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Evaluation of Economic Value of Foreign Currency and its Effect on Business Performance in Nigeria: a Study of Selected Shops in Abuja International Market, Wuse-Abuja

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Abstract

The economic value of foreign currency reduced most economic transaction and the value attached to foreign currency like dollars in Nigeria also reduced thereby limiting the performance of business since most product or goods in Nigeria are imported such as paper, pure water materials, rice, toothpick, cars, and some machines used in the production process in Nigeria. The main objective of this study is to examine the economic value of foreign currency and its effect on business performance in Nigeria. Point in Time data were collected from primary source covering a period of 6 months from March to October, 2016. The population of this study is 5763 shops owners at Abuja International market. A simple size was derived using Taro Yamane and the size was 374. Ordinary least Square method of regression with a statistical package of SPSS was adopted and findings reveal that there is significant relationship between foreign currency and business performance in Abuja International Market. Other findings were that there is a significant relationship between exchange rate and sales volume of Abuja international market business owners. Also, there is a significant relationship between exchange rate and profit of Abuja international market business owners. The study recommends that business men operating businesses at international market in Abuja should re-strategies and concentrate on local made products since the exchange rate of foreign currency such as dollars is very high and tend to reduce the profit as well as sales volume of businesses. They should look at the significant effect of foreign currencies in Nigeria such over dependent on imported goods and look forward for domestically made product to sales to the buyers.

Keywords: *Foreign currency, Profit, Exchange rate, Performance*

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Background to the Study

The economic value of foreign currency in Nigeria in this present era has decreased thereby affecting the performance of businesses in Nigeria in terms of sales volume and profitability like return on asset, return on investment, net profit margin, gross profit margin, return on capital employed and return on equity. The band of foreign currency by government of Nigeria as means of exchange of goods and services has affected almost all the sectors of the economy. Initially, foreign currency were used in Nigeria by top government officers and top businessmen as a means of exchange and even some government officers as well as companies like multinational companies used foreign currency like dollars to pay for their employees' salaries. The poor Nigerian was stick to Naira as means of exchange. The band of foreign currency reduced most economic transaction and the value attached to foreign currency like dollars in Nigeria also reduced thereby limiting the performance of business since most product or good in Nigeria are imported such as paper, pure water materials, rice, toothpick, cars, and some machines used in the production process in Nigeria. The importation of paper for printing has affected almost all sectors of the economy and fuel is imported into Nigeria and this means that importation of goods transact is done on these goods through exchange of foreign currency such as dollar into Nigeria market.

Statement of the Problem

The problem is that the citizen of Nigeria and businessmen experienced during this period of the band of dollar is that there is high inflation rate and there is scarcity of money and goods in Nigeria. The hyper inflation rate in Nigeria and money and goods in Nigeria leads to firms downsizing and these result to high level of employment in Nigeria. However, workers in some firms were asked to resign especially in the case of Yusuf Musa who worked in pure water company in Lagos. This happened because firms experienced poor performance in terms of sales and profitability since most items used by them are imported and they found it difficult to transact business.

Objectives of the Study

The main objective of the study is to evaluate the economic value of dollars and its effect on business performance in Nigeria. Specifically, the study also aimed at: to determine the effect of exchange rate of dollars on sales performance in Nigeria and to examine the effect of exchange rate of dollars on profit of businesses in Nigeria.

Scope of the Study

The scope of this study covers 10 months from January to October 2016 and these months are chosen because of the ban that takes effect on January 1, 2016 which allow Nigerian to use their naira-denominated credit, debt and ATM cards for transactions that are denominated in foreign currencies such as dollars and pounds, either locally or when they travel abroad. It also means that the customers will not be able to use their cards to buy products from foreign e-commerce sites.

There is no previous study on the evaluation of the economic value of dollars and its effect on business performance in Nigeria. this study looks at the evaluation of the economic value of dollars and its effect on business performance in Nigeria using Abuja International market as case study and employed the used of point in time data and ordinary least method of regression with the aid of statistical package for social sciences.

