

EXPLORING THE EXCHANGE RATE RISK MANAGEMENT PRACTICES EMPLOYED BY LISTED SRI LANKAN NON-FINANCIAL COMPANIES

Harshani, P.R.Y.P.^{1*} and Peiris, T.U.I.²

^{1,2}*Department of Accounting and Finance, Faculty of Management Studies,
Sabaragamuwa University of Sri Lanka, Belihuloya, Sri Lanka*

*[*hyashala@gmail.com](mailto:hyashala@gmail.com)*

1. Introduction

The high volatility of Sri Lankan currency rates exposes firms to escalating exchange rate risk. A firm with this sort of exposure may employ a variety of strategies to mitigate the possible risk. Thus, this study aims to identify the specific methods Sri Lankan-listed non-financial companies use to mitigate the exchange rate risk.

2. Research Methodology

It employs a qualitative research methodology and focuses on non-financial companies because they are highly exposed to exchange rate risk due to frequent Imports and Exports. The sample was selected using the purposive sampling technique and in-depth interviews were conducted until it reached a saturation point. The findings are derived from the thematic analysis approach. Samples were selected based on the firm's trading activities with international economies and the amounts of imports and exports.

3. Findings and Discussion

Findings reveal that companies primarily use natural hedging methods, such as foreign currency loans, netting, supply chain optimization, Leading and lagging, and price adjustment. Additionally, companies use forward contracts as a derivative hedging strategy; however, they are used only under specific conditions. These Firms rarely use other derivative instruments such as futures, options, and swaps. This may be mainly due to the absence of a local stock exchange that provides the opportunity to invest in those instruments.

4. Conclusion and Implications

This study contributes to the existing knowledge by identifying exchange rate risk management practices used by Sri Lankan firms. Policymakers should, therefore, increase the derivative instruments usage, expand the foreign exchange market, and create a stable economic climate for effective strategies. Also, it is recommended for company managers improve their understanding of derivative instruments.

Keywords: Exchange rate risk, Hedging strategies, Risk management, Non-financial firms