

The Effects of Transactional Risk on Financial Performance of Nigerian Quoted Firms: An Expository Approach

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Abstract

With high volatility and unpredictable nature of foreign exchange rates facing the world economy, there was need to find out how this affects businesses operating in Nigeria. Thus, the study aimed to examine the effect of foreign exchange risk on financial performance of Nigerian quoted firms. In determining this, the foreign exchange risk was first broken down into two translation risk and transaction risk, and financial performance was measured using Return on Asset of the firms. The study using the Taro Yameni model drew out a .sample of 119 firms out of the 169 firms listed on the Nigeria Stock Exchange market. The study adopted the regression model $ROA_i = \alpha + \beta_1 TLRK + \beta_2 TSRK$. In order to achieve the objectives of the study, a regression analysis was carried out and the regression analysis showed that both translation and transaction risks have a significant relationship, this was subjected further to Correlation analysis to determine the effect of translation risk and transaction risk to return an asset, and the analysis revealed that translation risk and transaction risk are negatively correlated to firms' return on asset. The study recommends that training and retraining should be carried out in order to master foreign exchange management

Keywords: Financial Performance, Translation Risk, Transaction Risk, Macroeconomic Variables

INTRODUCTION

1.1 Background to the Study

Amongst the environmental factors that impinge on the operations of business, exists some macroeconomic variables, one of which is the foreign exchange rate, which is characterized by high volatility (Kiptisya, 2017), this makes it one of the important macroeconomic variables as it creates uncertainties about the profitability of businesses. The issue of foreign exchange (Forex) has become pertinent in the current world economy, as firms now take businesses across border, taking expansionary measures in order to diversify their market, which in turn exposes firms to risk arising from foreign exchange rate fluctuations, especially in developing countries like Nigeria (Noor & Abdalla, 2014),

Foreign exchange like other commodities arises as a result of demand and supply for currencies (Majok, 2015), which is influenced by organizations operating internationally, therefore making the risks arising from foreign exchange an inevitable one, the issue here becomes, the extent of the risk, the measurement, the level of management and the disclosure of the foreign exchange risks. Foreign exchange is quite significant to any entity, especially international organizations, since it affects some accounting elements like: assets, liabilities, and cash flows, in which the values are exposed to changes, when they are denominated in foreign currencies as to the measurement used in domestic currency due to the variations and volatility of exchange rates.

As a result of firms' involvement in international business, firms are exposed to different types of foreign exchange risks (translation, transaction, and economic risk) arising from foreign exchange fluctuations, banks especially, since they are the key players in the foreign exchange market. Translation risk involves variations of the value of assets and liabilities in foreign currencies, transaction risk refers to the variations in the value of future cash flows, and economic risk accounts for the variations of exchange rate on competitiveness (Doring, 2008) in (Offiong, Riman, & Akpan, 2016). These risks tend to be minimized as companies now use hedging as a forex risk management tool, hedging is made to eliminate any future gain or loss that may arise from foreign exchange fluctuations, however Kantos (2013) opines that, financial crisis, as well as new regulatory landscape now affects the ability of small and medium enterprises (SMEs) to hedge foreign exchange risk.

Due to the inevitable nature of foreign exchange risk, a lot of methods for FOREX risk measurement have emerged (Tokmakcioglu, 2009), but the most commonly used is the Value-at-Risk (Var) method, which is divided into: Parametric and Non-parametric method (Bohdalova, 2007).

Nigeria, like every other country in the world is part of the globalization trend, as there is an existence of multinational companies and conglomerates in the country, but recent financial crunch, which led to the devaluation of the Nigerian Naira in 2016 and first and second quarter of 2017 (Samuel, Udo, & Imolemen, 2018) has posed threats to indigenous companies domiciled in Nigeria and also companies with foreign direct investment (FDI) in Nigeria, the instability of the Nigerian currency as at that period and prior period, has made foreign exchange rate and risks

involved, arising from currency fluctuations in Nigeria, a major concern for businessmen and academicians.

1.2 Statement of the Problem

The concept of foreign exchange is a long-existent issue, but still continues to draw the attention of researchers, and as such, the issue of foreign exchange risk, is no way an issue of novelty, this is due to the consistent fluctuations that exist in foreign exchange, this fluctuations, however still arises due to organisation's involvement in international transaction, since there is a steady demand and supply of different currencies around the world, hence, the high volatility in foreign exchange rate.

This is evident in Nigeria since there have been some economic financial crunch in the years, 2016 and 2017, leading to the devaluation of the Nigerian Naira, thereby causing a high exchange rate against the US Dollar.

