FOREIGN EXCHANGE RISK AWARENESS AND MANAGEMENT PRACTICES WITH SPECIAL REFERENCE TO SME's IN COIMBATORE

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***Abstract*: This study assesses the existing capacity in the country for foreign currency risk management; its findings generate knowledge in this area hitherto unknown. The study is of descriptive in nature and the sample respondents were 38. Findings of this study indicated an inadequate capacity among individuals/firms to manage foreign exchange risk. Consequently, this study proposes remedial measures to enhance foreign currency risk management capacity through training. Improved foreign currency risk management shall, it is argued, minimize losses and increase the value of firms.**

Keywords: foreign exchange, risk management, inadequate capacity, minimize losses

Introduction

In many countries,instability of foreign currency exchange rates is one of the most important and concerning topics. Some companies and even individuals have loans to be paid in foreign currency while earning revenues in domestic currency. Situation might be worse for the companies that have external tradesvizexporters and importers. Exporter companies have a risk to lose part of their profit if domestic currency appreciates and vice versa is true for importer companies, they would lose if domestic currency depreciates. Everyday purchase decisions for importing goods bear a foreign exchange rate risk due to possible high fluctuations on foreign exchange market. Exchange rate risk makes the economic planning process for businesses more difficult and financial outcomes uncertain. Companies facing exchange rate risk exposure have to diminish foreign exchange risks in order to ensure effectiveness.

Review of Literature

Rabia Najaf and Khakan Najaf (2017) studied that exchange rate acts as the main role in the integral part of the economic development. India is also facing this issue like other Asian countries impact of increase exchange rate on the growth of the economy. It is source of the external funds and act as the channel between risk and investment. In this research, the data from 1998 to 2008 and applied the ADF test, normality test and Jarqu e-Bera statistics test for taking the proper results about the impact of exchange rate on the development of India. Normality test explains the nature of the data. The results showed that increase exchange rate has negative impact on the stock exchange of India.

TurgutTürsoy (2017)explored the interaction between stock prices and actual exchange rates by smearing monthly data from Turkey for the period among 2001 and 2016. This study used the autoregressive distributed lag (ARDL) model and the Error Correction Model (ECM) in order to investigate the existence of a long-run equilibrium relationship between the variables. The evidence revealed that there is a strong long-run integration. The Granger causality test results indicateda long-run bidirectional causality between stock prices and real exchange rates, and also a unidirectional causality from the real exchange rates to the stock prices in the short-run. In order to analyze the validity and reliability of the test results, diagnostic tests were applied in both the short-run and long-run models.

KaziRashedul Hasan (2015) The study was conducted in order to disclose the Foreign Exchange (FX) rate risk faced by every importer company. The paper scrutinized Foreign Exchange risk hedging strategy using forwards against floating strategy in terms of reducing total importing costs. The study exposes real-life costs of hedging strategies using forwards comprising theoretical foundations as well as practical implementation example based on real company data. The main question to be answered in the paper is whether it is beneficial to hedge with Foreign exchange forwards or it is better to float in foreign exchange exposure.

Khaldoun M. Al-Qaisi (2012) Foreign currency exchange management is very critical in firms with foreign transactions. The objective of this research was to analyze the management practices in firms of foreign exchange management in Jordon and its risk on these firms. A questionnaire was used to collect data using a stratified random sample. The results show that the firms attentive with foreign currency exchange management as it forms more that 50% of its deals. Most of firms specified that they have a policy for foreign exchange risk management depending on history records of exchange rate of JOD for US dolor.

Research design and methodology

The main objective of this study was to evaluate the capacity to manage foreign exchange risk among businesses and existing or potential players in the financial markets.The research was conducted mainly in the form of a survey. It captured individual's opinions and assessment of foreign currency risk management awareness, practices and competencies. In training institutions, foreign currency risk management training was assessed by appraising the content of course outlines.

Data was collected through one basic survey questionnaire which was appropriately adapted to the two main categories of respondents. The tools used for analyzing the data is descriptive statistics and correlation.38 respondents were randomly selected and included in the survey.Given the exploratory nature of the research data analysis was descriptive in terms of frequency tables and in observing general characteristics and relationships.

