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The Impacts of Exchange Rate Volatility on Agro-Processing Industry Performance: Evidence from Profeeds 2013 to 2022

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Abstract **Original Research Article**

The study's goal was to investigate the effects of exchange rate on the quarterly averaged performance of Profeeds private limited company in Zimbabwe from January 2013 to December 2022. Firstly this study sort to examine how foreign exchange rate volatility affected the performance of private companies in Zimbabwe, and secondly, the study aims to determine whether any other secondary factors of company characteristics, such as size, could have had a contributory effect on the performance of the companies over the period in question. The study used quantitative analysis of data using multi regression analysis. Firstly, the research's findings demonstrated that Zimbabwe's private companies' performance was affected positively by exchange volatility, return on assets, and other internal factors during the study period. External factors had a role in the performance of the company over the period in question. Over the course of the study period, the correlation results revealed a shaky positive relationship between foreign exchange volatility and company profits. Using desktop evidence, throughout the entire study period, the Zimbabwean dollar followed a stochastic pattern with brief periods of appreciation and stability. Furthermore, a connection between changes in inflation rates and exchange rate volatility was discovered. Since there was little correlation between inflation and profitability, the Zimbabwean dollar lost value as inflation rates rose against the US dollar. This made it possible for the return on assets to increase. This research advocates for numerous economic, business, and governmental policies resulting from the discoveries. Singularly, management of companies doing business in Zimbabwe must take precautions to limit their exposure to foreign exchange risk. According to the study, higher levels of foreign exchange volatility hurt businesses' financial results and decrease their market value over time.

Keywords: Market Value, Foreign Exchange, Inflation, Profitability, Return on Assets.

INTRODUCTION

Currency crisis problems have been Zimbabwe's biggest headaches for the past 20 years; more specifically, the path of financial crisis dates back before 2000, when the government started compensating war veterans, and when it started taking over land from the white commercial farmers under the guise of equitable distribution of land between the white commercial farmers and the black indigenous people. This marks the most significant periods of extreme currency instability and an insufficient monetary regime in Zimbabwe. The long-term causes of the crisis have been previously examined by several policy missions, along with some of Zimbabwe's policy options and motivations. They made these decisions in light of the various currency exchange rate management strategies in use worldwide. The roles played by governments and central banks in supporting sound policy frameworks, and their understanding of other economies that have adopted the dollar as their reserve currency.

Background of the study

Reserve Bank of Zimbabwe (2011) indicated that the history of Zimbabwe's currency has seen many ups and downs. Zimbabwe had a fixed-managed exchange rate governance system from 1980 until 2009, during which time the US dollar was officially pegged to the Zimbabwean dollar with a permissible margin for fluctuation. While fixed exchange rates were common throughout history, there has been a slow and drastic shift internationally toward more flexible exchange rate regimes after the days of the Bretton Woods agreement's collapse in 1973 (Macharia, 2013). In light of this, numerous African nations adopted fixed-managed exchange rates after gaining political independence.

The macroeconomic stability was intended to be supported by

the pegged exchange rates (Berger, 2010). Berger (H. U. Opaluwa) also indicated that in many instances, it was impossible to maintain because currencies had overvalued in comparison to other world currencies. Reserve Bank of Zimbabwe (2011), the same thing happened in Zimbabwe, where the currency was pegged against the US dollar. The currency became more and more unsustainable due to the peg to the US dollar, despite periodic adjustments to the exchange rate. Zimbabwe, like many other African countries, but to a much greater extent, was blamed for this, with national budget deficits and rapid money supply growth being the main causes. A parallel market with a sharply depreciated, market-determined exchange rate developed as a result of the insufficient supply of foreign currency at the official, fixed rate (Reserve Bank of Zimbabwe, 2011).

