The influence of The Multi Currency System on Financial Performance of An Organisation: Desktop Study

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ABSTRACT

The purpose of this desktop study was to establish the influence of Zimbabwe's multi-currency system on the financial performance of organizations in the manufacturing sector. We have located the research of this paper within a qualitative approach (Gay 1992; Babbie 1998; Leedy & Ormrod, 2013). This decision was informed by the fact that this paper is not interested in the quantification of data. But its main interest lies in the painting of qualitatively rich picture of the phenomena being studied within the context of limited respondents (Hall, 2007; Maserumule, 2011; Baugh & Guion, 2016). To this end, the problem of this study is explained descriptively and theoretically for the purpose of generating a crispy understanding of the influence of Zimbabwe's multi-currency system on the financial performance of organizations in the manufacturing sector. Among others, this sources included journal articles, books, magazines and newspapers. The study established that the multicurrency system poses to have demerits which hinder the progress of the activities in the economy and business performance in that the adoption of multicurrency system causes the central bank to lose control over the monetary policy which triggers inflation to increase and hence thus an increase in costs of production to local manufacturing organizations.

Keywords: Multi-Currency System, Financial Performance, Organizations, Manufacturing Sector.

1. INTRODUCTION

This desktop study mainly focused on analysing the theoretical review and empirical review of what has been researched and published by other authors in the past years, which is relevant to this research subject matter.

2. QUANTITY THEORY MONEY

The amount of readily accessible funds, such as cash, coins, and bank account balances, circulating in the economy is referred to as the money supply, or the quantity of money. Sometimes, important economic factors like nominal gross domestic product (GDP) and price levels show a strong correlation with the money supply. When that occurs, it supports the claim that over time, the money supply determines price levels and inflation as outlined by Chen & Estevez (2021). The average cost of products and services in a given economy is known as the price level. The most frequently cited indicator of this is the consumer price index (CPI). It considers the average variation in prices people pay over time for a sample basket of products and services. The overall rise in prices of goods and services over time in an economy is referred to as inflation. Living expenses typically increase as a result of inflation because it occurs when everything becomes more expensive that is money will fail to purchase as much due to inflation, which lowers the value of money and its purchasing power.

The quantity theory of money is defined by Gordon (2022) as the amount of money in circulation and the level of prices in a given economy that are directly correlated. This means that the price level changes proportionally in response to changes in the money supply and vice versa. The quantity theory of money is also defined by Schotte (2022) as the general level of prices for goods and services that is correlated with the amount of money in an economy. Nash (2022) study outlined that the quantity theory postulates that fluctuations in the value or purchasing power of money are primarily caused by this factor and the hypothesis holds that variations in the amount in circulation are primarily responsible for fluctuations in the value of money. When there is an abundance of money, it loses value or purchasing power, which raises the average cost of goods. On the other hand, when money is scarce, its purchasing power rises and total prices fall. The quantity money theory, also referred to as the equation of exchange assesses price changes in the money supply. The theory clarifies how the money supply and prices relate to one another and how this impacts an organization's profitability according to Chen & Estevez (2021).

Generally this theory assumes that inflation is commonly assumed to occur if the amount of money in circulation in the economy increases and vice versa. In relation to multicurrency system in Zimbabwe, this theory has always been relevant as it explains what is happening in the economy which is adversely affecting the financial performance of organizations in the manufacturing sector. The Reserve bank of Zimbabwe has been increasing the money supply of the bond notes and RTGS in the economy to circulate over the past the years as an aid to prevent cash shortages but this has been considered as a key driver of inflation according to this theory, as it assumes that an increase in money supply in the economy decreases the value of the currency since an increase in money supply in the economy causes inflation and as the inflation increases it causes the purchasing power of the currency to decrease as asserted by Barone (2022). The author went to explain that the same factors that affect the supply and demand of any good or service also affect the supply and demand of money. For example, an increase in the money supply causes a decrease in the marginal value of money, or ceteris paribus, the amount of money that can be purchased for one unit of value when all other factors are held constant. The cost of goods and services increases, which raises the inflation rate, as a way of making up for this drop in the marginal value of money.

