CORPORATE PERFORMANCE IN NIGERIA: INSIGHTS FROM ECONOMIC-SPECIFIC SHOCKS

Abstract

This study delved into the impact and contributions of macroeconomic factors to corporate performance, considering the contributions of three key market segments in the economy: international, money, and goods markets. The analysis was based on the SVAR/HD estimations,which investigate shocks based on theoretical restrictions andgenerateeach variable's contributions to corporate performance.The study's results underscored the vulnerability of Nigerian businesses to speculative markets, with the international market exerting the most significant influence on corporate performance, followed by the money market. Notably, the variables under consideration demonstrated varying relationships over different time periods. In the short-term, oil prices, government deficits, and inflation positively impacted corporate performance, but this effect reversed to negative in the medium to long term. Conversely, the exchange rate initially had a negative effect but showed a positive long-term impact. Surprisingly, the impact of money supply and economic growth on corporate performance was found to be negligible. The study further reveals that firm-level shocks are the primary drivers ofcorporate performance development. While this study provided valuable insights, it also underscores the potential for further research. Future studies should delve into the firm-specific and industry-specific factors that significantly impact corporate performance, thereby enhancing our understanding of this complex relationship.

Introduction

Evidence over the years has emphasised the direct and indirect effects of oil prices and exchange rates on the economy (Goyal and Kumar, 2018). Conceivably, similar conclusions have been made concerning business performance (Ulkuand Demirci, 2011; Adetunji et al., 2013;Mozumder et al.,2015; Yildirim andIvrendi, 2016; Liu andKlinkowska, 2017; Simakova, 2017; Sikarwar, 2018). Findings from an earlier study by Omoregie and Olofin (2019) emphasised similar conclusions. However, they suggested that oil prices and exchange ratesare undeserving of the popularity they accrued over the years on economic activity. They enunciated that economic-specific shocks regarding the characteristics and attributes of the economy, business space and policy framework account for most economic/performance fluctuations.

In concurrence, the going concern and improved performance of firmsdepend on some economic and environmental viability and some internally consistent strategies that drive performance (Athanasoglou et al.,2008; Bhattacharjee et al.,2009; Aviliani et al.,2015; Alomari and Azzam, 2017; AlarussiandAlhaderi, 2018; Nanda and Panda, 2018). Firms in recent timeshave operated in a rapidly and increasingly dynamic business environment with continual changes in the regulatory framework, international exposure, business climate and customer taste that increase management complexity and uncertainty (Goddard et al.,2004; Khanna and Sharma, 2018).

Economic-specific factors are consequently dichotomisedinto micro-macro factors (Atanda et al.,2015; AlarussiandAlhaderi, 2018; Banerjee and Majumdar, 2018; EgbunikeandOkerekeoti, 2018; Nanda and Panda, 2018). Macroeconomic factors could refer to the general economic and financial space that incentivisescorporate performance, including real-GDP growth, inflation, interest rate, exchange rate, treasury bill rate, and money supply.

Meanwhile, microeconomic factors are firms' characteristics and deliberate choices that drive corporate performance,including corporate financial policy, corporate governance, industry, market share, etc.

Unlike microeconomic factors, macroeconomic factors areexogenous to corporate management – not within the purview of business managers. The implicationsfor corporate performance range from positive to negative, which apply similarly to businesses in the economy.Their ability to take advantage of favourable macroeconomic conditions and hedge against unfavourable ones depends on internal microeconomic factors (Higson et al.,2004; Aviliani et al., 2015; EgbunikeandOkerekeoti, 2018). Conducive macroeconomic space enhances corporate performance. However, conduciveness is relative as it depends on how the firm/industry perceivesthe macroeconomic space (Kyereboah-Coleman andAgyire-Tettey, 2008).

In order to effectively respondto changes in exogenous macroeconomic factors, a proper understanding of the nature of theirrelationship and their influences on corporate performance is important to achieve corporate goals and strategies.Therefore, this study seeks to identify some of these economic-specific factors as they contribute to changes in corporate performancefollowing the Arbitrage Pricing Theory (APT) approach. This study also classified macroeconomic factorsbased on international-money-goods market segmentations.Sequel to the fact that financial performance translates to share price movement (firm value), corporate performance is proxied by the stock index. Findings from this study will educate managers, investors and policymakers on hedging choices thatimprove corporate performance and identify the major market activity that affects corporate performance.

The remainder of this study is such that Sections Two, Three, Four,Five and Six present the literature review, methodology, empirical analysis, discussion and implication, and conclusions, respectively.

1. Literature Review

The extant literature has taken different dimensions to study economic-specific shocks, especially at the macroeconomic level. Some studies have focused on corporate performance indicators such as profitability, firm value, business exit and corporate failure. Others considered are share price, stock index and market capitalisation, which are discussed going forward.

