

A multinational company becomes unprotected to potential benefits and losses in their daily conducts because of changes in values of assets and liabilities that have dominance in foreign markets. Due to increased imports, exports and foreign investments, firms have to face various foreign exchange risks (McGovern, 2016). In multinational companies, managers used to ignore exposure to foreign exchange. However, due to the end of 1973 Agreement, a major fluctuation was seen in exchange rates of major currencies. Due to the change in these currency fluctuations, assets and liabilities' values in multinational companies are affected. The change in values of assets and liabilities results in foreign exchange risks. The idea of foreign exchange fluctuations is introduced by Héricourt and Poncet (2015) as a process of appreciation or depreciation of currency against any other currency. Appreciation is an increase in the value of currency against some other currencies and depreciation is reduction in value of currency. Foreign exchange rate fluctuations include this appreciation and depreciation of currency. This change in foreign exchange rates results in undesirable impact on operations of company. Financial managers have to manage foreign exchange risks in order to get long term success (Johnson, 2013). In order to draw findings in present study, following research questions are formulated;

- What is meant by the term foreign exchange fluctuations in accordance with literature?
- Is there any effect of exchange rate fluctuations on financial performance of companies?

1.Relevant Economic Theory

Classical international trade theory

In accordance with this theory international trade involves geographic supposition. In various countries, different kinds of resources are present. Smith (1776) stated that if two of the countries desire to trade voluntarily, then in this case both of the countries should acquire absolute benefit theory. In case when one nation earns nothing or when it loses it, then it can refuse it. In accordance with Smith, beneficial trade in between two countries takes place depending on the absolute benefit. According to the perceptions of Smith, in

between different countries the major factor of production cost is labor. Ideas of Smith related to absolute advantage were basically for the progress of though for global trade. Hobson (2012) is known as the developer of theory of global trade on competitive benefit, where it has been proven the potential acquirements from trade are more than envision of Smith in the idea of competitive benefit. The cost advantage is the main factor for global trade and specialization. The perception made is that global trade theory is dependent over the labor value. Through this, cost of item can be described in units of labor. The theory perceives the exchange system. It is termed as free trade with no restrictions from any country and there is no involvement of transport costs while production factors, full employment and perfect competition are mobile in one country and are immobile in between different countries. There are three parts for the description of classical theory of global trade, comparative cost advantage, equal cost advantage, and absolute cost advantage. However, trading can also be done when there is no existence of absolute cost advantage. In case of different exchange rates, trade can take place (Gandolfo, 2013).

2.Key Literature

2.1.Exchange rate fluctuations

Financial exchange market has become one of the largest financial markets all around the world. Gounopoulos et al (2013) defined financial exchange market as financial market where currency of one country is exchanged with currency of other country. In financial market, trading of all currencies is not done but only common currencies are traded. Major participants of financial exchange market are commercial and investment banks. In one country, price of its currency is determined by forces of market that exist in a day and this decides the exchange rate fluctuation.

2.2.Financial Performance

Due to increased globalization and competitiveness, every kind of companies are trying to bring more international business transactions. Companies in

developing countries are putting efforts for increasing their share in commerce of world. However, there is an extreme fragility in economies of developing countries, while periodic recessions are faced by economies of countries (Gyntelberg et al, 2014). There is an increased volatility in exchange rates of currency and this creates high level of risks to companies that conduct business in foreign countries and in addition to this, to investors who invested in international companies. This affects earnings, cash flow, profitability and balance sheet of foreign companies. The major risk in case of investment in foreign companies arises due to reduction in profits after exchanging with domestic currency. Usually, price competitiveness of company is affected by exchange rate risk. In case of reduction in value of competitor's currency, the competitive position is improved as cost is declined, that makes the competitors capable of reducing its price and attracting a larger market share (McKinnon and Schnabl, 2014).

2.3. Impact of foreign currency fluctuation on financial performance

Due to currency fluctuations, price of imports, price of products and consumer price index are directly affected. A transmission in exchange rate movements to domestic prices is experienced with the help of three channels. First channel is with the help of import goods' prices, domestic prices are affected directly by exchange rate movements. Second channel is prices of imported products; production cost of products is affected by movement in exchange rate (Brouthers, 2013). The last channel is through domestic goods prices in foreign currency. The degree to which reflection to those changes is done in consumer price index relies on market share of imports in basket of consumer. If prices of import products are increased due to depreciation, then demand for local products will be increased. Due to an increase in the demand, pressure on local products' prices is also increased. This consequently affects the wages of workers and domestic prices (Cheng and Fang, 2013).

