

Exporter's Perception towards Risk Factors of Foreign Exchange Operations –An Empirical Study

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ABSTRACT

The experience with the exchange rates has in many ways differed from what was anticipated in 1973 when the major industrialized countries abandoned the effort to keep the values of their currencies fixed. There is a wide spread feeling that exchange rates have turned out to be more volatile than they were expected to be, than they should be and perhaps than they need to be. Exchange rate volatility creates special problem for international business activity, because it creates a special kind of risk (foreign exchange risk). When business deals are arranged for the future, they are complicated by the increased risk of exchange rate changes. Exchange rate volatility has complicated the exporting business. Exporting firms adopt Foreign Exchange Risk Management as solution to these volatile exchange rates because of their impact on firm's financial performance. To most firms the objective of Foreign exchange risk management is to protect funds, which a company possesses or can expect in the near future. FERM (Foreign exchange Risk Management) is carried out purposively to minimize quarter-to-quarter or year-to-year earnings fluctuations stemming from currency movements. The Currency Risk Management practices in India are evolving at a slow pace. At the Policy, Reporting and Operational levels, there is need for a greater sense of urgency in developing foreign exchange market fully and using the hedging instruments effectively. The framework developed in this research is based on a mental model of a medium-to-large manufacturing company and merchant exporter, as perceived by the researcher. Decisions and actions in the area of FERM may have impact on other segments and activities in the enterprise.

1. Preamble

The experience with the exchange rates has in many ways differed from what was anticipated in 1973 when the major industrialized countries abandoned the effort to keep the values of their currencies fixed. There is a wide spread feeling that exchange rates have turned out to be more volatile than they were expected to be, than they should be and perhaps than they need to be. Exchange rate volatility creates special problem for international business activity (exporting and importing) because it creates a special kind of risk (foreign exchange risk). When business deals are arranged for the future, they are complicated by the increased risk of exchange rate changes. When exporting firms quote the price of their goods in a foreign currency, they want to be sure of the receiving sufficient returns in their own currency to cover the costs of production and generate a reasonable profit. If in the meantime, the value of their own currency appreciates/depreciates in terms of the other currency; they stand to make a loss on the transaction. To safeguard against this inconsistency exporting firms develop strategies to either eliminate or reduce this currency risk, which is the major aim of foreign exchange risk management. FERM is the process of measuring or assessing currency risk and then developing strategies to manage the risk. It deals with the systematic management of the risk of loss from exchange rate movements on international transactions. FERM minimizes quarter-to-quarter or year-to-year earning fluctuations stemming from currency fluctuations.

It looks forward to future cash flows and seeks to ensure that their value will be maintained when they occur. In other words it becomes an insurance against a decline in these cash flows. With foreign exchange risk management, the exporter's main goal is to ensure that proceeds from sales are not lower than the expected. India had earlier followed a tightly regulated foreign exchange regime. The liberalisation of the Indian economy started in 1991. The 1992-93 Budget provided for partial convertibility of Indian Rupee in current accounts and, in March 1993, the Rupee was made fully convertible in current account. Demand and supply conditions now govern the exchange rates in our forex market.

A fast developing economy has to cope with a multitude of changes, ranging from individual and institutional preferences to changes in technology, in economic policies, in regulations etc. Besides, there are changes arising from external trade and capital account interactions. These generate a variety of risks, which have to be managed. There has been a sharp increase in foreign investment in India. Multi-national and transnational corporations are playing increasingly important roles in Indian business. Indian corporate units are also engaging in a much wider range of cross border transactions with different countries and products. Indian firms have also been more active in raising financial resources abroad. All these developments combine to give a boost to cross-currency cash flows, involving different currencies and different countries. The corporate enterprises in India are increasingly alive to the need for organised fund management and for the application of innovative hedging techniques for protecting themselves against attendant risks. Derivatives are the tools that facilitate

trading in risk. The foreign exchange market is still evolving and corporate enterprises are going through the movements in transition from a passive to an active role in risk management. There is no organised information available on how the corporate enterprises in India are facing this challenge. It is in this context that a review of the perceptions and concerns of the corporate, in relation to derivatives and of their initiatives in tuning the organisational set up to acquire and adopt the requisite skills in risk management.

