



FOREIGN EXCHANGE RISK COVERAGE MODEL AND AWARENESS CREATION WITH SPECIAL REFERENCE TO SMALL AND MEDIUM EXPORTERS IN WESTERN DISTRICTS OF TAMILNADU

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1.1 Introduction

Exchange rate risk management is an integral part in every firm's decisions about foreign currency exposure (Allayannis, Ihrig, and Weston, 2001). Currency risk hedging strategies entail eliminating or reducing this risk, and require understanding of both the ways that the exchange rate risk could affect the operations of economic agents and techniques to deal with the consequent risk implications (Barton, Shenkir, and Walker, 2002). Selecting the appropriate hedging strategy is often a daunting task due to the complexities involved in measuring accurately current risk exposure and deciding on the appropriate degree of risk exposure that ought to be covered. The study aims to measure the level of awareness of foreign exchange risk management among small and medium entrepreneurs in western districts of Tamilnadu and To educate small and medium entrepreneurs about the risk management techniques by organizing meets/ conferences/seminars in all eight districts and so on. The research also seeks to Inflation Rate, Interest Rate, Recession, Speculation, Country's Current Account Balance (Balance of Payments), Government Debts, Terms of Trade, Political Stability and Performance, Locked-in Exchange Service, Money Transfer and Tax Implications, Trade Moments, Stock Exchange operations, Banking Operations and Monetary Policy and So on. All these have arose a curiosity in the researcher to undertake this study to know the level of awareness of foreign exchange risk management among small and medium entrepreneurs in western districts of Tamilnadu. Hence the present study has been carried out to examine the above enquiries and offer solutions.

1.2 Objective of the Study

The objective of the study is to examine the level of awareness of foreign exchange risk management among small and medium entrepreneurs in western districts of Tamilnadu.

1.3. Research Methodology and Design

The Methodology and design adopted for the study was as follows:

The primary objective of the study is to analyze the Foreign exchange risk coverage model and awareness creation with special reference to small and medium exporters in western districts of Tamilnadu. The primary data were collected through questionnaire for small and medium entrepreneurs (SMEs) involved in export activity from government and trade organisations and secondary information were collected from different sources

1.3.1. Sample Selected for the Study

The study is to examine the Foreign exchange risk coverage model and awareness creation with special reference to small and medium exporters in western districts of Tamilnadu. A study of this nature required the selection of a suitable place. To fulfil this, collection of primary data was done from small and medium entrepreneurs (SMEs) involved in export activity from government and trade organisations.



To prepare this list, the unpublished records were referred, which were obtained from small and medium exporters of Coimbatore western districts of Tamilnadu. Eight districts, each fifty respondents were selected. Hence, the study has totally four hundred small and medium exporters were selected.

1.3.2. Sampling Techniques

For the purpose of analysis, the data was collected from four hundred small and medium exporters selected in eight districts. The above said samples were selected on the basis of stratified random sampling method. The data were tabulated and statistically interpreted whenever and wherever needed.

1.3.3. Statistical Tools Used For Analysis

The primary data have been collected from the potential respondents from different areas and has been properly sorted, classified, edited, tabulated in a proper format and analyzed by deploying appropriate statistical tools. The statistical tests are conducted at 5 per cent level of significance. The following statistical tools are used.

1. Simple percentage analysis
2. Reliability analysis
3. Factor analysis.

1.4. Analysis and Results of the Study

Table - 1. Reliability Of Scales And Item-Construct Loadings For Foreign Exchange Risk Coverage Model And Awareness Creation With Special Reference To Small And Medium Exporters In Western Districts Of Tamilnadu

S.No	Items	Scale Mean If Item Deleted	Cronbach's Alpha If Item Deleted
1	Inflation Rate	47.732	0.783
2	Interest Rate	47.886	0.771
3	Recession	47.930	0.757
4	Speculation	48.032	0.765
5	Country's Current Account Balance (Balance of Payments)	48.112	0.766
6	Government Debts	48.260	0.771
7	Terms of Trade	48.166	0.775
8	Political Stability and Performance	48.234	0.764
9	Locked-in Exchange Service	48.206	0.766
10	Money Transfer and Tax Implications	48.062	0.776



