Chapter 6
CHAPTER 6

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter comprises of three sections namely, a summary of the study, conclusions of the study and the recommendations. The section on summary of the study presents a comprehensive picture of the study. The second section on conclusions of the study contains the inferences drawn from the study based on the information collected and analyzed in the current research. The final section contains the recommendations put forth by the researcher based on the research carried out.

The summary section describes the purpose of the study, research approach, criteria for data sources, a review of related literature, methods, collection and analysis of data, and a brief summary of the findings. The conclusions section elucidates the findings derived out of the related literature and the conclusions reached there from and also the interpretations of findings, implications, applications and evaluation of the strengths and weaknesses of the current research. The third section elaborates the recommendations, and suggestions for future research culled from the present research study.

6.1. Summary

The summary gives an overview of the research problem on which the current research was based, the approach and the methods used to obtain the findings, and also the review of related and selected literature.
6.1.1. The Research Problem

The purpose of the research was to contribute to the current understanding of Indian Hotel Industry's practical foreign exchange risk management. In order to attain the purpose mentioned, meaningful answers were sought for the following questions:

a) What were the factors that cause difficulties in dealing with foreign exchange risk faced by Indian hotels and what was the order of ranking of difficulty factors identified?

b) What was the prime objective behind foreign exchange risk management practices of Indian hotel industry – was it avoidance of loss (defensive) or was it making of profit (offensive)?

c) What was the rank order of the frequency of the usage of risk management techniques available for foreign exchange risk management?

d) What is the rank order of the perceived success of each of the available foreign exchange risk management techniques adopted by Indian hotels?

e) What were the relationships between the extent of the use of the various foreign exchange risk management techniques and (i) type of hotel, (ii) size of hotel and (iii) extent of international operations?

f) What are the other

g) What were the sources of information available for Indian hoteliers to forecast exchange rate and what was the rank order of those in terms of frequency of use significant and relevant relationships that are evident in the data?
6.1.2. The Research approach

A survey that was both descriptive-elemental and descriptive-correlational was the research approach adopted for the study. The survey allowed the researcher to collect data through the use of anonymous questionnaires.

6.1.3. Criteria for Data Sources

Data for the current study were collected from financial officers employed by Indian premium hotels during the data collection period. Data sources had to meet the following criteria in order to be included in the sample:

1. All hotels were listed in the FHRAI Handbook 1999, which is published by the Federation of Hotel and Restaurant Association of India.
2. All hotels selected for the sample were either wholly owned or majority owned by Indians living in India.
3. All hotels were geographically located in India.
4. All respondents have been required to be financial executives of the hotels concerned.
5. All hotels were of the premium segment.

6.1.4. Review of Selected Literature

Chapter Two of the dissertation presented a detailed review of related literature, that was relevant for the current study. The chapter comprised of three sections encompassing theoretical and empirical studies on issues in foreign exchange management and the foreign exchange market in India. The first section covered concepts regarding foreign exchange system, foreign exchange exposure, foreign exchange risk management and the possibilities for hedging.
and analyzing the risk. Empirical studies dealing with foreign exchange management practices were reviewed in the second section. India's foreign exchange market was thoroughly analysed in the final section of the chapter.

6.1.5. Research Method

The principal method adopted to collect data was a mail survey technique. Seven research questions were formulated for and investigated in the present study. A questionnaire was designed as mail survey instrument and was mailed by the researcher to one hundred financial officers of randomly selected Indian hotels. The questionnaire was structured and allowed the respondents to answer by merely checking off the most appropriate response.

6.1.6. Collection of Data

The subjects of the current study were selected from the FHRAI Handbook 1999. There are 2664 hotels registered with FHRAI and of which 282 were of the premium segment. In order to ensure that each sample represents hotels of different sizes and types a random selection of 100 companies from the registered group was selected. The research instrument was pre-tested and modified before using it at the final stage of collecting the data. A total of 28 questionnaires were used in the study.

