
Impact of Exchange Rate Movements on Gross Profit Margin of Listed Companies in Nigeria

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Abstract

The interplay between exchange rates and firm performance is complex, with the exchange rate movements impacting company's gross profit margins. In developing economies, exchange rate policies are often contentious, requiring structural adjustments that may entail devaluation of the exchange rate. This study examines the Impact of Exchange Rate on Gross Profit Margin (GPM) of Listed Companies in Nigeria. The study examined the connection between exchange rate movement and profit margin using two appropriate data sets. The eight-year (2016–2023) Central Bank of Nigeria bulletin, which covers 32 quarters, and the quarterly financial reports of the firms selected on the Nigerian Exchange (NGX) between the 2016–2023 financial year were used. Four (4) Nigerian Exchange (NGX) sectors were used in the study. The study found out that Exchange Rate Movements have significant impact on Gross Profit Margin of listed companies in Nigeria. The findings reveal a significant negative relationship between exchange rate movements and gross profit margin, have a profound impact on the profitability of listed companies in Nigeria. The study's outcome suggests that a unit change in exchange rate movements lead to a corresponding change in gross profit margin, highlighting the importance of exchange rate movements in influencing profitability. Additionally, investors should consider exchange rate movements when making investment decisions in the Nigerian market.

Keywords: Exchange Rate Movements, Gross Profit Margin, Nigerian Exchange

1. Introduction

In an overall financial standpoint, investors and financial experts are acutely focused on the profitability of companies they invest in. Finance literature widely acknowledges that robust profitability not only maximizes shareholder returns but also serves as a fundamental driver of national economic growth and development, (Eyob, 2019). The company's profitability drives competitiveness, generates employment, increase the living standards and contributing to a significant rise in Gross Domestic Product (GDP), (Abdulkarim et al., 2020).

Profitability acts as a vital measurement of a company's general financial health and standing. It reflects on the efficiency of the company utilizes its resources to generate returns for stakeholders. Numerous metrics contribute to this assessment, including Return on Operating Cash Flow (ROCF), Return on Assets (ROA), Return on Equity (ROE), Earnings Per-share (EPS), Return on Capital Employed (ROCE) and Net Income (NI), Gross Profit Margin (GPM), Operating Profit (OP) and Return on Investment (ROI) (Abdulkarim et al., 2020; Musah et al., 2019).

The Gross Profit Margin (GPM) of Nigerian listed companies reflects their ability to generate profit from their core company's activities (Azeez, et. al., 2019). Nigerian companies across various sectors exhibit varying gross profit margins. Sectors like banking and finance often show higher margins due to their service-oriented nature and economic scale. In contrast, sectors such as manufacturing may have lower margins due to higher operational costs and competition (Abdulkarim et al., 2020).

Several factors influence Gross Profit Margins in Nigeria, including operational efficiency, input costs (such as raw materials and labour), pricing strategies, and overall economic conditions. Government policies, currency fluctuations, and global market dynamics also play significant roles in shaping these margins. Analysing gross profit margins helps investors assess a company's profitability before accounting for operating expenses, providing insights into its financial health and performance relative to industry peers (Adegbeni, 2018).

The movement heavily influence a nation's trade balance, often caused by a complex activities of internal factors like domestic currency supply, governed by fiscal and monetary policies, and external factors like global Interest rate differentials, inflation expectations, and even anticipated government interventions, (Bhagat, & Tiwari, 2021). The movement of currencies affects not just trade but also the profitable of many company's stock returns. In this increasingly interconnected world of booming trade and capital flow, exchange rate movement has become a major determinant of a company's profitability and the prices of equity, (Anande-Kur, et al. 2020). This study examined the extent to which exchange rate movements impact the Gross Profit Margins of listed companies across various sectors in Nigeria.