In view to the financial crunch facing the Nigerian economy, there have been uncertainties in the financial performance of businesses domicile in Nigeria that also operates internationally, due to the high volatility of exchange rate and the less predictable nature of the Nigerian Naira. There was therefore need to investigate the effect of foreign exchange risk and financial performance of Nigerian quoted firms.

1.3 Objectives of the Study

The objectives of this study are:

- I. To determine the effect of translation risk on the return on assets of Nigeria quoted companies
- II. To evaluate the effect of transaction risk on firms' return on assets of quoted firms in Nigeria

1.4 Research Questions

- i. Does translation risk have any effect on the return on assets of Nigeria quoted companies?
- ii. Does transaction risk has any effect on the firms' return on assets of Nigeria quoted companies?

1.5 Research Hypotheses

H₀₁: Translation risk has no effect on the return on assets of Nigeria quoted companies

H₀₂: Transaction risk has no effect on firms' return on assets of quoted firms in Nigeria

1.6 Significance and Justification of the Study

Academia, this research will add to the number of literatures on foreign exchange risk, and help other researchers who will undergo research on related subject matter.

Interested Public, mostly those who are eager in their quest for knowledge on foreign exchange risk, will also find this research work resourceful.

Firms, both within and outside Nigeria should be interested in this research work, as it also recommends foreign exchange risk management technique, in order to reduce the loss that may arise from foreign exchange risk.

To the Government, as this research exposes, the effect of foreign exchange risk on firms financial

performance, government will be cautious of currency valuation policy and other policies that may cause currency fluctuations.

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Transaction Risk

Transaction risk can either arise from trade transactions like imports and exports, financial operations like lending and borrowing in foreign currencies, or receipts and payment of dividend and interests. Transaction risk occurs when a firm is committed to the denomination of a foreign currency's transaction, this transaction will result to a future cash inflow or outflow of foreign currency, any modification in the exchange rate as at when the transaction was made and the settlement time in cash will lead to a change in the home currency's amount of cash inflow and outflow.

To calculate the total transaction risk of a firm the debts and credits in foreign currencies with the same maturity, are grouped together, and then the difference is checked, if credits exceed debts, it is established that the firm has an open long position, and vice versa for short position.

Demirage and Goddard (1994) opines that transaction risk arises from transactions where credit terms are used and which require settlement in foreign currency. Transaction risk arises if there happens to be a difference between the exchange rates as at the time the transaction was made and the time settlement for the transaction was made (Blake & Hossain, 1996) and (Bogicevic, 2013). So many authors through their literatures have offered their examples of foreign currency transaction examples, for instance Shapiro (1986) pointed out that transaction risk can arise in cross-border trades, lending and borrowing in foreign currencies, and purchasing and sales activities of foreign subsidiaries at local level. Also profit repatriation from foreign subsidiaries to parent companies is another action that can lead to transaction risk especially for Multi-National companies (Dhanani, 2003) and (Roberts, Wcetman & Gordon, 2008).

A company buying inventory (importer) or selling goods on credit (export) may suffer a loss whenever there is a change in exchange rate between transaction and settlement dates. In the work of Eliot and Elliot (2013) it was pointed out that this difference affects cash flows and will be reported as a gain or loss on exchange rate in the income statements. Some authors thus qualities it as transaction gain or loss (Choi & Meek 2008).

2.1.2 Economic Risk (or Operating Exposure)

This relates to the effect of exchange rate changes on a company's future cash flow, this type of risk is referred to as long-term cash flow risk. Economic risk refers to the variability in a firm present value, which is caused by uncertain change in exchange rate. Since economic risk is related to a firm's future revenue and cost and revenue, the measurement of economic risk requires a longer term perspective. In this perspective, a company is faced with economic risk whenever it is subjected to foreign competition, when it sources for inputs like raw materials outside the country. The possibility of not ignoring the effect of inflation while considering the effect of changes in exchange rate has made the measurement of economic risk difficult.

As a result, this risk cannot be hedged only through financial hedging technique, rather it would need longer term operating adjustments

Changes in the relative prices of inputs and product sold by companies in different countries, will be as a result of the appreciation or depreciation of a currency. The effect of these changes of firms revenues and costs is dependent on the level of the firm's international operations, its competitive environment and the extent of operational flexibility.