In a study of macroeconomic uncertainties, Baum et al. (2010) found evidenceemphasising the importance of macroeconomicuncertainties on financial policy as external factors that influence financing decision-making and as interaction with corporate governance. The effect, however, varies across firms according to them.Montes and Bastos(2013)on macroeconomic policy,business confidence and industrial production in Brazilfoundthat monetary and fiscal policies alongside monetary regimes affect entrepreneurs' expectations for performance.Regarding regulation and infrastructure, Khanna and Sharma (2018) found that total factor productivity is sensitive to public service delivery and socioeconomic and financial infrastructural facilities. However, no evidence to support the effect of law and regulatory institutions. These findings are rather too focused on firm decision-making and the business environment.

Beyond just decision-making, earlier evidence from Demirguc-Kunt and Huizinga (1999) showed that inflation and interest rates have positive relationships with profitability and interest margins. This suggests that bank profitability increases more than the associated cost of inflation

and interest rates. Also, the bank-concentration ratio andmarket capitalisation-GDP ratio positively affect interest margins and profitability. However, corporate income tax, official reserves rate, financial structure and institutional factors were revealed to be detrimental to interest margins and profitability. The findings from this study might be contestable depending on specifics relating to the methods, the country of study and corporate responses, butit does confirm the impact of macroeconomic shocks on the performance of firms.

In corroboration,Tan and Floros (2012) and Athanasoglou et al. (2008) revealed that the business cycle and inflation influenced the banking sector's profitability. However, they observed an asymmetry in how output growth affects bank profitability; they are positively related only when output growth is above the trend.Similarly, Aviliani et al. (2015),in a VEC framework on bank performance, revealed that the production index appears to have the highest correlation with bank performance in Indonesia while the exchange rate has the lowest. Return on asset responds the most to macroeconomic shocks.

Bassey et al. (2015),in congruence with Kelilume (2016),reported that the exchange rate has a negative impact on quoted agro-based firms, while energy consumption per capita, installed capacity utilisation rate, and total commercial bank credit to small-scale industries impact their performance positively. Nanda and Panda (2018) reported that the nominal exchange rate better explains profitability and emphasisesthe difference in the effect of nominal and real exchange rates.Sikarwar (2018) showed that, particularly after the Global Financial Crisis,the exchange rate contributes immensely to firms' risk.

It was found by Banerjee and Majumdar (2018) that GDP, among others, affects the profitability of insurance companies in the UAE. However, findings from Gatsi and Gadzo

(2013) emphasisedthe inflation rate as the major macroeconomic variable that modulates financial performance in Ghana as against GDP and exchange rate. Similarly, Simbolon and Purwanto (2018) demonstrated using composite analysis that exchange rate, interest rate and inflation influence stock performance.

Using economic value-added, Atanda et al. (2015) revealed that capital-expenditure ratio and inflation negatively affect firm value-added while exchange rate, interest rate, and labour market positively affect firm value-added. Abushammala and Sulaiman (2014) also demonstrated that GDP, credit spread, and government budget deficit positively influence corporate cash holdings. However, Egbunikeand Okerekeoti (2018) on Nigerian listed manufacturing firmsfound interest rate and exchange rate insignificant to ROA,but GDP and inflation are significant.

Evidence from Audretsch and Acs (1994) also emphasisedthat macroeconomic fluctuations influence similar findings on start-ups as they are positively motivated by macroeconomic growth.Start-ups are most incentivised by high unemployment and low capital costs. Bhattacharjee et al. (2009) on firm exit demonstrated that stability in the exchange rate, inflation and long-term interest rate could motivate business exit, and the manner of effect varies. There are more acquisitions in a boom and bankruptcies in a downturn, and bankruptcy is prone among newly listed firms in adverse economic instability.Similarly, Everett and Watson (1998) reported that macroeconomic factors account for 30%-40% of small business failures. Relative to bankruptcy and discontinuance of ownership, interest and unemployment rates were positively related to business failure – their increase is associated with increasing business failure.

Likewise, Goudie and Meeks (1991) revealed that the contributions of exchange rates to corporate failure are substantial, and the effect is asymmetric and non-linear. The relationship can be positive or negative and have a differing effect.Liu (2004),in short-run and long-run analysis,found interest rate to be the most important factor contributing to corporate failure alongside the availability of credit, profitability and product prices. Considering structural changes, Liu (2009) emphasised that the influence of macroeconomic variables differs inthe shortand long run.

Kyereboah-Coleman and Agyire-Tettey (2008) on Ghana showed that lending rates of deposit money banks have an adverse effect on stock performance and business growth. However, with lagged behaviour, inflation has a negative effect,and the exchange rate positively influences stock performance as investors benefit from currency depreciation. Ibrahim and Aziz (2003) reported significant short-run and long-run relationships between macroeconomic variables and the stock index in Malaysia. Accordingly, industrial production and inflation influence stock performance positively, while exchange rate and money supply influence it negatively. This contradicts the findings of Mozumder et al. (2015), who found that stock returns are positively related to the exchange rate. Similarly, Aurangzeb (2012) showed in the South Asian context that foreign direct investment and exchange rates positively influence stock performance while interest rate has a negative effect. Panetta (2002) contrarily submitted that the relationship between macroeconomic variables and stock returns of Milan Stock Exchange-listed companies is unstable. Gurloveleenand Bhatia (2015) reported inefficiency in the Indian Stock Exchange as they found a weak relationship between macroeconomic variables and the stock index.