The inherent foreign exchange market instability and uncertainty pose significant challenges to predicting future price movements, thereby exposing importers and exporters to considerable currency risks (Calderon, 2020). Specifically, manufacturing companies in Nigeria, reliant on imported raw materials, are vulnerable to exchange rate movements that impact their financial inter-mediation processes and potentially influence their gross profit margins (Azeez et al., 2019). The exchange rate's dynamic nature, as a pivotal macroeconomic variable, underscores its critical role in shaping trade and economic outcomes (Iliemena, 2019). Variations in exchange rates significantly affect balance of trade, domestic currency supply, and demand, which are, in turn, influenced by macroeconomic factors such as interest rates, inflation, and government regulation (Loto, 2022).

Concerted efforts have been made by researchers to examine the impact of exchange rate movements and gross profit margins at both company and industry level using historical data and theoretical models. However, findings from these studies (Osho & Efunade, 2019; Ndidi & Ogedengbe, 2019; Oseni et al., 2019; Aidi et al., 2017; Ayobami, 2019; Idris & Shuyur, 2023; Akinadewo et al., 2023; Williams, 2018; Fapetu et al., 2023; Abdallah, 2018; King, 2019; Moyo & Tursoy, 2020; Egolum, et al., 2020; Alagbe et al. 2021; Okika et al., 2018; Ibekwe 2021; Ezenwakwelu et al. 2019; Michael & Andras, 2019) have remained mixed and inconclusive. Paucity of studies on Nigeria have focused on selected sectors of the economy, examined sole factors, or investigated the impact of exchange rate movements on companies' performance. Another common feature of these studies is their focus on relatively few numbers of companies. This results into the aim to study the impact of exchange rate movements on the gross profit margins of listed companies in Nigeria.

2. Literature Review

2.1 Gross Profit Margin (GPM)

Gross Profit Margin is a fundamental financial metric that measures a company's profitability by indicating the percentage of revenue that exceeds the cost of goods sold (COGS). It is a critical indicator of operational efficiency and pricing within companies across various sectors. According to financial experts, the gross profit margin reflects a company's ability to control

production costs and manage pricing strategies (Ogunleye et al. 2020). This metric is pivotal for assessing the financial health and competitiveness of businesses, as it directly impacts the bottom line and overall profitability.

Research by Obasi & Okegbe, (2023) indicates that industries and companies within the same sector can exhibit significant variations in gross profit margins due to factors such as economies of scale, supply chain efficiency, and pricing power. For instance, companies with stronger bargaining power over suppliers and higher levels of automation in production processes often achieve higher gross profit margins compared to their counterparts. Moreover, strategic decisions related to product pricing, cost management, and operational efficiency play a crucial role in determining the sustainability of gross profit margins over time. Calculating the gross profit margin involves using the following formula: $\text{Gross Profit Margin (\%)} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$, Where: Gross Profit is calculated as: $\text{Revenue} - \text{Cost of Goods Sold (COGS)}$. Understanding gross profit margin helps assess a company's efficiency in managing production costs and its overall profitability.

The gross profit margin is a critical financial metric that reflects the efficiency of revenue generation relative to the cost of goods sold for listed companies in Nigeria. It serves as a key indicator of operational performance and profitability. According to research by Oyewole et al. (2021), Nigerian listed companies often face challenges in maintaining healthy gross profit margins due to various factors such as fluctuating input costs, regulatory pressures, and competitive market conditions. These dynamics underscore the importance of robust cost management strategies and pricing policies to sustain profitability amidst economic uncertainties (Oyewole et al., 2021).

2.2 Exchange Rate

According to Umaru et al., (2019), exchange rate is the currency rate of a country in terms of the currency of another country. This is in consonance with the position of Latief, and Lefen, (2018), exchange rate is the actual measure of prices of imported and exported goods. The sum view of the two author is that exchange rate is the purchasing power of a currency (domestic) in relation to another currency (foreign), which shows the parity of the two country's currencies.