2. Statement of problem

The main objective of the present study is identifying the risk faced by exporters in foreign exchange operations. This study ensures the currency risk assessment and risk management strategies adopted by the exporting firms. It also focuses the attitude at perception towards the exporters in foreign operation.

3. Objective of the study

To study exporter's perception towards risk factors of foreign exchange operation with special reference to Coimbatore.

4. Area of study

The present is conducted in Coimbatore . Since this city is very popular for its climate and suitable atmosphere to all kinds of business both domestic and international business. There are many business personalities are involving with export import activities in Coimbatore area. There are umpteen number of exporters are dealing with export through sea port and air ports in Coimbatore. Therefore, this area is selected as a study area by researcher.

5. Research Design

The researcher has adopted descriptive and analytical research design for observing the exporter's perception towards risk factors of foreign exchange operations in Coimbatore .area business personalities

6. Period of study

The researcher has collected the primary data from June 2018 to September 2018 in among the dairy product exporter in Coimbatore city.

7. Methods of data collection

The researcher has applied the primary and secondary data method for collecting the necessary data. The primary data is collected through structured questionnaire and secondary data is collected through various published sources like journals, magazines, dailies and other mass media both print and internet sources for constructing this present study.

8. Sampling design

The researcher has used convenient sampling techniques for collecting the primary data from exporters in Coimbatore. The sample size is determined as fifty exporters, those who are registered their concern as a export organisation under the Coimbatore chamber of commerce, since unregistered exporters are not consider for the present study.

9. Statistical tools applied for the study

The following statistical tools have been used by researcher for to do the analysis part of the study. They are Simple Percentage Analysis, Weighted average score mean, ranking method and chi-square test.

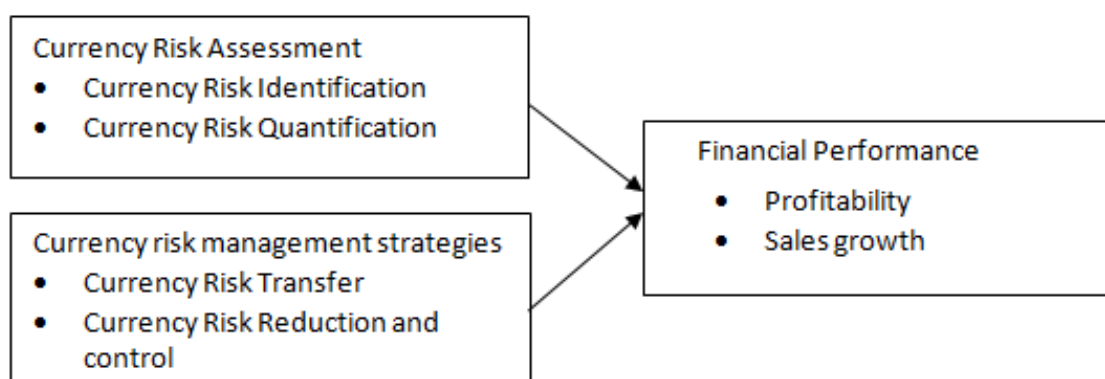
10. Short coming of the study

The study is based on Coimbatore area's exporter's perception towards risk factors of foreign exchange operation only. The findings of the present study may not suitable to entire India. Due to time constraint and busy schedule of the exporters, researcher has collected 50 questionnaires from the exporter in Coimbatore.

11. Research methodology

For achieving the objectives of study, researcher has collected the questionnaire from 50 respondents as exporters. For conducting survey the questionnaire method come personal interviews method is adopted by the researcher for collecting the primary data in the study area.

