International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 2, Mar.-Apr. 2023, pp: 796-804 www.ijhssm.org

Assessing the Impact of Forex Deficiency on SMES (A Case Study of Creck Hardware and General Dealers)

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Date of Submission: 02-04-2023 Date of Acceptance: 12-04-2023

ABSTRACT
The aim of the study is to assess the impact of forex deficiency on SMEs especially on the case study of CRECK Hardware and General Suppliers. Malawi is currently facing forex shortages and as such many businesses are facing difficulties on international trade. The shortage of forex has also hit the economy of Malawi such that the kwacha has devalued again recently since the last devaluation in May 2022. Prices of commodities have gone up. Businesses have been known to close due to being unable to access forex for imports. Airlines have been seen canceling ticketing to Malawi due to this factor as well. Malawi oil company has also faced challenges with forex resulting in failure in fuel supply across the country which also affect all aspects of other developments.

I. INTRODUCTION

Malawi just like any developing country needs forex to participate in international trade markets. However, like many developing countries Malawi faces challenges of insufficient stocks of foreign exchange reserves to trade internationally to meet development as well as general import needs.

Malawi has been facing acute foreign exchange currency deficiency since 2009 and reached its peak in 2011, Kampanje (2012).

The Reserve Bank of Malawi as a monetary authority in the local macroeconomic environment touted the floating exchange rate regime as highlighted in Reserve Bank of Malawi (2016), it stipulated that during the fixed exchange rate era up to 2010/2011, there were no exchange rate gains for exporters, tobacco farmers inclusive. While the argument above holds true, the impact of the exchange rate gains was overshadowed by high inflationary factors as Malawi is a predominantly importing country as evidenced by the huge trade deficit Fiscal Policies to redress Forex shortage National Export Strategy (2013).

The country is still battling with significant trade imbalances and has recently once again formulated strategy to achieve export-led growth through the rolling out of the National Export Strategy II (2021). The devaluation of the Kwacha has also led more citizens into poverty with despite the country rolling out the Malawi Economic Recovery Plan (2012) because there was unprecedented movement in the exchange rate between 2012 and 2017.

II. LITERATURE REVIEW

Introduction

This chapter being the literature review is where the study will critically analyze what has been written on the subject matter. The chapter begins with a section on definition of terms where the researcher provides definitions of key terms as defined by scholars in the discipline. This is followed by a section on empirical evidence where the researcher uses reviewed literature to justify the study.

Definition of Terms

Forex

Forex is the currency used to purchase goods and services from countries using other currencies different from yours. It refers to the global electronic marketplace for trading international currencies and currency derivatives. Cory Mitchell. It has no central physical location, yet the forex market is the largest, most liquid market in the world by trading volume, with trillions of dollars changing hands every day. Most of the trading is done through banks, brokers, and financial institutions. Forex exists so that large amounts of one currency can be exchanged for the equivalent value in another currency at the current market rate, Mitchell (2021)

Depreciation

According to Tuovila (2022), depreciation is an accounting method used to allocate the cost of a tangible or physical asset over its useful life. Depreciation represents how much of an asset's value has been used. It allows companies to earn revenue from the assets they own by paying for them over a certain period of time.

Because companies don't have to account for them entirely in the year the assets are purchased, the immediate cost of ownership is significantly reduced. Not accounting for depreciation can greatly affect a company's profits. Companies can also depreciate long-term assets for both tax and accounting purposes.

Depreciation can be compared with amortization, which accounts for the change in value over time of intangible assets.

Devaluation

Devaluation is the deliberate downward adjustment of the value of a country's money relative to another currency, group of currencies, or currency standard. Countries that have a fixed exchange rate or semi-fixed exchange rate use this monetary policy tool. It is often confused with depreciation and is the opposite of revaluation, which refers to the readjustment of a currency's exchange rate. Majaski (2021)

Foreign exchange

The foreign exchange market, commonly referred to as the Forex or FX, is the global marketplace for the trading of one nation's currency for another.