Purchasing power is defined as the value of a currency in terms of the quantity of goods and services that one currency can purchase and when the purchasing power of that one currency declines then it will require more of that currency to purchase that same product. Hayes (2022) outlined that purchasing power may be referred as the quantity of products or services that can be purchased with one unit of a currency determines how valuable that currency is and over time, inflation can lead it to degrade. This is due to the possibility that you will purchase less goods or services as a result of increase in prices. This theory assumes that changes in spending of consumers are determined by changes in money supply and relating it with this study, the increase in money supply of bond notes has been considered as the major cause of inflation and have adversely affected the prices of locally produced products as well as the consumer spending hence thus loss of revenue, decrease in sales growth and decrease in profitability. This shows the impact of MC's in Zimbabwe on financial performance of organisations in manufacturing sector as an increase in money supply of any currency causes the prices to increase and thus an increase in inflation as assumed by the theory.

2.1 *Purchasing power parity theory*

Since the Bretton Woods System fell apart, currency rates have behaved in a rather erratic manner. The buying power parity hypothesis is one of the earliest hypotheses about the rate of exchange. The discussion of our new economic system, which globalization has been forming, has occasionally included the purchasing power parity idea.

The concept of purchasing power parity (PPP) states that if an exchange rate is taken into account, items from one country will cost the same amount in another. This idea states that a market basket of commodities is priced equally in both countries when two currencies are at par as asserted by Chen (2022). This is also further defined by Amadeo (2021) as an economic idea that enables comparisons between the purchasing power of different global currencies. It is the hypothetical exchange rate at which you could purchase the same amount of goods and services using a different currency. It also assumes that it is a theory of how exchange rates are decided as well as a technique to compare the average prices of products and services in various nations. The idea contends that importers and exporters activities cause fluctuations in the spot exchange rate, which is the rate at which you can change a currency into another currency.

According to the purchasing power parity (PPP) hypothesis, when two currencies purchasing power is equal in both of their respective countries, exchange rates are in equilibrium. Therefore, the price level of a fixed basket of goods and services in the two countries should be similar, and this should be reflected in the exchange rate between the two and to get back to PPP, a country's exchange rate must decline when its domestic price level is rising as asserted by Werner (2019). King's (2020) study claims that the purchasing power parity theory enables currency comparisons across national borders using a basket of goods approach.

According to the research, there hasn't been a clear correlation between exchange rates and price levels in the short run, as suggested by the purchasing power concept. However, the majority of assessments acknowledge a significant long-term correlation between exchange rates and price indices. The underlying idea behind the PPP is that nominal exchange rates should be adjusted in a way that keeps the real buying power of money stable over time. In light of this, the PPP predicts that over time, the rate of change in nominal bilateral exchange rates will tend to equalize the disparity in inflation rates between nations. The PPP represents an equilibrium relationship rather than a precise theory of exchange rate because prices and exchange rates are both endogenously determined in the real world.

According to the notion, the exchange rate between two countries equals the ratio of their pricing levels. Hill (2018) outlined that the economic theory known as Purchasing Power Parity is the difference between the price of a basket of products in one country and the price of a similar basket of goods in another country results from the equilibrium foreign exchange rate between the two nations hence long term exchange rate movements can be predicted by PPP, but short term fluctuations are more likely to be caused by variables impacting the supply and demand of currencies at a more immediate level. By introducing hypotheses regarding how importers and exporters would behave in response to changes in the relative costs of national market baskets, the purchasing power parity (PPP) relationship is transformed into a theory of exchange rate determination.

Exchange rate is the key concept that relates this theory with the MC's as it is the variable factor that provides relationship of different currencies since it determines the value of one currency against other different currencies. The assumption of PPP theory that similar products in one country cost the same amount in another country is not always the case in the multicurrency system since different currencies have different purchasing power. Financial performance is impacted by the relationship between a currency's purchasing power and its value, which is how it is intended to do so and as a result, the government should work to encourage stable exchange rates, which has a favorable effect on financial performance of organisations in the multi-currency system, in order to sustain the currency's purchasing power.

However, the theory does not account for the likelihood of inflation, consumer spending, transportation costs, or tariffs, all of which could have an impact on the short-term exchange rate. Without these additions, a currency's strength cannot be accurately represented.

The impact of multicurrency system in Zimbabwe have adversely affected the purchasing power of the functional currency as the manufacturing sector organizations experience foreign exchange loss due to different spot exchange rates when importing raw materials on credit and when making payments for raw materials imported hence foreign exchange loss have an adverse impact on financial performance as reduces the profitability.