Felix et al., (2022) view exchange rate as the price of foreign currency in domestic terms, emphasizing that an upward movement signifies a depreciation of the domestic currency, resulting in higher relative cost of foreign goods and services. Conversely, a downward movement in the exchange rate, reflects an appreciation of the domestic currency, making foreign goods and services relatively cheaper. Relating the author's view to this study, which considered the Nigerian Naira to U.S dollars, it shows that an upward movement of exchange rate will signify a depreciation of Naira (domestic currency), resulting in higher relative cost for foreign raw materials (goods or service) for companies. Conversely, a downward movement in the exchange rate, reflects an appreciation of the Naira (Domestic Currency), making foreign raw materials (goods and services) relatively cheaper for companies. In addition, the conversion rate of how much a country's currency is worth compared to another is referred to as exchange rate.

In Nigeria, the challenge of a depreciating Naira poses a significant barrier, requiring more Naira to acquire foreign currencies as U.S Dollars and introducing an element of uncertainty through frequent movements. Recognizing the pivotal role of exchange rate stability in achieving macroeconomic stability and sustainable economic growth, as Osho, and Efuntade, (2019) highlight, a country's exchange rate policy becomes a key determinant of its economic success. In addition, Nigeria's monetary authorities have implemented a series of exchange rate arrangements over the years, aiming to establish a stable exchange rate regime and optimize foreign exchange allocation. These diverse attempts reflect the ongoing search for an approach that promotes economic stability and efficient resource utilization within the Nigerian context.

2.3 Exchange Rate Movements and Gross Profit Margin

The exchange rate is the price of a unit of foreign currency in terms of the domestic currency (Nydahl, 2021). Exchange rate serves as the basic link between the local and the overseas market for various goods, services and financial assets (Reid & Joshua, 2022). Exchange rate is the price of one country's currency expressed in terms of some other currency. It determines the relative prices of domestic and foreign goods, as well as the strength of external sector participation in the international trade. Exchange rate regime and Interest rate differential remain important issues of discourse in the international finance as well as in developing nations, with more economies embracing trade liberalization as a requisite for economic growth (Owolabi & Adegbite, 2017).

Using the exchange rate, one is able to compare prices of goods, services, and assets listed in different currencies. Exchange rate fluctuations can affect actual inflation as well as expectations about future price fluctuations (Owolabi & Adegbite, 2017). Changes in the exchange rate tend to directly affect domestic prices of imported goods and services. Exchange rate fluctuations can affect the country's external sector through its impact on foreign trade. The exchange rate affects the cost of servicing on the country's foreign debt (Oladipupo & Onotaniyohuwo, 2021). Under the system of freely floating exchange rates, the value of the foreign currency in terms of the local currency, like any commodity or service being sold in the market, is determined by the forces of supply and demand. Under a fixed exchange rate system, a par value rate is set between the local currency and the foreign currency by the central bank. The par value may be adjusted from time to time (Guney, 2021).

Furthermore, the study by Olusegun and Adeyemo (2020) emphasizes the Sectoral disparities in gross profit margins among Nigerian listed companies. They highlight that industries such as telecommunications and consumer goods tend to exhibit higher profit margins compared to sectors like manufacturing and construction, which face higher operational costs and margin pressures (Olusegun & Adeyemo, 2020). This sector-specific analysis underscores the nuanced challenges and opportunities for profitability across different industries within Nigeria's economic landscape.

Akpomi and Agiobenebo (2019) examines the impact of macroeconomic factors on the gross profit margins of Nigerian listed companies. They find that variables such as Inflation rate differentials, exchange rate fluctuations, and GDP growth rates significantly influence companies' cost structures and pricing decisions, thereby impacting their gross profit margins (Akpomi & Agiobenebo, 2019). This highlights the interconnectedness between broader economic conditions and corporate profitability metrics in Nigeria.