The forex market is the largest, most liquid market in the world, with trillions of dollars changing hands every day. It has no centralized location, and no government authority oversees it.

Rather, the forex is an electronic network of banks, brokerages, institutional investors, and individual traders (mostly trading through brokerages or banks). James Chen, 2022

Deficiency

Deficiency is the state of lacking or being defective of some necessary quality or element. Usually, it is a state where you need something that is absent or unavailable, (Vocabulary, 2022).

Forex Deficiency

According to Wikipedia, forex deficiency happens when a country's net outflows of USD outweigh it net inflows. This can happen when it has to pay more USD for its imports than it receives for its exports or when its international dollar obligations are higher.

Currency

Currency is a medium of exchange for goods and services. In short, it's money, in the form of paper and coins, usually issued by a government and generally accepted at its face value as a method of payment, Frankenfield (2022)

Currency is the primary medium of exchange in the modern world, having long ago replaced bartering as a means of trading goods and services.

In the 21st century, a new form of currency has entered the vocabulary and realm of exchange: the virtual currency, also known as cryptocurrency. Virtual currencies, such as Bitcoin and Ethereum, have no physical form or government backing in the United States. They are traded and stored electronically.

Empirical Evidence

Currencies are always traded in pairs say -the US dollar against the Malawi kwacha, or the English pound against the Euro. Every transaction involves selling one currency and buying another, so if an investor believes the Euro will gain against the dollar, they will sell dollars and buy Euros. The huge potential for profit exists because there is always movement between currencies. Even small changes can result in substantial profits because of the large amount of money involved in each transaction. At the same time, risks can be minimized for the individual.

The July Monetary Policy report stated that the Malawi Kwacha devalued by 25 percent at the end of May 2022. The persistent merchandise trade deficits have resulted in domestic supply of foreign exchange being lower than its demand. As the supply-demand imbalances continued to deepen, several problems emerged, including the widening of the spread between the ADBs TT rates and the Bureau cash exchange rates. As a corrective measure, the RBM adjusted the exchange rate by 25.0 percent effective 27th May 2022. Cumulatively, the kwacha lost 25.5 percent (K209.76) against the US dollar; 6.2 percent (K74.04) against the pound; and 7.5 percent (K77.14) against the euro in 2022. However, the local currency strengthened by 2.8 percent (K1.88) against the South African rand during the same period, Kampanje (2022)

Inflation pressures continued to intensify in the recent months such that headline inflation accelerated to an average of 19.4 percent, from 13.1 percent and compared to 9.1 percent. The increase represented the combined effect of rising costs of domestic fuel prices, pass-through of exchange rate depreciation, price mark-up shocks on domestically produced agricultural food commodities induced by the high costs of fertilizers, rising global food prices and speculation of low food production following unfavorable weather patterns during the 2021/22 agricultural season, Kampanje (2022).

To establish the volume of imports before forex deficiency crisis

May 2022 National Statistical Office reported that there was an increase in imports from May to June 2022. The main imports being oil, coal, consumer goods and fertilizers with the main import partners being South Africa, Zambia, USA and China.

Food and Agriculture Organization (FAO) production year books, FAO trade year books and the World Bank data shows an increase in importation of dairy products in Sub-Saharan countries with Liberia standing top in annual import accounting for 94% followed by Sao tome and Seychelles.

To establish the volume of imports during the forex deficiency crisis

Taonga Sabola in his article in times Group dated December 2022 established that the shortage of forex in the country was contributed by among other factors the inversion of Ukraine by Russia where the dollar fled to the parallel market where it was fetching better prices. Resulting into shortage of imported raw materials needed to keep the factories running.

A report prepared by the US embassy following the assessment of the reforms introduced by the new prime minister Abiy, published in the privacy shield in 2020 established that foreign exchange reserves maintained by the government of Ethiopia remains at low levels. Attributed by the high levels of international debt obligations the country put restrictive measures in all transactions in foreign exchange resulting into difficulties in accessing raw materials from abroad.