Nigerian and businessmen will find this study very relevant and important because it will assist them in their deliberations and decisions on effective ways on how to go about on their businesses. Government will benefit from the study because it will guide in effective policies concerning dollars in Nigeria and how best to manage this policy to realized economic growth. Above all, it is hoped that this study would contribute to knowledge and be useful as reference material for scholars and researchers in the field of economic value of dollars and its effect on business performance.

Study Hypotheses

In this study, the hypotheses are formulated in null form:

$H0_1$: There is no significant relationship between exchange rate and sales performance in Nigeria

$H0_2$: There is no significant relationship between exchange rate and profit of businesses in Nigeria

Concept of Foreign Currency

The foreign currency is simple define as other country's money for the buying and selling and appreciate it more than its own currency. To this, Mary (2014) defines it as means of exchange which a country decided to have in addition to their own currency. The economic value of foreign currency was increasing over the past years and Nigerian traded with foreign currencies such as dollars in their own country (Isaac, 2005). Foreign currency is a means of exchange or an officially-issued legal tender generally consisting of currency and coin. Foreign currency is the circulating exchange as defined by a government (Investopedia, 2016). It is a process of eliminating its own currency and focusing on other country's currency or using them for economic transaction (Raphael, 2012).

Concept of Business Performance

According to Roadster (2008) business performance means quality, condition, and function that business firms performance. To him also, business performance is a general structure which refers to the operations of enterprise. Business performance is equivalent with economy, efficiency and effectiveness for a specific program or activity (Javier 2002). According to Hu (2008) business performance is an indicator that measure the achieving the goals of an organization or institution. Business performance refers to how well an organization achieves its market-oriented goals as well as its financial goals (Li et al., 2006). Business performance could therefore be measured in two categories; operational performance and business performance as suggested by (Fengi, Terziorski & Samson, 2008). Business performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre -determined time using relevant strategy for action (Koontz & Donnell, 2003).

Theoretical Framework

Quantity theory of Money

This theory was developed by Friedman in 1956 and he argued that money creation determines the behavior of prices of goods and services in the market. Friedman gave empirical content to the theory by studying instances where historical circumstances suggested that money was the causal factor in this relationship. According to him there is perhaps no empirical regularity among economic phenomena that is based on so much evidence for so wide a range of circumstances as the connection between substantial changes in the stock of money and in the level of prices. Instances in which prices and the stock of money have moved together are recorded for many centuries of history, for countries in every part of the globe, and for a wide diversity of monetary arrangements (Friedman, 1957).

The Keynesian Theory on Inflation and Money

The Keynesians believed that money does not play any active role in changing prices in an economy. According to them, changes in prices are mainly caused by structural factors. Keynesian theory does not offer much insight into movements of the price level. Keynesian theory proposes that money is transparent to real forces in the economy, and that visible inflation is the result of pressures in the economy expressing themselves in prices. As monetarists assert that the empirical study of monetary history shows that inflation has always been a monetary phenomenon, by contrast, Keynesians typically emphasize that the role of aggregate demand in the economy rather than the money supply in determining inflation (Jiay, 2007).

The Rational Expectations theory

The Rational Expectations theory was initiated by Muth (1961) and advanced by Lucas (1976) and Sargent, Thomas and Wallace (1987). Rational expectations theory holds that economic actors look rationally into future when trying to maximize their well-being, and do not respond solely to immediate opportunity costs and pressure. In this view while generally grounded in monetarism, future expectations and strategies are important for inflation as well. The major crunch of the rational expectations theory according to Dwyer and Hafer (1988) is that actors will seek to 'head off' commercial bank decisions by acting in ways that fulfill predictions of higher inflation.