3. EMPIRICAL REVIEW

Wadesango, Kucherera, Malatji & Sitsha (2021) researched on the impact of the multicurrency regime on financial reporting. These authors mainly focused on how the financial reporting of SME's in Zimbabwe has been affected by the current multicurrency regime. The researchers went on to clarify the positive implications of the multicurrency regime on financial reporting, which are the improvement of the credibility of financial statements; the improvement of the budgeting system, transparency in financial reporting, and lower accounting costs and transaction costs, as well as the negative implications of the multicurrency regime, which is the foreign currency risk exposure risk. The authors asserted the challenges that are faced in the multicurrency regime, which are shifts in government policies, failure to comply with International Accounting Standard 21 and failure to manage foreign currency exposure risk. The findings of the authors also recommended the ways in which firms can use how to report in a multi-currency regime, which is to engage in training and seminars, risk assessment, consultancy of the accounting firms and regulatory, use of MC's tailored accounting software, and use of currency trading accounts. Therefore, this study mainly focused on the impacts of MC's on financial reporting on SME's hence the researcher will investigate the impacts of MC's on financial performance of organisations in the manufacturing sector.

Makumbe, Sunge & Zivanomoyo (2020) investigated the effects of multicurrency system on Zimbabwe Commercial banks performance and there found that the most important discovery is that using different currencies resulted in a statistically significant but relatively small boost in bank performance. A 1% rise in the money supply led to improvements in ROA and ROE of 0.02% and 0.09%, respectively. This implies that the multiple currency system's benefits are waning. The authors recommended that to control inflation and maintain the value of the local currency, monetary authorities should concentrate on targeting the money supply. In order to improve performance, banks should also use competitive strategies and be resistant to systematic risk. Therefore, the research focus was on the performance of the commercial banks in Zimbabwe hence, under this study the researcher will investigate the impacts of MC's on the financial performance of an organisation in the manufacturing sector.

The Boomerang Effects: An Analysis of the Pre and Post Dollarization Era in Zimbabwe was the topic of research by Pasara and Garidzirai in 2020. The influence of dollarization on Zimbabwean economic activity was the study's main focus. To collect the necessary data for the investigation, an auto-regressive distributive lag approach was adopted. According to the study's findings, economic growth is positively correlated with dollarization, GNI, and trade openness. According to the study's findings, Zimbabwean policymakers should implement further complementary measures that encourage economic integration with anchor nations in order to lower credit risk. The study intends to concentrate on how the implementation of policy, particularly concentrating on the exchange rate of the various currencies, has affected the financial performance.

The study carried by Sai & Zinyemba (2017) aimed to pinpoint the advantages that Zimbabwe's MSMEs (micro, small, and medium-sized firms) received from the country's multi-currency system. In an effort to stop a severe economic collapse, Zimbabwe demonetized its own currency, the Zimbabwe dollar, in February 2009 and started using the US dollar, the South African rand, the British pound, and the Botswana pula instead. The MSME sector was chosen for the study because it is the most vulnerable in Zimbabwe. This study employed a questionnaire survey to find any advantages of multi-currency for MSMEs. Out of 350 responders, 265 completed the survey and sent it back. Better customer service is what micro and SMEs stand to gain the most from, according to poll results. The advantage of no inflation was mentioned after that. The British pound is the least chosen currency among respondents, whereas the majority prefer to use the US dollar. The MSMEs do not want the restoration of the native currency. Thus, it is encouraged for the Zimbabwean government to maintain the multiple currency system in the economy as long as possible and to publicly inform the populace that the local currency will not be soon reintroduced. This study focus was on investigating the benefits of using multicurrency system to SME's in Zimbabwe hence this in this research the researcher is going to examine the impact of the multicurrency system on financial performance of an organisation.

Wadesango et al. (2021) investigated the impact of multicurrency regime on the financial reporting and they used the National Property Consultancy Pvt Limited as a case study. The authors discovered that the significance of implementing a multicurrency system in financial reporting to improve budgeting by bringing back the transparency and credibility of financial reports. The research's findings also indicated that while currency reforms have improved financial reporting, they have not been sufficient to re-establish high quality financial reporting due to a lack of software and expertise to manage the risk associated with exposure to foreign currencies, as well as inconsistent government policies that prevented businesses from adhering to the standards that were set during the era. The research study came to the further conclusion that companies financial reporting systems would be enhanced by hiring experts in foreign exchange risk and use of tailored multicurrency accounting system as well as training their staff in multicurrency diversification. Therefore, this study mainly focused on the multicurrency system affects the financial reporting of an organisation.

Mutodi (2019) assessed the impact of MC's on performance of stock market in Zimbabwe. This study looked into how the multiple currency system in Zimbabwe affected the performance of the stock market. The study evaluated the push and pull variables that affect foreign investor participation in the Zimbabwean stock market, as well as the main drivers of stock market performance in the context of multiple currencies in Zimbabwe. The findings showed that under the multiple currency system in Zimbabwe, the money supply, domestic interest rates, and international interest rates were all important determinants of stock market performance. Therefore, the researcher study focus was on assessing the impact of multicurrency system on stock market in Zimbabwe.