12. FERM Risk Model



13. Risk Management Model

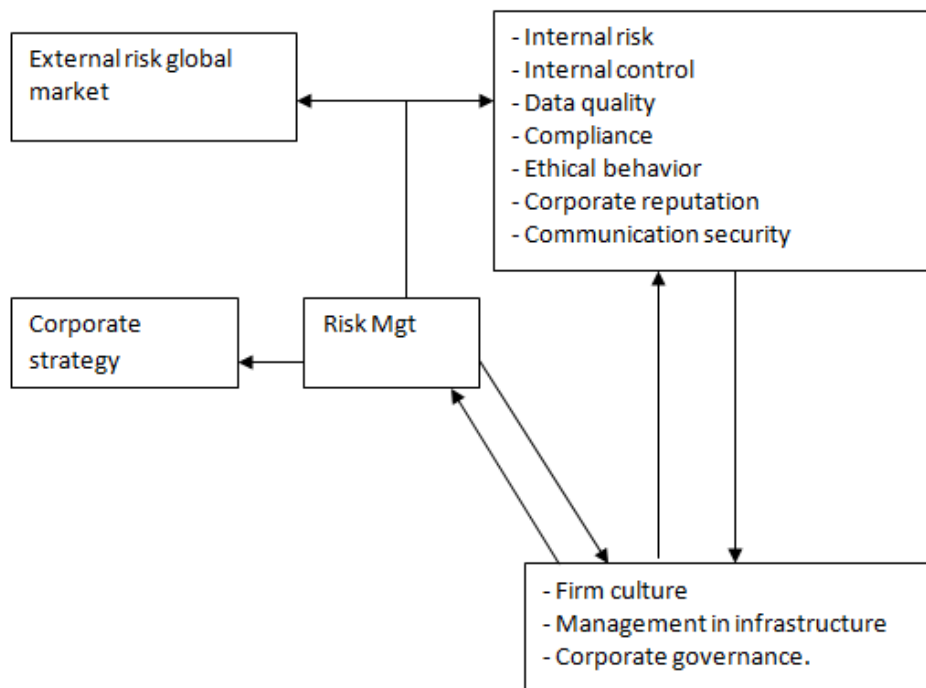


Table number: 01 Problems faced by exporters in international business

PROBLEMS	10	9	8	7	6	5	4	3	2	1	TOTAL	RANK
Financial problems	2	3	2	6	2	3	1	2	11	18	50	3.64
	20	27	16	42	12	15	4	6	22	18	182	
Marketing problems	6	2	3	1	2	12	17	2	2	3	50	5.24
	60	18	24	7	12	60	68	6	4	3	262	
Exchange rate volatility	4	6	8	1	15	5	3	2	4	2	50	6.16
	40	54	64	7	90	25	12	6	8	2	308	
Delay in export realization	5	7	3	9	4	2	1	3	6	2	50	5.16
	50	63	24	63	24	10	4	6	12	2	258	
Labour problems	18	11	2	1	3	2	6	2	3	2	50	7.36
	180	99	16	7	18	10	24	6	6	2	368	
Transportation problems	3	2	2	17	12	2	1	3	2	6	50	5.76
	30	18	16	119	72	10	4	24	12	4	288	
Storage problems	2	4	2	3	5	15	1	8	6	4	50	5.24
	20	36	16	21	30	75	4	24	12	4	262	
Legal and Government policy	2	6	2	10	2	4	9	3	7	5	50	5.14
	20	54	16	70	12	20	36	9	14	5	257	
Complex procedures (formalities)	6	3	9	2	4	2	3	9	5	7	50	5.26
	60	27	72	14	24	10	13	27	10	7	263	
Infrastructure problems	18	2	11	2	3	1	3	2	6	2	50	5.2
	180	18	88	14	18	5	12	6	12	2	260	

Source: Primary data

Table number: 02 Export cargo related problems faced by exporter

PROBLEMS	8	7	6	5	4	3	2	1	TOTAL	RANK
Securing Orders	9	2	4	2	3	9	5	7	50	IV
	72	14	24	10	13	27	10	7	263	
Time Management	2	17	12	2	1	3	2	6	50	III
	16	119	72	10	4	24	12	4	288	
Quality Up gradation	2	1	3	2	6	2	3	2	50	I
	16	7	18	10	24	6	6	2	368	
Environmental / Green Marketing / Eco-System	3	9	4	2	1	3	6	2	50	VI
	24	63	24	10	4	6	12	2	258	
Cost Adjustment	2	6	2	3	1	2	11	18	50	VIII
	16	42	12	15	4	6	22	18	182	
Packaging	8	1	15	5	3	2	4	2	50	11
	64	7	90	25	12	6	8	2	308	