The general level of price is affected by fluctuations in exchange rate relying on share of imported products in its complete consumption. It has been postulated by macroeconomics theory that small open economy is considered to be an international price taker. Therefore, with all aspects of trade,

deliberate efforts are made for encouraging exports at all costs. In such case, exchange rate is deflated by the government. The analysis shows that multinational companies have to focus on fluctuations in exchange rates in order to get success in international competition among companies (Alvarez and De Gregorio, 2014).

Ho1: There is no significant impact of exchange rate fluctuations on financial performance of companies.

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2.4.Theoretical Framework

3.Methodology

In present research, quantitative research method has been used. In case of this research method, questionnaires were used as a tool for collection of data. The deductive research approach is used in which previous theories are used for drawing valid conclusions. In addition to this, research chose random sampling technique for selecting sample from the population. The population of this study is McDonalds UK and sample of 50 employees is drawn from employees of this organization.

4.Data Analysis

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	25	50.0	50.0	50.0
	Female	25	50.0	50.0	100.0
	Total	50	100.0	100.0	

In order to draw valid conclusion, the data is collected from 50 employees of Hotel Hilton. The data collected from them shows that among 50 employees, there were 25 males and 25 females. This depicts that there were equal distribution of males and females in the study. The distribution of males and females was 50-50%.

5.2. Regression Analysis

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	

1	-.775a	.600	.583	.41699
a. Predictors: (Constant), EF, FP				

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.257	2	6.128	35.245	.000 ^b
	Residual	8.172	47	.174		
	Total	20.429	49			
a. Dependent Variable: FP						
b. Predictors: (Constant), EF						

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.182	.455		6.401	.001
	EF	-.511	.124	-.479	4.112	.000
a. Dependent Variable: FP						

The regression test is run for identifying relationship between fluctuations in exchange rate and financial performance. The value of beta tells about the change that how much change will be experience by dependent variable due

to the change in independent variables. As the value of beta for the relationship between exchange rate fluctuations and financial performance is -.511 so it means one unit change in exchange rate fluctuations will bring negative 51.1% change in financial performance of companies. The value of t is greater than 2 for both independent variables and significance value is less than 0.05. The value of t and significance depicts that null hypothesis will be rejected and alternate hypothesis will be accepted.

5.3. Correlation Analysis

Correlations			
		EF	
EF	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	50	
R	Pearson Correlation	.611**	
	Sig. (2-tailed)	.000	
	N	50	
**. Correlation is significant at the 0.01 level (2-tailed).			

The correlation analysis helps in assessing the strength of relationship. From the above table, it can be seen that there is moderate positive correlation between exchange rate fluctuations and financial performance of company (.675**, 0.000).

5. Conclusion

This study has been conducted to find the impact of exchange rate fluctuations on financial performance of multinational companies. In order to conduct the research, McDonalds has been chosen as a case study. The study has found that there is a significant negative impact of exchange rate fluctuations on financial performance of companies. The companies have to make necessary changes within their operations in accordance with fluctuations in exchange rates. The profits of companies are affected negatively due to an increase in exchange rates of foreign currencies because of increase in their cost.

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Appendix: Questionnaire		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Exchange rate fluctuations						
1	Finance management deals with risk management in my organization.	1	2	3	4	5
2	This company has written foreign exchange policy.	1	2	3	4	5
3	There is hedging fully policy in the organization.	1	2	3	4	5
4	There is an effective foreign exchange policy in the company.	1	2	3	4	5
5	The company often face losses due to the change in exchange rates.	1	2	3	4	5
6	The prices of products offered by company change with change in foreign currency.					
Financial Performance						
7	The company has to bear high costs because of change in foreign currency.	1	2	3	4	5

8	The company ensures procurement at competitive prices.	1	2	3	4	5
9	The company is successful in earning high profitability.	1	2	3	4	5