Further evidence from Gathogo (2017) on market capitalisation suggested that the exchange rate positively influences the real sector's market capitalisation and negatively affects the finance/investment and commercial/service sectors. Inflation was reported to have a positive effect on investment, while the real sector, alongside commercial services and others,is affected negatively.The interest rate was also revealed to affect agricultural and commercial sector capitalisation and investment negatively.

Beyond macroeconomic factors, studies have also given particular attention to microeconomic factors that are industry or firm-specific in nature that could impact performance (Dunne andHughes, 1994; Athanasoglou et al., 2008; Bhattacharjee et al., 2009; Gatsi andGadzo, 2013; Alomari and Azzam, 2017; AlarussiandAlhaderi, 2018; Banerjee and Majumdar, 2018; EgbunikeandOkerekeoti, 2018; Nanda and Panda, 2018; Ohman andYazdanfar, 2018). Despite the divergence in views in the literature regarding the kind of relationship that exists as regards the subject matter, it is evident that corporate performance is responsive to changes in macroeconomic indicators. However, studies on this phenomenonhad limitations in their attempt to explain the direction of the relationship.

Extant literature hasnot been able to pay attention to which of the variables takes priority over the other and what the contributions of each of these variables are to corporate performance, especially in Nigeria. This study categorises macroeconomic factors based on the international-money-goods markets to fill this gap. Therefore, contributions from each market and a priority market for risk hedging can be identified. This study quite appreciates that microeconomic factors contribute to changes in performance.

2. Methodology

3.1 Theoretical Framework

Arbitrage Pricing Theory

As proposed by Sharpe (1964) and Lintner (1969), the Capital Asset Pricing Model (CAPM) expresses the expected return on an investment outlay as a function of the rate of returns on risk-free investment and risk premium for market speculations. More like advancement andalternative, the Arbitrage Pricing Theory (APT) proposed by Ross (1976) rests on the assumption of one market price as no two identical assets command different prices. Otherwise, investors will take advantage of arbitrage,eliminatingprice differences. In essence, returns should be similar. It proposes that actual return on investment (a reflection of corporate performance)is an unrestricted *N*-factor linear function of different factors that can influence it (Sun and Zhang, 2001; Dhankarand Singh, 2005). Therefore, return on investment is derived by a number of *N*-variables as expressed below;

$$R_i = E(R_i) + \beta_{1i} X_1 + \beta_{2i} X_2 + ... + \beta_{Ni} X_N + \mu_i \quad (1)$$

where R_i is the actual return on investment, X_n denotes the *N*-factors capable of influencing return, $E(R_i)$ represents the expected return at zero changes in the value of X_N, and β_{Ni} represents the rate of responsiveness of return on investment to each factor or risk premiums associated with each factor.A positive (negative) value of $E(R_i)$ shows that the return on investment is greater (lesser) than the expected market return. The risk premium,as represented by β_i is the responsiveness of returns to each factor. A β_i value greater (lesser) than unit shows that the expected return risk associated with each factor on an investment is more (less) than the

expected market return risk.Therefore, Equation 1 is further re-expressed in equilibrium expected return for regression analysis as

$$E\left(R_i\right) = \delta_0 + \beta_{1i}\delta_1 + \beta_{2i}\delta_2 + \ldots + \beta_{Ni}\delta_N + \varepsilon_i \quad (2)$$

In the interest of this study, the APT model is adopted to provide some guidance concerning corporate performance. The theoretical relaxation of conditionsAPT providesmakes it more appealing (Dhankarand Singh, 2005). Estimations of APT in the literature have been based on three different factor models:macroeconomic, fundamental, and statistical (Sun and Zhang, 2001).This study investigates the influence of economic-specific shocks on corporate performance, focusing on macroeconomic variables as causes of risk and uncertainty to corporate performance, which calls for adoptinga macroeconomic model. Consequently, the econometric model specific to this study is expressed as follows:

$$LCCP_t = \delta_0 + \beta_1 LOPR_t + \beta_2 LEXR_t + \beta_3 MPR_t + \beta_4 LMS_t + \beta_5 GDF_t + \beta_6 LCPI_t + \beta_7 EGT_t + \varepsilon_i (3)$$

3.2. Data Properties

The data series used in this study spans January 1995 to December 2022, covering the period of independent monetary policy,oil price volatility cycles, and recentmacroeconomic fluctuations.The macroeconomic variables considered include Oil Price (*OPR*) and Exchange Rate (*EXR*) to reflect the international market. Also, monetary policy rate (*MPR*) and aggregate money supply (*MS*) capture the money market while Government Deficit (*GDF*), Inflation (*CPI*) and Economic Growth (*EGT*) mirror the goods market. Nigerian Bonny Lightand Nigerian Stock Exchange Index, respectively, proxy oil price and corporate performance (CPP). Data were sourced from the Central Bank of Nigeria database. Oil price, exchange rate, money supply,

consumer price index and corporate performance are adopted in their logged form, while others are in their natural form.