2.4 Conceptual Framework

Independent Variables

Exchange Rate
Movements

Dependent Variable

Gross Profit Margin
(GPM)

Figure 1. *Researcher's Framework*

2.5 Empirical Review

2.5.1 Exchange Rate Movements and Profitability

Ndidi and Ogedengbe (2019) examined the impact of exchange rate volatility on Nigeria's non-oil sector. The study utilized econometric analyses with secondary data from 2000 to 2017. The sample size consisted of the Nigerian non-oil sector, with variables including Exchange Rate Volatility (ERV) and Non-Oil Sector Performance (NOSP). The findings showed a negatively significant impact of exchange rate volatility on the non-oil sector. The study recommended that policy makers stabilize the exchange rate to promote economic growth. The

study's focus on the non-oil sector provides valuable insights. However, the methodology could be strengthened by incorporating additional variables and control groups.

Oseni et al. (2019) investigated the relationship between exchange rate volatility and industrial output growth in Nigeria. The study applied AR(k)-EGARCH models using secondary data from 1980 to 2016. The sample size consisted of the Nigerian industrial sector, with variables including Exchange Rate Volatility (ERV) and Industrial Output Growth (IOG). The findings revealed that exchange rate volatility determines industrial production. The study supported the neoclassical theoretical postulation that exchange risk culminates in economic growth. The study's use of advanced econometric models enhances its credibility. However, the study could benefit from exploring additional sectors and industries.

Ibekwe (2021) examined the impact of exchange rate on the performance of deposit money banks in Nigeria. The study utilized econometric techniques, including Augmented Dickey Fuller tests and Vector Auto Regression Estimates, with secondary data from 2010 to 2020. The sample size consisted of 20 deposit money banks in Nigeria, with variables including Return on Assets (ROA), Nominal impactful Exchange Rate (NEER), Real impactful Exchange Rate (REER), and Interest Rate Differential (INTr). The findings showed that nominal impactful exchange rate and real impactful exchange rate have positive and significant impacts on ROA. The study's methodology is robust, but the findings could be strengthened by considering additional bank-specific variables.

Alagbe et al. (2021) investigated the impacts of exchange rate changes on the financial performance of listed oil and gas companies in Nigeria. The study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using secondary data from 2011 to 2020. The sample size consisted of 12 listed oil and gas companies in Nigeria, with variables including Return on Assets (ROA) and Exchange Rate Changes (ERC). The findings revealed no significant direct relationship between exchange rate changes and ROA. The study's use of PLS-SEM is appropriate, but the findings may be limited by the focus on a single industry.

Akinadewo et al. (2023) investigated the primary determinants of financial performance, measured by Return on Assets (ROA), among Deposit Money Banks (DMBs) in Nigeria. The study analysed bank-specific variables, macroeconomic variables, and control variables from 2009 to 2021. Panel data regression analysis employing Fixed impacts Model and Random impacts Model was utilized, supplemented by multiple regression analysis. The findings indicate that bank-specific factors (credit risk, liquidity risk, management quality, capital adequacy ratio, asset utilization, firm size leverage, and firm age) significantly impact financial performance. Macroeconomic factors, specifically GDP and inflation, also play a crucial role. The study recommends regulatory authorities ensure banks comply with relevant provisions to prevent instability and failure. This study contributes to understanding the determinants of DMBs' financial performance in Nigeria. Future research could explore additional variables and consider other performance metrics. The study's focus on Nigeria limits generalizability. The study, established that the controlling variable is the exchange rate movement on financial performance of listed companies in Nigeria. Regarding the studies reviewed, most of the study focused on the broad economic variables, while other studies that assessed on the financial performance have focus on the oil and gas sector. The manufacturing sector, information, communication and technology sector etc. which were not considered by the previous researchers, it become the gap to be fill by this study.