Manda &Sibanda (2020) investigated how the multicurrency system affected financial performance in the manufacturing industry. The use of the MCs in the Zimbabwean economy resulted in the loss of control over monetary policy, and the USD was subsequently imposed and accepted as the main unit of account and trade, which in and of itself has generated more problems for the economy, according to the study. The authors suggested that the conditions and environment necessary for the operation of a strong local currency, whatever they may be, need to be established. This would require the reintroduction of the Zimbabwean local currency. Determining how MC's affect the manufacturing sector's performance in terms of economic activity was the primary focus of the research.

In Zimbabwe's post-multicurrency period, Chiyanga (2017) looked into the impact of currency reforms on banking sector confidence. The main topic of the study was how the events leading up to the adoption of the multiple currency system weakened public trust in banking institutions, which made people less likely to use the established banking system. The data for the study were collected using both qualitative and quantitative research methods. The study's findings show that currency reforms were important to regain public trust in the banking industry and suggest other policy improvements in the effort to do so for Zimbabwe's banking sector. The author main focus was banking sector hence this study will sought to investigate the impacts of multicurrency system on the financial performance of organisation being used as the case study.

The author Buigut (2015) conducted research for his article, The Effect of Zimbabwe's Multi-Currency Arrangement on Bilateral Trade: Myth Versus Reality. The study concentrated on the country's experience with hyperinflation, the introduction of a multi-currency system in January 2009, and the five foreign currencies given official recognition. To collect the necessary data, the research combined quantitative and qualitative methods. According to the study, Zimbabwe's bilateral commerce was negatively impacted by the multi-currency system by about 15% in a single year. Furthermore, the author advises Zimbabwe's authorities to take into account a multicurrency regime replacement that they can commit to long-term and that will minimize transactional hassles. This study focuses on the currencies used and how they impact trade between nations. The researcher therefore seeks to analyse the variables that affect the trade and how they affect the financial performance of organisations in the manufacturing sector.

Kurt & Derekoy (2020) investigated the relationship between Turkish profitability and fluctuations in the currency rate. Their primary goal was to scientifically explore the relationship between the fluctuation in the currency rate and the success of Turkish businesses. They used both the return on equity and the return on assets to calculate the impact on profitability. 37 businesses were chosen as a representative sample from the BIST 100. Causality analysis, panel regression analysis, panel data analysis, panel unit root, and moderating effect analysis were all performed for the study's goals. They obtained the data from Finnet, the Public Disclosure Platform, and the official Borsa Istanbul website. Their study found that between 1999 and 2019, fluctuations in foreign exchange rates, overseas sales, and the asset size of enterprises had little impact on Turkey's return on assets and return on equity. They also discovered that variations in the foreign exchange market and foreign sales have a short-term relationship with the return on equity and return on assets, respectively, and that variation in the foreign exchange rate and net assets have a moderating effect on the return assets. This study discovered that as businesses are affected by changes in foreign currency rates gradually, firms were more likely to be harmed by lag adjustments in exchange rates. Changes in exchange rates had an effect on financial performance simultaneously and with a lag. Their analysis shows that organizations can decrease the negative effects of foreign exchange rate volatility by properly utilizing internal and external hedging measures. Brexit, Lu et al. (2021) looked at the connection between exchange rates and bank performance or profitability. The three performance metrics that were used by the researchers were capital to deposit ratio, return on equity, and return on assets. The other independent indicators employed were GDP, government spending, inflation rate, and Dummy-Brexit, while these three metrics served as the dependent variables. They did two analyses, one looking at the performance of all banks in China and the other using data from a selection of 34 UK institutions. Their findings implied that there was a correlation between profitability and currency rate throughout the Brexit timeframe. Okika et al. (2019) examined how changes in exchange rates impact company profitability. Finding out how much exchange rate fluctuation influences return on capital employed was the study's main objective.

The authors mainly researched and focused on the impacts of MC's in Zimbabwe on financial reporting, performance of commercial banks, stock markets and performance of manufacturing sector in terms of economic activity hence this left a research gap which motivated the researcher to investigate the impacts of MC's in Zimbabwe on financial performance of an organisation in manufacturing sector as there is need for the researcher to seek deep analysis of the MC's have affected the financial performance. This study will sought to look on how the financial performance have been affected by the use of the local currency, the influence of the exchange rate fluctuations and the use multiple currencies using the case study of Dazzling Investments which specialises in manufacturing of cooperate wear.