11	Trade Moments	47.820	0.779
12	Stock Exchange operations	47.888	0.776
13	Banking Operations	48.022	0.772
14	Monitory Policy	47.932	0.774
	Mean		51.71
	Variance		37.255
	Std. Deviation		6.10
	Cronbach's Alpha		0.784
	No Of Items		14

From the above table, the reliability of scales used in this study was calculated by Cronbach's coefficient alpha. The coefficient alpha values exceeded the minimum standard of 0.70. It's provided good estimates of internal consistency reliability. As shown in Table 1, coefficient alpha values ranged from 0.757 to 0.783 for all the constructs indicating that the scales used in this study were reliable. It should also be noted that an alpha of 0.774 is probably a reasonable goal. It should also be noted that while a high value for Cronbach's alpha indicates good internal consistency of the items in the scale, it does not mean that the scale is unidimensional. Factor analysis is a method to determine the dimensionality of a scale.

Table - 2. Eigan Values And Proportion of Total Variance of Each Underlying Factors of Foreign Exchange Risk Coverage Model And Awareness Creation With Special Reference To Small And Medium Exporters In Western Districts of Tamilnadu.

component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.725	26.607	26.607	3.725	26.607	26.607	2.44	17.436	17.44
2	1.861	13.294	39.901	1.861	13.294	39.901	2.17	15.503	32.94
3	1.470	10.500	50.402	1.470	10.500	50.402	2.03	14.496	47.44
4	1.002	7.160	57.561	1.002	7.160	57.561	1.42	10.127	57.56

Extraction Method: Principal Component Analysis

The principal component analysis is used in the above table. It is a multivariate technique for identifying the linear components of a set of variances. The principal component analysis have extracted six factors, there are four factors that have Eigen values more than 1; i.e., 3.725, 1.861, 1.470 and 1.002 respectively. The four factors extracted together account for 57.56 per cent of the total variance under Rotation Sums of Squared Loadings, which is a good sum. The number of variables has been economized from 14 to 4 underlying factors. Only while 42.44 per cent of the information content has been lost (56.57 per cent is retained by the 4 factor extracted out of the 14variables)percentage and can be ignored.

Table 3: Loading Of Foreign Exchange Risk Coverage Model And Awareness Creation With Special Reference To Small And Medium Exporters In Western Districts of Tamilnadu.