2.1.3 Measurement of Foreign Exchange Risk

The measurement and prediction of exchange rates is useful for different reasons. Firstly, it can be used for hedging decisions, if the foreign exchange rate can remain stable, the firm might decide not to hedge, secondly, for financing decisions, when the firm makes a decision to borrow, it can choose the currency. The ideal currency should have a low interest rate and should depreciate over time. This forecast will help in choosing the potential current showing these features. Thirdly, for investment decisions, the ideal currency should be a currency with high interest rate and should appreciate over time. Fourth, for budgeting decisions, when a firm chooses to open a new subsidiary, the firm should estimate the future cash flows which will require an accurate forecast on foreign exchange rates. Finally, for translation risk, earnings from the subsidiaries need to be converted into local currency. A forecast will help to determine the future earnings to be reported (Popov and Stutsman. 2003).

2.1.4 Foreign Exchange Risk Management Process

For firms foreign exchange risk management decisions, firms who have some level of foreign exchange risk exposure often need to set up operational framework of five best practices practice (Allen, 2003; Jacque, 1996).

The first practice is the identification of the types of foreign exchange risk that a firm is exposed to and measurement of the associated foreign exchange risk. As stated earlier, this involves determination of the transaction, translation and economic risks, along with specific reference to the currencies that are related to each type of forex risk. In addition, measuring these foreign exchange risks using models like VaR is a critical element in identifying positions to hedge.

The second practice involves the development of foreign exchange risk management strategy. After identifying the types of forex risk and measuring the firm's risk exposure, foreign exchange risk management strategy needs to be set up in order to deal with these risks, specifying the firms' currency hedging objectives, whether and what reason the firm should partially or fully edge its currency risk. In addition, a detailed foreign exchange hedging approach should be established. It is important that a firm details the overall foreign exchange risk management strategy on the operational level, including the execution process of foreign exchange hedging, the instruments to be used, and the procedures to be used in monitoring the currency hedges.

The third one entails the creation of a centralized system in the firm's treasury to deal with the practical aspects of the execution of foreign exchange rate hedging. This system will be responsible for forecasting of exchange rate, the approach mechanisms for hedging, the accounting procedures regarding foreign exchange risk, costs of currency hedging, and the establishment of standards for measuring the performance of foreign exchange hedging.

Theoretical Review

2.2.1 Interest Rate Parity Theory

This theory suggests that an inequality within the interest rate of two different economies is equalized by the movement in their currency exchange rates (Huang, 2009). It further explains that the interest rate differential of two countries is the same as the differential between the forward exchange rate and the spot exchange rate. The parity of interest rate is so important in the exchange markets, which connecting interest rates, spot exchange rates and exchange rates (Roll & Van, 2000). Hacche and Reforminst (1981) have shown that alternative credible economic theories, like Purchasing Power Parity and the financial model, have added insignificantly to the stochastic process forecasting of exchange rates for at least a time period below one year.

This theoretical framework as the study anchors, explains the relationship and effect of foreign exchange risk and firms financial performance.

2.3 Empirical Literature

Njaaga (2013) carried out a descriptive survey research on the effect of exchange rate translation risk on the financial performance of companies listed at the Nairobi securities exchange, the study made use of secondary data obtained from the financial statements of the listed companies, and adopted ordinary least square regression model. The major finding is that, so many companies in Kenya are negatively exposed to translation risk and no company has been positively exposed for two consecutive years.

Majok (2015) carried out an empirical research on effects of exchange rate fluctuations on financial performance of commercial banks in Kenya using a descriptive research design with multiple regression model was formulated using secondary data obtained from the banks' consolidated financial statements and also from the Central Bank of Kenya offices. In the study it was found that there was a positive relationship between foreign exchange rate fluctuations and financial performance of banks, using the returns on assets ratio. Further analysis showed that fluctuation in the value of domestic currency led to an effect on banks' financial performance.

Omar (2014) study is aimed at assessing the effectiveness of foreign exchange risk on improving firms' financial performance to the financial institutions operating in Zanzibar with data both form primary and secondary sources and employed simple frequencies and percentages to help in presenting findings, while using the Statistical Package for Social Sciences (SPSS) program and Microsoft Excel Program to analyse the data obtained. The main findings indicate that there is inverse relationship of foreign exchange costs, it therefore concludes that foreign exchange rate has an effect on foreign exchange costs and payables and foreign exchange revenue and receivables to the after tax profit of the financial institutions existent in Zanzibar.

Gatobu (2013) examined the effect of foreign exchange rate fluctuations among the listed firms in the Nairobi Stock Exchange for the period 2001 to 2010 using the multiple regression method in the analyses. The study was a descriptively concluded on detailed contextual examination of a limited number of conditions and their underlying relationships.

