FOREIGN EXCHANGE RISKS, FOREIGN EXCHANGE RISK MANAGEMENT STRATEGIES AND PARTICIPATION OF SMALL AND MEDIUM ENTERPRISES IN INTERNATIONAL TRADE. A CASE STUDY OF TRADERS IN THE CENTRAL BUSINESS DISTRICT OF KAMPALA

BY

ANITA ATUHAIRE

18/U/GMBA/19400/PD

A DISSERTATION SUBMITTED TO DIRECTORATE OF RESEARCH AND GRADUATE TRAINING IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KYAMBOGO UNIVERSITY

OCTOBER, 2022

DECLARATION

I, **Anita Atuhaire** hereby certify that this dissertation is my authentic effort and has therefore never been presented for any academic award in any Institution or University.

Sign:……………………………………………… Date: 21st October, 2022

ANITA ATUHAIRE

18/U/GMBA/19400/PD

SUPERVISOR APPROVAL

We affirm that the dissertation titled, *"Foreign exchange risks, foreign exchange risk management strategies and participation of small and medium enterprises in international trade. A case study of traders in the central business district of Kampala"* is ready for examination with our approval as the University supervisors."

Sign:.. Date: 21/10/2022..............................

DR. CHARLES NDANDIKO

PRINCIPAL SUPERVISOR

Sign:.. Date: 26/10/2022..............................

DR. PHILLIP OWINO

SECOND SUPERVISOR

DEDICATION

With reverence, I am dedicating this humble thesis to the beloved people below who have meant and continue to mean so much to me.

My parents Mr. Samuel Karumira Muheereza and Ms. Margaret Mukyala who gave me the much-needed moral support which I needed to embark on this programme. Your constant encouragement when the times got tough is appreciated. I owe you absolutely everything mom and dad.

To my children, Matthew Lwanga, Mark Lwanga, Mario–Monti Suubi Lwanga and my adorable daughter Musiimenta Peace–Ange Lwanga. Balancing a full-time job, weekend classes and being a mother have finally paid off with the completion of this course. Thank you for enduring many days without me. My heart beats for you always.

ACKNOWLEDGEMENT

First and foremost, I want to thank the Almighty God for giving me the grace to start and complete this programme. Ebenezer, thus far the Lord has brought me.

A special thank you to my course mates, colleagues and friends who encouraged and supported me throughout this research process. To all my lecturers, thank you for the firm foundation you laid for us, inspiration through this process. I hold you all in high regard and respect.

A very exceptional recognition and deepest appreciation to my supervisors; Dr. Charles Ndandiko; For allowing to supervise my research study and for the time spent in reviewing my thesis to ensure it was always on track. Thank you for the helpful suggestions. I am very fortunate and grateful. Dr. Phillip Owino, thank you for always correcting my mistakes and giving the much-needed significant advice. Without the guidance and persistent help of my supervisor's, this dissertation wouldn't have been possible.

To all the traders who responded, a special thanks to you all for the voluntary responses.

Not least of all, I owe so much to my whole family, most especially my sister Clare Nagasha and my brother Samson Asiimwe; for their never-ending support, their firm belief that I can accomplish so much. Regrettably, it's impossible to appreciate everybody because it would take a lifespan but, I just want to inform you that you mean so much to me. If it hadn't been your prayers and words of encouragement; this programme and final thesis would have been far from over.

God bless you entirely.

"A luta continua; vitória é certa"

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

BoU	Bank of Uganda
CMA	Capital Markets Authority
GVCs	Global value chains
KACITA	Kampala City Traders Association
MoFPED	Ministry of Finance, Planning and Economic Development
MPT	Modern Portfolio Theory
MSEPU	Micro and Small Enterprises Policy Unit
MSME	Micro, Small and Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
SCB	Standard Chartered Bank
SD	Standard Deviation
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
UIA	Uganda Investment Authority
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States Dollar

ABSTRACT

This study was an exploration of mediating effect of foreign risk management strategies on the effect of foreign exchange risks on the level of participation of small and medium enterprises in international trade. It sought to address four objectives; (i) to examine the common foreign exchange risks faced by SMEs dealing in international trade, (ii) to examine the common management practices used to mitigate Foreign Exchange Risks among SMEs dealing in international trade, (iii) to explore strategies for managing foreign exchange risk amongst Small and Medium Enterprises located in the business district of Kampala and (iv) to establish the mediating effect of foreign risk management strategies on the relationship between foreign exchange risks and the level of participation of SMEs in international trade. The study was guided by Modern Portfolio Theory (MPT). The study adopted a cross–sectional survey research design rooted towards a quantitative and qualitative approaches where data was gathered using questionnaires and interviews from a sample of 384 respondents selected through simple random sampling and stratified sampling techniques. The study used both quantitative and qualitative data analysis techniques supported by SPSS (23.0). From the analysis the study established that the major foreign exchange risks that affect SMEs dealing in international trade are contingency risks, transactional risks, and translation risks of which these risks have significant negative influence on the level of participation of SMEs. Furthermore, the study established that the foreign risk management strategies used by SMEs are; minimizing any engagement in risky ventures and engaging suppliers into future contracts. The study further established that risk management strategies have a significant positive influence on the level of participation. Lastly, it was established that foreign exchange risk management strategies have a significant mediating effect on the relationship between foreign exchange risks and the level of participation. It was therefore recommended that the owners and management of SMEs should develop and update their risk maps so as to have a clear understanding of the potential risks that may have a likely impact in their level of participation in international trade and to develop risk management strategies and practices that may be helpful in dealing with the consequences of the potential risks. For instance, they may consider avoiding high risky trading activities or consider less risky mode of participation.