When inflation rates in Zimbabwe began to rise at an alarming rate several years ago, the country's economy was established to be hyperinflationary, and even today, the economy hasn't yet stabilized. The changes in the consumer price index show how the economy's fundamentals suffered after the US$176 million IMF facility was suspended in August 1998. Inflation increased year over year from 29% in August 1998 to 55.2% in June 1999 (Macharia, 2013). The massive micro and macro adjustments that hit the manufacturing sector and many other sectors were a contributing factor to the high inflation in 2022, as mentioned in the RBZ report. The Reserve Bank of Zimbabwe reported that in May 2022, the inflation rate was 131.7%. The situation has improved with the legalization of electronic transfers, but exchange rate volatility is still a heavy burden.

Since inflation is defined by Owoeye Obi et al. (2013) as a persistent rise in the average prices of goods and services over time, changes in prices within an economy will result in a decrease in the value of the domestic currency and make local goods cheaper, driving foreigners to demand more of local goods. According to Gilchris Owoeye (2013), one of the difficulties that the manufacturing sector faced at the time was the liquidity shortage that resulted from the unstable exchange rates. Some large corporations that seemed to be performing so well and yet had strong and sound current ratios nearly collapsed when their creditors demanded payments, but they had no money in their accounts (Saleh et al., 2022). Profeeds imports the majority of its profitable agricultural processing machinery and chemicals, and exchange rates have had a noticeable effect on the company's overall profits (Hungwe, 2021). Since there was a shortage of foreign currency in the country, people and companies alike were forced to participate in illegal parallel market activities to get foreign currency (Hungwe, 2021). The company was exposed to some unexpected exchange risks due to market instability, and the disparity between the official exchange rate and the black market rate exacerbated the effects (Hungwe, 2021).

Following the 2008 elections and the establishment of the Government of National Unity (GNU), a multi-currency regime characterized by a variety of legal tenders was put in place in February 2009, almost completely replacing the Zimbabwean dollar (Hungwe, 2021). The Zimbabwean dollar was reinstated legally and made the only form of legal tender (under the guise of RTGS dollars) in the middle of 2019. Before then, this system was in place. The exchange rate has, however, rapidly declined since the formal reintroduction on both the official and unofficial markets (Hungwe, 2021).

Reserve Bank of Zimbabwe (2011). It should be noted that the effort to preserve a fixed exchange rate in the decades following independence was in direct conflict with the macroeconomic fundamentals of Zimbabwe. In relation to Zimbabwe's international competitiveness, the exchange rate became increasingly overvalued, causing serious foreign currency shortages and balance of payments (BoP) problems, which led to the emergence of the so-called "black market." These long-term problems were worsened in the 2000s by the Reserve Bank of Zimbabwe's (RBZ) quasi-fiscal activities and the quick expansion of the money supply brought on by fiscal scarcities (Reserve Bank of Zimbabwe, 2011). The RBZ generated income and spent it on government purchases like agricultural subsidy programs, which are frequently cited as one of the primary causes of hyperinflation.

As a result of the de facto abandonment of the Zimbabwean dollar and the implementation of the multi-currency regime in 2009, hyperinflation abruptly came to an end when the RBZ was unable to print money. Economic growth changed for the better in 2009 and some earlier years, while inflation was kept at low levels. Due to subsequent weak and unsustainable macroeconomic and political reforms, this situation was only temporary (Sayedi, 2013). Several inconsistent macroeconomic policies were also reinstated or strengthened, particularly following the fall of the Government of National Unity in 2013 and the restoration of ZANU-PF rule.

Agro-processing industries are hampered by exchange rate volatility because they cannot directly access foreign currencies in Zimbabwe without going through the central bank. Rachdi (2013a), companies were left with no choice but to use the black market to supplement the insufficient foreign currency that the central bank was disbursing. The company was exposed to the risk of exchange rate volatility due to the instability in the parallel market rates, which could result in significant losses.

Statement of the problem

Exchange rate volatility that is affecting Zimbabwe's manufacturing sector has hurt Profeeds Private Limited Company, too. The company's performance has been impacted by exchange rate volatility both directly and indirectly. Majok (2015) claimed that the company's performance is significantly impacted by the foreign exchange market because of its crucial role in the production of stock feeds, which require external equipment and other resources. According to Njunge (2012), foreign exchange operations are a crucial part of business operations and have a big impact on the company, the domestic economy, and internal reserve provisions. According to Hungwe (2021), it is alarming that the majority of research has concentrated on changes in exchange rates and macroeconomic indicators like GDP and inflation. In order to stimulate interest, this study concentrated on the effects of exchange rate volatility on the performance of the sector, particularly with reference to Profeeds.

