

Exchange Rate Fluctuations And Financial Performance Of Nigerian Companies: Study Of Quoted Conglomerates (2007-2018)

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Abstract: The problem of exchange rate volatility in Nigeria has become so intense and worrisome with implied difficulties in international trading activities. Economic growth in Nigeria has been on steady decline with decline in Exchange rate. This study examined the effect of exchange rate fluctuation on the financial performance of quoted conglomerates in Nigeria. In pursuit of the objectives of this study, three hypotheses were formulated and tested using secondary data obtained from annual reports of the 8 quoted conglomerates in Nigeria and CBN annual statistical bulletin. The study covered a period of 12years ranging from 2007-2018. Data were analyzed using multiple regression analytical estimation technique with aid of SPSSv21. Findings reveal that exchange rate fluctuations have significant negative effect on ROCE and ROE while a positive but insignificant effect on ROA. The conclusion drawn from this study is that foreign exchange fluctuations have significant negative effect on financial performance of quoted conglomerates. The researchers recommend that Government should uphold the restriction policy on the importation of similar products manufactured in Nigeria. If this is religiously pursued, it will create and open more markets for the locally manufactured goods to thrive. Also Government should make policy that aims at Naira appreciation against foreign exchange rates which will greatly help reduce the cost of production in the manufacturing sector.

Keywords: Exchange rate, Inflation rate, Interest rate and Financial Performance

I. INTRODUCTION

Exchange rate of a country plays a key role in international economic transactions because no nation can be self-sufficient due to varying factor endowments. International trading helps in achieving economic balance as countries' easily fill their need-gap. The globalization of economic activities also encouraged the growth of companies beyond their home country and the operation of diverse companies as a single organization which cuts across countries. Most transactions of conglomerates are based on the exchange rate system. The implication is that exchange rate is the backbone of their business. This goes to a large extent in determining the extent of return on investments in the midst of variations in exchange rate. Nigeria as a whole has been over-burdened with the challenge of declined Naira value with effect that more naira are needed to secure a unit of other currencies.

This has also been accompanied with constant fluctuations in the exchange rate on weekly, monthly, and annual bases. Oladipupo and Onotaniyohuwo (2011) opine that movements in the exchange rate have ripple effects on other economic variables such as interest rate, inflation rate, unemployment, money supply, etc. These facts emphasize the importance of exchange rate to the economic well-being of every country that opens its doors to international trade in goods and services.

In the words of Uduakobong and Enobong (2015) exchange rate stability is pivotal to the achievement of macroeconomic stability and the economic performance of any country. This implies that the exchange rate policy of a country plays significantly in determining an appropriate exchange rate and ensuring its stability. In attempt to achieve stabilized exchange rate regime and efficient allocation of foreign exchange, Nigeria has employed diverse exchange rate

policies. Specifically, in a bid to achieve economic stability, Nigeria's monetary authorities have adopted various exchange rate arrangements over the years. It shifted from a fixed regime in the 1960s to a pegged arrangement between the 1970s and the mid-1980s, and finally to the various types of floating regime since 1986 (Eze & Okpala, 2014; Dada & Oyeranti, 2012), following the adoption of the Structural Adjustment Programme (SAP).

As exchange rate continues to fluctuate, foreign exchange market is noted to be characterized by volatility and uncertainty which makes it difficult to predict or fix product prices. These fluctuations according to Allayannis, Ihrig and Weston (2001), pose a threat to any importer/exporter engaging in international business as they are naturally exposed to currency risks. Prices shift, thereby, exposing them to potential gains and losses. Exporting and importing from abroad expose conglomerates to foreign exchange risks which determine the level of their profitability and financial performance.

According to Goodluck and Iliemena (2019), the survival of corporate organizations in Nigeria is largely dependent on the stability of the economy. The Naira to a unit dollar rates for instance had fluctuated from ₦8.0378 (1990) - ₦85.98 (1999), ₦151.51 in 2010 to ₦162.30 in 2011 to ₦156.15 in 2012, ₦158.05 in 2013, ₦175.85 in 2014, ₦232.40 in 2015, ₦300.757 in 2016. Further in 2017, the average exchange of one dollar to naira (CBN rate) moved from ₦390 - ₦370 in 2018, ₦359.50 in 2019 and ₦388.9 in 2020 (July). When a company with transactional foreign exchange exposure suffers business interruption loss during an extended period and when relevant exchange rates fluctuate, it is important to appreciate the impact that exchange rates can have on sales, cost of sales and gross profit. This is further asserted by Goodluck and Iliemena (2019) in their study which found that financial crises have negative effects on business profitability. Exchange rate fluctuations affect operating cash flows and firm value through translation, transaction, and economic effects of exchange rate risk (Choi & Prasad, 1995). As the rates continues to fluctuate and businesses continuously ongoing, this study assumes these fluctuations have no impact on performance.