Gatobu (2013) observed that all the foreign currencies used in international transactions are sources of forex risk to listed firms on the Nairobi Stock Exchange for the period 2001 to 2010, using multiple regression method. The study posited that foreign exchange affects the

companies', imports and accounts payables and export sales and accounts receivables thus with the net effect on the Net Income of multinational companies through the income statement or the owner's equity reserves.

METHODOLGY

3.1 Research Design

The research design adopted for this study is the descriptive survey research design this research design is concerned with the relationship between variables, hypotheses testing, and making generalizations, principles, or theories that have universal validity. Since this research is basically on the relationship between foreign exchange risk and firms' financial performance, the descriptive research best suits this study.

3.2 Population of the Study

Population is referred to as a defined set of people or elements, services, events, and group of things or households that are being investigated Kothari (2004).

The population for this study is 169 companies listed in the Nigeria stock exchange market as at 21st May, 2019. The companies are divided into 12 sectors, Agricultural (5 companies). Construction/real estate (9 companies), consumer goods (21 companies). Financial Services (55 companies). Health Care (10 companies). Industrial goods (14 companies). Information and communications Technology (8 companies). Natural Resources (4 companies). Oil and Gas (12 companies). Services (25 companies). Utilities (Nil), and Conglomerates (6 companies).

3.3 Sample Size

The sample size for this study is 119 companies out of the 169 companies listed in the Nigeria Stock exchange market. The sample size is adequate for this study, to avoid bias in the analyses. The sample size of this study was derived using the simplified formula for proportions postulated by Yamane (1967).

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

Where:

n = Sample Size

N = Population Size

e = Precision rate using 95% confidence level.

$$n = \frac{169}{1 + 169(0.05)^2} = 118.8$$

3.4 Sources of Data

The study used quantitative secondary data obtained from the consolidated financial statement of companies listed in the Nigeria Stock Exchange Market for the year 2017. The study hopes to examine the presence of translation risk and transaction risks from the financial statement and the presence of foreign exchange gain or loss. The return on assets of the companies will be calculated using the data from the financial statements.

3.5 Variables Definitions and Management

This research is aimed at analyzing two variables, foreign exchange risk and financial

performance of quoted firms in Nigeria, these two variables are classified under dependent and independent variable, financial performance of Nigeria quoted firms is the dependent variable, as it is the resultant effect of foreign exchange risk, financial performance will be measured by firms' Return on Asset.

The independent variable is the causal factor of the dependent variable, the independent variable being foreign exchange risk, is further broken down to translation and transaction, in order to actualize the objectives of this study.

3.6 Data Analysis Techniques

The data obtained for this study was analysed using Statistical Package for Social Sciences and Microsoft Excel Spreadsheet tool was used to calculate descriptive statistics. The descriptive statistics generated such as frequencies of translation risk and transaction risk, mean, median and mode are presented in tables and graphs to meaningfully describe distribution of measurement.

The linear regression was used to determine the effect of translation risk and transaction risk on the return on assets of Nigeria quoted firms, the data will be analysed further to check the degree of relationship that exist between the variables.

3.8 Validity and Reliability of Research Instruments

The research instruments for this study is obtained from the Nigeria Stock Exchange, the NSE is under the control of the Securities Exchange Commission, a regulatory agent of government that controls the buying and selling of securities through the NSE. therefore the research instruments (companies' financial statement) obtained from the NSE is reliable, and the financial statements will be of active companies quoted in the Nigeria Stock Exchange Market for the period under review which gives credence and validity to the research instruments.

3.11 Model Specification

The variables for this study will be analysed using the multiple linear regression, the aim of the regression is to determine if a relationship exists between the stipulated variables. The regression model is represented by:

$$ROA_1 = a + \beta_1 TLRK + \beta_2 TSRK + \varepsilon$$

Where:

ROA	=	Return on Asset
a	=	Constant
β	=	Regression coefficient
TLRK	=	Translation Risk
TSRK	=	Transaction Risk
ε	=	stochastic error term

ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDING

4.1 Descriptive Analysis

To accomplish the purposes of this study a set of variables were employed, to determine the risk arising from transactions with foreign currencies, with the settlement at a later date (transaction risk), non-hedged derivative divided by total asset of the firm is used to measure this variable. While the