LITERATURE REVIEW

Theoretical review

The theoretical perspective presented in this section is based on a company's global operations. Profeeds is exposed to various intra-national transaction risks as a result of its buying and selling activities, the most significant of which is the risk of exchange rate volatility. Additionally, the company engages in international trade, which exposes it to exchange rate risks.

Foreign Exchange Exposure Theory

The value of an MNC should be primarily impacted by exchange rate changes through overseas purchases and sales that should be made in the local currency of the parent company, according to Shapiro's 2003) definition of current foreign exchange exposure. Early empirical research on the topic contends that focusing on companies with a sizable number of overseas operations has little impact on how exchange rate fluctuations affect MNCs' stock prices, which runs counter to the findings of this study (Levi, 2009). Profeeds is an international company because it engages in international trade. They specialize in importing particular goods, which they then market and sell. They are therefore susceptible to currency fluctuations.

2.1.2 The International Fisher Effect

This theory states that the variance in returns between two countries is equal to the difference in inflation rates between them (Shapiro, 2007). Expected inflation and a real rate of return are both factored into the nominal risk-free interest rates. Therefore, if all investors from the various republics aim for the same return, variations in expected inflation will result in differences in interest rates between countries (Staikouras and Wood, 2004). The relationship between the difference in the inflation rate and the exchange rate varies significantly, according to Adler and Lehman (1983). Zimbabwe's exchange rate system is partially managed, so there is a difference between the rates the market obtains and the actual rates, which is obvious. This is also exposing companies like Profeeds, which are involved in international trade, to some transaction risks. However, Hakkio (1986) showed that the long-term relationship between inflation rate differentials and exchange rates wasn't exactly ideal. He acknowledged the use of inflation rate differentials in predicting long-term changes in exchange rates.

2.1.3 Purchasing Power Parity

This theory holds that identical goods should have the same prices in a perfect market, as suggested by Gustav (1918). It essentially puts into practice the idea that, after accounting for exchange rates, goods cost the same everywhere. When all deposits offer the same return rates across all currencies, the foreign exchange market is said to be in equilibrium. According to Giddy and Dufey's (2007) description of the International Fisher effect, differences in nominal interest rates between two nations typically explain changes in exchange rates. Profeeds would not have been motivated to travel abroad to purchase those goods if goods were available in Zimbabwe and were priced the same as those available elsewhere, but the existence of price differences creates an arbitrage opportunity. This indicates that Profeeds has a business opportunity, even though the fluctuating exchange rates are eating into their profits as they exchange one currency for another. It is closely related to Irving Fisher's theory of the Fisher effect. Increases in price lead to depreciations in foreign exchange rates in comparison to other countries, ensuring that similar goods have comparable relative values across different countries. According to the theory, fluctuations in foreign exchange rates were counterbalanced by comparative price indices, as one price law would require. According to the one price law, identical goods will trade for the same price in markets where there is competition when their values are expressed in the same currency.

2.1.4 Interest Rate Parity Theory

Keynes, in 1923, created the parity condition to establish a connection between inflation, interest rates, and exchange rates. It basically explains how differences in interest rates between two different countries are balanced and matched by changes in their respective currencies (Huang, 2009). Further, it is stated that it harmonizes interest rates, exchange rates for foreign currencies, and spot exchange rates (Roll and Yan, 2000). Because Profeeds is a company that trades on the global market, the differences in interest rates between nations have an impact on how it conducts business there. They need to borrow money to fund their trade. Other reasonable economic theories, like purchasing power parity and the monetary model, don't significantly improve forecasts of exchange rates made using the random walk method, at least over time horizons shorter than a year, as suggested by (Hacche and Townsend 1981) and (Meese and Rogoff 1983).