Analysis and Interpretation

Identification of firms foreign exchange exposure

	N	Minimum	Maximum	Mean	Std.Deviation
Firm Managing Translation Exposure	38	1.00	4.00	1.8684	0.77707
Primary Reason In Managing Firms Translation Exposure	38	1.00	2.00	1.5263	0.50601
Firm Managing Transaction Exposure	38	1.00	3.00	1.4737	0.68721
Primary Source Of Firm's Transaction Exposure	38	1.00	3.00	1.4211	0.75808
Methods Used To Forecast Future Foreign Exchange Exposure	38	1.00	5.00	2.0263	0.94402
Firm Managing Economic Exposure	38	1.00	2.00	1.8158	0.39286
Major Type Of Exposure Found In Firm	38	1.00	3.00	2.3947	0.59455
Average				2.1579	

The above table shows that the respondent's level of agreeability towards identification of firms foreign exchange exposure is high towards major type of exposure found in firm(2.3947)

Foreign exchange risk management policy

	N	Minimum	Maximum	Mean	Std.Deviation
Firm's Policy On Translation Exposure	38	1.00	4.00	3.0263	.88491
Firm's policy on transaction exposure	38	1.00	4.00	2.8947	.89411
Firm's policy on Economic exposure	38	1.00	4.00	2.7632	.81983
Factors Driving Firm's Foreign	38	1.00	3.00	2.1053	.86335

Exchange Exposure					
Major Objective Of Firm's Foreign Exchange Exposure	38	1.00	5.00	3.2368	1.58428
Firm's Delegation Of Authority On Foreign Currency	38	1.00	4.00	1.5526	1.05772
Firms Authority To Enter Into Foreign Exchange Transaction	38	1.00	4.00	1.3947	.85549
Firm's Authority To Hedge Foreign Exchange Exposure	38	1.00	4.00	1.6316	1.10089
Firm's Foreign Exchange Risk Management Policy	38	1.00	3.00	1.8158	.83359
Primary Source Of Firm's Foreign Exchange Rate Forecast	38	2.00	4.00	2.9211	.81809
Average				2.33421	

The above table shows that the respondent's level of agreeability towards foreign exchange risk management policy is high towards major objective of firm's foreign exchange exposure (3.2368).

Techniques in foreign exchange risk management

	N	**Minimum**	**Maximum**	**Mean**	**Std.Deviation**
Instrument Used To Hedge Firm's Foreign Exchange Exposure	38	1.00	6.00	2.6842	1.57866
Factors Influencing Internal Hedging Techniques	38	1.00	4.0	3.0000	1.16248
Financial Instrument Used To Hedge Firm's Foreign Exchange Exposure	38	1.00	5.00	2.7105	1.35383
Factors Influencing External Hedging Techniques	38	1.00	4.00	2.1842	1.06175
Average				2.6447	

The above table shows that the respondent's level of agreeability towards techniques in foreign exchange risk management is high towards factors influencing internal hedging techniques (3.0000).

Correlation between annual turnover and techniques in foreign exchange risk management

		Techniques In Foreign Exchange Risk Management	Instrument Used To Hedge Firm's Foreign Exchange Exposure	Factors Influencing Internal Hedging Techniques	Financial Instrument Used To Hedge Firm's Foreign Exchange Exposure	Factors Influencing External Hedging Techniques
Annual turnover	Pearson correlation Sig (2-tailed)	1	-.129 .442	.216 .192	-.127 .447	-.231 .163

**. Correlation is significant at the 0.01 level (2-tailed)

The above table shows the correlation between annual turnover and techniques in foreign exchange risk management; there is a highly significant positive correlation between factors influencing internal hedging techniques(.216), and a negative correlation between Factors Influencing External Hedging Techniques (-.231), Instrument Used To Hedge Firm's Foreign Exchange Exposure (-.129) and Financial Instrument Used To Hedge Firm's Foreign Exchange Exposure (-.127) .

Conclusion

This study concludes that foreign currency risk is perceived to be a significant challenge by the overwhelming majority of both categories of respondents and that there must be avenues in place to be able to manage such risk. However, there is a perception that the capacity within the country to manage foreign currency risk is either weak or mostly non-existent or where it is somewhat in existence there is a need to strengthen that capacity.

One major lead towards better foreign currency risk management is the existence of a policy document that guides practice with respect to foreign currency risk management. It emerged from the study that it was not normal practice for local firms to have a policy in place.

A divergent view was however observed in subsidiaries of overseas holding companies which evidently had a document in place to guide practices.

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