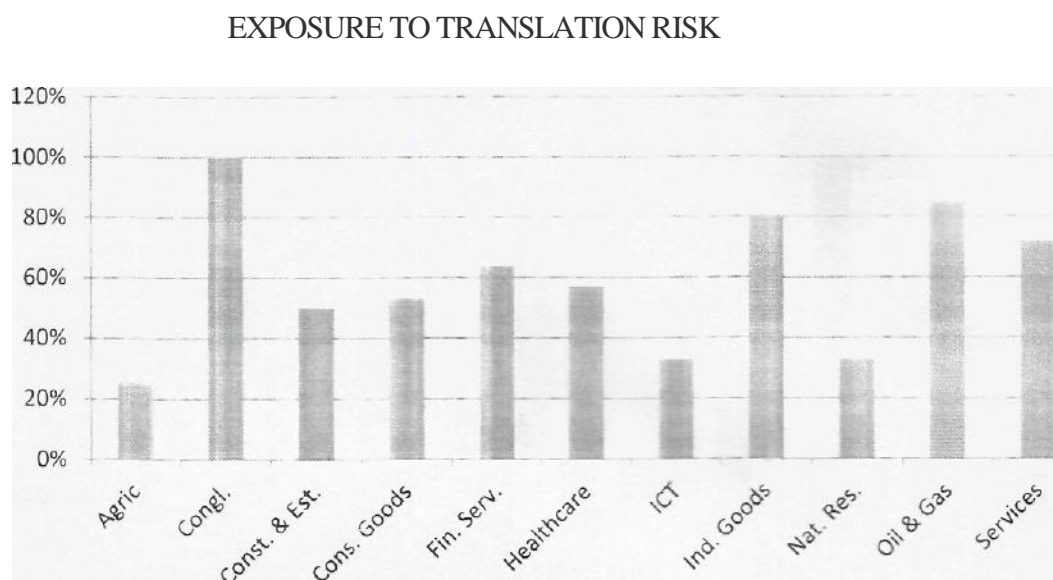
foreign exchange gain or loss reported in the firms' financial statement is used to measure risk arising from translation of foreign currency to local currency (translation risk).

Financial performance was measured using one of the financial performance proxies (Return on Asset) which is determined by dividing the firm's net income by the total asset.

4.1.1 Descriptive on Rate of Exposure to Foreign Exchange Risk

The figure below shows a sector by sector analysis of the number of firms exposed to translation risk.

Figure 4.1.1



The figure above shows the percentage of firms exposed to translation risks in their respective sectors for the year under review. Agricultural sector shows that 25% of the firms are exposed. Conglomerates 100%. Construction and Real Estate 50%. Consumer Goods 53%. Financial Services 64%, Healthcare 57%. ICT 33%, Industrial goods 80%. Natural Resources 33%. Oil and Gas 85%. and Services 72%.