Table 1 presents the Augmented-Dickey-Fuller(ADF) and Phillip-Perron (PP) unit-root tests to establish the order of integration of the variables. Itreveals that all the variables are not stationary at levels but at the first difference*I*(1), except economic growth*I*(0). Given the mixed order of integration among the variables, the Autoregressive Distributed Lag (ARDL) Bound cointegration test is adopted. As presented in Table 2, it is revealed that there is no cointegration among the variables, given that the *F*-statistic falls below the *I*(0) critical bound.

Table 1: Unit Root Tests

	Levels		1st Difference		
	ADF	PP	ADF	PP	Decision @ 5%
LOPR (C)	-2.1019	-1.8944	-13.374***	-14.942***	
LOPR(C/T)	-2.6858	-2.4074	-13.361***	-14.916***	*I*(1)
LEXR (C)	-1.5300	-1.5333	-17.739***	-17.740***	
LEXR (C/T)	-2.1185	-2.1989	-17.735***	-17.735***	*I*(1)
MPR (C)	-1.7916	-2.0510	-18.059***	-18.120***	
MPR (C/T)	-1.7021	-1.9984	-18.048***	-18.108***	*I*(1)
LMS (C)	-1.6549	-1.8979	-23.264***	-23.528***	
LMS (C/T)	-0.8572	-0.8383	-23.360***	-23.881***	*I*(1)
GDF (C)	-2.0729	-2.1105	-18.246***	-18.246***	
GDF (C/T)	-2.1183	-2.4924	-18.218***	-18.218***	*I*(1)
LCPI (C)	-0.6078	-0.9328	-12.702***	-12.613***	
LCPI (C/T)	-4.4837***	-4.8071***	-12.687***	-12.602***	*I*(0)
EGT (C)	-2.6523*	-2.7272*	-18.223***	-18.223***	
EGT (C/T)	-2.9215	-2.9910	-18.215***	-18.215***	*I*(1)
LCPP (C)	-2.5909*	-2.5751*	-14.975***	-15.561***	
LCPP (C/T)	-2.6051	-2.7626	-15.051***	-15.611***	*I*(1)

Note: ADF/PP, critical values with intercept, are -3.46(1%), -2.88(5%) and -2.57(10%); ADF/PP at levels Critical values with trend and intercept are -4.00 (1%), -3.43 (5%) and -3.14 (10%) at first difference.
Source: Authors' Computation

Table 2: Cointegration Test

ARDL Bound Test					
F-statistic (K=7)	1.3387	10%	5%	2.50%	1%
I(0) Bound		2.03	2.32	2.6	2.96

I(1) Bound	3.13	3.5	3.84	4.26

Source: Authors' Computation

3.3. Empirical Methodology

3.3.1. Structural Vector Autoregressive (SVAR) Model

The SVAR model becomes an appropriate approach for this study given the mixed order of integration and absence of long-run cointegration among the variables. This is sequel to the fact that the SVAR estimation is based on non-linear theoretical restrictions and result interpretations are based on structural impulse response without parameter estimates (Sims, 1980; Sims et al., 1990). The SVAR was developed as an alternative to the conventional VAR following criticism of the lack of theoretical economic ground. The SVAR establishes the effect of policy/macroeconomic changes and estimates partially overlappingrelationships among macroeconomic variables (Sims, 1986). The SVAR is estimated such that the restrictions on the VAR reflect established theoretical, intuitive and institutionally expected relationships among macroeconomic variables. The conventionalVAR is thus transformed as

$$A\Pi(L)y_t = A\varepsilon_t, \quad A\varepsilon_t = Be_t, \quad A\Omega A' = BB' \\ E(e_t) = 0 \quad E(e_t\, e_t') = I_M \quad E(\varepsilon_t\, \varepsilon_t') = \Omega \tag{4}$$

For orthogonality, it is required that the elements of matrix-*A* and matrix-*B* are such that $a_A + b_B \geq 2M^2 - M(M+1)/2$. As such, there should be $M(M+1)/2$ non-linear restrictions,and $2M^2 - M(M+1)/2$ othersshould be generated. Equation 5 presents the theoretical identifications as the *A*-matrix identifies the relationships among the endogenous variables, and the *B*-matrix identifies orthonormal shocks in the model.

Chart 1.

$$\begin{pmatrix} 1 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ a_{21} & 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ a_{31} & a_{32} & 1 & 0 & 0 & 0 & 0 & 0 \\ a_{41} & a_{42} & a_{43} & 1 & 0 & 0 & 0 & 0 \\ a_{51} & a_{52} & a_{53} & a_{54} & 1 & 0 & 0 & 0 \\ a_{61} & a_{62} & a_{63} & a_{64} & a_{65} & 1 & 0 & 0 \\ a_{71} & a_{72} & a_{73} & a_{74} & a_{75} & a_{76} & 1 & 0 \\ a_{81} & a_{82} & a_{83} & a_{84} & a_{85} & a_{86} & a_{87} & 1 \end{pmatrix} \begin{pmatrix} \varepsilon^{OPR} \\ \varepsilon^{EXR} \\ \varepsilon^{MPR} \\ \varepsilon^{MS} \\ \varepsilon^{GDF} \\ \varepsilon^{CPI} \\ \varepsilon^{EGT} \\ \varepsilon^{CPP} \end{pmatrix} = \begin{pmatrix} b_{11} & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & b_{22} & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & b_{33} & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & b_{44} & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & b_{55} & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & b_{66} & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & b_{77} & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & b_{88} \end{pmatrix} \begin{pmatrix} e^{OPS} \\ e^{EXS} \\ e^{MPS} \\ e^{MSS} \\ e^{GDS} \\ e^{IFS} \\ e^{EGS} \\ e^{CPS} \end{pmatrix} \quad (5)$$

