch ut i l i zed questionnaires for data collection comprising of structured questions.

In analyzing the responses, the Microsoft Excel Spreadsheet tool was used to calculate descriptive statistics and the Statistical Package for Social Sciences (SPSS) was also used. This generated descriptive statistics such as percentages, frequency distribution, measures of central tendency and graphical expressions.

From the findings the study found that listed firms use the income statement and the owner's equity account to record foreign exchange differences. The study concluded that unrealized foreign exchange gains/losses had an effect on the Net Income of listed companies as it was posted to either income statement or owners'equity. The study also found that there had been significant percentage growth in imports and exports for firms listed in the Nairobi Securities Exchange. The study further concluded that the use of foreign exchange has an effect on import costs and accounts payables, export revenues and accounts receivables with the net effect on the Net Income of the companies.