Figure 4,1.2

EXPOSURE TO TRANSACTION RISK

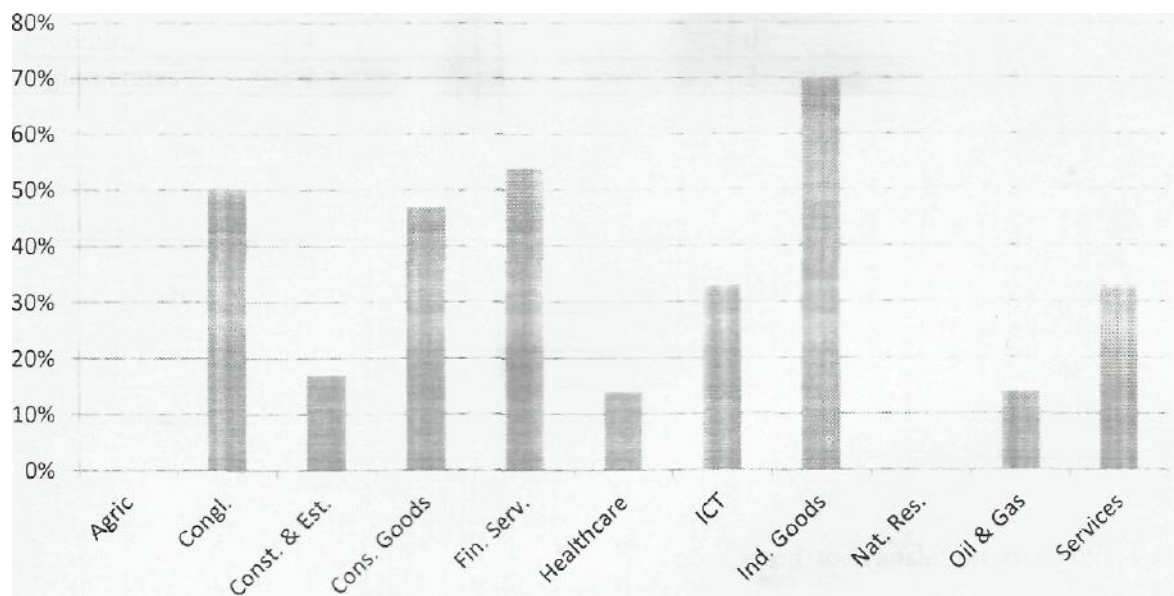


Figure 2.0 shows the percentage of firms exposed to transaction risk in their respective sectors for the year under review, while Agricultural and Natural Resources Sectors are not exposed to transaction risk, Conglomerates sector is 50% exposed to this risk. Construction and Real Instate is 17% exposed. Consumer Goods Sector 47%. Financial Services 54%, Healthcare 14%, ICT 33%, Industrial Goods 70%. Oil and Gas 14%, Services 33%.

TABLE 4.1

SECTOR	TOTAL NO OF FIRMS	TRANSLATION RISK	TRANSACTION RISK	NON EXPOSURE
Agricultural	4	1	0	3
Conglomerates	4	4	2	0
Const. & Real Estate	6	3	1	0
Consumer goods	15	7	7	4
Fin. Services	39	25	21	11
Healthcare	7	3	1	4
ICT	6	2	2	4
Industrial goods	10	8	7	1
Natural Resources	3	1	0	2
Oil & Gas	7	6	1	1
Services	18	13	6	4
TOTAL	119	73	48	34

Source: Author's Computation

The table above shows that 73 out of 119 firms are exposed to translation risk, this value constitutes 61% of the sample size, while 40% of the firms are exposed to transaction risk. However 29%, that is 34 of the 119 firms are not exposed to any of the foreign exchange risk in the year 2017.

4.1.2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Roa	119	0.0122	0.1419	-0.844	0.3
TLRK	73	1366639	4488789	-1.12e+07	2.35e+07
Tranck	48	0.0793	0.5748169	-4.04	0.59

Source: SPSS 16

Author's Computation

From the result above, with a total observation of 119, the mean value of Return on Asset is 0.0122. The standard deviation shows that the rate at which individual data deviate from the mean is 0.1419 percent. The minimum and maximum numbers of Return on Asset are also given as -0.844 and 0.3 respectively. Translation Risk has 73 observations. Its mean value is 1366639.

The standard deviation of 4488789 is given. The minimum value and maximum value of -1228.229 is given. The transaction risk has a mean value of 0.0793, with a standard deviation of 0.57, with its minimum and maximum values as -4.04 and 0.59 respectively.

Multi-collinearity

Multi collinearity checks for the presence of correlation among the independent variables. This is an unwanted situation.

H₀: There do not exist multicollnearity

H₁: There exist multicollnearity

Decision Rule: Accept the null hypothesis of presence of multi collinearity among the dependent variables if mean VIF is greater than 5. If otherwise, do not accept the null hypothesis.

Table 4.1.3

Variance Inflation Factor

Variable	VIF	1/VIF
Tranck	1.01	0.9946

TLRK	1.01	0.9946
Mean VIF	1.01	

Conclusion: Since the Mean VIF is less than 5 (1 . 0 1), we do not accept the null hypothesis and conclude that there is no multi-collinearity among the independent variables.

Heteroskedastity

Heteroskedasticity is the absence of equal variance in the dependent variable. The variance of the dependent variables must be homoskedastic in nature.

H₀: There do not exist equal variance H₁: There exists equal variance

Decision Rule: We accept the null hypothesis if the Breusch-Pagan Chi-Square probability is greater than 0.05 at 5% level of significance. If otherwise, we do not accept the null hypothesis.

Table 4.1.4

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Chi2(l)	13.25
Prob>chi2	0.0000

Conclusion: Since the probability value of 0.0000 is less than 0.05. We do not accept the null hypothesis of constant variance. We therefore conclude that there is no constant variance, that is there is heteroscedasticity. To correct this, we will use the Robust test on Stata.

4.1.3 Correlation Analysis

The researcher carried out a correlation analysis to determine the extent or degree of relationship between the dependent variable (ROA) and the independent variables (Translation risk and Transaction risk).