4. THE IMPACT OF THE LOCAL CURRENCY (RTGS) IN MULTICURRENCY SYSTEM ON FINANCIAL PERFORMANCE

The impact of a multi-currency system on several elements that influence the company overview, such as financial performance, is a subject of debate among many authors. According to Manda & Sibanda (2020) adopting the multi-currency system leads to a loss of control over monetary policy, which worsens capacity utilisation as businesses struggle with high production costs. In support, Buigut (2015) argues that the adoption of the multi-currency strategy has caused a nearly 15% decline in bilateral commerce. This mostly impacts manufacturing firms that buy raw materials and sell finished goods through bilateral commerce, which has an impact on their profitability and occasionally the accuracy of their financial performance. These perspectives provide a quick overview of the business environment's impact of the multi-currency system, focusing mostly on the profitability element. Sibanda (2019) makes the claim that the issue with multi-currency systems stems from production all the way through to consumption, which has a significant impact on an organization's performance.

The study which was carried by Kavila (2021) found out that, the introduction of the local currency was to stabilise the economy however, the local currency has been seen as a major driver of inflation in Zimbabwe because the RBZ has been increasing its money supply in the economy which is causing the prices of goods and services to increase which results in an increase in inflation according to the Quantity Theory of Money, which states that the level of prices in a country and the amount of money in circulation are directly proportionate. The crucial inference from this is that, assuming all other factors remain constant, doubling the money supply will result in a doubling of prices as asserted by Nash (2020). The Reserve Bank of Zimbabwe have been increasing the supply of the bond notes and the RTGS over the past 3 years as way to ensure enough cash appropriate with the level of deposits and economic activity in the country hence this has been causing changes in prices of commodities as the money supply was increasing and thus inflation as outlined in the study which was done by Folger (2022), since it refers to the overall rise in pricing for goods and services over time in an economy. When prices rise across the board, inflation occurs. The use of local currency in the multicurrency system have impacted the financial performance of organisations in the manufacturing sector as their products are becoming expensive to export and expensive to the local demand which causes a decrease in revenue and profitability as their customers are shifting their demand to foreign competitors products as outlined by Manda & Sibanda (2020) on the study which they carried. This is supported by Sibanda (2019) that a multicurrency system that permits the use of local currency (ZWD) as the primary currency has led to fluctuations, which are a source of risk on sharp depreciations in foreign exchange rates and when combined with default events for both developed and emerging markets, have an adverse effect on profitability.

Due to the low discretionary income of both consumers and businesses, Dzimunya (2014) revealed that the implementation of a policy supporting a multi-currency system did not significantly boost a company's working capital. However, Chiduuro, Mashavira & Nyanga (2013) and Munzara & Dube (2020) disagree with the authors' conclusions because they believe that multi-currency systems only improve infrastructure availability and stability if customer revenues continue to flow, which sustains an increase in profitability. According to Jefferis, Chigumira, and Chipumho (2013), maintaining a multi-currency system in an economy is a good idea since it promotes macroeconomic stability. Chiyanga (2017) supports currency reforms because they are thought to be vital to regain public trust, particularly in the banking industry, which offers consistent funding for manufacturing organizations. The impact of a multi-currency system on the economy and various business sectors are the authors primary concern on the research which they carried.

Many views have been brought by different authors on how the local currency in multicurrency system have impacted the performance of the economy but this study will sought to examine the extent at which financial performance have been affected. Therefore, this objective seeks to establish the impact of the local currency in MC’s on financial performance of an organisation in the manufacturing sector using a case study of a manufacturing organization which specialises in manufacture of cooperate wear, sports-wear and school uniforms.

5. THE INFLUENCE OF EXCHANGE RATES IN THE MULTICURRENCY SYSTEM IN RELATION TO FINANCIAL PERFORMANCE

Every nation in the globe has an exchange rate system. It may be intermediate, fixed, or floating. A country's economy may be impacted favourably or unfavourably by the choice of an exchange rate regime. Therefore, a country must carefully select it and occasionally decide to modify it to adopt a different regime that is better suited to its economy. The fluctuation of foreign exchange rates in international trade involving multiple currencies is a potentially interesting aspect that affects the financial intermediation process of organisations and influences their level of profitability. Changes in exchange rates could put an enterprise at risk. In addition to having a significant negative impact on an organization's profitability, significant losses in foreign exchange can cause businesses to fail.