Even though studies have been conducted on the exchange rate regimes and the implications for macroeconomic management and managing foreign exchange risk (Abor, 2005), there is no recent evidence of the effect of exchange rate fluctuations on financial performance of quoted conglomerates based in sub-Saharan Africa. This study sought to fill the existing research gap by conducting a study on the effect of exchange rate fluctuations on financial performance of Nigerian companies with a focus on quoted conglomerates (2007-2018)

OBJECTIVES OF THE STUDY

The main objective of the study is to empirically evaluate the effect of exchange rate fluctuation on the financial performance of quoted conglomerates in Nigeria.

Other specific objectives are to:

- ✓ Ascertain the effect of exchange rate fluctuation on Return on Capital Employed (ROCE).

- ✓ Determine the effect of exchange rate fluctuation on Return on Asset (ROA).
- ✓ Examine the effect of exchange rate fluctuation on Return on Equity (ROE).

RESEARCH HYPOTHESES

In order to address the objectives above, the following null hypotheses were tested in the study:

Ho1: Exchange rate fluctuation has no significant effect on ROCE.

Ho2: There is no significant effect of exchange rate fluctuation on ROA.

Ho3: Exchange rate fluctuation has no significant effect on ROE.

II. LITERATURE REVIEW

THE CONCEPT OF EXCHANGE RATE

Exchange rate is the rate at which a currency is exchanged for another currency. It is referred to as the ratio at which a unit of currency of one country is expressed in terms of another currency. The rate is normally determined in the foreign exchange market. The foreign exchange market is a market where currencies of different countries are bought and sold. It is a market where the values of local and foreign currencies are determined. As noted by Jhingan (2004), the national currencies of all countries are the stock-in-trade of the foreign exchange market, and as such, it is the largest market to be found around the world which functions in every country. Also, Bradley and Moles (2002) defined exchange rate as the price of a unit of foreign currency against domestic currency. Exchange rate is the value of the one unit of foreign currency against local currency and Exchange rate serves as the basic link between the local and the overseas market for various goods, services and financial assets (Reid and Joshua, 2004).

This study considers exchange rate to mean the rate at which a unit of foreign currencies are exchanged for Nigerian Naira. Omagwa (2005) posit that exchange rates like any other commodity are explained by the law of demand and supply. Supply of currency is explained by changes in fiscal policies whereas currency demand is influenced by a wide range of factors such as inflation rates and interest rates. Murthy and Sree (2003) argued that exchange rate enables comparison of prices of commodities quoted in diverse currencies. Thomas (2006) found that since the early 1970s, foreign rate exchange system had been a floating one in most countries. The findings were that such nations permitted exchange rates to change in the market place from day to day as per market forces. Before this eventuality central banks of nations intervened in determinations of the exchange rate. This meant that international transactions were never subjected to exchange rate fluctuations risk and as such international transactions were less dynamic. He further stated that since the collapse of this exchange rate system it is markets forces that determine the exchange rate of a nation's currency. Thus such rates keep

on fluctuating as per market forces and therefore exposing international transactions to exchange fluctuation risks.

The table below illustrates the movement of the USD, Euro, GBP, JPY and CFAFr to the Nigerian naira exchange rate from November, 2006 to April 2019.

| Time(Years) | USD | GBP | EURO | JPY | CFAFr |
|-------------|---------|--------|--------|------|-------|
| 2006 | 129.82 | 242.67 | 155.10 | 1.04 | 0.25 |
| 2007 | 123.80 | 242.73 | 173.40 | 1.06 | 0.26 |
| 2008 | 119.10 | 179.07 | 148.53 | 1.19 | 0.23 |
| 2009 | 152.95 | 248.34 | 223.07 | 1.67 | 0.34 |
| 2010 | 153.13 | 237.62 | 203.64 | 1.78 | 0.31 |
| 2011 | 160.35 | 243.45 | 208.78 | 2.06 | 0.32 |
| 2012 | 159.32 | 248.69 | 199.91 | 1.94 | 0.30 |
| 2013 | 167.14 | 250.76 | 210.17 | 1.59 | 0.32 |
| 2014 | 175.85 | 249.96 | 107.60 | 1.48 | 0.30 |
| 2015 | 232.40 | 299.38 | 211.53 | 1.61 | 0.32 |
| 2016 | 415.36 | 379.49 | 329.84 | 2.76 | 0.50 |
| 2017 | 429.48 | 378.13 | 327.35 | 2.83 | 0.50 |
| 2018 | 364.554 | 464.39 | 419.02 | 3.28 | 0.65 |
| 2019 | 359.50 | 470.00 | 405.65 | 3.30 | 0.63 |

Table 1: Major foreign currencies mean exchange rates to the Naira, years 2006 to April 2019

Adetayo, Dionco and Oladejo (2004) explain that exchange rate variation is significant in determining a country's balance of trade. According to Omagwa (2005), fluctuations in exchange rates impacts on prices of imports directly thus inversely affecting a country's external sector. Murthy and Sree (2003) postulated that country's foreign debt is significantly affected by the fluctuations in exchange rates. The central bank typically under a fixed exchange rate system will set a par value between foreign and domestic currencies which may be adjusted from time to time (Reid & Joshua, 2004).

DETERMINANTS OF EXCHANGE RATES

Numerous factors determine exchange rates, and all are related to the trading relationship between two countries. Remember, exchange rates are relative, and are expressed as a comparison of the currencies of two countries. According to Jason Van Bergen (2017), the below are some of the principal determinants of the exchange rate between two countries.