6.1.7. Analysis of Data:

The data obtained from the research instrument were examined to ensure that they met the criterion and the pre-specified requirements of the study. Calculations of frequencies, percentages and means were used to interpret the survey responses and to generate the information necessary to arrive at the solutions for the research questions. Chi-square analyses were applied to determine the significance of the bias detected in the main purposes of foreign
exchange risk management and to test hypotheses. T-test scores and comparisons between two types of hotels namely chain and stand-alone were completed in order to identify and determine the significant difference between them. One-way analysis of variance was utilized to determine whether there existed any mean difference among Public Ltd., Private Ltd., Public Sector Undertaking and Multinational Chain hotels. Pearson- Product moment coefficient of correlation (r) was utilized to determine the strengths and directions of relationships between the extent of international operations of hotels, and the dependent variables of difficulty factors, use or non-use of various information sources, category of main objectives of exchange risk management, the usefulness of various foreign exchange techniques and the success of these techniques. The 0.05 level of significance was chosen as appropriate. In addition, Spearman's Rank Order Coefficient of Correlation was applied to determine the relationship between the perceived rank orders for usefulness of techniques and for success of techniques.

6.2. Findings

The findings of the study were organized based on the research questions.

6.2.1. Research Question One

The three greatest difficulties experienced by hotels in dealing with the foreign exchange risk were identified as: "government managed exchange rates," "company unable to determine risk exactly" and "company unable to identify emerging trends and turning points." The factor believed to cause the least difficulty was "price controls." When difficulty factors were grouped into factors,"Government factors" was ranked first followed by "uncertainty factors."
and "lack of developed foreign exchange market." The factor that was ranked last was "inadequacy of information."

6.2.2. Research Question Two

Banks, financial publications and foreign exchange consultants were the three most frequently mentioned information sources used for exchange rate forecasts by Indian hotels. Others was the least frequently cited information source.

6.2.3. Research Question Three

The significant majority of Indian hotels have their main objective in foreign exchange risk management as protection of the hotel from the dangers of fluctuation in exchange rates as opposed to realizing a profit.

6.2.4. Research Question Four

The rank order of the mean reported frequencies of use of 21 techniques for managing foreign exchange risk showed: "use of forward contract" was the most frequently used technique. "Lead or lag local or foreign currency receivables from third parties or payables to third parties" and "increased prices" were techniques ranked second and third respectively. "Adjust parent company's dollar investment plan" was the technique with the least rank. When the techniques were grouped into seven groups, "alter timing of payments and receipts" was the most frequently used technique and "rearrange inter-subsidiary cash flows" was the least ranked technique.

6.2.5. Research Question Five

The three techniques that have been most successful in achieving their hotel's objective of foreign exchange risk management were identified by the respondents. "Use of forward contracts" was identified as the most successful
technique. "Use of foreign or local currency borrowing" and "lead or lag local currency receivables from third parties or currency payables to third parties" were the second and third most frequently used techniques. When the techniques were grouped into seven, "money and foreign exchange market operations" was ranked first and "rearrange inter-subsidiary cash flows" was ranked last.

6.2.6. Research Question Six

The relationships between the extent of use of foreign exchange risk management techniques and a few characteristics of the hotel were examined under research question six. The study results showed that:

Among all the techniques adopted in foreign exchange risk management, the type of hotel has significant influence over the technique "use of currency options" only.

Among all the techniques adopted in foreign exchange risk management, the form of organization has significant influence over the techniques "increased or decreased prices" and "use of foreign currency accounts".

Among all the techniques adopted in foreign exchange risk management, the extent of international operation has significant influence only over the technique "Accelerate or delay remittances to parent company.

Stand-alone hotels reported significantly more frequency of use "increase or decrease inter subsidiary prices" as compared to chain hotels.

The technique "increase or decrease inter subsidiary transfer prices" where the stand-alone hotels reported a significantly high mean frequency.

Only in the case of "use of foreign currency account" there was significant difference among the different forms of organizations of hotels in the reported frequency of the use of twenty one techniques.
Significant correlations (.397) was found between the extent of companies’ international operations and frequency of use of one technique; “Buying Insurance”. The higher the percentage of international operations more frequent was the use of the technique, “buying insurance.”

6.2.7. Research Question Seven

The last research question suggested comparisons to identify and determine the differences and relationships between hotel characteristics and the variables of foreign exchange risk management. The findings of this section are:

Stand-alone hotels did not report significantly more frequency of any difficulty factor as compared to chain hotels. Thus there is no difference between chain and stand-alone hotel properties in their difficulty factors on foreign exchange risk management as the hypothesis is accepted for all the difficulty factors.

The different forms of organizations of hotels differed in quoting the difficulty factor, “lack of developed foreign exchange market.”

. Significant correlations (-.420 and .431) were found between the percentage of international operations and the frequency of reporting of two difficulty factors, “lack of personnel to implement techniques of foreign exchange” and “volatility of exchange rate.” The higher the extent of international operations the more was the frequency of reporting “lack of personnel to implement techniques of foreign exchange” as a difficulty factor in dealing with foreign exchange risk. The higher the extent of international operation of the hotel the lesser was the frequency of reporting of “volatility of exchange rate” as a factor giving difficulty.
Significant differences were not identified between stand-alone hotels and chain hotels in reported frequency of any information source used for foreign exchange rate forecast.