A currency that is tied to a number of different foreign currencies is known as a multi-currency basket. The foreign currencies that make up the basket and their relative weights serve to define it. In such a system, the exchange rate is tied to a weighted basket of currencies. Exchange rate is essentially how much one country’s currency is worth in comparison to another. The reason the exchange rate is so significant is because it greatly influences both domestic and international product prices. Also the exchange rate demonstrates a country’s capacity to engage in international trade. Whether they are selling their goods locally or abroad, manufacturing companies are subject to a sizable amount of exchange risk. Foreign products may be less expensive than domestic products due to exchange rates, which affects the performance of the local manufacturing firms and the reverse may be true, which may also benefit local businesses. The firm's financial condition is impacted in both scenarios. Mugambi (2020) stated that the hazards of exchange rate increase as a company expands overseas. This implies that all manufacturing companies are vulnerable to exchange rate swings.

Majok (2015) outlined that financial performance is the capacity to use operational and investment decisions and strategies to ensure the financial stability of an organization. It is a way to gauge how well a bank in the study is doing at meeting its financial objectives and standards. There are three ways that exchange rate variations impact local prices that is the first is through the prices of imported consumer products. Domestic prices are affected by three different ways directly, indirectly and through the pricing of imported intermediate goods. Exchange rate fluctuations also have an impact on the manufacturing costs of domestically produced commodities. As asserted by Majok (2015) that exchange rate changes may be a significant source of risk for banking institutions and large foreign exchange losses worsen situation and result in bank failure due to huge burden on profitability. According to the research, there is a correlation between changes in foreign exchange rates and banks financial success as indicated by their returns on assets ratio and the research results also showed that there was only a minor correlation between the returns and volatility. A change in the value of the domestic currency has an impact on the financial performance of the banks, according to the findings of the correlation research. The study found that changes in exchange rates have a significant impact on stock market performance as well, particularly when those changes have spiralling implications.

Mohammad et al. (2018) postulated that exchange rate fluctuations have an impact on a firm's performance through a variety of channels, including the price of exports relative to overseas competitors and the cost of borrowing. This has always been the case in Zimbabwe as there are different exchange rates in the multicurrency system which is making the local products expensive. This is also supported by Manda & Sibanda (2020) on the study which they carried which postulated that lack of control of exchange rates in the multicurrency system have resulted in local manufactured products expensive compared to neighbouring countries thus cheap imports. Wanjohi & Mungai (2020) articulated that in their study, failure of the government in a multicurrency system to control the market exchange rate results in loss of control over the monetary policy as the informal market will be controlling hence it may cause the manufacturing firms to suffer as their currency purchasing power will be decreasing because of inflation and this would affect when importing raw materials and thus an adverse effect.

Many authors have brought different views about this issue of exchange rates in MC's but on this objective of the study the researcher will sought to examine the relationship of the two variables that is, the influence of exchange rates in the multicurrency system on financial performance as well as showing the extent at which the exchange rate affects financial performance of the organization in the manufacturing sector.

6. HOW THE USE OF MULTIPLE CURRENCIES HAVE AFFECTED THE FINANCIAL PERFORMANCE OF THE ORGANISATIONS

The use of multiple currencies has affected the financial performance of organisations in the manufacturing sector in both ways either positive or negative way in the economy. As asserted by Gadzirirai & Pasara (2020) that Zimbabwe use of multiple currencies have benefited the business transactions in the economy as the prices of commodities were stable soon after the adoption of this system which intended to motivate manufacturing firms to produce more since the consumer spending was increasing. Sibanda (2020) stated that adoption of the multiple currencies in Zimbabwe helped the organisations to boost their business operations through credit facilities which were available in the banking sector since the banking sector had gained confidence with the financial sector of the economy. Depending on the value of the currency, the currencies used in Zimbabwe have varying effects on the commercial transaction process. Pasara and Garidzirai (2020), who argued in favor of the integration of the USD currency, this would offer consistency to business transactions, steady prices for raw materials, and stable selling prices, all of which would lead to gradually increasing profitability. According to Jefferies et al. (2013), the introduction of the US dollar and the South African rand brought much-needed economic stability to the country. Munzara and Dube (2020), provide evidence for this claim, a multi-currency strategy is a currency reform that aims to stabilize the transaction system within the commercial sector by re-establishing confidence in the economy and in particular, the banking sector. This improved business operations through increased credit facilities, which led to profit realization due to working capital availability. This is supported by Manda & Sibanda (2020) as they stipulated that the adoption of the multiple currencies increased the production of the manufacturing sector since it was easy to access credit facilities as the USD had gained much purchasing power.