Adaptive Expectation Theory

The adaptive expectations hypothesis was introduced by Cagan (1956) and Friedman (1957) as a plausible and empirically meaningful approach to modeling expectations of future variables in a world of uncertainty. Their apparent empirical success led to widespread utilization of the adaptive expectations hypothesis before it was ultimately swept away by the rational expectation revolution. Monetarists argued that the expectation of the future price level is driven mainly by agent's experience of previous inflation rates. The application of adaptive expectations became the standard approach for modeling expectations. The adaptive expectations hypothesis (AEH) is a special case of a more general framework in which expectations of P are related to current and past values in a distributed lag fashion.

Methodology

The research used survey research design and ordinary least square regression to analysed data. Data for this study was gathered from primary data through the use of questionnaire. The population of this study is 5763 shops owners at Abuja International market. A simple size is derived using Taro Yamane (1967) sample determination technique;

$$n = \frac{N}{1 + N(e)^2}$$

Where; N= Population size
n= Sample size
e= Error of margin (0.05)

$$n = \frac{5763}{1 + 5763(0.05)^2} \qquad \frac{5763}{= 15.4075} \qquad = 374$$

A questionnaire was designed in a five point likert scale to retrieve information from the respondents and the respondents are made-up of the business owners at Abuja International Market, Wuse. The question was design in two part, that is economic value of foreign currency related questions and business performance related questions and a simple statistical model was develop and ordinary least square method of regression was adopted to certain the evaluation of economic value of foreign currency and its effect on business performance in Nigeria with a particular reference to Abuja International market. The questionnaire was administered randomly from the population of 5763.

However, respondents were selected based on chance and the e simply regression model is stated below:

SV = $\alpha + ß_I EXR + \mu$---------------------------------equation 1

PF = $\alpha + ß_I EXR + \mu$---------------------------------equation 2

SV is sales volume, α is the intercept, $ß_I$ is the independent variable (coefficient), PF is the profit of business, EXR is exchange rate, and μ is the error term.

Data Analysis

Table 1: The economic situation of Nigeria is favourably to your Businesses

Respondents	Frequency	Percent (%)
Yes	18	4.81
No	356	95.18
Total	374	**100**

Source: Field Survey, (2016)

The table indicates that 4.81% of the respondents said that the economic situation of Nigeria is favourably to your Businesses and 95.18% of the respondents said that the economic situation of Nigeria is unfavourably to your Businesses.

Table 2: Is there any improvement in the market since the present administration comes up with economic policy of ban of foreign currency

Respondents	Frequency	Percent (%)
Yes	6	1.60
No	368	98.39
Total	374	**100**

Source: Field Survey, (2016)

The table indicates that 1.60% of the respondents said that there is an improvement in the market since the present administration comes up with economic policy of ban of foreign currency and 98.39% of the respondents said that there is no improvement in the market since the present administration comes up with economic policy of ban of foreign currency.

Table 3: The ban of foreign currency regenerated hardship and cause consumers not to buy your product frequently

Respondents	Frequency	Percent (%)
Yes	341	91.19
No	33	8.82
Total	374	**100**

Source: Field Survey, (2016)

The table indicates that 91.19% of the respondents said that the ban of foreign currency regenerated hardship and cause consumers not to buy their product frequently and 8.82% of the respondents said that the ban of foreign currency regenerated hardship and cause consumers not to buy their product frequently.

Table 4: businesses suffered from high cost of buying the product and reselling them is difficulty since there is economic meltdown in Nigeria

Respondents	Frequency	Percent (%)
Yes	352	94.11
No	22	5.88
Total	374	**100**

Source: Field Survey, (2016)

The table indicates that 94.11% of the respondents said that the businesses suffered from high cost of buying the product and reselling them is difficult since there is economic meltdown in Nigeria and 5.88% of the respondents said that the businesses does not suffered from high cost of buying the product and reselling them is difficult since there is economic meltdown in Nigeria.

