

EFFECTS OF FOREIGN EXCHANGE RATE ON FOREIGN TRADE IN FINANCIAL PERFORMANCE OF THE AGRICULTURAL SECTOR IN KENYA

A CASE STUDY OF VIPINGO SISAL ESTATE

Citation: Abdulkadir Sheikh Ali. (2015). Effects of Foreign Exchange Rate on Foreign Trade In Financial Performance of the Agricultural Sector in Kenya: A Case Study of Vipingo Sisal Estate. *International Journal of Finance and Accounting* 4 (6) 1-19.

ABSTRACT

The desire of every firm is to maximize its profits among other objectives. Exchange rate which is one of the variables that affect the profitability of a firm especially the ones that deal with foreign trade, if not well managed can render a firm to major shocks of profit deterioration. Instability in Exchange rate can influence longer-term decisions by affecting the volume of exports and imports, the allocation of investment and government sales and procurement policies. In medium term, it can affect the balance of payments and the level of economic activity, while in the short run local consumers and the local trader can be affected. The purpose of the study was to investigate the effects of Exchange rates on foreign trade in financial performance in agriculture sector majoring on Sisal production and export in Kilifi. The researcher used descriptive research design in collecting the data from respondents. In alignment with the research design Vipingo Sisal Estate was chosen since Sisal is a major

agricultural export in Kenya. The population of the study, management staff of Vipingo Sisal Estate, was stratified into tactical, technical and operation level staff so as to give equal opportunity of being selected from the entire population. Primary data was collected using questionnaires and secondary sources such as published journals, articles among other reference material through desk search techniques. Analysis involved qualitative and quantitative analysis.

From the findings of this study and the summary, the study concludes that the financial performance of Vipingo Sisal Estate is affected by foreign exchange rate.

The study also concludes that cost influence manager's choice of the types of hedging techniques and foreign exchange rate affect the cash flows in the business operations. The study further concludes that an increase in the variance of the permanent (transitory) component in the exchange rate process leads to greater (lesser) variability in the growth rate of the firm's profits. This study therefore recommends that in order to achieve better financial performance, Vipingo Sisal Estate should use vigorous strategies to hedge against accounting or translation exposure and the economic exposure.

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