2.6 Theoretical Review

2.6.1 Exchange Rate Pass-Through Theory

Krugman (1987), Dornbusch (1987) introduced the ERPT theory which assumes that exchange rate changes are transmitted to domestic prices through import prices. However, empirical evidence has shown that pass-through rates vary across countries and time. Factors such as

market structure, competition, and pricing strategies influence pass-through rates. ERPT theory has implications for inflation targeting and monetary policy, as exchange rate changes can affect inflation expectations.

Factors influencing ERPT rates include market structure, competition, and pricing strategies. Firms may adjust prices in response to exchange rate changes to maintain market share or profitability. ERPT rates can also vary depending on the type of goods or services. Empirical evidence has shown that pass-through rates are higher for tradable goods than non-tradable goods. In conclusion, the Exchange Rate Pass-Through Theory provides a framework for understanding how exchange rate changes affect import prices and inflation. While empirical evidence has shown varying pass-through rates, ERPT theory remains relevant for monetary policy and inflation targeting.

Therefore, the Exchange Rate Risk Management Theory is adopted for the study because, Nigerian listed companies are exposed to exchange rate risk due to international trade, making this theory highly relevant. The theory provides insights into managing exchange rate risk, which is crucial for companies operating in Nigeria's volatile economic environment. One can empirically test the impact of exchange rate risk management strategies on gross profit margin using data from Nigerian listed companies, finally the study contributes to the understanding of exchange rate risk management in emerging markets, particularly in Nigeria.

3. Methodology

The study was carried out in Nigeria. There are six (6) Exchange Market in Nigeria that are Self-Regulatory Organizations (SROs) but are registered under the Securities and Exchange Commission, (SEC), which is a Government Agency Mandated to Regulate and Develop the Nigerian Capital Market. The study examines the connection between exchange rate movement and profit margin using two appropriate data sets. The eight-year (2016–2023) Central Bank of Nigeria bulletin, which covers 32 quarters, and the quarterly financial reports of the firms selected on the Nigerian Exchange (NGX) between the 2016–2023 financial year were used. Four (4) Nigerian Exchange (NGX) sectors were used in the study. In order to analyse the relationship between the variables, the study draws upon two relevant/important data sources. First, the financial information of the 13 selected listed companies on the Nigerian Exchange (NGX) were retrieved, the information is precisely from 32 quarterly financial reports for the period of eight years (2016-2023). Second, the study retrieved the insightful content of exchange rate movement of Nigerian Naira to U.S Dollar from the Central Bank of Nigeria (CBN) Bulletin (2023) data for the study period.

Statistical Package for Social Sciences (SPSSv.27) was used to analyse the data. The acceptance or rejection of the hypothesis is based on the F-ratio. The decision rule is that, if $f_{calculated} > f_{critical}$, reject the null hypothesis and if otherwise, accept the alternative hypothesis, vice-versa at 5% (0.05) level of significant. The use of the F-ratio to test the significance of the results is a good choice, as it is a powerful test that is relatively easy to interpret. The profitability measured by gross profit margin (GPM) as the dependent variables, while Exchange Rate movement and other proxies are the independent variable.

3.1 Model Specification

$$Y = \beta_0 + \beta X + \epsilon_i$$

Where; Y = Profitability (Gross Profit Margin)

X = Exchange rate

β_1 = Regression parameters

$$GPM = \beta_0 + \beta_1 ExchR + \beta_2 IntR + \beta_3 InflR + \epsilon$$

T-test was be use to show the significance or otherwise of the relationship between the variables,

Null Hypothesis $H_0: \rho = 0$

4. Results and Discussion of Findings

Table 1: Augmented Dickey-Fuller (ADF) Test

	GPM	EXCHr
Test Statistic	-3.5321	-4.2131
p-value	0.0114	0.0011
Critical Values:		
1%	-3.581	-3.581
5%	-2.933	-2.933
10%	-2.603	-2.603

Source: SPSS Output

Table 1 shows that GPM (Test Statistic: -3.5321, p-value: 0.0114). The ADF test for GPM indicates that the null hypothesis of non-stationarity can be rejected at the 1% significance level, but only barely, as the test statistic (-3.5321) is very close to the critical value (-3.581). This suggests that GPM is likely stationary, but with some uncertainty. EXCHr (Test Statistic: -4.2131, p-value: 0.0011) The ADF test for EXCHr strongly rejects the null hypothesis of non-stationarity, with a p-value of 0.0011. The test statistic (-4.2131) is well below the critical values, indicating that EXCHr is stationary.