An article by Helen Salon published by Le Monde in 2022 established that Egypt was going through an economic crisis that led to long levels of foreign exchange reserves resulting into restriction of private sector imports thereby slowing down the flow of raw materials.

III. RESEARCH METHODOLOGY

Introduction

This chapter illustrates the research methods that would be used in data collection, measurement and analysis and the reasons behind the choice of the methods.

This was a conceptual structure under which the research was conducted; it constitutes the blueprint for the collection, measurement and analysis of data.

Research Design

Leedy (2007) defines research design as a plan for a study, providing the overall framework for collecting data. MacMillan and Schumacher (2001) defined it as a plan for selecting subjects, research sites, and data collection procedures to answer the research question(s). They further indicated that the goal of a sound research design is to provide results that are judged to be credible. For Durrheim (2004), research design is a strategic framework for action that serves as a bridge between research questions and the execution, or implementation of the research strategy.

Research Setting

The study will take place at CRECK Hardware. The business is specialized in building materials mostly imported from western countries, it has branches in Lilongwe behind Maula Puma Filling Station in area 4 which is its headquarters and Zomba behind BLM. For the study, respondents will be drawn from Lilongwe branch and will use the questionnaire to obtain data from respondents.

Study Population

A population comprises of any set of persons or objects that possess at least one common characteristic, (Harder, 2009). A population can be large or small depending upon the size of the group of persons or objects from which the study plans to carry out. Thus, a population refers to all members, groups or elements that the study hopes to gain information from and to present the real situation of the field of study and from which conclusions were drawn from. In this case, the study population comprises of 1000 SMEs who operate at area 2 of the Lilongwe city. One type of population distinguished by educational researchers was called the target population. This was the smaller population within the study population form where the study would acquire responses that would help achieve the study objectives. The questionnaire was used to extract information from top and middle managers of CRECK Hardware and General Suppliers.

Sampling Method

Sampling means selecting a given number of subjects from a defined population as representative of that population, (Sankar & Gubrium, 2014). As such, a sample was defined as a subset of the total population. There are two major types of sampling techniques namely, probability and non-probability sampling. Under probability sampling, every member of the targeted population has equal opportunity of being part of the study while under non-probability sampling, not every member has equal opportunity of being part of the study.

The study will use method of sampling namely probability.

Probability Sampling Method

According to Saunders (2007), probability sample is one that had been selected in such a way that every element chosen had a known probability of being included. Under this method each population element had a known chance of being chosen for the sample. There were quite a number of techniques under probability sampling these may include the following: simple random sampling, systematic sampling, stratified sampling and cluster sampling.

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Data Collection Tool

Data collection tools refers to the devices or instruments used to collect data such as case study, focus groups, discussions, interviews, surveys, observations and questionnaires.

A questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from respondents. The quantitative data was to be collected using a questionnaire which had closed questions. The study had chosen to use a questionnaire as the data collection tool because the data from a questionnaire can be analyzed more scientifically and objectively than data collected from other tools. The questionnaire was to be tailored to fit into the context of the study without compromising the desired response.

Advantages of a questionnaires are that it can be carried out by the researcher or by any number of people with limited effects to its validity and reliability. As such, the first part will require the respondent to provide personal information about them. The second part will require the respondents to answer questions in regard to the pricing strategies adopted by CRECK Hardware and General Suppliers.

Validity of the Data Collection Tool

Validity is defined as the extent of which a concept is accurately measured in a research study, Kirk and Miller (2012). For example, a study that was designed to explore depression but ends up actually measuring anxiety would not be considered valid.

There are four types of validity which include Construct validity, Content validity, Face validity and Criterion validity. The researcher would choose Construct validity for the tool as it evaluates whether a measurement tool really represents the phenomenon the study was interested in measuring. The instrument chosen would therefore adequately cover all the content that should be covered with respect to the variable under study.

Data Analysis and Presentation

Data presentation and analysis go hand in hand and it was difficult to provide a complete differentiation between the two. Analysis of data helps the researcher interpret the data collected and make an informed decision in pursuance of answering the research questions.