As presented in Equation 5, the restrictions are imposed such that corporate performance, as the dependent variable of interest, is naturally expected to be influenced by the other variables in the system. At the same time, the international market runs to the money and goods markets. The money market receives impulses fromthe international market and can equally run to the goods market and corporate performance. The goods market also receives impulses from the international and money markets and runs to corporate performance.

3.3.2. Historical Decomposition

The Historical Decomposition follows a counterfactual simulation method that generates uncorrelated structural shocks. It involves regenerating the actual data splitting into the contributions of each of the variables in the system alongside the base project (trend). As such, based on the structural relationship imposed, the historical decomposition is used to generate the contributions of each variable in the SVAR system to corporate performance over time.

Estimation of the historical decomposition is expressed as

$$Y_{T+j} = \sum_{s=0}^{j-1} \Psi_s \varepsilon_{T+j-s} + \left[\gamma X_{T+j} + \sum_{s=j}^{\infty} \Psi_s \varepsilon_{T+j-s} \right] \quad (3)$$

where$\sum_{s=0}^{J-1} \Psi_s \, \varepsilon_{T+j-s}$is the deviations based on the trend of Y_{T+j}overtime, $[\gamma X_{T+j} + \sum_{s=j}^{\infty} \Psi_s \varepsilon_{T+j-s}]$is the deviations in Y_{T+j}resulting from movements in the system's variables (see Sims, 1980;Doan, 2010).

4. Empirical Analysis

Analysis of the relationships is based on the impulseresponse, variancedecompositionand historical decomposition. Figure 1 presents the impulseresponse based on structural one standard deviation innovation ± 2 standard error.Findings on the international marketas captured by oil price and exchange rate are congruent with Omoregie and Olofin (2019).Oilprice shocks haveashort-run positive impact on corporate performance; however, the impact reverses to negative in the medium to long run.This reemphasises how transient the impact of an oil price boom could be on business performance as it has an immediate positive impacton businesses, turning adverse over the medium to long run.

Likewise, exchange rate shocks instantaneously motivate a negative impacton corporate performance; however, they reverse to a positive impact within the first four months, which is sustained over the medium to long run. This reiterates the flow-oriented approach, which suggests exchange rate shocks will have a depressing effect on businesses in the short run but will yield overall positive outcomes forcorporate performance. The finding herein projects the reality of businesses in Nigeria, especially in the manufacturing sector, that depend on imports

for raw and intermediate inputs. As such,an exchange rate increase will immediately restrain business performance; theimproved access and subsequent corporate adjustment will motivate a reversal in impact and yield positive outcomes in the long run.

The impulse response analysis reveals that monetary policy shocks negatively influencecorporate performance, suggesting increasing interest rates is inimical for business performance in Nigeria. Money supply shocks, however, have a nearly inconsequential impact on corporate performance. This implies that money growth does not have much influence on businesses. Governmentdeficit shocks, as well as inflationary shocks, impactpositively on corporate performance in the short run,which reverses over the long run. Contrary to theoretical thinking, economic growth negatively influencescorporate performance.Meanwhile, corporate performance sustained a positive influence on self-shocks.