Table 2: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
GPM	32	21.68	35.13	29.6966	3.37509	-.525	.414	-.076	.809
EXCHr	32	196.50	842.39	376.4231	131.03115	2.282	.414	6.252	.809

Source: SPSS Output

4.1 Gross Profit Margin Descriptive Statistics

The descriptive statistics results in Table 2, shows the lowest gross profit margin observation of 21.68, indicating a minimum level of 21.68% profitability, having the highest gross profit margin observation of 35.13, indicating a maximum level of 35.13% profitability, with the mean value (average) gross profit margin of approximately 29.6966, representing 29.70% central tendency of the data. The Standard Deviation of 3.37509 is relatively low, indicating that the gross profit margin values are relatively close to the mean, with a range of around 26.32% to 33.06% (mean \pm 1 SD). Skewness statistic of -0.525 indicates a negative skewness, which shows that the distribution is slightly skewed to the left, meaning that there are some lower values that pull the mean down. The Standard Error of 0.414 is relatively small, indicating that the sample mean is a reliable estimate of the population mean. The Kurtosis statistic of -0.076 is close to zero, indicating that the distribution is approximately normal, with no significant outliers or heavy tails, with a relatively large Standard Error of 0.809, indicating that the sample kurtosis may not be a reliable estimate of the population kurtosis. In conclusion, the Gross profit margin ranges from 21.68% to 35.13%, with an average of 29.70%. The data is relatively normally distributed, with some slight skewness to the left. The standard deviation is relatively low, indicating stable profitability.

4.2 Exchange Rate Movements Descriptive Statistics

The descriptive statistics results in Table 1, also shows the lowest exchange rate movements observed was 196.50, indicating a minimum value of the currency, having the highest exchange rate movements observed was 842.39, indicating a maximum value of the currency, with the mean value (average) exchange rate movements of approximately 376.42, representing the central tendency of the data. The Standard Deviation of 131.03115 is relatively high, indicating significant movements in the exchange rate, with a range of around 245.32 to 507.51 (mean \pm 1 SD). Skewness statistic of 2.282 indicates a positive skewness that the distribution

is skewed to the right, meaning that there are some extremely high values that pull the mean up. The Standard Error of 0.414 is relatively small, indicating that the sample mean is a reliable estimate of the population mean. The high kurtosis of 6.252 indicates that the distribution has heavy tails, meaning that there are extreme outliers that affect the mean and standard deviation, with a relatively large Standard Error of 0.809, indicating that the sample kurtosis may not be a reliable estimate of the population kurtosis. In conclusion, exchange rate movements range from 196.50 to 842.39, with an average of 376.42. The data is positively skewed, indicating some extremely high values. The standard deviation is relatively high, indicating significant movements. The distribution has heavy tails, indicating extreme outliers. This shows that exchange rate has experienced significant movements over the study period (2016-2023), with some extreme values that may impact analysis and modelling.

4.3 Hypothesis Testing

Ho: Exchange Rate Movement does not significantly impact on Gross Profit Margin (GPM) of listed companies in Nigeria.

