

Title: THE RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES AND FIRM PERFORMANCE IN THE NAIROBI SECURITIES EXCHANGE

Author: NJOROGE VALENTINE WANGUI

ABSTRACT

Increased exposure of national economies to global markets has at the level of corporate stakeholders meant increased attention to exchange rates, interest rates, inflation rates and relative prices. These variables cannot be viewed as independent, since they adjust in various ways to macroeconomic shocks and thereby influence the performance of firms. This study dealt with theoretical and empirical aspects of the interactions between the macroeconomic variables; interest rates, inflation rates and exchange rates and firm performance in the Nairobi Securities Exchange using the Nairobi All Share Index (NASI) and the Earnings Per Share (EPS) as proxies for the stock market and firm earnings respectively.

In the theoretical part reviewing literature revealed that many researchers argue that the specific macroeconomic variables researched do in fact affect the overall position of a firm although there has been inconclusive evidence on the ability to measure the impact of earnings. The empirical findings in this study found that save for the exchange rate variable, there exist sufficient evidence to suggest that share price movements are influenced by movements in macroeconomic variables hence these may be used to predict future share prices. With regards to earnings, there is no general trend in the EPS function with the selected macroeconomic variables. Sufficient evidence to suggest that EPS movements are influenced by movements in macro-economic variables and hence may be used to forecast earnings can only be inferred since the data points were too few to allow judgment.

Hence the F stat, P-values and error terms could not be computed. Therefore, instead, the study illustrated results for simulated data points over a period of 43 years. These results showed that the above the impact of macroeconomic variables on earnings would hold with a larger data set.

Furthermore, this study also went on to look at, theoretically, the need to improve traditional methods of accounting for fluctuations in the firm's macroeconomic environment so as to obtain a clear picture of the long-term sustainable profits, and thus a picture of how the company's intrinsic competitiveness is fostered. The study concluded that the recognition, the monitoring, and the consequent incorporation of the macroeconomic environment of the firm are paramount to a firm's performance and ultimately its survival.