2.2 Empirical Review

2.2.1 Determinants of Financial Performance of Private Company

Various internal or external factors may have an impact on how well an organization performs. The board of directors' management is impacted by internal and company-specific factors, which in turn have an impact on the organization's profitability(Gatobu, 2012). A company can influence internal factors, and these factors differ from one company to the next. The factors include, but are not limited to, information technology, capital size, labour productivity, deposit liabilities, management quality, credit portfolio, interest rate policy, business size, and ownership(Rachdi, 2013b). Sayedi (2013) claims that the GDP, the stability of macroeconomic policy, inflation, political unpredictability, and interest rates are the primary external factors that have an impact on a company's performance. Profeeds was picked as the company whose operations would be examined to see how exchange volatility would affect them for this study.

2.2.2 The Size of the Company

The effect that a company's size has on its performance cannot be disregarded. Large corporations are more effective than small businesses because they benefit from economies of

scale (Wild et al., 2010). Profeeds should typically be utilizing its economies of scale, but the exchange volatility is working against this advantage. A company's market share is frequently impacted by its size, which also has an effect on profitability (Tabari, 2013). Sales are higher when a company has a larger market share, and profits are higher when a private company increases loans because it will get better interest rates. Wainaina (2013) also indicated that market shares are essentially a capture of potential scale economies or diseconomies. One of the many factors influencing a company's financial performance is its size (Ahmed and Ahmed, 2010). Large companies are more productive than small ones because they can benefit from economies of scale and scope (Wild et al., 2010). A company's net premium, or the premium it receives after deducting operating costs, can be used to determine its size.

2.2.1.2 Capital Adequacy

Capital is a significant factor that affects a company's profitability. Equity is the amount that shareholders have access to for use in trying times (Owoeye, 2013). The majority of companies with more capital perform noticeably better than their undercapitalized counterparts, according to. Njunge (2012) asserts that among Agro-processing institutions, profits and equity are correlated. The earlier finding that there is a positive correlation between the capital/asset ratio and company earnings is supported by (Shahidur (2015). Once more, it is impossible to predict with certainty how the relationship between a company's capital and its profitability will develop in the future. Ongore (2013) reported on the performance of domestic private companies in Kenya between 1995 and 2001. They find that companies' profitability is influenced by company-specific traits. The results show that a company's profitability is significantly influenced by capital adequacy, credit risk, company size, volatility risk, and liquidity risk, even though their effects and relationships aren't always the same for domestic and foreign companies.

Gilchris (2013) examined the connection between market structure and the profitability of private companies in Pakistan using data from a time series spanning the years 1970-1994. The results of his study show that profitability, capital adequacy ratio, and gearing ratio do not correlate well.

2.2.1.3 Company Liquidity Management

Private businesses need access to sufficient liquidity in order to run smoothly. Managers must therefore seek out the best liquidity balances (Gatobu, 2012). When liquidity is a problem, a company can borrow money from other businesses at exorbitant rates. However, high liquidity causes the loss of profitable opportunities (Rachdi, 2013b). Liquidity risk is caused by a company's inability to accommodate declining liabilities or pay for increasing assets, claims (Tabari, Ahmadi, and Emami 2013). If a company can't easily turn its assets into cash or raise liabilities at a fair price, it's said to be illiquid. Lack of liquidity prevents a business from meeting its resource needs without resorting to debt or selling off assets at a reasonable loss (Ongore, 2013). Lack of sufficient liquidity could, in extreme cases, lead to bankruptcy. (H. U. Opaluwa, O. and Ame, A., 2010)

2.2.1.4 Credit Risk Management

This method of structured risk assessment focuses on using control strategies to manage uncertainties. Njunge (2012), Insurance, minimizing the risk's negative effects, risk avoidance, and risk acceptance are some of the techniques used. The two steps in managing credit risk are identifying the risk source and quantifying the risk using mathematical models (Majok, 2015). Risk evaluation, the creation of management strategies, and risk reduction using managerial resources are all parts of the structured approach to credit risk management. Some of the strategies include transferring the risk to a third party, avoiding the risk, minimizing its negative effects, and accepting some or all of its repercussions (Wild et al., 2010).