Manda &Sibanda (2020) also state that a policy that removes control of the monetary policy of the economy where the currencies are being utilized is what is meant by a multi-currency system. This interferes with the economy's regular transactional operations, which has a negative impact on manufacturing firms and causes the central bank to lose control over managing currency production and circulation. Despite the easy access of credit facilities, the adoption of the MC's caused loss of monetary policy control which have adversely affected the economy since, there are fluctuations of exchange rates in the market because of a weak currency among other currencies in the basket of currencies hence this have affected the manufacturing companies when purchasing raw materials and selling their commodities through bilateral trade as supported by Buigut (2015). This mostly impacts production-sector businesses that buy raw materials and sell finished goods through bilateral commerce, which lowers their profitability. The scholars mentioned above primarily concentrate on the impacts of these various currencies on economic and value stability.

There are other difficulties brought on by the system, such as issues with wages and price pegging to the US dollar, a lack of smaller denomination US dollar bank notes, and negative effects of trade with South Africa, particularly exchange rate volatility. Sibanda (2017) outlined that nevertheless, despite the advantages brought to hospitality sector by the use of MC's, the hotel business continued to have difficulties due to the weak South African Rand, which made lodging in Zimbabwe highly expensive and less competitive than it was in South Africa. Due to the high expense of US dollar-denominated lodging rates in Zimbabwe, some clients who visited the Victoria Falls chose to remain in Zambia while taking part in tour activities there. Moreover on this study, the liquidity issues caused by the multi-currency system had an impact on areas like purchasing and consumers promptness to pay. The implementation of value added tax (VAT) on lodging services, along with price competition amongst sector participants, also brought negative outcomes for many participants, as demonstrated by the ongoing losses recorded by mentioned hospitality groups hence this affected the financial performance.

Therefore, this objective seeks to establish how the use of multiple currencies in Zimbabwe affect the financial performance of organisations in the manufacturing sector as it is the key sector of the economy which determines the position of Gross Domestic Product of the economy. The researcher will use one manufacturing firm as a case study.

7. THE MERITS AND DEMERITS OF THE MULTICURRENCY SYSTEM AND RECOMMEND WAYS TO IMPROVE THE SYSTEM

Multicurrency system has proved to have merits and demerits in the economy over the past years since it was adopted by the government of Zimbabwe. Munzara & Dube (2020) carried out a study which they outlined that the multicurrency system improves the stability of the economy and financial sector credibility. This was also supported by Mugambi (2020) that the multicurrency system proves to have a positive effect on the economy as it improves macroeconomic stability, as it is an objective of all developing countries to achieve. Gadzirirai & Pasara (2020) also articulated that the multicurrency system restored public confidence in financial sector like banking sector hence this proves to be a strength as this will provide good basis for organisations financial stability and relationship with the banking sector. The use of multicurrency helps to avoid extra charges to ensure customer loyalty as stated by Chen (2022) that is, by using multiple currencies, a customer can avoid being hit with additional currency conversion fees on their credit card statements. Customers are much less likely to want to make a subsequent purchase from your organisation once they are made aware of these additional fees. As a result of their displeasure with the increased cost and general annoyance with the additional fees, it is more likely that they will ask for a refund or issue a chargeback. The first action manufacturing firms can take is to encourage repeat purchases of the firm digital goods or service to be upfront about the prices. Moreover, multicurrency helps manufacturing organisations to win customers trust through pricing display consistency since multicurrency ensures that customers get to see the prices of the commodities in all different currencies as outlined by Mohammad, Morteza & Nadia (2018). The study carried by Kavila (2020) outlined that multicurrency system impacts financial performance positively as it does offer customers the option to pay with a variety of accepted currencies is just the beginning of multi-currency support hence it gives customers the option to pay with alternative payment methods to increase sales and increase revenue. For instance, a lot of European customers favour instantaneous bank transfers through their online bank accounts. Multi-currency helps lower refund and chargeback rates and decrease shopping cart abandonment as customers will see prices based on live foreign exchange rates for any currencies you do not set localized pricing for. Customers will value your transparent pricing strategy and the ease with which they may view the price in their selected format's currency.