Weights And Measures	2	10	2	4	9	3	7	5	50	VII
	16	70	12	20	36	9	14	5	257	
Cancellation Of Orders	2	3	5	15	1	8	6	4	50	V
	16	21	30	75	4	24	12	4	262	

Source: Primary Data

Table number: 03 Performance of foreign exchange activities

PERFORMANCE	6	5	4	3	2	1	TOTAL	RANK
Sound financial management is the pivotal part of the export and business	22	8	10	2	3	5	50	V
	72	20	40	6	6	2	199	
Proper guidance of 'authorised dealers' play a dominant role in the success of your organization.	8	12	16	7	4	3	50	III
	24	30	32	21	10	6	234	
Currency symbol has benefited your business for minimizing exchange rate risk	5	4	10	6	10	15	50	VI
	18	10	20	18	20	15	165	
Forward contracts are used to tackle exchange rate fluctuation	14	8	12	6	6	4	50	IV
	42	40	24	12	26	1	228	
Planning foreign exchange hedge can help to manage the foreign exchange risk	7	6	7	10	16	4	50	I
	36	25	8	9	16	1	285	
Current account convertibility helps to reduce the risk Management	12	8	15	8	2	5	50	II
	36	25	12	24	4	5	257	

Source: Primary data

Table number: 04 Exporter's opinion towards foreign exchange operations

Factors	HU	UA	N	A	HA	TOTAL	SCORE	RANK
Does the rising rupee value against dollar (or any other foreign currency) appreciate your business?	4	12	17	8	9	50	2.88	IV
	20	48	51	16	9	144		
Products exported are highly sensitive to exchange rate fluctuation.	5	8	4	12	21	50	2.28	VII
	25	32	12	24	21	114		
Fluctuation of currency rate does not affect the export of your products.	6	4	9	19	12	50	2.46	V
	30	16	27	38	12	123		
Exchange rate is insignificant for export performance	26	8	3	6	7	50	3.8	I
	130	32	9	12	7	190		
Exchange rate uncertainty depresses the volume of trade (at a particular point of time)	8	24	6	8	4	50	3.48	II
	40	96	18	16	4	174		
Adverse shock (bad news) influences the volatility more severely.	6	8	26	2	10	50	3.08	III
	30	32	78	4	10	154		
Exchange rate movement affects domestic prices.	3	4	8	22	13	50	2.24	VI
	15	16	24	44	13	112		

Source: Primary data 5(HU) Highly Unaffected, 4(U) Unaffected, 3(N) Neutral, 2(A) Affected, 1(HA) Highly Affected.

Table number: 06 Exporters perception towards internal sources of organisation

Internal sources	SA	A	N	DA	SD	TOTAL	SCORE	RANK
Skilled manpower is essential to be competitive in the world market	8	16	11	6	9	50	3.16	II
	40	64	33	12	9	158		
Separate export department is required	21	8	5	10	6	50	3.56	I
	105	32	15	20	6	178		
Qualified persons are required to handle export transaction	5	9	4	10	22	50	2.3	V
	25	36	12	20	22	115		
Up-to-date knowledge is the need of the hour	5	11	7	19	8	50	2.72	IV
	25	44	21	38	8	136		
Rupee appreciation causes job losses	6	12	10	8	14	50	2.76	III
	30	48	30	16	14	138		