Data analysis stage of research started with the collection of data followed by data processing and sorting. Presenting the data included the pictorial representation of the data using graphs, charts, maps and other methods. These methods helped in adding the visual aspect of data which makes it much easier to understand. The purpose of analyzing data was to obtain usable and useful information. The analysis, irrespective of whether the data was qualitative or quantitative, aimed to describe and summarizes the data, identify relationships between variables, compare variables, and identify the differences between variables and forecast outcomes.

There are many techniques which could be used to analyze and present data and some of them are; regression analysis, text analytics, data analysis using data analysis tools such as Microsoft Excel package and SPSS and correlation analysis just to mention a few.

Microsoft Excel was one of the top tools for data analysis. The researcher used the Microsoft Excel to analyze data collected from the operational level especially when using the pivot-tables to analyze data.

The data was presented in the form of pie charts, histograms as well as scatter diagrams depicting data with regard to the sales volumes associated to different periods.

IV. PRESENTATION OF RESULTS, DISCUSSION AND INTERPRETATION

Introduction

This chapter outlines the response rate as well as the demographic characteristics of the respondents. The response rate is the number of respondents who have completed the questionnaire and returned the same to the researcher in comparison to the total number of questionnaires that were actually prepared and sent to prospective respondents. The demographic characteristics of respondents include the age, sex, level of education, how long the respondent has worked for the firm and the level of qualification.

Then the researcher presents the findings of the study with the aid of charts and graphs befitting the data. The data is then correlated to the objectives of the study thus attempting to achieve the desired objectives. The chapter is then finalized by a brief recap of what has been presented in the chapter.

Response Rate

It was prescribed that the researcher collects data from a total of 100 respondents. The researcher therefore prepared and sent a total of 100 questionnaires. Of the 100 questionnaires sent, the researcher received a total of 90 answered questionnaires, representing a total of 90% respondent rate.

Response rate

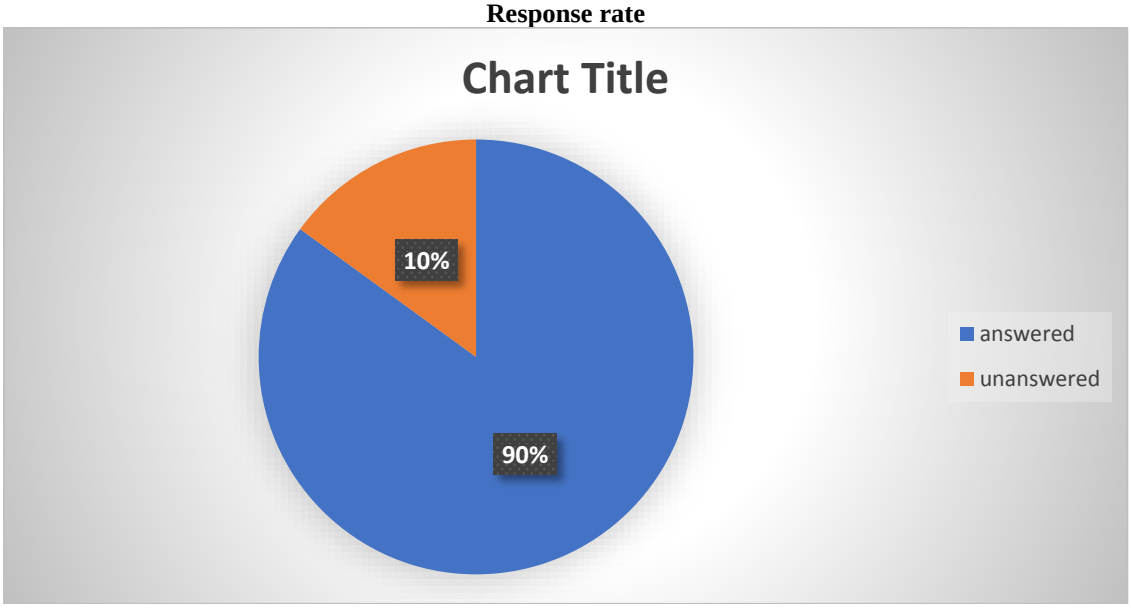

Figure 4.1. Response rate

The response rate the researcher got was 90% of the employees which represents a healthy percentage to come up with a definite feedback.