- ✓ **DIFFERENTIALS IN INFLATION:** Generally, a country with a consistently lower inflation rate exhibit a rising currency value, as its purchasing power increases relative to other currencies. During the last half of the 20th century, the countries with low inflation included Japan, Germany and Switzerland, while the U.S. and Canada achieved low inflation only later. Those countries with higher inflation typically see depreciation in their currency in relation to the currencies of their trading partners. This is also usually accompanied by higher interest rates.
- ✓ **DIFFERENTIALS IN INTEREST RATES:** Interest rates, inflation and exchange rates are all highly correlated. By manipulating interest rates, central banks exert influence over both inflation and exchange rates, and changing interest rates impact inflation and currency values. Higher interest rates offer lenders in an economy a higher return

relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise. The impact of higher interest rates is mitigated, however, if inflation in the country is much higher than in others, or if additional factors serve to drive the currency down. The opposite relationship exists for decreasing interest rates - that is, lower interest rates tend to decrease exchange rates.

- ✓ **CURRENT-ACCOUNT DEFICITS:** The current account is the balance of trade between a country and its trading partners, reflecting all payments between countries for goods, services, interest and dividends. A deficit in the current account shows the country is spending more on foreign trade than it is earning, and that it is borrowing capital from foreign sources to make up the deficit. In other words, the country requires more foreign currency than it receives through sales of exports, and it supplies more of its own currency than foreigners demand for its products. The excess demand for foreign currency lowers the country's exchange rate until domestic goods and services are cheap enough for foreigners, and foreign assets are too expensive to generate sales for domestic interests.

FOREIGN EXCHANGE RATE POLICIES

The foreign exchange rate of a country can either be any of the following;

FIXED OR PEGGED EXCHANGE RATES

The fixed exchange rate is a phenomenon which occurs when the rate of a currency against other currencies is fixed. Under the pegged exchanged rates, all exchange transactions take place at an exchange rate that is determined by the monetary authorities (Adetifa, 2005). This connotes that the exchange rate of a currency to other currencies is stable. This allows for an increase in reserve of the country if there is a favourable balance of trade. International trade is encouraged because prices of goods are more predictable and long term capital flows in an orderly manner can be encouraged.

FLEXIBLE OR FLUCTUATING EXCHANGE RATES

This occurs when the currency of a country against other currencies is not stable. The rates are determined by market forces. This implies that the market is unpredictable, thus, leading to economic instability, high risk, possibility of incurring loss on investment in foreign exchange. Under a regime of freely fluctuating exchange rates, if there is an excess supply of a currency, the value of that currency in foreign exchange market will fall (Ayodele, 2014). This will lead to depreciation of the exchange rate.

THE CONCEPT OF FINANCIAL PERFORMANCE AND MEASUREMENT

Murthy and Sree (2003) define financial performance as the ability to leverage operational and investment decisions and strategies to achieve a business' financial stability.

According to Adetayo, Dionco and Oladejo (2004), financial performance comprises of achievement measurements of an organization. Financial performances measure an organizations benchmarks and financial objectives. A wide range of measures are used in measuring firm's financial performance including; profitability measures, liquidity measures and debt measures (Reid and Joshua, 2004). Financial performance, for the sake of the research is conceptualized and described as Return on Capital Employed (ROCE), Return on Asset (ROA) and Return on Equity (ROE).

All organizations have the financial performance measures as part of their performance management, although there is a debate as to the relative importance of financial and non-financial indicators. Proponents of financial performance measures argue that they are necessary because of the primary objectives of companies which is to maximize shareholders wealth by making a profit and maintaining growth and development. One of the ways to analyze financial performance is to calculate key financial ratios over the last three to five years. Ratios can be compared year over year to measure progress and performance. Financial ratios are a comparison of two or more elements of financial data. They are expressed as percentages (62 per cent) or as ratios (4:1). Bradley and Moles (2002); and Iliemena and Amedu (2019) show that the ultimate goal of any organization is profit maximization. therefore, profitability measures are widely used as compared to other measures. Profitability measures comprises of return on capital employed (ROCE), return on equity (ROE) and return on asset (ROA).

Mathematically, it is calculated as:

$$ROCE = \frac{\text{Net Profit (PBIT)}}{\text{Capital Employed}} \times 100$$

- ✓ ROCE is sometimes calculated using PBIT instead of net profit.
- ✓ Capital Employed = total assets less current liabilities (net asset). This is also equal to total equity plus long term debt.
- ✓ Capital Employed maybe based on net book value (NBV), gross book value or replacement cost.

$$ROA \text{ is calculated as: } \frac{\text{Profit before interest and Tax (PBIT)}}{\text{Total Assets}} \times 100$$

$$ROE \text{ is calculated as: } \frac{\text{Profit before interest and Tax (PBIT)}}{\text{Shareholders' equity}} \times 100$$

EXCHANGE RATES FLUCTUATIONS AND FINANCIAL PERFORMANCE OF COMPANIES

Exchange rate fluctuations influence a country's prices through import prices of consumption and intermediate goods (Watkins, 2014). Currency fluctuations enter directly into the import price, producer price and Consumer Price Index (CPI). Exchange rate fluctuations affect domestic prices through three channels; first is through prices of imported consumption goods, exchange rate fluctuation affects domestic prices directly, second is through prices of imported intermediate goods, exchange rate fluctuation affects production cost of domestically produced goods and third is through prices of domestic goods priced in foreign currency (Gatobu, 2013).