2.2.1.5 Management Efficiency

Sayedi (2013) said that this is yet another crucial element in determining a business's profitability. Ratios like the rate of loan growth, the rate of earnings growth, and the rate of total asset growth are used to evaluate it. The management performance is measured using a variety of factors, including management systems, staff qualifications, and control systems (Sayedi, 2013). Financial ratios help assess management's capacity to direct resources to the most lucrative projects. Operating profit ratios are one of these ratios that are used to gauge management quality (Tabari, 2013).

Inflation

Macharia (2013) highlighted that inflation rates and financial performance are mutually exclusive. Therefore, if prices rise, the value of money decreases, and portfolio switching is encouraged. As inflation increases, people's wealth shifts from cash and financial assets to real assets (Rachdi, 2013b). This basically means that lower money demand in an economy is a result of high rates of inflation. Based on empirical research, it has been found that resistance to inflation is significantly and steadily greater than resistance to income (Rachdi, 2013b)

Direct and indirect effects of exchange rate volatility on the performance of Companies

The performance of a company is significantly impacted by exchange rate fluctuations, according to (Lambe 2015). Babazadeh and Farokhnejad (2012) found that a company's profitability in Iran is significantly influenced by the exchange rate. Macroeconomic variables like real GDP, inflation, and exchange rates, among others, have a direct bearing on how profitable Kenyan businesses are, claims (Kiganda 2014). The relative cost of non-tradable goods increases along with changes in exchange rates in nations like Zimbabwe that have fixed exchange rates, and central banks work to keep nominal exchange rates stable. More credit will be needed as a result. Exchange rate volatility is less likely to result in an increase in credit in nations with flexible exchange rates. On the other hand, in a fixed exchange rate system, exchange rate volatility promotes credit expansion (Oduori, 2012). Another assertion made by Oduori (2012) is that businesses may view a fixed exchange rate system as a

guarantee for foreign borrowing and increase their demand for outside capital. A customer is conducting business using the previous exchange rate when they open a letter of credit (L/C) and pay the prepayment in accordance with the exchange rate in force at that time. Majok (2015), the customer might not be able to fulfil their obligations if the exchange rate rises significantly.

Conceptual Framework

A conceptual framework, according to Gilchris (2013), consists of broad ideologies and doctrines drawn from pertinent academic fields that are meant to structure a subsequent demonstration. In other words, it is a research tool designed to aid scholars in familiarizing themselves with and comprehending a phenomenon being evaluated and in presenting it. It is a useful tool to help a scholar develop a clear interpretation of subsequent findings if it is well expressed (Oye et al., 2018). As research findings, it is crucial to carefully examine, confirm, review, and restructure discussions because doing so clarifies the likely relationships between the variables (Abbassi & Bräuning, 2023). The conceptual framework of the current study is depicted in the diagram below.

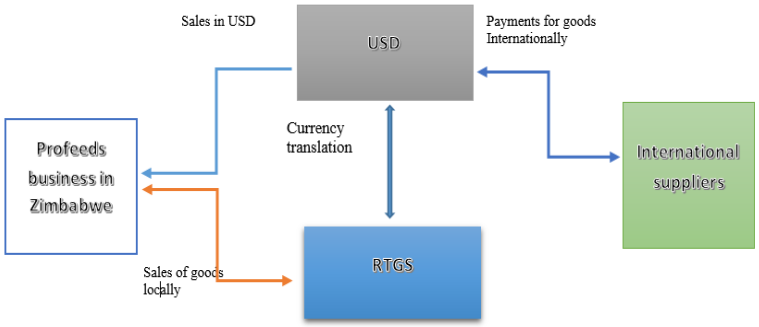

Figure 1: Conceptual Framework

Research Design

In an effort to accommodate both secondary data that will be analyzed using stepwise regression analysis on SPSS software, the research adopted a quantitative research design. A target of 39 data points will be generated from the archives of Profeeds Private Limited Company.

Quantitative

The research methodology was also appropriate for this study because it provided an opportunity to use a quantitative data analysis strategy. It also provides a variety of unique methods for gathering data. This research design was only applied to the quantitative analysis of secondary data for this study. The primary flaw in the explanatory research design was the fact that it placed a heavy emphasis on quantitative data, which was prone to measurement errors.