Demographic Information

The demography of the respondents was sort out by gender, age, work experience and education level.

Gender Respondent

Gender

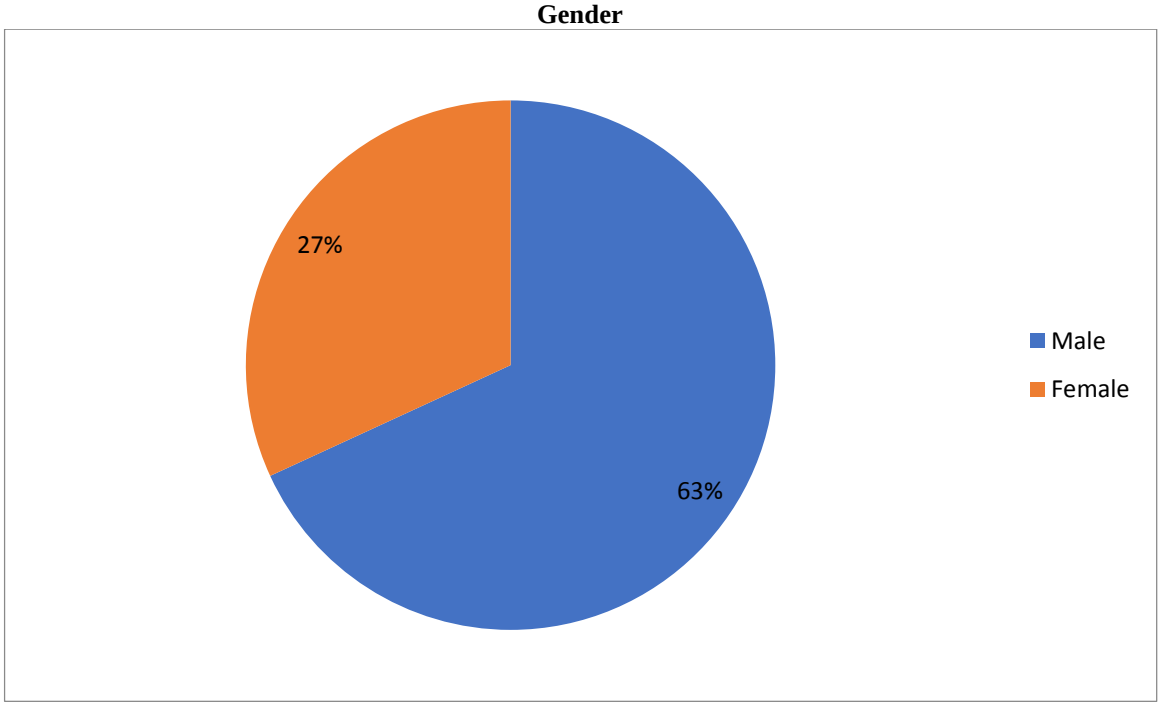

Figure 4.2 Gender

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Even though CRECK has a higher level of male employees, this does not mean that CRECK hardware favour men more than women. The management at CRECK recognizes both male and female for their jobs. It has been proven through their job adverts that they call for applications for both genders to apply. The researcher noted that most applications are usually male, and it was observed that out of those that apply for the jobs, 63% of those applications are male. It was also observed that generally women perceive hardware jobs as of male nature and not for women. But CRECK management gives equal opportunity to enhance gender balance in the society.