Table number : 07 Exporters perception towards forex operation

Forex operations	SA	A	N	DA	SD	TOTAL	SCORE
Goals of the firm are met through proper planning of export transactions.	4	12	17	8	9	50	2.88
	20	48	51	16	9	144	
Technological up-gradation would keep business effective and efficient.	5	8	4	12	21	50	2.28
	25	32	12	24	21	114	
More avenues have opened up after the	6	4	9	19	12	50	2.46

liberalisation, privatisation and globalisation era.	30	16	27	38	12	123	
EXIM policy liberalised export procedures.	26	8	3	6	7	50	3.8
	130	32	9	12	7	190	
Export profitability is considered to be a performance indicator for the firm.	8	24	6	8	4	50	3.48
	40	96	18	16	4	174	
Inflation leads to deprecation in the domestic value of the currency.	6	8	26	2	10	50	3.08
	30	32	78	4	10	154	

Source: Primary data

5(SA) Strongly Agree, 4 A) Agree, 3(N) Neutral, 2(D) Disagree, 1(SD) Strongly disagree.

14. Observations of the study

- 68% of the respondents felt that, foreign exchange operation have complex formalities and 60% of respondents are affected by forex operations.
- 60% of respondents are frequently used American dollar for their transaction.
- 40% of the respondents faced infrastructure problem inside the sea and air port connected with forex operations.
- 44% of the respondents are merchant exporters and 36% of respondents are prefers Indian overseas bank for their forex transaction.
- 62% of respondents are used letter of credit for the nature of payment and receipt.
- Majority (68%) of the respondents were doing proprietorship business
- 68% of the respondents have secured 10-20 years of experience in export business.
- Majority of the stated that, labour problems are number one rank problems and number two ranks stated that foreign exchange rate volatility.
- Majority of the respondents stated that quality up gradation is number one rank and rank number two is packaging.
- Majority of the respondent opined that planning foreign exchange hedge can help to manage the foreign exchange risk and the Current account convertibility helps to reduce the forex risk Management.
- Rank I 3.56 stated that skilled manpower is essential to be competitive in the world.
- Rank I 3.8 of the respondents stated that, the EXIM policy liberalised for increasing the export level.

15. Recommendations of the study

- Exporting concern should develop a Foreign Exchange Risk Management framework, which should show their currency risk assessment procedure and implementation of currency risk for monitoring the volatility of foreign exchange operations.
- An organized exposure management function is very necessary which will enable the firms to: To have a procedure, this deals with the Foreign Exchange Risk Management. Involve operating departments in the FERM program.
- Exporting firms should emphasize the use of currency risk transfer strategies through hedging, insuring and diversification of foreign exchange risk. These are the most commonly recognized currency risk

management strategies. With these currency risk transfer strategies the risk is completely transferred.

- The exporting firms carry out currency risk quantification through forecasting foreign currency cash flows and measuring and reporting their exposure to foreign exchange risk on a monthly basis in order to assess how much value is exposed to foreign exchange risk.
- Findings on the adoption of currency risk management strategies reveal that exporting firms use all the different categories of currency risk transfer, currency risk reduction and control and currency risk retention strategies.
- Matching strategy is also a convenient currency risk management strategy to exporting firms because when the exchange rate of two currencies are positively correlated a firm can offset in long position in one currency with a short positioning the others.
- Exporters must concentrate more number of countries rather than usually exporting countries. The exporters should frequently have contact with the foreign buyers which will improve the performance of export.
- Exporters must overcome from the lack of clarity about investor expectations, difficulties in pricing and valuing, difficulties in evaluating the risk and lack of understanding as to how to monitor and evaluate hedging outcome. The exporter must change their attitude towards forex operation as a positive one with their experience and intellectual skills for boosting their profit in overseas market.

16. Conclusion of the study

Exchange rate volatility has complicated the exporting business. Exporting firms adopt FERM as solution to these volatile exchange rates because of their impact on firm's financial performance. The most of the concern are focusing their objective of FERM to protect their funds, which a company possesses. The Currency Risk Management practices in India are evolving at a slow pace. At the Policy, Reporting and Operational levels, there is need for a greater sense of urgency in developing foreign exchange market fully and using the hedging instruments effectively. Decisions and actions in the area of FERM may have impact on other segments and activities in the enterprise. If the exporters are predicting and managing the foreign exchange instruments, problems and managing foreign exchange operation will be easy in near future.

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