Table 5: The economic value of foreign currency in Nigeria has decreased thereby regenerating a problem to other sectors of the economic

Respondents	Frequency	Percent (%)
Yes	239	63.90
No	135	36.09
Total	374	**100**

Source: Field Survey, (2016)

The table indicates that 63.90% of the respondents said that the economic value of foreign currency in Nigeria has decreased thereby regenerating a problem to other sectors of the economic and 36.09% of the respondents said that the economic value of foreign currency in Nigeria has decreased thereby regenerating a problem to other sectors of the economic.

Exchange Rate and Sales volume of Selected Shops in Abuja International Market, Wuse-Abuja

Table 6: The exchange rate of Naira is very high and businessman do not even have access to foreign currencies such as dollars in Nigerian banks thereby contributing to high cost of goods because of black market rate of foreign currencies.

Responses	**Frequency**	**Percent (%)**
Strongly Agreed	107	28.60
Agreed	111	29.67
Undecided	4	1.06
Strongly Disagreed	75	20.05
Disagreed	77	20.58
Total	374	100

Source: Field Survey, (2016)

The table indicates that 28.60% of the respondents strongly agreed that exchange rate of Naira is very high and businessman do not even have access to foreign currencies such as dollars in Nigerian banks thereby contributing to high cost of goods because of black market rate of foreign currencies. 29.67% of the respondents agreed that exchange rate of Naira is very high and businessman do not even have access to foreign currencies such as dollars in Nigerian banks thereby contributing to high cost of goods because of black market rate of foreign currencies and 1.06% of the respondents were undecided. 20.05% of the respondents strongly disagreed that exchange rate of Naira is not very high and businessman have access to foreign currencies such as dollars in Nigerian banks thereby contributing to low cost of goods because of black market rate of foreign currencies and 20.58% of the respondents strongly disagreed that exchange rate of Naira is not very high and businessman do not have access to foreign currencies such as dollars in Nigerian banks thereby not contributing to high cost of goods because of black market rate of foreign currencies.

Table 7: The sales volume has improved during these period (Jan.-October, 2016) in Abuja International Market, Wuse-Abuja

Responses	Frequency	Percent (%)
Strongly Agreed	46	12.29
Agreed	51	13.63
Undecided	2	0.53
Strongly Disagreed	122	32.62
Disagreed	153	40.91
Total	374	100

Source: Field Survey, (2016)

The table indicates that 12.29% of the respondents strongly agreed that sales volume has improved during these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja. 13.63% of the respondents agreed that sales volume has improved during these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja and 0.53% of the respondents were undecided. 32.62% of the respondents strongly disagreed that sales volume has not improved during these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja and 40.91% of the respondents strongly disagreed that the sales volume has not improved during these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.840[a]	.706	.705	.77081	1.029

a. Predictors: (Constant), EXR
b. Dependent Variable: SV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	530.796	1	530.796	893.365	.000[b]
	Residual	221.025	372	.594		
	Total	751.821	373			

a. Dependent Variable: SV
b. Predictors: (Constant), EXR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.267	.093		-2.874	.004
	EXR	.769	.026	.840	29.889	.000

a. Dependent Variable: SV

The analysis indicates that the coefficients for foreign currency in terms of exchange rate in Abuja International Market, Wuse-Abuja are positive and significant in achieving business performance in terms of sales volume. This implies that 76% increase in exchange rate lead 1% increase in business performance in terms of sales volume of goods and services in Abuja International Market, Wusa. The p-value of 0.00 is less than the t-statistic value of 29.88 and the standard error value of 0.02. However, there is also a present of Auto correlation of 1.02 which implies that there is significant relationship between exchange rate and business performance in terms of sales volume of goods and services in the market. This indicates that exchange rate affect business performance in terms sales volume of in the market. The f-statistic value of 893.365 is significant at P statistic value of 0.00 which provides evidence of existence of linear relationship between exchange rate and business performance in terms of sales volume of goods and services. The $R^2 = 0.70$ indicates that only 70% foreign currency (exchange rate) affect sales volume but 30% can explained by other factors not noted in the regression model which is refer to as error term. Therefore we accept the alternative hypothesis that there is a significant relationship between exchange rate and business performance in terms of sales volume of goods and services in Abuja International Market.