According to Cohen (1998), the interpretation for r when it falls within certain range is given as;

0.1 - 0.3=Small/Weak Correlation

0.3 - 0.5 = Medium/Moderate Correlation

0.5 - 1 = Large/Strong Correlation

Where; r = Correlation co-efficient

Table 4.1.5

	ROA	TLRK	TSRK
ROA	1.0000		
	{1119}		
TLRK	-0.1307	1.0000	
	[0.2605]		

	{73}	{73}	
TSRK	-0.1022	0.0735	1.0000
	[0.0000]	[0.6048]	
	{48}	{48}	{48;

[] for probability values and { } for Number of observation.

From the table above, there exists a weak correlation between Return on Asset and Translation Risk. However, this is not statistically significant. There also exist a significant weak relationship between Return on Asset and Transaction Risk since the probability value of 0.0000 is less than 0.05 at 5% level of significance. There exist a very strong relationship between Translation Risk and Transaction Risk, but this is not statistically significant at 5% level of significance as the probability value of 0.6048 is greater than 0.05.

4.1.4 Regression Analysis

The regression analysis was carried out to determine if a relationship exist between Return on assets and translation risk, and relationship between Return on Asset and Transaction risk.

Table 4.1.6

Robust				
ROA	Coefficient	Std. Error	T	P> t
TLRK	-0.0004	0.0006	-2.3100	0.0250
TSRK	0.1508	0.0653	-2.3100	0.0250
Constant	0.0230	0.0159	1.45	0.1550

Source: SPSS 16

Author's computation

The t test checks for the individual significance of the variables. According to Gujarati (2007) for a variable to be termed significant, its absolute t value must be greater than 1.96 and its probability value of t must be less than 0.05 at 5% level of significance.

The analysis in table 4.1,6 above shows that a relationship exists between the dependent variables and independent variables.

4.1.5 Coefficient of Determinant (R²)

The R² of 35.58 shows that, about 35.58% of the dependent variable (Return on Asset) is explained by the dependent variables (Translation Risk and Transaction Risk). The goodness of the model is good even though it is not up to 505. This is because the data used in the model is cross-sectional.

4.1.6 FTest

The probability of 0.0105 is significant at 5% significant level. This shows that the independent variables jointly influence the dependent variable

4.2 Test of Hypotheses

Hypothesis 1

H₀: Translation risk has no effect on the return on assets of Nigeria quoted companies

Table 4.1.5 shows the correlation of Return on Asset (Dependent variable) and Translation Risk (Independent variable), the correlation analysis revealed the degree of relationship that exists between the two variables, from the table it is observed that an increase in Translation Risk will reduce Return on Asset by 0.0005 percent. This is statistically significant at 5% level of significance because the absolute t value of 2.31 is greater than 1.96 and the probability value of 0.025 is less than 0.05. This result conforms to a priori expectation. The reduction implies that, any action that increases translation risk will affect Return.

The correlation analysis revealed that correlation (r) between return on asset and translation risk is -0.1307. this implies that there is an existence of a negative relationship between return on asset and translation risk, that an increase in the independent variable (translation risk) will lead to a slight decrease in the dependent variable (Return on Asset), the value of r (-0.1307) falls between 0.1 - 0.3, the relationship is said to be weak.

Since the correlation analysis shows that a negative relationship between the Translation risk and Return on Asset, the null hypothesis 'Translation risk has no effect on the return on assets of Nigeria quoted companies' will be rejected, against the alternate hypothesis that 'Translation risk has an effect on the return on assets of Nigeria quoted companies.' This result conforms with the work of Gatobu (2013) who attests that translation risk affects firms profitability. However this is in contrast with the work of Njaaga (2013) who stated that financial performance is not affected by translation risk.

Hypothesis 2

H₀: Transaction risk has no effect on firms' return on assets of quoted firms in Nigeria

The correlation analysis in Table 4.1.5 shows the correlation of Return on Asset (Dependent variable) and Transaction Risk (Independent variable), the correlation analysis revealed the degree of relationship that exists between the two variables, from the regression analysis table it is observed that a unit increase in transaction risk will lead to a decrease on the Return on Asset of companies by 0.1508403 percent.. This is statistically significant at 5% level of significance because the absolute t value of 2.31 is greater than 1.96 and the probability value of 0.025 is less than 0.05. This result also conforms to a priori expectation. The reduction implies that, any action that increases translation risk will affect Return.