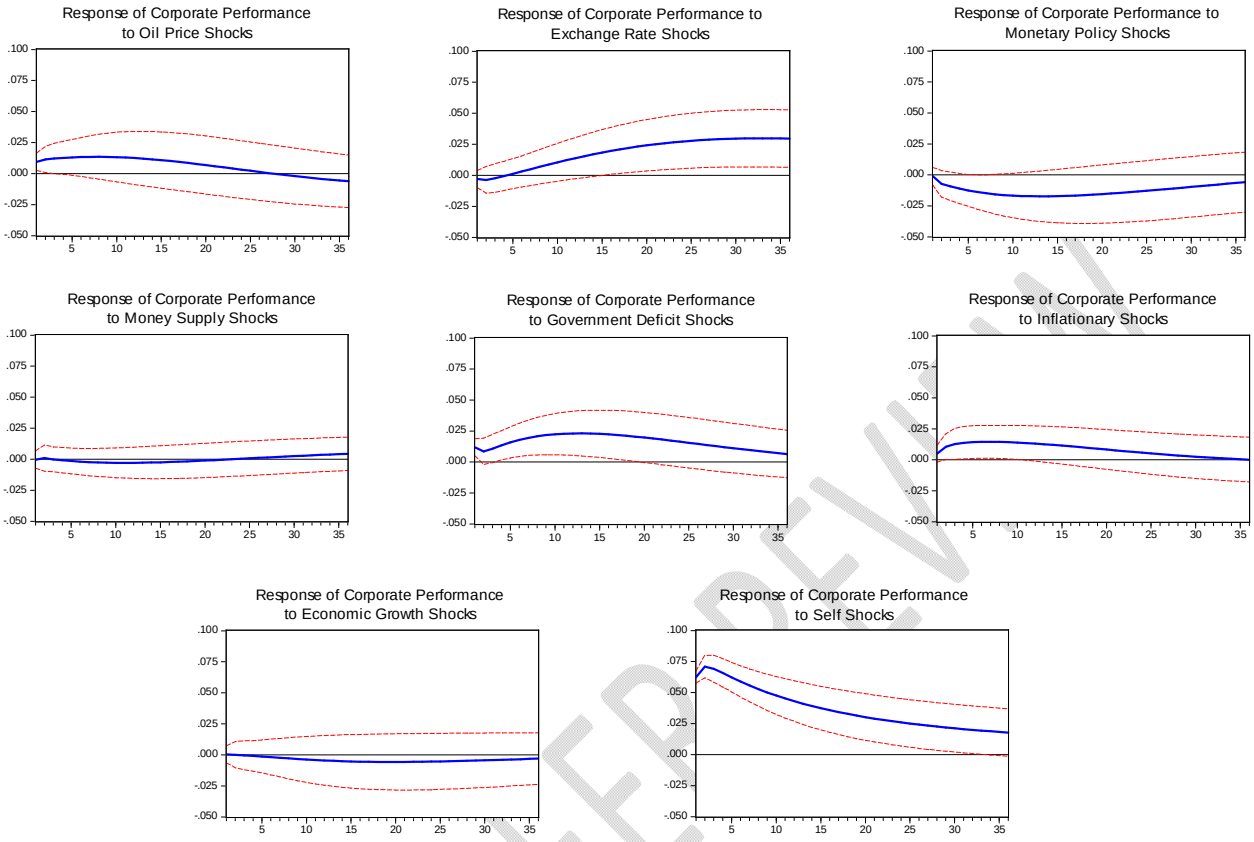

Figure 1: Corporate Performance Response to Structural One S.D. Innovations ± 2 S.E

Figure 2 presents panels that graphically displaythe historical decomposition and variance decomposition of corporate performance in Nigeria. The first panel presents the actual trend of corporate performance (in logged form) and the base projection of corporate performance. The deviations in the actual trend of corporate performance from the base projection are attributable to macroeconomic shocks, as indicated in the model of this study. The predominance of adverse shocks from the macroeconomic indicators pressures corporate performance below the base projection, while positive shocks pressure corporate performance above the base projection.

The second panel showsthe historical decomposition of corporate performance, while the third panel presents the structural variance decomposition of corporate performance. Evidence from thesepanelsshowsthat the characteristics of corporate performance (firm-specific characteristicsof businesses that make up the economy) contribute the most to changes in corporate performance. Across the various points of deviations of corporate finance from base projection (see the second panel), corporate performance shocks have been the major contributors to changes in corporate performance. Likewise, the variance decomposition (see the third panel) over the study period reveals that corporate performance contributes an average of 55.37% to changes in itself.

In a bit of departure from Omoregie and Olofin (2019), which abrogated more impact on oil price than the exchange rate, exchangerate shocks have the most impact on corporate performanceof all the variables and across all the dimensions of this study. However, the contribution of oil price shocks is significantly lower.Apart from 1997-2000, when exchange rate shocks contributed negatively to corporate performance, they contributed positively to corporate performance over the years. Besides, the variance decomposition analysis reveals that exchange rate shocks contribute an average of 27.63% to changes in corporate performance over the years. Meanwhile, the contribution of oil prices to changes in corporate performance stood at an average of 4.37% over the study period. Positive oil price contributions to corporate performancewere noticeable in 2005-2009. Meanwhile, negative oil price contributions were observable from 1997-1999 and 2015 through 2017. Nonetheless, the contributions of oil prices to corporate performance trail periods of sharp movements in oil prices.

Another important variable that contributes to changes in corporate performance after the exchange rate is the monetary policy rate. Likewise, its negative or otherwise contributions trail

its ups and downs in monetary policy rate (MPR). It motivated declines in corporate performance in 1996/1997, 1999, 2001-2003, 2011/2012, and 2021/2022, which were associated with rate hikes. It, however, contributed positively to corporate performance in 2006-2008 and was associated with the decline in policy rate from 14% in 2006 to 6% in 2009. Based on the variance decomposition, the contribution of money supply to corporate performance is meagre,averaging 2.26%. The contributions of money supply to changes in corporateperformance are noticeable in 1999, 2004/2005 and 2009/2010.Government deficits contribute negatively on most occasions (1998-2001, 2003-2005 and 2016-2018) to corporate performance as they mean an increase in bond market yields and sometimes reflect the level of uncertainty in the country. Nevertheless, it contributed positively in 1997 and 2009-2011. Meanwhile, inflation and economic growth marginally contribute to corporate performance. By implication, goods market indicators contribute the least to corporate performance.