The fluctuations in currency exchange rates could

generate significant gains or losses and the entry of these into the income statement could produce a distorted impression of what is happening to financial institution concerned (Watkins, 2014). Jamal and Khalil (2011) documented that the more a company is involved in international trade, the more its accounting exposure and unless a company hedges this risk then it faces financial gains and/or losses from transaction and translation of foreign activities. Unrealized foreign exchange gains/losses according to Gatobu (2013) have an effect on the Net Income of multinational companies as posted to either income statement or owners equity reserves. This is added to their unending strive to meet up with operational and regulatory demands which could force them out of the Stock Exchange Market, making their survival a hard one. Even in the midst of exchange fluctuations, some conglomerates were among the delisted companies from Nigerian Stock Exchange as reported in an earlier study by Iliemena & Goodluck (2019). Foreign exchange fluctuations affect the companies' imports, accounts payables, export sales and accounts receivables; with net effect on the Net Income of multinational companies through the income statement or the owners' equity reserves. This outcome however seems exaggerated as conglomerates continuously report more profit in Nigeria in the midst of exchange rate fluctuations. Against this backdrop, this research paper seeks to examine the effects of exchange rate fluctuations on financial performance of Nigerian companies.

THE PURCHASING POWER PARITY THEORY (PPP) – MENON AND VISWANATHAN (2005)

Purchasing Power Parity theory posits that the value of homogenous goods is similar in different countries based on the currency of each country.

By, implication, when purchasing power is similar in different countries then the exchange rates between the country's currencies will be at equilibrium. This is similar to the earlier postulation of Reid and Joshua (2004) that ratio of commodities price levels should be equal the country's currency. By PPP, the prices of same commodity is different in different countries, it could be high in country A and low in B, and vice versa. This can be said to have direct implication on cost of sales. According Ross (2008), a country's currency may be incorrectly valued whereby money has no purchasing power against the country's commodities level. The main challenge of this belief is in measuring Purchasing Power Parity constructed from price indexes given that different countries use different goods to determine their price level (Reid, 2004). This theory is relevant for this study as it explains a country's currency value over another country's currency. This theory argues that in the equilibrium exchange rate is one that ensures that the value exchanged can purchase the same basket of goods and services from either of the countries involved.

REVIEW OF EXTANT LITERATURE

Both international and local studies on the dependent and the independent variables have been extensively reviewed in the course of this research work.

INTERNATIONAL EMPIRICAL STUDIES

Jorion (1991) estimates exposure using a two-factor model that thereafter became the norm for estimating foreign exchange exposure controlling for market risk. For a sample of firms drawn from the Fortune 500, he finds that the degree of exposure varies directly with the degree of foreign involvement. Bodnar and Gentry (1993) using data from the US, Canada and Japan also find industry differences in foreign exchange exposure and note that the exposure direction and level are broadly consistent with economic theory. Exchange rates changes have important implications for financial decision-making and for the profitability of firms. Bartov&Bodnar (1996) found an increase in equity volatility following the breakdown of the Bretton Woods agreement and increased exchange rate volatility but equity risks increased much more for firms with a multinational presence than it did for a control sample of domestic firms. As has been noted in theoretical studies, industry effects also seem important in estimating foreign exchange rate exposure. Eichengreen and Hausmann (1999), tries to shed light on this question by analyzing the behavior of foreign currency exposure. Although there is a consensus among economists that emerging markets should take measures to reduce their external vulnerability, there is no agreement about the role of the choice of the exchange rate regime in this matter. At the center of this debate is the fact that due to the widespread problem of the dollarization of liabilities, depreciations of the home currency in emerging markets would cause a collapse in company's balance sheets, leading to a fall in output.

Using a sample of firms in the automobile industry in the US and Japan, Williamson (2001) found that foreign sales are a major determinant of exposure but there is considerable time variation in exchange rate exposure. However, Griffin and Stulz (2001) find the effect of exchange rate shocks is minimal in explaining relative US industry performance and is even smaller in other countries that are more open to trade, finding that industry effects are more significant than exchange rate effects. Doidge and Williamson (2002) found that foreign exchange exposure is related to the level of foreign activity. They also find that large firms exhibit more foreign exchange exposure than smaller firms after controlling for the level of foreign activity. Koutmos and Martin (2003) used industry sector portfolios from four countries and found that exchange rate exposure is asymmetric over different appreciation depreciation periods. Furthermore, these asymmetries are more pronounced in the financial and non-cyclical sectors. Overall, studies of foreign exchange exposure find that multinational corporations and corporations with extensive foreign business have significant foreign exchange exposure. Wong, Wong and Leung (2008) examined the foreign exchange exposure of Chinese banks. Using the Capital Market Approach and equity-price data of 14 listed Chinese banks, this empirical study finds that there is a positive relationship between bank size and foreign exchange exposure, which may reflect larger foreign-exchange operations and trading positions of larger Chinese banks, and their significant indirect foreign-exchange exposure arising from impacts of the exchange-rate fluctuations on their customers. Ebaidalla (2014) examined real exchange rate