Table 3:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. Change	
1	.461 ^a	.212	.186	3.04542	.212	8.075	1	30	.008	1.835

a. Predictors: (Constant), EXCHr

b. Dependent Variable: GPM

Source: SPSS Output

Table 3 reveals a moderate correlation ($R = 0.461$) between EXCHr and GPM, with approximately 21.2% of the variance in GPM explained by EXCHr ($R^2 = 0.212$). Although the model's adjusted R^2 (0.186) suggests some fit issues, the F-change statistic indicates that EXCHr significantly predicts GPM ($p = 0.008$). Notably, the Durbin-Watson statistic (1.835) suggest that the residuals are randomly distributed, and there is no evidence if autocorrelation.

4.4 Discussion of Major Findings

This study examines the relationship between exchange rate movements and the gross profit margin of listed companies in Nigeria. The results indicate a statistically significant negative relationship between the two variables. Specifically, the Beta coefficient of -0.461 suggests that for every unit movement of the exchange rate, the gross profit margin decreases by approximately -0.461 units. The study's findings are based on an analysis of data from 2016 to 2023, during which the exchange rate depreciated by 328.7% (from ₦196.50/USD to ₦842.39/USD). Using the Beta coefficient, the study estimates that the gross profit margin of listed companies in Nigeria decreased by approximately 1.51 ($-0.461 \times 328.7\%$ depreciation) over this period. The negative relationship between exchange rate movements and gross profit margin found in this study suggests that exchange rate depreciation has a detrimental impact on the profitability of listed companies in Nigeria. This finding contradicts the intuitive expectation that a weaker currency would benefit Nigerian companies through increased export demand and revenue. However, the study's results provide new insights into the complex relationship between exchange rate movements and corporate profitability in Nigeria.

The study found out that Exchange Rate Movements have significant impact on Gross Profit Margin of listed companies in Nigeria. The findings reveal a significant negative relationship between exchange rate movements and gross profit margin, indicating that movements in exchange rates have a profound impact on the profitability of listed companies in Nigeria. The study's outcome suggests that a unit change in exchange rate movements leads to a corresponding change in gross profit margin, highlighting the importance of exchange rate movements in influencing profitability.

The results suggest that companies should implement strategies to mitigate the impacts of inflation on profitability, such as price adjustments and cost management. Additionally, policymakers should consider the impact of inflation on companies when making monetary policy decisions. The study contributes to the existing literature on the impact of inflation on company profitability and highlights the need for companies and policymakers to develop strategies to manage inflationary pressures impact.

5. Conclusion and Recommendation

This study has demonstrated the significant impact of exchange rate movements, on the gross profit margin of listed companies in Nigeria. The findings suggest that exchange rate movements have a significant negative impact on gross profit margin. This result implies that movements in these exchange rate variables can have significant consequences for the profitability of listed companies in Nigeria.

Conclusively, this study demonstrates the significance of exchange rate movements in influencing the profitability of listed companies in Nigeria. The findings provide valuable insights for companies, investors, and policymakers, highlighting the need for risk impact management strategies and informed decision-making to promote economic growth and development in Nigeria. By considering the impact of exchange rate movements, Inflation rate differential, and Interest rate differential on gross profit margin, stakeholders can work towards achieving their goals and promoting economic prosperity in Nigeria.

In line with the revelation of the study, the following recommends that policymakers should consider implementing policies aimed at promoting economic growth and improving profit margins. Similarly, this study recommends that Multinational Companies should develop a robust foreign exchange risk management framework which clearly shows its currency risk assessment procedures and implementation of foreign exchange risk management strategy. These strategies should be monitored and adjusted regularly. The companies should emphasize the use of currency risk transfer strategies through hedging, insurance and diversification of foreign currency. Some of commonly used hedging techniques include use of currency future markets, forward markets and currency swaps. Finally, the study recommends that companies should explore avenues to enhance capacities for managing foreign currency risk through organizing regular training on currency risk management. This can be done through short term training to senior finance managers on ways of identifying, measuring and handling of foreign exchange risk. The training should not only cover exchange risk management but should also handle practical challenges facing multinational corporations and firms with international undertakings.

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