CHAPTER ONE

INTRODUCTION

1.1**BACKGROUNDTO THE STUDY**

Everycompany operates within the internal and external environments ofbusiness. The internal environments arewithin a firm such that the prevailing factors are most times very subject tothe control of the managers. Theexternal environment has to do with the larger business environments in which afirm operates; and the factors therein are not subject to the control of themanagers. The factors in the externalenvironment not subject to the control of a manager generally can be regardedas macro economic factors or variables.

Thecorporate managers cannot control the macro economic variables but thegovernment can control them through several policies. Thus, like all experts, the government inorder to do a good job of managing the economy, will have to study, analyze andunderstand the major variables that affect or determine the current behavior ofthe macro-economy. Examples of themacro-economic variables that affect the economy and firms majorly includeexchange rate, foreign direct investment, inflation rate, interest rate, moneysupply, etc. The management of thesevariables is usually done through fiscal and monetary policy by the governmentand her agencies e.g. the Central Bank.

Anothermacro economic variable that may impact on firms' performance is exchangerate. Firms' financials are presented interms of the home currency. Exchangerate increases or decreases the value in home currency of revenues and costincurred in foreign currency. Accordingto Lars (2003), exchange rate increases or decreases earnings in home currencyshare of total costs. In other words,exchange rate increases or decreases earnings in home currency before interestcosts. Against this backdrop, the studyexamines the impact of macro economic variables on corporate performance inNigeria.

1.2**STATEMENTOF RESEARCH PROBLEM**

Researcheson the relationship between macro economic variables and firm's performancehave been on going in advanced countries of the world with little or noresearch in developing countries of the world such as Nigeria. It is this existing gap that informed therationale behind this study. In thelight of the above, the following research questions are raised:

a. Whatis the effect of inflation rate on corporate performance in Nigeria?

b. Whatis the relationship between exchange rate and corporate performance in Nigeria?

c. Howdoes interest rate affect corporate performance in Nigeria?

d. Isthere a relationship between money supply and the performance of corporateorganizations in Nigeria?

1.3**OBJECTIVESOF THE STUDY**

Thegeneral objective of the study is to evaluate the impact of macro economicvariables on corporate performance in Nigeria.However, the specific objectives are stated as follows:

a. Toascertain the effect of inflation rate on corporate performance in Nigeria.

b. Tofind out if there is a significant relationship between exchange rate andcorporate performance.

c. Todetermine how interest rate affect corporate performance in Nigeria.

d. Toexamine the relationship between money supply and the performance of corporateorganizations in Nigeria.

1.4**RESEARCHHYPOTHESES**

Inorder to validate the relationship between macro economic variables andcorporate performance in this study, the following alternative hypotheses arespecified:

a. H_1: Exchange rate influences corporateperformance.

b. H_2: there is a relationship between inflationrate and corporate performance.

c. H_3: Foreign direct investment influencecorporate performance in Nigeria.

d. H_4:There is a relationship between money supply and the performance of corporateorganizations in Nigeria.

eH_5: Interest rate affect corporate performance in Nigeria.

1.5 SCOPE OF THE STUDY

Thisstudy examines the effects of macro -economic variables on corporateperformance in Nigeria. The time periodthe study covers is 2002 to 2011. Inother words, the study is a time series one.The sample size is sixteen quoted firms which are listed on the floor ofthe Nigerian Stock Exchange.

1.6SIGNIFICANCE OF THESTUDY

Thisstudy is expected to be relevant to a number of persons and institutions inNigeria. First, the Federal Governmentof Nigeria will find the outcome of this study useful in terms of makingdecisions relating to the macro economic environment; in other words, it willhelp the government to regulate the interest rate, inflation rate, exchangerate and others with a view to achieving macro economic stability so as toassist the companies operating in Nigeria. The Central Bank of Nigeria definitely willfind the study very much useful in terms of devising good monetary policy so asto enhance company's performance and foreign investors into the Nigeriaeconomy.

Similarly,future researchers will find the study useful in terms of reference materialson a similar subject matter as this.

1.7 LIMITATIONS OF THESTUDY

Thelimitations of this study include data constraint, inadequate researchmaterials extensively dealing on the subject matter in Nigeria. The sample size also limits the study due totime factor and its practicality.Similarly, there is also the problem of generalizing the outcome of thestudy to other non-manufacturing firms in Nigeria in terms of how macro economicvariables may have affected their performance.

Regards!!!