Analytical Model

The researcher used a multiple regression analysis with the aid of the ensuing analytical model in order to obtain the impact of RTGS volatility on company performance and accomplish the goal.

$Y= \beta 0+\beta 1X1+\beta 2X2 +\beta 3X3 + €$

Where: Y= Financial performance as measured by the Profitability of the company based semi semi-annuals

Dependent Variable) β_0 = Constant (y-intercept)

X_1= Average quarterly Zimbabwe dollar volatility (as measured by the inflation rate of RTGS against the USD)

X_2 = company performance (as measured by the return on assets, ROA)

X_3 = Company size (the capital inflation factor)

€ = Error term

An analysis of variance was used to examine the effects of Zimbabwean dollar volatility and the achievement of the desired goals, and determine their significance. The researcher thought about the F-values after creating the ANOVA statistics. The 95% confidence level and the 5% significance level were both taken into account. The researcher thought the model was significantly adequate to explain the relationship if the F-calculated figures were less than 2.4 (critical values).

Data analysis and presentation of results

The scatter plot produced an elliptical pattern, implying profits and inflation are forming an elliptical pattern when viewed together. An elliptical pattern is also developing in return on assets. The selection of independent variables thus perfectly fits the model.

Using the Kolmogorov-Smirnov test, inflation, ROA, and profits have shown normalcy. This suggests that all of our variables passed the normality test, allowing us to move

forward with our regression. From the table, our N for our data points is 39, which is greater than 20. Inflation has a mean of 3.0703m and a dispersion from the mean of 1.535m. Inflation had a mean of 127% and dispersion from the mean of 70% and lastly, ROA had 8.31 and a standard deviation from the mean of about 3%.

Multicollinearity

Using the table, there are no multicollinearity concerns as we do not have a value greater than 0.7; however, we have -0.27, which is less than 0.3, thus we must be cautious.

Only 26% of the variation in the dependent variable can be explained by a change of one unit in the independent variable, according to the first model's R-square, which is less than 30%. Because we can only accept the model if it is greater than 30%, we therefore reject the first model on both the R-square and the Adjusted R-square. The second model's R Square and Adjusted R Square are both greater than 30%. Adjusted R-square reveals that 37% of the movement in the dependent variable can be attributed to a unit change in the model's independent variable. We are utilizing the second regression model because it is the most appropriate one for this circumstance.

While the ROA is statistically insignificant in the model, the first model is statistically significant. We continued to test our model using the data because the model did not remove inflation. The size of the change in the dependent variable, B, whenever the independent variable, ROA, changes by one unit is represented by 312.661, starting with B. The size of the change in the dependent variable, however, whenever the independent variable, inflation, changes, is 8.449. It's interesting to note that while ROA was a rubric rather than a percentage, inflation was. Now that we've used beta, we can confidently say that ROA had a bigger impact on company profits than inflation, though both had impacts of more than 30%.

Using the regression model $Y= \beta_0+\beta_1X_1+\beta_2X_2 + €$ in the above regression coefficient results, our model becomes;

$Y= 32.285+312.661X2 + 8.449X_3 + €$.

Using the aforementioned regression equation, it was discovered that if the company's performance were to be calculated with Zimbabwe dollar volatility as measured by inflation rate and ROA at a constant zero, it would be 32.285. The performance of Profeeds would improve by 312.661 for every unit increase in Zimbabwean dollar ROA. For each unit of change, inflation would cause the dependent variable to increase by 8.449 points. The study also showed that Zimbabwean dollar volatility was statistically significant in affecting the performance of the company as measured by inflation levels, with all p-values (sig) being less than 0.05%.

Discussion of Findings

The factors that affected Profeeds Private Company's performance during the relevant period were identified by the research. The performance of Profeeds Private Limited was influenced by return on assets, like the inflation rate. This suggests that both factors may have had an impact on the company's ability to turn a profit. The ability of the business to generate income increases with the return on assets. Regarding inflation, the company's ability to generate revenue is impacted by the exchange rate's volatility because most of its revenues were eventually impacted over time by exchange rate movements. Even though the first regression process had removed inflation from the model, the company size was found to have some positive effects on the company's performance. The ability of a company to make a profit increases with its size, all else being equal.

