CHAPTER 6

6. Conclusions

In summary, the exposure-management techniques adopted by power companies in Malaysia in reducing the currency risk are very limited. In fact, the only common tool used is the forward currency contract. This method becomes popular after the currency crisis started in mid July 1997. Prior to this crisis, most of the power companies' managers were not paying attention to this area of risk management, as their attention at that time were concentrated on the delivering the large number of jobs in hand, and expanding the operation of the company.

The focus of operations after the crisis then shifted to cost cutting, new business development and managing the exchange risk exposure. In managing the exchange risk, these managers are mostly relying on their finance department who ultimately relying on the company's bankers. The finance department does not undertake the actual activity of monitoring the exposure nor do the managers themselves, mainly because of inexperience in this area. Therefore, the easiest approach taken by the power companies is to hedge the full or partial amount of foreign currency by forward contract during the purchasing of the imported equipment.

It is also stressed that the area which many local power companies needs more attention, is the inception of each risk, that is in particular during the pricing decision. The involvement of financial expert in this area is crucial and important, but this approach has been lacking because of the following thoughts by the managers:-

1. Pricing decisions have to be taken by line managers (or commercial/tendering managers) who must be totally responsible for their decisions, accountable for their consequences, and able to make their

judgements at commercial speeds so as to respond to the rapidly changing conditions in their market. Interference from a host of expert from other fields especially from finance may hinder the speed of decision-makings, hence may result in lost of opportunity.

2. There is no strong treasury team who manages the currency exposures, with good record of success in the company. Whatever exchange rate given by finance staff for tender pricing is obtained from the bankers. Therefore there is no point of having the team if the managers do give it any risk to manage.
3. The trading risks are unavoidable in any case. The major cost is the imported equipment, and the selling currency is in Ringgit. The risk is always there and no currency expert can overcome that.
4. The companies do not believe in a defensive attitude to currencies. The existence of the company is to make money.

However, from the ongoing crisis facing the country, the above thoughts should put aside. In the short run, the alternative financial strategies recommended are proposed for initial implementation. In the long run, the local power companies have to set corporate objectives, policies and procedures in managing the exchange risk, in particular the trading risk.

The power companies' attitude to trading risk should be:-

1. Do we turn down all business that involves selling in currencies other than those costs?
2. Or do we accept this trading risk only, and other risks too, provided that all risks are fully hedged by the time they become commercial commitment?
3. Or do we accept this trading risk only in selected currencies?
4. Or do we accept unhedged risks in selected currencies because we judge them to be strong, so that the risks are likely to result in gains?
5. Or we go one step further and look on currency risk as a profit opportunity, taking ad-hoc decisions what and how much to hedge?

6. Or do we believe we can afford to be unselective because our main currency of cost is too weak to warrant any effort of selection?

These above questions must be addressed by the power companies, as well as resources needed for currency risk management.

In conclusions, the power companies must regard currency risk management is crucial especially during the pricing process. However, care must be taken so that there would not be a conflict between exchange risk management and the commercial aims during the pricing process.