misalignment and economic performance in Sudan. The study investigates the behavior of equilibrium exchange rate and real exchange rate misalignment in Sudan over the period 1979–2009. In addition, the impact of real exchange rate misalignment on economic performance is examined. The empirical results show that the equilibrium exchange rate is significantly influenced by economic policy variables such as trade openness, government expenditure and taxes. The results also reveal that the Sudanese economy exhibited an exchange rate overvaluation over the period under consideration. Pitia and Lado (2015) sought to test of relationship between exchange rate and inflation in South Sudan using granger-causality approach using time series monthly data for the period August 2011 to November 2014. The study reveals that there exists a unidirectional causality from exchange rate to CPI without feedback.

NIGERIAN STUDIES

Aloku (2009) analyzed the effect of interest rate, exchange rate on the Nigerian economic growth using the annual data between 1975 and 2008. Using Ordinary Least Square technique, the result revealed that interest rate and exchange rate exerted negative impact on economic growth in Nigeria. Akpan (2009) studied the relationship between exchange rate and economic growth in an emerging petroleum based economy using the annual data for the period of 1970 to 2007. Using Ordinary Least Square (OLS) technique, the result revealed that there is a positive relationship between exchange rate and economic growth in Nigeria. Opaluwa, Umeh and Ameh (2010) examined the effect of exchange rate fluctuations on the Nigerian manufacturing sector during a twenty (20) year period (1986 - 2005). The argument was that fluctuations in exchange rate adversely affected output of the manufacturing sector. This was because Nigerian manufacturing was highly dependent on import of inputs and capital goods paid for in foreign exchange whose rate of exchange was unstable. The methodology adopted for the study was empirical. The econometric tool of regression was used for the analysis. In the model that was used, manufacturing output employment rate and foreign private investment were used as the explanatory variables. The result of the regression analysis shows that coefficients of the variables carried both positive and negative signs. The study shows adverse effect and is all statistically significant in the final analysis. Shehu (2012) examined the relationship between exchange rate volatility, trade flows and economic growth in Nigeria using the annual data for period of 1970 to 2009. Using a Vector Auto-regression (VAR) technique, the result revealed that exchange rate volatility has positive effects on the economic growth in Nigeria. Adeniran (2012) studied the impact of exchange rate fluctuation on the Nigerian economic growth using annual data for the period of 1980 to 2010. Using ordinary least square (OLS) technique, the study revealed that exchange rate has positive impact on economic growth in Nigeria. Dada and Oyeranti (2012) examined the effect of exchange rate volatility on economic growth in Nigeria using the annual data for the period of 1970 to 2009. Using Vector Auto-regression (VAR) technique, the studied revealed that economic growth is negatively related to

exchange rate in the long run while in the short run, a positive relationship exist between the two variables in Nigeria. Asher (2012) examined the impact exchange rate fluctuation on the Nigerian economic growth using annual data for the period of 1980 to 2010. Using Ordinary Least Square (OLS) technique, the study revealed that exchange rate has a positive effect on the GDP. Obansa (2012) investigated the relationship between exchange rate, interest rate and economic growth in Nigeria using annual data for the period of 1970 to 2010. Using Vector Auto-regression (VRR) technique, the study revealed that exchange rate has a significant impact on economic growth in Nigeria.

Fapetu (2013) investigated the relationship between foreign exchange and the Nigerian economic growth using the annual data for the period of 1960 to 2012. Using Ordinary Least Square (OLS) technique, the result revealed that exchange rate explained and accounted for about 99% variation in economic growth. Owoeye, and Ogunmakin (2013) examined exchange rate volatility and bank performance in Nigeria. This study investigated the impact of unstable exchange rate on bank performance in Nigeria using two proxies for bank performance, namely loan loss to total advances ratio and capital deposit ratio. Government expenditure, interest rate, real gross domestic product were added to exchange rate as independent variables. The two models specified show that the impact of exchange rate on bank performance is sensitive to the type of proxy used for bank performance. Loan loss to total advance ratio shows that fluctuating exchange rate may affect the ability of lenders to manage loans resulting into high level of bad loans while capital deposit ratio does not have significant relationship with exchange rate. A core recommendation of this study is that a stable exchange rate is needed to improve the ability of the banking sector to channel credit to the economy. Adetayo (2013) examined management of foreign exchange risks in a selected commercial bank, in Nigeria. The study sought to determine how the risk involved in foreign exchange can be effectively managed, by determining the following specific objectives: to determine the various exchange risks which the treasurer of the selected bank is exposed to in its foreign exchange transaction; to investigate how these risks can be effectively managed and to identify risk and exposure management techniques required for treasury management. The selected firm used for this study was a Commercial Bank of International Standard, located in Lagos, the business center of Nigeria. The study exploited both the primary and secondary sources of information. The primary source comprised of a structured questionnaires, to elicit pertinent responses from the respondents. A non-parametric measure based on chi-square statistics was employed to test the hypothesis and determine if there is any association between foreign exchange trading and risk management issues. Spot transaction technique was founded to be effective in minimizing foreign exchange risk.

