

A survey of foreign exchange risk management practices by oil companies in Kenya

Abstract:

Companies especially those participating in international trade are now exposed to risks caused by unexpected movements in exchange rate in today's volatile financial markets. The management of this risk has become essential for the survival of such companies. Oil companies in Kenyan market are significantly exposed to foreign exchange risk through transactions involving importation of oil products and subsequent exportation to the neighboring countries. This paper reviews the traditional types of exchange rate risk faced by firms, namely translation, transaction and economic risk, presents measurement and management method for foreign exchange exposure and objectives of foreign exchange management. The objective of this study is to determine the foreign exchange risk management practices by oil companies operating in Kenyan market. To achieve this objective, data was collected from the target population comprising 27 major oil companies operating in Kenyan market as listed in appendix 1 through administration of questionnaire using 'drop-and-pick-later' technique. Out of 27 companies, only 20 responded representing a response rate of 74%.