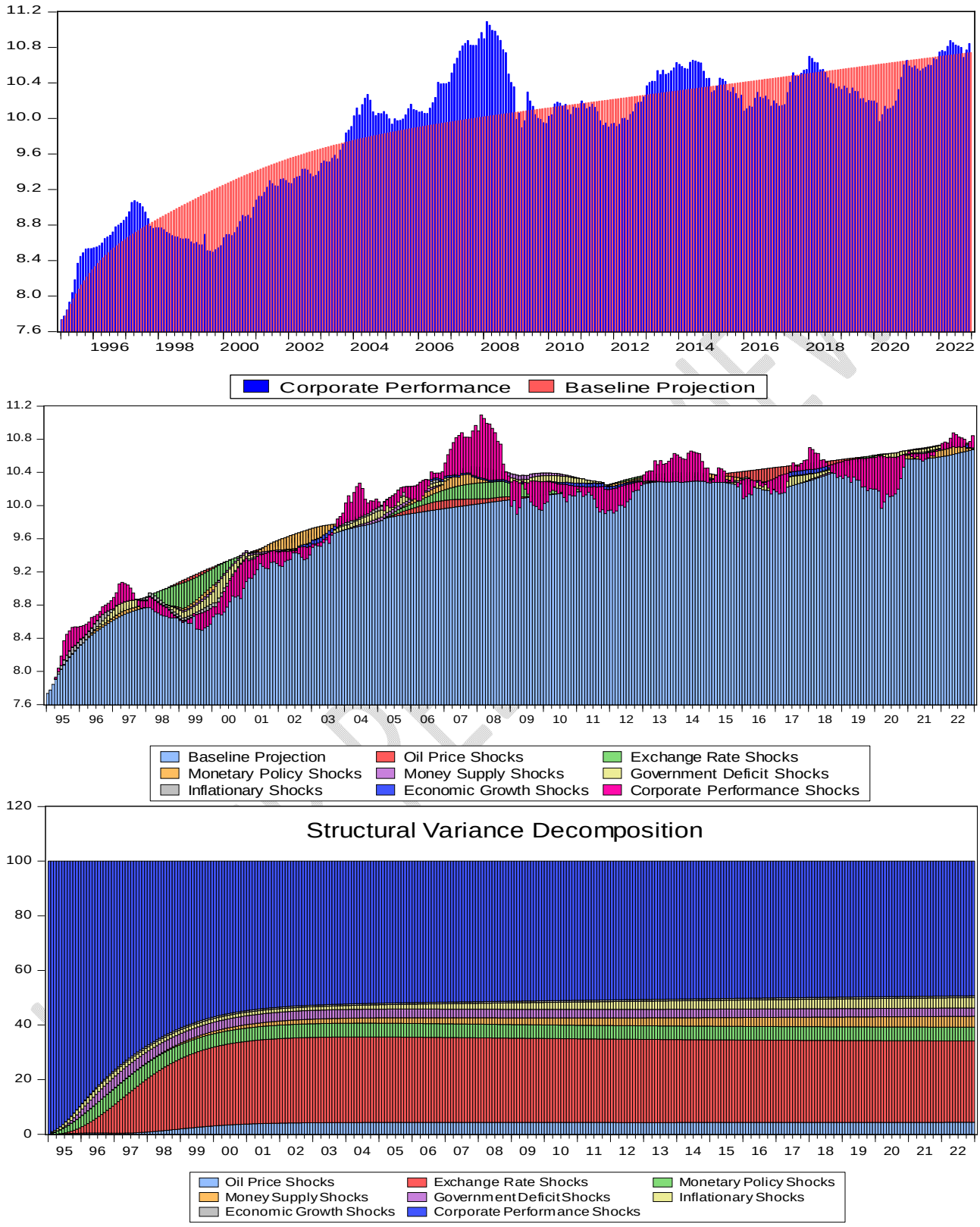

Figure 2: Stack Graph of the Historical and Variance Decompositions

5. Discussion and Implication

Contrary to expectation, guidance from the analysis emphasisedthat the international market and the money market indicators predominantly influence corporate performance more than the goods market.This study emphasises the short-run positive impact of oil prices. However, it also has much lower contributions to corporate performance as more indicators and dimensions are captured in the study.However, managers need to be cautious as oil price increases come with a short-run positive spike in corporate performance.Inadequatehedging against associated risk can make businesses suffer value loss/erosion when the short-run positive impact is diluting, especially with positive changes. The exchange rate, contrarily, hasa short-run negative and long-run positive influence, with much higher contributions to corporate performance than the oil price. By implication, given that Nigeria has a high import dependence rate, in the short-run, exchange rate deprecation will lead to declining corporate performance as a rising exchange rate leads to increased cost of production and commodity. However, in the longrun, the illiquidity created by an excess demand for FOREX would be cleared, and corporate performance would improve.Also,exchange rate appreciation will lead to a short-run reduction in imported input bills, but associated long-run illiquidity will stiffen corporate performance. Then again, byintroducing more dimensions and indicators to the model of corporate performance, the analysis amplifies the importance of exchange rates on corporate performance. Therefore, managers should hedge as appropriate to mitigate exchange rate risk.