No significant difference was found among the various forms of organizations of hotels with regard to use of information sources for exchange rate forecasts towards foreign exchange risk management.

No significant relationship was found among the four different types of ownership of hotels and the frequency of applied information sources.

No significant bias was found between stand-alone and chain hotels in terms of reporting two main objectives of foreign exchange risk management.

It was learnt that no significant bias was found between stand-alone and chain hotels in terms of reporting two main objectives of foreign exchange risk management.

There was no significant difference among the forms of organization of hotels in their reported objective of foreign exchange risk management. No significant correlation was found between the extent of international operations and main objectives and the extent of hotel’s international operations.

There was no significant difference between stand-alone and chain hotels in the reported frequency of the “most successful” technique of foreign exchange risk management.

A significant difference existed between Private Ltd. and Public Ltd. hotels in the frequency of choice of ‘buying insurance’ technique as the most successful in achieving a company’s foreign exchange risk management objectives. Public Ltd. hotels reported more use of the technique than Private Ltd. hotels.
No significant relationship between the hotel's extent of international operation and the frequency of choice of any single technique as most successful in achieving the hotels' foreign exchange risk management objectives. The hotels with the objective of "mainly to protect from loss rather than to realize a profit" reported significantly more frequency of choice "local or foreign currency borrowing" techniques as "most successful" in achieving hotels' foreign exchange risk management objectives than hotels with the objective of "mainly to realize profit rather than to protect from loss."

Hotels with main objective of "to protect" reported significantly more frequency of use of buying insurance than hotels with main objective of "to profit."

Techniques with higher rank of frequency of use for managing foreign exchange risk is exhibiting significantly higher rank of frequency of choice as "most successful" in achieving a hotel's foreign exchange risk management objectives.

6.3. Conclusion

This section presents conclusions drawn from the research questions, discusses findings related to context and literature, as well as implications and applications of the findings of the study.

6.3.1. Difficulty factors

After the removal of foreign exchange controls by the government of India, Indian corporates have started implementing foreign exchange risk management. Their operations in this area are subject to a host of constraints. The findings conclude that the most frequently mentioned factors which gave companies the greatest difficulties in dealing with foreign exchange risk management belonged to two broad categories: government and company
factors. This is an understandable result as foreign exchange risk management in India is in its early stages and both the government and the corporate find it difficult to deal with.

6.3.2. Information Sources

To obtain information for the development of exchange rate forecasts, most hotels employed the services of outside resources, primarily banks and financial publications.

6.3.3. Objectives of Risk Management

The majority of Indian hotels indicated that their corporate objective in foreign exchange risk management is to protect the company from the dangers of fluctuations in exchange rate rather than to realize a profit from fluctuations. The basic attitude in risk management is more of defensive than aggressive.

6.3.4. Use of Techniques

To achieve their objectives in foreign exchange risk management, the hotel corporates used the following groups of techniques which are presented in declining order of frequency of use:

1. Alter timing of payments and receipts
2. Use of price and inventory adjustments
3. Modify money and foreign exchange market operations
4. Modify credit policy
5. Modify asset and liability management
6. Use of netting
7. Rearrange inter-subsidiary cash flows

Within these groups the most frequently used techniques appear to be use of forward contracts and lead or lag local or foreign currency receivables from
third parties or payables to third parties, followed by increased prices and use of foreign currency accounts.

With regard to the relationships between company characteristic and the selection of techniques, the following conclusions are drawn:

6.3.5. Success of Techniques

Hotel corporates indicated the following groups of risk management techniques as most successful in achieving their foreign exchange risk management objectives. These techniques are presented in declining order of number of responses:

1. Modify money and foreign exchange market operations
2. Use of price and inventory adjustments
3. Modify asset and liability management
4. Alter timing of payments and receipts
5. Modify credit policy
6. Use of netting
7. Rearrange inter-subsidiary cash flows

Within these groups the use of forward contracts and use of foreign or local currency borrowing appear to be the most and next most frequently used techniques

6.3.6. Findings Related to Context and Literature

The study was conducted in India, a developing economy, and the results are comparable to some of the studies conducted in United States. The findings of the present study supported the findings of Jilling (1978) and Tran (1980); the actions taken by corporates involved in foreign exchange risk management are basically defensive in nature rather than aggressive and aimed primarily at profit
making. This study also supports Jilling’s and Tran’s finding that most corporates involved in foreign exchange risk management use outside sources of information rather than internal ones. The findings of this research also support Jadhwani’s (1971) findings that firms that have a high ratio of international operations tended to make greater use of forward contracts as a defensive strategy.