Transaction risk relates to exchange rate risk. When exchange rate falls after parties to a transaction must have entered into an international contract, an increase in exchange rate will be to the detriment of one party while the other party benefits. If the buyer is a domestic company, it benefits from the contract since it has to pay less to clear its debt in relation to foreign currency. On the other hand, if exchange rate increases and the value of domestic currency fall in relation to foreign currency, domestic company will suffer from asset depreciation and this will reduce return on asset.

The correlation analysis revealed that correlation (r) between return on asset and translation risk is -0.1022. this implies that there is an existence of a negative relationship between return

on asset and transaction risk, that an increase in the independent variable (translation risk) will lead to a slight decrease in the dependent variable (Return on Asset), the value of r (-0.1022) falls between 0.1 - 0.3, the relationship is also said to be weak.

Since the correlation analysis shows that a negative relationship between the Transaction risk and Return on Asset, the null hypothesis "Transaction risk has no effect on the return on assets of Nigeria quoted companies" will be rejected, thus accepting the alternate hypothesis that "Transaction risk has an effect on the return on assets of Nigeria quoted companies. This result conforms with the work of Gatobu (2013) who attests that translation risk affects firms profitability and the work of Parlak and Ilhan (201ft).

4.3 Results and Discussion of Findings

The study reveals that most firms are exposed to translation risk than transaction risk, with 34 firms not being exposed to foreign exchange risk with more of the firms from the financial services sector, although the sector has the highest number of firms. The translation risk had a mean value of 1,366,639 (in Nigerian Naira). mean return on asset showed a mean value of 0.0122, while the transaction risk showed a mean value of 0.00793.

In order to test for multi collinearity, that is a test to determine if there is a correlation between the independent variables, (translation risk and transaction risk), the Variance Inflation Factor was analysed, the transaction risk and translation risk both had a VIF value of 1.01, which by implication gave rise to a mean value VIF of 1.01. hence there was no multi collinearity between the independent variables.

The correlation analysis showed a weak inverse relationship between return on asset and translation risk, with a negative value at -0.1307, although not statistically significant since the probability value of 0.2605 is greater than 0.05. The correlation between return on asset and transaction risk has weak inverse relationship with a value of -0.1022 which is not also significant at 0.00. The implication of the correlation analysis is that an increase in either translation risk or transaction risk will reduce return on asset.

A relationship exist between return on asset and foreign exchange risk (translation and transaction risk) since the both have values 0.0250 which is less than 0.05 at 5% level of significance. The R2 with value 35.58% shows that both the dependent and independent variables perfectly fit.

FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

The study objective was to determine the effects of foreign exchange on financial performance of Nigeria quoted firms. This study explored the effects of transactional foreign exchange risk and translational foreign exchange risk on the financial performance of quoted firms in Nigeria for the year 2017.

In the course of the study it was observed that 63% of the firms are exposed to translation risk, while 40% of the firms are exposed to transaction risk. The study discovered that a relationship exist between the dependent variable and independent variables, the return on asset which was used as a proxy for financial performance had a significant relationship with both translation risk and transaction risk.

It is also observed that 34 out of the 119 companies observed (that is 29% of the sample under study) were not exposed to any of the foreign exchange risks in the year under review (2017). This was either as a result of their noninvolvement in international trade or use of some foreign exchange risk management technique.

The study through its analysis, made the following findings

- I. That translation risk has an inverse effect on financial performance of Nigerian quoted companies, the implication being that as translation risk increases the return on asset will slightly decrease since the correlation shows a weak one, and vice versa when translation risk decreases,
- II. That transaction risk also has an inverse effect on financial performance of Nigerian quoted companies, this implies that as transaction risk increases the return on asset will slightly decrease since the correlation shows a weak one, and vice versa when transaction risk decreases.

5.2 CONCLUSION

The study was on foreign exchange risk and financial performance of Nigeria quoted firms, the study after due analysis asserted that foreign exchange risks have a negative effect on financial performance. Conclusion was reached after breaking down foreign exchange risk into translation and transaction risk and using return on asset to measure financial performance, the variables were further analysed using regression and correlation analyses. The study therefore adds to the number of literatures on foreign exchange risk.

5.3 RECOMMENDATIONS

From the research findings, the study proposes the following recommendations to reduce both translation and transaction risk:

- i. In order to reduce translation risk, firms should adopt internal hedging techniques, the technique to be adopted should be economical.
- ii. Firms can reduce transaction foreign exchange risk by seeking means of continued education for those working in the firms through short term training that should be practically oriented, this should be with the help of professional organizations for finance specialists, bankers, accountants and consultants. Such training should not be done on site due to the need to meet participant from different firms and orientations for training to curb any form of internal interruption.

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