Age of Respondents

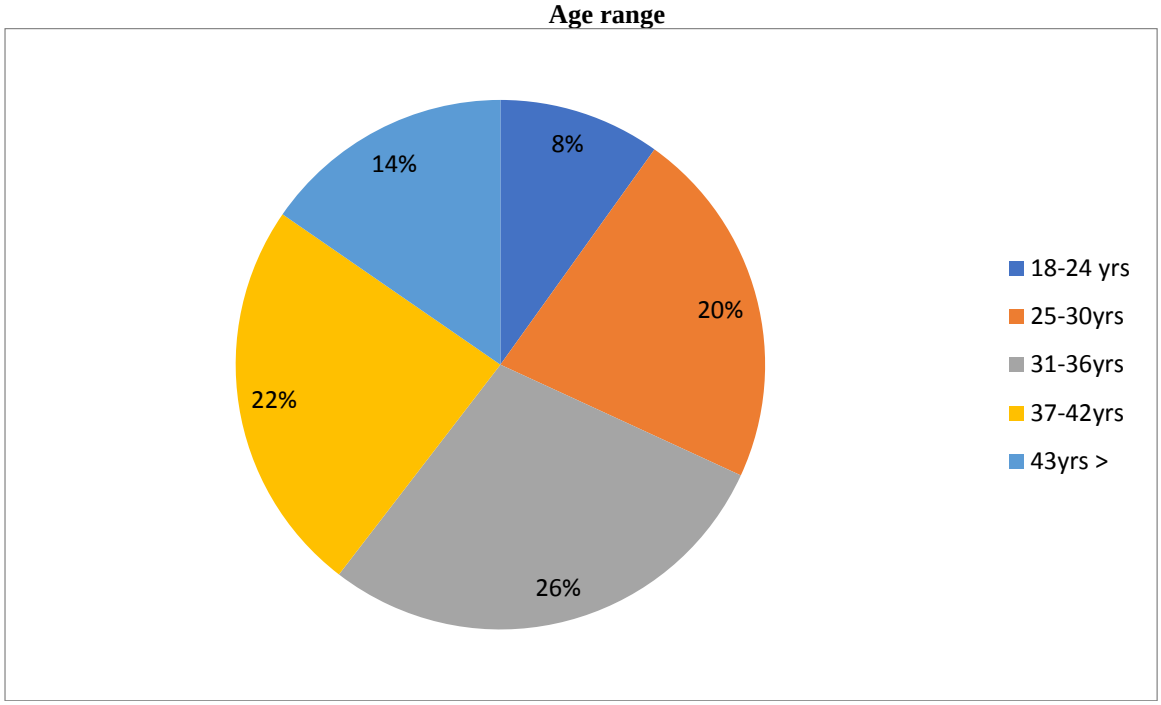

Figure 4.3 Age Range

The majority of the employees were between the ages of 31 and 42 years. There were 43 respondents who represented a total of 48%. Followed by respondents within the ages of 25 to 30 who were 18 of them representing a 20% of the employees and the 7 of the employees were between the ages of 18 to 24 representing 8 % of the employees. Lastly, there were 22 respondents who were in the ranges of 43 above, representing a total of 14% of the employees.

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Work Experience of the Respondents