The study's second goal was to determine how exchange rate volatility affected Profeeds Private Limited Company's performance. According to the study, there is a link between exchange rate volatility and Profeeds' performance as indicated by profitability. Although there was a positive relationship, it was weak and was influenced by other factors, such as inflation. The researcher was able to use inflation as a gauge of performance sensitivity. The ROA had an effect on the company's performance because it had a positive relationship with financial performance.

The findings are consistent with those of Owoeye and Ogunmakin (2013), who discovered that the proxy method used to determine performance affected how foreign exchange rates affected company performance. Profeeds is consequently exposed to foreign exchange risks, which have a detrimental effect on its productivity. The findings are consistent with those of Majok (2015), who examined how changes in exchange rates affected the financial performance of Kenyan private companies. The study found a link between changes in currency exchange rates and an organization's financial performance as indicated by returns on assets. The study's findings also showed that there was only a weak correlation between returns and changes in inflation.

The research findings for the sector of Agro-processing, for example, agreed with those from other sectors. According to Nyairo (2015), foreign exchange rate volatility hurts the success of Kenya's insurance sector because it lowers the industry's return on assets (ROA). The ROA of the companies that produce agricultural products is also adversely impacted by the GDP growth rate and inflation. By using daily observations for the given period, Kos et al. (2010) established a one-directional interconnection from stock prices to exchange rates.

It was discovered that the USD/ZIM exchange rate had significantly increased during the study period, which is what caused the high inflation over time. Throughout the study period, the exchange rate fluctuated, generally with a depreciating volatility trend. This suggests that the nation's level of international competitiveness declined during the research period. Over the course of the entire study period, the price of the Zimbabwean dollar has decreased relative to the US dollar. Due to Zimbabwe's reliance on imports, this has hurt the country's economy by raising the cost of living there.

5.2 Summary of Findings

A number of factors were found to be behind the performance of Profeeds Limited over the period in question. Inflation has an effect on the performance of the company,

though at a minimal level. Several scholars indicated that, size of the company, capital adequacy, company liquidity management, credit risk management, and management efficiency are some of the factors that are affecting the performance of Profeeds' operations. However, the company is also affected by external factors, such as macro environmental factors and political factors, in its operations. In this regard, to achieve the best performance, the internal factors have to be addressed.

The company's performance, as measured by company profitability, was impacted by the exchange rate as measured by inflation. These elements played a significant role in the performance as a whole during the relevant time period. However, it was also discovered that ROA had an impact on the business's performance as indicated by its profitability. A constant ROA and inflation rate for Zimbabwean dollars revealed that the performance of the company would be 32.285. The performance of Profeeds would improve by 312.661 for every unit increase in Zimbabwean dollar ROA. For each unit of change, inflation would cause the dependent variable to increase by 8.449 points.

The study also showed that Zimbabwean dollar volatility was statistically significant in affecting the performance of the company as measured by inflation levels, with all p-values (sig) being less than 0.05%.

First, the research's findings demonstrate that Zimbabwe's private company performance during the study period was impacted by exchange rate volatility (appreciation, stability, and depreciation). The correlation results showed a shaky inverse relationship between Profeeds' profits over the study period and exchange rate volatility. Throughout the entire study period, the Zimbabwean dollar fluctuated, with brief periods of appreciation and stability.

Second, it was discovered that variations in inflation rates were linked to the volatility of exchange rates. Statistics proved that each P value was significant. Since there was little correlation between inflation and exchange rate volatility, the Zimbabwe dollar lost value as inflation rates rose, and the USD rate also rose. Third, according to the research's findings, Profeeds' total assets, as calculated by ROA, had grown during the study period.

CONCLUSIONS

It is concluded that the macro and micro environmental factors are also militating against the performance of the company. Not only factors cited in this research for regression purposes, in the revival of the company's performance. However, from the research carried out, there is strong evidence for a weak positive correlation between exchange rate volatility and company performance in Zimbabwe during the study period can be found in the study's findings. It was also noted that the Zimbabwe dollar's exchange rate to the US dollar was incredibly unstable during the study period. The recent drop in the value of the Zimbabwean dollar relative to other currencies has hurt Profeeds' return.