Ayodele (2014) evaluated empirically the impact of exchange rate on the Nigerian economy. The study investigated how economic induces such as exchange rate and inflation rate affects changes in Gross Domestic Product (GDP) in Nigeria. The study used Secondary data collected from Annual Reports of Central Bank of Nigeria (CBN),

Nigerian Stock Exchange (NSE), and Nigeria Securities and Exchange Commission (SEC) which were analyzed through the multiple regression analysis using the Ordinary Least Squares (OLS) method. The result showed that the two factors –exchange rate and inflation rate- impact significantly on the Gross Domestic Product and economic growth of Nigeria. Exchange rate has a negative impact on the GDP because as it increases, the economic growth is negatively affected, while inflation rate exerts a positive impact on GDP, indicating that firms are more willing to produce when inflation rate is high and vice versa. The outcome of the research was that the government should make Nigerian economic climate investment friendly by restoring security of lives and property, infrastructural development and improvement of local production in order to reduce the pressure on the dollar and that this would go a long way to boost the exchange rate in favour of the naira and hence improve the Gross Domestic Product. Uduakobong and Enobong (2015) conducted an empirical analysis on the relationship between exchange rate movements and economic growth in Nigeria using annual data spanning 1970-2011. Specifically, the study sought to: examine the relationship between exchange rate and economic growth; and also to determine the nature and the direction of causality between exchange rate and economic growth in Nigeria. Employing the Ordinary Least Square (OLS) technique and the Granger Causality Test, the study revealed the existence of a positive and insignificant relationship between exchange rate and economic growth in Nigeria. The results also indicate that there is no causality between exchange rate and economic growth in Nigeria.

Goodluck and Iliemena (2019) investigated the effect of financial crises which include exchange rate fluctuation on corporate survival using a sample of 69staff of selected manufacturing firms in Nigeria. The methodology adopted was Pearson product moment correlation. Analyses reveal financial crises have a significant negative effect on corporate survival.

III. METHODOLOGY

The research design employed in this research work is ex-post facto method. This study investigated the extent of foreign exchange currency exposure on the financial performance of quoted conglomerates in Nigeria for the period covering years 2007 to 2018. The study population consisted of all the quoted conglomerates as at December, 2018. These are:

- ✓ Unilever Nigeria Plc.
- ✓ UTC Nigeria plc.
- ✓ UACN Plc.,
- ✓ A. C. Leventis (Nigeria) Plc.,
- ✓ Chellarams Plc.,
- ✓ John Holt Plc.,
- ✓ PZ Cussons Nigeria Plc.,
- ✓ SCOA (Nigeria) Plc.,

The dataset contains detailed financial information about each conglomerate for each financial year as obtained from the financial statements for the 12years period of study. For this study, the eight (8) quoted conglomerates were also used as

sample because the population is small and manageable. A multiple linear regression model was employed. Regression models were used because they are flexible, powerful, and produce optimal results in predicting numeric output when properly structured. They also allow examining the effect of many different factors on some outcome at the same time. Returns on assets, equity and capital employed were the dependent variables and exchange rate fluctuations were the independent variable.

MODEL SPECIFICATION

The data analysis method used was based on Pearson correlation analyses and a multiple linear regression model in the form of:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

Where: Y = Financial performance

X₁ = Exchange rate

X₂ = Interest rate

X₃ = Inflation rate

β₁, β₂, and β₃ = regression parameters

NB: -Financial performance is the dependent variable while exchange rate fluctuation is the independent variable. Foreign exchange trading is described real effective exchange rates between the Nigerian Naira and the US Dollar, while

B₀ = Constant

β₁, β₂, β₃, = Regression coefficients or change included in Y by each X value

ε = Error term

Specifically, when researchers convert the above general least squares model into our specified variables, it becomes:

$$ROCE = \beta_0 + \beta_1 \text{ExchR} + \beta_2 \text{IntR} + \beta_3 \text{InfR} + E \quad - H_{01}$$

$$ROA = \beta_0 + \beta_1 \text{ExchR} + \beta_2 \text{IntR} + \beta_3 \text{InfR} + E \quad - H_{02}$$

$$ROE = \beta_0 + \beta_1 \text{ExchR} + \beta_2 \text{IntR} + \beta_3 \text{InfR} + E \quad - H_{03}$$

T-tests were used to show the significance of the relationship between the determinant factors and exchange rate

Null Hypothesis: Ho: ρ=0

IV. ANALYSES AND RESULTS

The data used in this study and necessary computations made are attached as appendices