6.3.7. Findings: Implications and Applications

The findings reported in this study have implications and applications for Indian Hotels of the premium segment, Indian government and to a certain extent hotels and other companies in India and other developing countries. Indian hotels could use the findings of the present study to achieve better understanding of the process of foreign exchange risk management and the use of the various risk management techniques. They can also use the findings to reevaluate their risk management program and choose risk management techniques according to the hotel type, form of organization and the extent of their international operations. The government of India can use the findings to adjust the foreign exchange system and regulations to help Indian hotel companies and other companies’ operations and foreign exchange risk management.

6.3.8. Evaluation of Research

In general, the research design and process proved adequate for the study’s purpose. The response rate (28 per cent) and the reasonable rate of statistical significance imply that replication would be feasible and valuable. This empirical study was successful in presenting evidence on several important issues that had been either undocumented or inadequately analysed. However, the questioning method of the study could be more effective if personal interviews
were used in the collection of data, either as the basic method or as an auxiliary method. Utilization of such a method is recommended for further studies.

6.4. Recommendations

The following recommendations are offered on the basis of the findings reported in the study. These recommendations are divided into three categories: those for the Indian Hotels and other corporates, those for the India Government and those for further research.

6.4.1. Recommendations for Indian Hotels and Other Corporates

Foreign exchange risk management is a relatively new field for Indian hotels and other corporates, which is considered to be in its infancy. However, because of the profound impact on corporate profitability, the subject will have to be given greater corporate priority. The financial officers of Indian hotels and other corporates can expect that this area will be growing in importance in the future. If corporates expect to survive dramatic monetary movements, they need to aggressively manage their activities and assets which are impacted by foreign exchange rate movements.

Some recommendations are summarized and presented below:

1. Indian hotels and corporates should install the formal foreign exchange risk management program. They must recruit and train personnel in the field of foreign exchange risk management.

2. Indian hotels and corporates should assign personnel or organize a division to implement risk management techniques. The specialized personnel or the special division must have well defined authority and responsibility.
3. Indian hotels and corporates should constitute the exchange rate forecasting system. Indian rupee has been appreciating in the first half of the year 2004 and the exchange rate changes were never a serious problem as the trend was fairly predictable. The Indian hotels and corporates could profit from operations of foreign exchange risk management. However, the situations can change and exchange rate forecasts would prove very important then.

6.4.2. Recommendations for Indian Government

1. The promotion of economic liberalization and globalization is a major concern for India. Indian government must take up the reform of financial system to develop an excellent foreign exchange market.

2. Accounting rules for foreign exchange gains and losses must be set out clearly.

3. A government agency must be set up to collect and analyse the exchange rate forecasting data to improve the exchange rate forecasts of Indian hotels and corporates in order to support them in their foreign exchange risk management.

6.4.3. Recommendations for Future Research

Since the present study was intended to be an exploratory investigation of foreign exchange risk management activities in Indian hotels, the researcher hopes that the current study will stimulate further efforts in new directions and aid the understanding of foreign exchange risk management. The following recommendations were made for future research in this area.
1. This study could be conducted in India after reasonable number of years to validate or invalidate the findings and to test whether these findings should true over time.

2. This study could be replicated on other Asian countries, particularly in developing countries, to validate the research instrument and determine patterns of similarities and differences as compared to these findings.

3. Indian hotels and other corporates' foreign exchange risk management is only in its infancy. After more advanced operations in foreign exchange risk management are developed and implemented, research can be conducted in detail.

4. It is recommended that even if questionnaire method is used, interview technique must also be adopted, which ill provide more data for analysis.

5. The present study considered the exposure to exchange risk in a relatively static sense. In future studies, researchers should treat exposure to exchange risk in a dynamic sense. When considered in a more dynamic sense, many kinds of business decisions have exchange exposure implications. These decisions are often typical business decisions made in departments other than finance department that is marketing department, production department, purchase and stores management department and the like. Further studies could examine the effects of decisions made in other departments on the exchange exposure.

6. Future studies could investigate the preparation for exchange rate forecasts of Indian hotels and corporates, particularly the predictability of exchange rate movements.