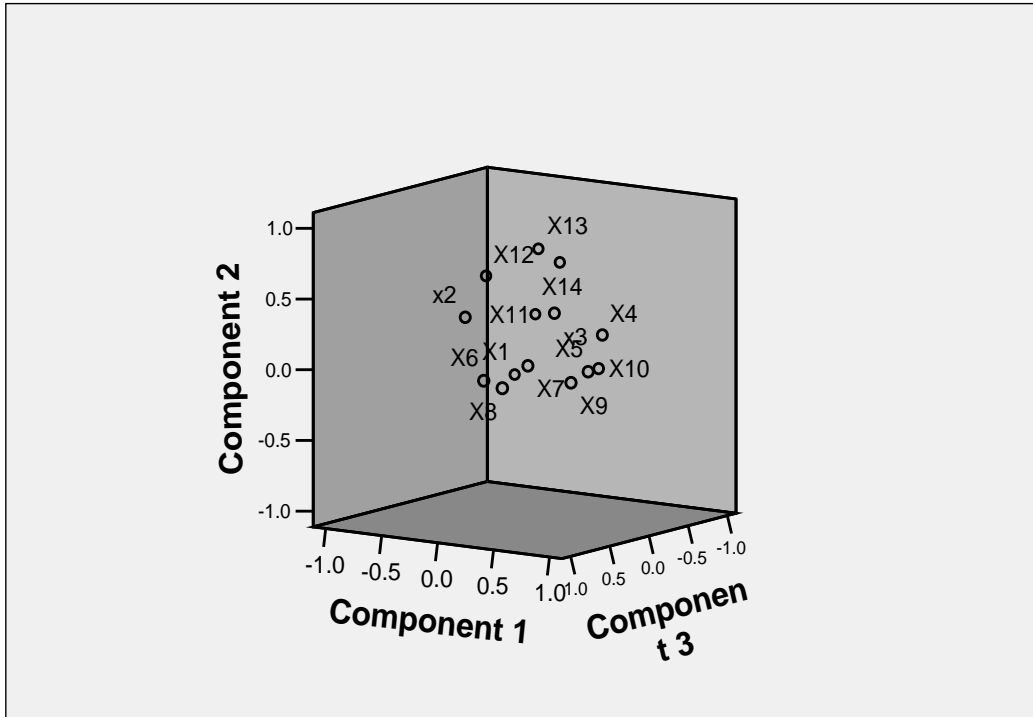
S.NO.	Variables	Factor I	Factor II	Factor III	Factor IV	C ₂
x3	Inflation Rate	.721	.276	.038	-.056	0.601
X4	Interest Rate	.701	.037	.191	.053	0.532
X8	Recession	.676	.031	.021	.053	0.461
X5	Speculation	.638	-.029	.320	.061	0.514
X9	Country's Current Account Balance (Balance of Payments)	.501	.434	.262	.109	0.471
X6	Government Debts	.118	.817	-.007	.121	0.696
x2	Terms of Trade	.263	.727	-.074	-.086	0.611
X7	Political Stability and Performance	-.139	.644	.293	.230	0.573
X10	Locked-in Exchange Service	.156	-.003	.745	.116	0.593
X12	Money Transfer and Tax Implications	.312	-.042	.730	.075	0.638
X13	Trade Moments	-.096	.403	.621	.176	0.588
X11	Stock Exchange operations	.352	.082	.511	-.172	0.373
X14	Banking Operations	.053	-.048	.204	.804	0.693
X1	Monitory Policy	.063	.344	-.046	.769	0.716
Kaiser-Meyer-Olkin Measure of Sampling Adequacy -		0.688				
Bartlett's test of sphericity		Approx Chi-Square			1832.562	
		Df			91	
		Sig.			0.000	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization, Rotation converged in 4 Iterations

Table 4 represents the Rotated Component Matrix, which is an important output of principal component analysis. The coefficients are the factor loadings which represents the correlation between the factors and the fourteen variables (X₁ to X₁₄). From the above factor matrix it is found that coefficients for factor-I have high absolute correlations with variable X₃(Inflation Rate) ,X₄(Interest Rate) , X₈ (Recession), X₁₁ (Gives sense of achievement), X₅ (Speculation) and X₉ (Country's Current Account Balance (Balance of Payments) that is, 0.721, 0.701, 0.676, 0.638 and 0.501 respectively. Similarly factor-II has high absolute correlation with variable X₆(Government Debts), X₂ (Terms of Trade) and X₇ (Political Stability and Performance) that is, 0.817, 0.727 and 0.644 respectively. Next, factor III has high absolute correlation with variable X₁₀(Locked-in Exchange Service), X₁₂(Money Transfer and Tax Implications), X₁₃(Trade Moments) and X₁₁ (Stock Exchange operations) that is, 0.745, 0.730, 0.621 and 0.511 respectively. Factor-IV has high absolute correlation with variable X₁₄(Banking Operations) and X₁(Monitory Policy) that is, 0.804 and 0.769 respectively. For example in this study, factor one is at least somewhat correlated with twelve variables out of the fourteen variables with absolute value of factor loading greater than or equal to 0.5. In such a complex matrix it is difficult to interpret the factor. So we proceed to compute the rotated factor matrix. The scree plot is the diagrammatic representation of the total variance explained based on the variance in the Eigen values of the fifteen components using Principal Component Analysis.

This chart states the high influence of the one factor based on their Eigen value is greater than one.

Component Plot in Rotated Space



1.5. Conclusion

The results of the study to measure the level of awareness of foreign exchange risk management among small and medium entrepreneurs in western districts of Tamilnadu are analysed. The fourteen variables in the data were reduced to four Component factor and each factor may be identified with the corresponding variables. It is concluded that, X₃(Inflation Rate), X₄(Interest Rate), X₈ (Recession), X₁₁ (Gives sense of achievement), X₅ (Speculation) and X₉ (Country's Current Account Balance) are influential for the Foreign exchange risk coverage, so the small and medium entrepreneurs may concentrate on the above factors that help in overcoming the risks.