Second, over the course of the entire study period, annual inflation rates were sharply declining. The performance suffered as a result of the negative relationship between inflation and asset return rates. Exchange rates remained constant over time. The volatility clusters were probably going to last because they were caused by arbitrary market shocks. This suggests that exchange rates do not immediately take new market information into account. As a result, participants in the market may have irrational or drastically different expectations.

The research had increased the company's value. The findings show how erratic the foreign exchange market was generally. The study's findings advise the government to implement sufficient safeguards to protect the domestic currency. In order to support economic growth and subsequently the value of the local currency, it should encourage foreign direct investment. The currency would be more stable compared to other currencies as a result. As a result, borrowing costs would be lower, making loans more attainable.

RECOMMENDATIONS

According to the study, rising foreign exchange volatility reduces company value by adversely affecting financial performance. Therefore, management of businesses doing business in Zimbabwe must first safeguard themselves from exposure to foreign exchange. To achieve this, they must create better strategies to guarantee that fluctuations in foreign exchange rates do not affect financial performance.

The Department of fiscal and monetary policy within that government must consider how changes in exchange rates impact businesses, particularly those that are publicly traded. This is due to the possibility that their policies, despite their best efforts, could hurt performance. The Reserve Company of Zimbabwe's Monetary Committee division is in charge of upholding a steady exchange rate. This is because significant exchange rate fluctuations skew trends in stock market performance and leave investors unsure of their next move, because they might not be able to predict the future state of the economy with certainty.

In order to help reduce sizable balance of payments deficits, the Reserve Bank of Zimbabwe should put into place effective monetary and fiscal policies. The entire government should implement policies aimed at boosting national income through locally funded investments. This would support exchange rate stabilization and ensure overall company growth.

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Table 1 Operational Definition of Variables

Variable	Definition	Measurement
Y	Profits	This is the measure of company performance of the company using profits before interest and tax.
X_1	ROA	Return on assets, which is the profits after interest and tax, divide by the assets used to generate profits
X_2	Inflation	This was measured using the average semiannual Change in Consumer Price Index
X_3	Company Size	The general capital changes over time or the capita inflation factor

Table 2 Scatter plot

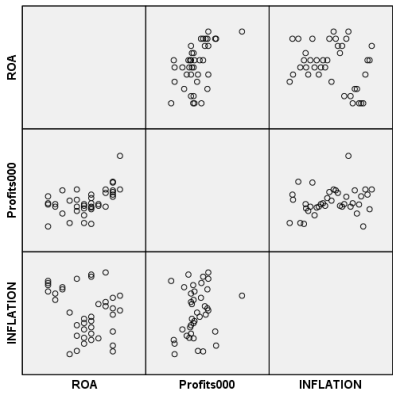

Table 3 Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Profits000	.117	39	.200*	.937	39	.029
ROA	.104	39	.200*	.940	39	.039
INFLATION	.067	39	.200*	.960	39	.178

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Table 4 Descriptive Statistics

	Mean	Std. Deviation	N
Profits000	3702.56	1535.499	39
INFLATION	126.9714%	70.02828%	39
ROA	8.31	3.019	39

Table 5

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.508[a]	.258	.238	1340.173	.258	12.884	1	37	.001
2	.629[b]	.395	.362	1226.643	.137	8.166	1	36	.007

a. Predictors: (Constant), ROA

b. Predictors: (Constant), ROA, INFLATION

c. Dependent Variable: Profits000

Table 6

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	1555.057	635.611		2.447	.019					
	ROA	258.496	72.016	.508	3.589	.001	.508	.508	.508	1.000	1.000
2	(Constant)	32.285	788.934		.041	.968					
	ROA	312.661	68.587	.615	4.559	.000	.508	.605	.591	.924	1.083
	INFLATION	8.449	2.957	.385	2.858	.007	.215	.430	.370	.924	1.083

a. Dependent Variable: Profits000