Mhungu & Sibanda (2017) stated that multicurrency brought stability in health sector such as exchange rate stability which made it easier for the health sector to acquire all the basic needs of their sector despite the fact that some goods were not available from the local retailers hence the MC's made it easy as they had the foreign currency to import from other countries. Budgetary control within this sector became easy since their planning got easy as there was certainty in the multicurrency system and positive indicators arose as there was positive financial performance. Manda &Sibanda (2020) outlined that the use of the multicurrency system stabilised inflation and making planning easy and eliminating exchange rate vitality.

The use of MC's also brought confidence in business which was lost.

However, the multicurrency system poses to have demerits which hinders the progress of the activities in the economy and business performance as asserted by Manda & Sibanda (2020) that the adoption of multicurrency system causes the central bank to lose control over the monetary policy which triggers inflation to increase and hence thus an increase in costs of production to local manufacturing organizations. The results demonstrate that loss of seniority, a lack of control over exchange rates, and liquidity issues are some of the issues related to MC's use. Additionally, the data show that Zimbabwe's usage of the MC's made domestically produced items more expensive when compared to those from its neighbours. Due to the local products becoming too expensive in comparison to low-cost imports, the local manufacturing industry's ability to compete against regional businesses has decreased which means that the performance of the manufacturing sector was negatively impacted by the MC's in a number of ways. The manufacturing sector's performance was negatively impacted by the MC's due to the high cost of domestic production brought on by the USD appreciation, the accumulation of inexpensive imports brought on by the need for external manufacturers to acquire USD, and liquidity issues as mentioned above because the RBZ has no control over the money supply. Given that RBZ did not serve as lender of last resort, the study concluded that there was a problem with finite credit limits.

This is supported by Buigut's (2015) study which outlined that multicurrency system has caused transactional inconvenience in the country rather than to reduce it. The use of the local currency (ZWD) has seemed to be a weakness in the multicurrency system as it is being seen as major driver of inflation in the economy as it continues to devalue by each day as compared to other currencies in the basket. Sibanda (2020) supported that, the structure of multi-currency systems that permit local currency to be used as the principal currency has led to fluctuations that are a source of risk on sharp depreciations in foreign exchange rates and in conjunction with default events for both developed and emerging markets.

Jefferis et al. (2013) study outlined that the loss of independence in monetary and exchange rate policy, may hinder the nation's capacity to respond to economic shocks. When a nation gives up its use of the exchange rate as a tool, it loses a defence against economic shocks. According to some, having complete control over monetary policy should allow a nation to steer the economy in any way it chooses by using a variety of monetary policy tools, including interest rates and reserve requirements. Given that monetary policy is a crucial tool for macroeconomic management, the MC's restrictions on the achievement of national objectives may be seen as posing a barrier to achieving national economic objectives. These authors also outlined that the effect of ongoing trade deficits on the financial system is a possible hazard that emerges under the MC's, or indeed under any system centred around a foreign currency or currencies when there are no foreign exchange reserves. In the event of a trade imbalance, more money must be expended to cover imports than is brought in by export revenues. This may cause the banking sector to lose liquidity, which could destabilize banks or at the very least limit loan availability. Dzimunya (2014) revealed that due to the low discretionary income of both consumers and businesses, the implementation of the policy to enable multi-currency systems has not significantly improved a company's working capital.

Manda & Sibanda (2020)'s study revealed that the MC's application in the Zimbabwean economy is accompanied with a variety of issues. Therefore, it is necessary to reintroduce the indigenous currency of Zimbabwe. Whatever they may be, the prerequisites and atmosphere for the operation of a robust local currency must be established. Therefore, this objective seeks to highlight the strengths and weaknesses of the multicurrency system and suggesting best possible ways to improve the system in relation to financial performance of organisations in the manufacturing sector.

All the above authors discussed the effects of the multicurrency system in Zimbabwe on the specific sectors within the economy and on the economy as a whole hence the authors suggest further analysis of the effects of MC's on other specific related study areas. This motivates the researcher to further examine the effects of MC's on financial performance of an organisation in the manufacturing sector, specifically focusing on objectives stated above in the empirical review which will be useful to provide a clear understanding of the impact.

8. CONCLUSION

The study concludes that the influence of exchange rates in the multicurrency system adversely affects the financial performance of the organisation since the organisation expenses increase as they incur foreign exchange losses when importing and making payments of raw materials hence this reduces the profitability of the organisation. The study also concludes that the use of multiple currencies in the multicurrency system positively affected the organisation financial performance since the use of multiple currencies in the economy help to stabilise prices of commodities which enables the organisation to charge prices in different currencies so as to eliminate cost of currency conversion to customers and this triggers customers to have confidence with the organisation operations hence this promotes sales which improves the revenue and profitability of the organisation.

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