TEST OF HYPOTHESES

HYPOTHESIS ONE

H₀: Exchange rate fluctuation has no significant effect on Return on Capital Employed.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|--------------------|----------|-------------------|----------------------------|
| 1 | -.658 ^a | .433 | .150 | 5.94946 |

a. Predictors: (Constant), Int Rate, ExchR, InfRate

Source: SPSS Ver. 21

Table 4.1.: Model Summary

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|----|-------------|-------|--------------------|
| 1 Regression | 162.472 | 3 | 54.157 | 1.530 | .0300 ^b |
| Residual | 212.377 | 6 | 35.396 | | |
| Total | 374.849 | 9 | | | |

a. Dependent Variable: ROCE

b. Predictors: (Constant), Int Rate, ExchR, InfRate

Source: SPSS vr 21

Table 4.2: ANOVA on Exchange rate fluctuations on ROCE

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 10.560 | 35.094 | | .0300 | .007 |
| 1 Exchange Rate | -.224 | .132 | -.527 | -0.01 | .012 |
| Inflation Rate | .675 | .600 | .369 | 0.00 | .003 |
| Interest Rate | .793 | 2.033 | .130 | 0.039 | .007 |

a. Dependent Variable: ROCE

Source: SPSS vr 21

Table 4.3: Coefficients^a on Exchange rate fluctuations on ROCE

INTERPRETATION

The coefficients table showed that the significance value for the calculated t-statistics (t = -0.01, 0.00, and 0.039) for ExchR, InfRate Rate and IntR are lower than the 0.05 level of significance used for this study.

The above table shows the regression analysis coefficients as the beta of the standardized coefficient in table shows -0.527 and the P-value 0.012 which is less than 0.05 at 95%. Therefore we reject the null hypothesis and conclude that that exchange rate fluctuations have significant negative effect on return on capital employed of conglomerates companies in Nigeria.

HYPOTHESIS TWO

H₀: There is no significant effect of exchange rate fluctuation on Return on Assets of conglomerates in Nigeria.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .109 ^a | .011 | -.012 | .25087 |

a. Predictors: (Constant), Int Rate, ExchR, InfRateRATE

Source: SPSS Ver21

Table 4.4: Model Summary of Exchange rate fluctuations on ROA

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|----|-------------|------|-------------------|
| 1 Regression | .090 | 3 | .030 | .700 | .476 ^b |
| Residual | 7.930 | 6 | .063 | | |
| Total | 8.019 | 9 | | | |

a. Dependent Variable: ROA

b. Predictors: (Constant), Int Rate, ExchR, InfRate RATE

Source: SPSS Ver 21

Table 4.5: ANOVA^a on Exchange rate fluctuations on ROA

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| (Constant) | -5.246 | 228.488 | | -.023 | .982 |
| 1 Exchange Rate | .956 | .862 | .395 | -1.109 | .310 |
| Inflation Rate | 3.655 | -3.906 | .351 | .936 | .386 |
| Interest Rate | -9.843 | 13.235 | -.283 | -.744 | .426 |

a. Dependent Variable: ROA

Source: SPSS Ver 21

Table 4.6: Coefficients^a on Exchange rate fluctuations on ROA

INTERPRETATION

The coefficients table showed that the significance value for the calculated t-statistics (t = -1.109, 0.936, and -744) for ExchR, InfRate and IntRate are higher than the 0.05 level of significance used for this study. The values of R- squared & the adjusted R- squared in the model summary table (0.011 and -0.012) indicating that exchange rate fluctuation for just for 1.1% variation in the Return on Assets of conglomerates. The overall regression model is not statistically significant in terms of its overall goodness of fit (f =0.700, P =0.476 > 0.05).

Therefore, the P-value is 0.310 which is greater than 0.05 critical levels, with the beta of standardized coefficient (R²) of 0.395, we accept null hypothesis and uphold that exchange rate fluctuations have no significant effect on Return on Assets of conglomerates in Nigeria.

HYPOTHESIS THREE

Ho: Exchange rate fluctuation has no significant effect on Return on Equity of conglomerates in Nigeria.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .649 ^a | .173 | .154 | 24.87386 |

a. Predictors: (Constant), Int Rate, ExchR, InfRate RATE

Source: SPSS vr21

Table 4.7: Model Summary on Exchange rate fluctuations on ROE

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|----|-------------|-------|-------------------|
| 1 Regression | 521.185 | 3 | 173.728 | 1.458 | .032 ^b |
| Residual | 715.020 | 6 | 119.170 | | |
| Total | 1236.206 | 9 | | | |

a. Dependent Variable: Return On Equity

b. Predictors: (Constant), Int Rate, ExchR, InfRate RATE

Source: SPSS vr 21

Table 4.8: ANOVA^a on Exchange rate fluctuations on ROE

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------|-----------------------------|------------|---------------------------|------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 14.259 | 64.393 | | .221 | .032 |
| 1 Exchange Rate | -.168 | .243 | -3.217 | .000 | .006 |

| | Inflation Rate | 2.190 | 1.101 | -.659 | .009 | .040 |
|--|----------------|--------|-------|-------|-------|------|
| | Interest Rate | -2.266 | 3.730 | .204 | -.248 | .516 |

a. Dependent Variable: Return On Equity

Source: SPSS vr21

Table 4.9: Coefficients^a on Exchange rate fluctuations on ROE

INTERPRETATIONS

The coefficients table showed that the significance value for the calculated t-statistics (t = 0.000, 0.009, and -.248) for ExchR, InfRate and InRate are lower than the 0.05 level of significance used for this study. The result showed that the model depicts that 17.3 percent variation in the Return on Equity of conglomerates is explained by exchange rate fluctuation with R² at 0.173. The f-value of the model suggested that the overall model is statistically significant because it has a value lower than the critical value at 5% level of significance.