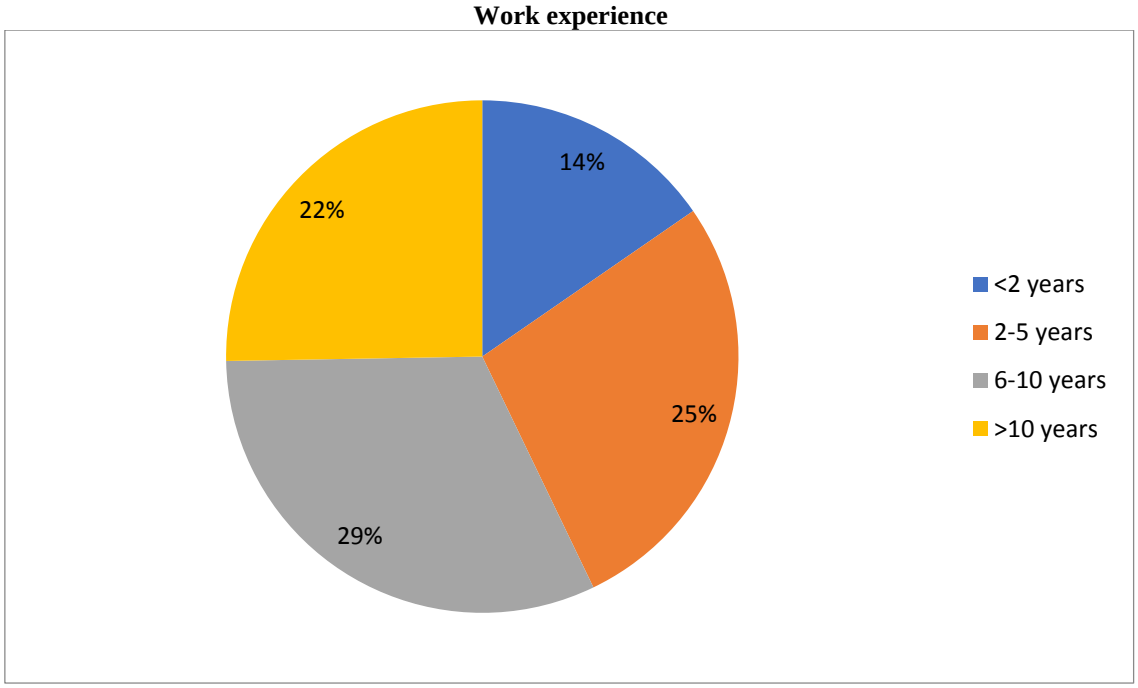

Figure 4.4 Work Experience

The majority of the workers have worked for CRECK for a very long period of time. Of the respondents, 45 have been with the company longer than the rest. Representing a total of 51% of the employees. Followed by 22 of the respondents who have worked for the company for more than 2 years representing 25% and lastly 23 of the respondents who have been with CRECK for less than 2 years also representing 14% of the employees.