Exchange Rate and Profit of Selected Shops in Abuja International Market, Wuse-Abuja

Table 8: Profit is increasing as more sales are recorded in these periods (Jan.-October, 2016) in Abuja International Market, Wuse-Abuja

Responses	Frequency	Percent (%)
Strongly Agreed	35	9.35
Agreed	41	10.96
Undecided	7	1.87
Strongly Disagreed	158	42.24
Disagreed	133	35.56
Total	374	100

Source: Field Survey, (2016)

The table indicates that 9.35% of the respondents strongly agreed that profit is increasing as more sales are recorded in these periods (January - October, 2016) in Abuja International Market, Wuse-Abuja. 10.96% of the respondents agreed that profit is increasing as more sales are recorded in these periods (Jan.-October, 2016) in Abuja International Market, Wuse-Abuja and 1.87% of the respondents were undecided. 42.24% of the respondents strongly disagreed that profit is not increasing as more sales are recorded in these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja and 35.56% of the respondents strongly disagreed that profit is not increasing as more sales are recorded in these period (Jan.-October,2016) in Abuja International Market, Wuse-Abuja.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.788[a]	.620	.619	.78825	1.025

a. Predictors: (Constant), EXR
b. Dependent Variable: PF

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	377.912	1	377.912	608.220	.000[b]
	Residual	231.139	372	.621		
	Total	609.051	373			

a. Dependent Variable: PF
b. Predictors: (Constant), EXR

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.050	.095		.523	.601
	EXR	.649	.026	.788	24.662	.000

a. Dependent Variable: PF

The analysis indicates that the coefficients for foreign currency in terms of exchange rate in Abuja International Market, Wuse-Abuja are positive and significant in achieving business performance in terms of profit. This implies that 64% increase in exchange rate lead 1% increase in business performance in terms of profit in Abuja International Market, Wusa. The p-value of 0.00 is less than the t-statistic value of 24.66 and the standard error value of 0.02. However, there is also a present of Auto correlation of 1.02 which implies that there is significant relationship between exchange rate and business performance in terms of profit. This indicates that exchange rate affect business performance in terms of profit in the market. The f-statistic value of 608.220 is significant at P statistic value of 0.00 which provides evidence of existence of linear relationship between exchange rate and business performance in terms of profit. The R^2 = 0.62 indicates that only 62% foreign currency (exchange rate) affect business performance in terms of profit but 38% can explained by other factors not noted in the regression model which is refer to as error term. Therefore we accept the alternative hypothesis that there is a significant relationship between exchange rate and business performance in terms of profit in Abuja International Market.

Discussion of findings

From the above analysis, the effect of foreign currency on business performance in Abuja International Market, Wusa-Abuja is statistical significant. These indicate that exchange rate increased affect sales volume of goods and services in Abuja International Market and also exchange rate increase affect profit in Abuja International Market, Wusa-Abuja. There is no existing empirical finding on foreign currency and business performance but the finding is in tandem with Quantity theory of Money which implies that money creation determines the behavior of prices of goods and services in the market. Friedman gave empirical content to the theory by studying instances where historical circumstances suggested that money was the causal factor in this relationship.

Conclusions and Recommendations

This study concludes that the effect of foreign currency (exchange rate) on business performance in Abuja International Market, Wusa-Abuja is statistical significant. These implies that exchange rate increased affect sales volume of goods and services in Abuja International Market and also exchange rate increased affect profit of the owners in Abuja International Market, Wusa-Abuja. The study therefore recommends that business men operating businesses at international market in Abuja should re-strategies and concentrate on local made products since the exchange rate of foreign currency such as dollars is very high and tend to reduced the profit as well as sales volume of businesses. They should look at the significant effect of foreign currencies in Nigeria such over dependent on imported goods and look forward for domestically made product to sales to the buyers.

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