The overall regression model is not statistically significant in terms of its overall goodness of fit (f =1.458, P =.317 > 0.05).

Therefore, since result is showing that the P-value of exchange rate is 0.006 < 0.05 at beta of standardized coefficient of -3.217, we reject the null hypothesis and affirm that exchange rate fluctuation has significant negative effect on return on equity of conglomerates in Nigeria.

DISCUSSION OF RESULTS

From the analyses above, results showed that, exchange rate fluctuation effect is partly significant and partly insignificant. The coefficient of determination (r²) shows that 43.3% of the changes in return on capital employed are explained by our model, while the remaining 56.7% could be explained by factors not contained in our model. The regression coefficient of 0.658 shows, that there is a high correlation between the independent variables and return on capital employed. Table above indicates that our model has significant effect at 95% confidence level P = 0.0300 < 0.05. Also results show that exchange rate has the strongest impact on return on capital employed, as 1% change in the exchange rate could cause a 52.7% decrease in Return on Capital Employed. In the same vein, a unit change in inflation rate will lead to 36.9% increase in return on capital employed. More so a unit change in interest rate could cause 13% increase in Return on. This somewhat contradicts with the works of Inyama and Ozouli (2014) that Return on Capital Employed has a negative and insignificant effect on exchange rate. Results disagree with the findings of Akpan (2009) that exchange rate is positively related to manufacturing sector performance and agrees with his finding that inflation rate is positively related to manufacturing sector performance. Our result is in line with the work of Ayinde (2009) that exchange rate volatility has exerted negative impact on economic growth. In other words, our results are contrary to findings of Shehu (2012) and Adeniran (2012) that exchange rate fluctuations have positive effects on the economy. Also as the results indicate that the coefficient of determination R² of 0.26

implies that 26% of the changes in the return on assets of this sector can be explained by our model, while 74% of the changes in return on assets are due to factors outside our model. In view of these therefore, the finding testify that exchange rate fluctuations have positive insignificant effect on Return on Assets. The finding concurs with Eme and Ibietan (2012) that no evidence of strong direct relationship between changes in exchange rate gross domestic product. Moreover, as indicated by coefficient of determination (R^2) of 0.422, that our model could explain 42.2% of the changes in Return on Equity. Then 57.8% of the changes in ROE would be explained by factors not contained in our model. The result finally shows that exchange rate fluctuations have negative and significant effect on Return on Equity. This agrees with the findings of Gounopoulos, Abdelatiff and Skinner (2013) that return on equity of Japanese banking industries, UK and USA insurance industry are negatively related to changes in foreign currency. Generally, our results justify the findings of Goodluck and Iliemena (2019) that financial crises resultant from exchange rate fluctuations have significant negative effect on corporate survival and negate the findings in the study by Uduakobong and Enobong (2015), which revealed the existence of a positive and insignificant relationship between exchange rate and economic growth in Nigeria.

V. FINDINGS AND CONCLUSION

In summary, the results of our analyses reveal the following:

- ✓ Exchange rate fluctuations have significant negative effect on return on capital employed of conglomerates.
- ✓ Also findings show that exchange rate fluctuations have no significant effect on Return on Assets of conglomerates in Nigeria.
- ✓ Exchange rate fluctuations have significant negative effect on Return on Equity, but interest rate has positive but insignificant effect on Return on Equity.

CONCLUSION

The study's objective was to determine the effects of exchange rate fluctuations on financial performance of quoted conglomerates in Nigeria. This study explored the effects of exchange rates on Return on Capital Employed, Return on Asset and Return on Equity of quoted conglomerates in Nigeria from 2007 to 2018. In line with the findings; we conclude that exchange rate fluctuations have significant negative effects on the financial performance of quoted conglomerates in Nigeria. Although the variations in interest rate tend to yield positive effects but the effect is insignificant probably due to the counter negative effects of inflation rate on performance as indicated by the study

RECOMMENDATIONS AND POLICY IMPLICATIONS

- ✓ Government should formulate policies that will be very consistent in controlling or managing exchange rate fluctuations, as exchange rate fluctuation has the capacity of distorting labour rate and other cost of material inputs.

Also Authorities in conglomerates should ensure that they engage experts who could forecast accurately the direction of the movement in exchange rate.

- ✓ Government should uphold the restriction policy on the importation of similar products manufactured in Nigeria. If this is religiously pursued, it will create and open more markets for the locally manufactured goods to thrive. More market share for Nigerian manufacturing sector will improve their return on assets, which is a proof of making maximum utilization of their assets in generating earnings.
- ✓ Government should try to make available, interest-free loan to manufacturing sector, which will encourage and strengthen their operations and increase their chances of survival. Also, government should maintain the rate of 14% which has been pegged on interest rate in 2018 to curtail inflationary tendencies.

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