Education level

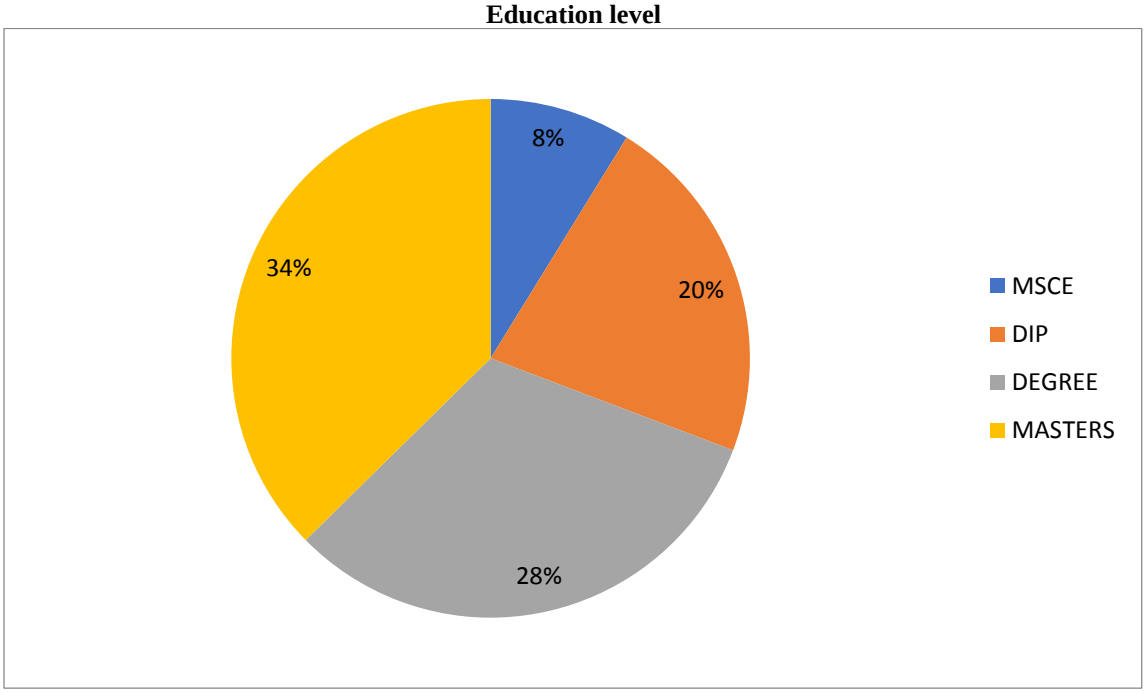

Figure 4.5 Education Level

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The above data stipulates that CRECK hardware has got a majority of its employees with master's degree qualification. This is so because CRECK encourages its employees to empower themselves academically.

Presentation of Results

To establish the volume of imports at CRECK before forex deficiency crisis

The study aimed at establishing the volume of imports at CRECK hardware before the crisis of forex deficiency. For a company to succeed there is need to have enough stock available in reserve so that when the demand hits, the company is able to supply. An increase in sales translates to an increase in profits.

To establish the volume of imports during the forex deficiency crisis

Furthermore, the study wanted to establish how the volume of imports were during the forex crisis in the country. What challenges were faced if at all there were any. And how they managed to overcome the challenges.

V. CONCLUSION AND RECOMMENDATIONS

Introduction

This chapter concludes the study and interrelates of the major findings in accordance with the study objectives. Recommendations for further study end the chapter.

Summary of Research findings

The majority of CRECK employees agreed that when the country has got sufficient forex, the business makes a lot of profit and also, its market share increases. This is so because CRECK Hardware is able to supply to its customers right on time and also with more than enough stock for their use. And as a result, CRECK is one of the leading hardware stores in Malawi. And the employees also agreed that when the country is going through forex crisis, CRECK as a business faces challenges in meeting up to the needs of its customers.

Conclusion of conclusion

The aim of this study was observe how CRECK functions during both times when forex is sufficient and also during the period forex is scarce. The study was important to CRECK because it highlighted which areas, they can improve on to make more sales which would result to more profits for the business. There was a need to come up with the best solution to have CRECK Hardware maintain the highest level of customer retention. CRECK had great wishes to know how best it can prepare for when the country is facing such challenges so it can remain in business.. This became the major purpose of the study.

The main respondents for the study carried were CRECK employees and that explains the use of Questionnaires to gather information. The study process was successful and yielded productive results to both CRECK and the researcher. The study ideas were taken into consideration to maintain the effectiveness of adopting pricing strategies where it has been discovered that pricing strategies at CRECK increases its sales and thus also increasing profitability.

Recommendations of the study

- The whole purpose of a business objective is to maintain business and the market share which will result in making profits, as such, CRECK hardware should take into consideration the impact of forex deficiency to be prepared should such a crisis hit again at any time.
- CRECK hardware should always have enough stock in reserve to best prepare if there should be another crisis and it is difficult to import goods for business.
- CRECK as a company should also adopt partnerships with businesses across the border who would be able to supply them with goods on credit basis to a time until the crisis is resolved to which it can now settle its debts.
- CRECK should also consider determining the different factors that influence customer loyalty. Major elements that aim at creating customer loyalty should be uplifted. Like always having products available in stock at all times. And also, it can adopt discount tariffs to attract more customers to increase its market share.
- CRECK should introduce a system where by it identifies the most product that the other country need and if Malawi has it, CRECK can start trading in that product in that country by exporting and then after sales can be able to pay the suppliers using the local currency obtained from the proceeds of the products and bring the imports back home. 5.5 Area of further study

The study sample only comprised a modest of 90 participants, in future research the researchers should also involve other businesses to know how they also are impacted by the deficiency in the forex that hit the country from time to time. To reach a conclusion that is relevant enough sample size is not large enough to allow the findings to be generalized. Therefore, other scholars are encouraged to replicate this study with a more robust sample size, which incorporates

different large hardware's in Malawi, in order to validate the results in this study.

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