Findings on monetary policy arequite intuitive and theoretical in terms of the relationship; increasing the policy rate has a deteriorating effect on corporate performance, while decreasing the policy rate has an improvement potential for corporate performance. This is evident in its contributions to changes in corporateperformance as it also moves in similar

trajectories with changes in the policy rate.However, this study significantly downplays the importance of money supply to corporate performance. Therefore, managers should hedge appropriately against interest rate risk, especially in their financial policy and firm value.

Against the crowding-out effect of government deficit on private investment, it has a short-term positive effect on corporate performance with medium to long-runnegative influence. This suggests that the government,in an attempt to spend more than its revenue, influencescorporate performance positively and in pursuance of fiscal surplus, corporate performance declines. However, a prolonged fiscal deficit will crowd out capital for private businesses, drive up interest rates and operating costs, and inhibit corporate performance. A short-run positive impact is reported for inflation in the short-run,which turns negative in the medium to long run. This suggests that firms can enjoy immediate benefits from increased output prices. Given the structural nature of the drivers of inflation in Nigeria, especially from the supply side, the driver of inflation permeates into the operating costs and suppresses corporate performance.This could also be traced to the realrate of returns pass-through, whereby as inflation increases,the real rate of returns falls.However, the findings on economic growthare against logic as they negatively influencecorporate performance. This could have resulted from the data structure because it was converted from annual data to monthly and smoothened. Nevertheless,it could indicateimmiserisinggrowth or imperfect linkage between the capital and goods markets. Therefore, managers should not be too carried away by the growing economy but focus on implementing strategies and hedging policies to ensure improved corporate performance.

In a nutshell, this study has shown how important the international market could be for corporate performance, as its indicators (oil price and exchange rate) account for about 31.3% of

the changesincorporate performance. On the other hand, the money market contributed about 7.2% to changes in corporate performance. Meanwhile, the contributions of the goods market stand at 6.12%. Managers should, therefore, pay attention to movement in international and money market indicators without neglecting the goods market.

In furtherance, this study has revealed that beyond the macroeconomic factors that could affect the performance of businesses, the firm-level characteristics, the corporate structures and strategies, corporate responses and hedging to macroeconomic outcomes that are internal to firms have far more reaching impact on corporate performance. This is reflected by the over 55% contributions of corporate performance shocks. These factors can then be referred to as firm-specific factors constituting firm-specific shocks to corporate performance. These firm-specific factors may be reactive responses to exogenous pressures and proactive and deliberate choices about opportunities to pursue, industry choices, strategies to adopt, responses to competitors, consumers, operations, financing decisions, etc.

Consequently, managers should seek to understand the specific potential impact of exogenous economic-specific shocks on their businesses and respond more proactively to hedge the adverse impacts while taking advantage of the positives. They, however, need to worry less about these largely uncontrollable exogenous pressures while improving their capacities to improve the quality of strategic business choices and consequential operational and financial decisions. Policy choices should be more proactive rather than reactive, should be based on extensive analysis of the objectives, impact assessment and execution imperatives, and should involve extensive expert consultation and stakeholder engagement. Future research should be positioned to investigate and dimension the internal factors that most impact corporate performance. Besides, it is important for further research on the interactionsbetween exchange

rates and other macroeconomic indicators as it assumes more responsibility in determining corporate performance as more variables are considered.

6. Conclusion

Following Omoregie and Olofin (2019), this study investigated the effect of some macroeconomic factors on corporateperformance. Therefore,it argued for three macroeconomic factor categories: international, money and goods markets indicators. The analysis was based on the Structural Vector Autoregressive/Historical Decomposition estimations. The findings accentuated how much the various markets contributed to marketperformance. It was revealed thatthe international market contributes the most, followed by the money market. This reflects the susceptibility of Nigerian businesses to speculative risks that characterise indicators such as oil price, exchange rate, and interest rate.

It was revealed that oil price has a short-runpositive influence on corporate performance, and its contributions to corporate performance trail the oscillatory nature of oil price.The exchangerate, however, has a transient negative impact on corporate performance and a long-run positive impact with the most substantial contributions. Therefore,the major international contributor is movements in exchange rates. In the money market, the monetary policy rate negatively influencescorporate performance, with its contributions also directly trailing movements in the policy rate. However, the money supply has a negligibleimpact on corporate performance, with its contributions also trailing money growth. The goods market contributed the lowest to corporate performance, with major input from the government deficit. Government deficit positively influencescorporate performance, though with a negative medium to long-run effect. Inflation also positively influences corporate performance in the short run and negatively

in the long run. Nevertheless,economic growth rate has a negative influence on performance. Decision-makers are, therefore, admonished to hedge strategically in view of the findings of this study. Future studies should investigate the company and industry-specific factors.

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