Key terms: Foreign exchange risks, foreign exchange risk management strategies, International trade

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This study was an exploration of foreign exchange risks, foreign exchange risk management strategies and participation of Small and Medium Enterprises (SMEs) involved in international trade. This chapter specifically presents the background of the study, statement of problem, purpose of study, research objectives, scope of the study, conceptual framework, significance of study and definition of key terms.

1.1.1 Historical background

The origin of firms' participation in foreign trade is dated way back in the ancient times primarily in the form of buying and selling of commodities across boundaries of nations (Geisst, 2005). It is attributed to Barter trade which is a long-standing custom that has probably existed from the beginning of human history (Hasebroek, 2012). International trade stemmed out from the need for an exchange between citizens of various countries which eventually led to firms' participation in international trade during the end of the European Middle Ages. International trade therefore became a focus of specific investigation when an extremely patriotic school of thought now known as mercantilism attempted to explain the role of international trade (Robinson, 2020).

Since then, there have been rapid changes in the global trading landscape that present business opportunities for firms across entire globe to consider participating in international trade. A case in point is continuous integration of SMEs into the global economy which has emerged as a result of recent developments in the global trading landscape, such as the growth of global value chains (GVCs) and the digital transformation. SMEs today dominate several specialized worldwide markets, and they frequently work closely with larger multinationals to develop new products or serve niche customers. For instance, in several specialized manufacturing areas in Germany, small and mid-size businesses account for between 70% and 90% of global market shares (OECD, 2016).

However, due to the challenges with barter trade where dividing traded goods equally was very difficult, money was eventually introduced to facilitate exchange hence the birth of foreign exchange. Foreign exchange is therefore attributed to the money-changers who were living in the Holy Land in the Biblical times who took on the role of providing foreign currency which enabled the early traders in their businesses to carry out trade smoothly. In the 4th century AD, the Byzantine government monopolized currency exchange trade (Hasebroek, 2012). Papyri PCZ I 59021 (c.259/8 BC), links the origin of currency exchange to the exchange of coinage in Ancient Egypt. According to Geisst (2005), currency and exchange became very important elements of trade in the ancient world. Today, governments have assumed control over foreign currency exchange rates in order to improve a country's trade position and protect people who were being taken advantage of others.

1.1.2 Conceptual background

The study concepts were foreign exchange risks, foreign exchange risk management strategies and firm’s participation in international trade. Foreign exchange risks are said to have a direct influence on firm’s participation levels in international trade. When a firm starts engaging in international trade in form of importing and exporting commodities across foreign borders, it becomes susceptible to contingent risk, transaction risk, economic risk and translation risk (Vu Hung, 2015).

Foreign exchange risk is an intrinsic part of any offshore business. With forces governing business transactions such as political, economic, and social conditions being largely uncertain; foreign exchanges risk cannot be entirely eliminated (Watson & Head, 2007). Foreign exchange risk implies the exposure of an organization to the attainable impact of fluctuations in exchange rates, often caused by unfavorable fluctuations in exchange rates, leading to losses to the trader (Pandey, 2018). Firms involved in foreign exchange are exposed to three major types of foreign exchange risks: transaction, economic and translational risk (Czinkota et al, 2009).

Firms participation in international trade often takes form of import or export trade. However, such firms often face challenges in foreign currency since it is the only facilitator of exchange of goods or services (Vu Hung, 2015). Foreign exchange risks are experienced by most firms across various nations as long as they are involved in international trade. For instance, whereas currencies of emerging market economies continue to gain market share up to 25% of overall global turnover, in some countries there is notable falls such as U.S, foreign currency exchange slipped to 17% and exchanging using the Japanese yen slipped to 17% while Swiss franc accounts for 4% (Barton & Debnath, 2019). These statistics clearly indicate that foreign exchange risks are common and make it very difficult for firms involved in international trade to participate freely unless mitigation strategies have been put in place (King, Osler & Rime, 2011).

It is relevant to understand how traders involved in international trade mitigate the risks involved. In this study, Foreign exchange risk management strategies are actions that small and medium enterprises can use to mitigate the risks associated with foreign exchange exposure (Rahman & Hoque, 2015). In a bid to secure and protect the value of currency circulation, there was need to design management strategies to curb the risks associated with foreign currency exchange, trading and credit facilities, in order to allow participation in international trade on the wider market. (Rahman & Hoque, 2015). SME's are more exposed to currency fluctuations than their larger firms who can absorb the shock or hedge it (Rahman & Hoque, 2015).

Therefore, as firms seek to enhance their participation levels in international trade, more focus should be turned into identification and analysis of the foreign exchange risks that firms are likely to experience so that effective risk management strategies are put in place. However, despite the existence of various empirical studies highlighting the need for foreign exchange risks management plan, many firms are yet to appreciate. Besides, such empirical studies are still lacking in the context of SMEs in Uganda. Thus, there was a need to conduct this study.

1.1.3 Theoretical background

This research work was influenced by the Modern Portfolio Theory (MPT) that was put forward by Economist Harry Markowitz in 1952. This theory or mean-variance study, is a statistical framework for analysing a portfolio of assets so that the level of risk is minimized while expected return is maximized. The theory encourages firms to formalize and engage in diversification of buying and selling activities. This is based on the idea that owning a number of financial assets is less risky than owning only one type. The theory uses the variance of asset prices as a proxy for risk.

MPT is based on assumption that traders are fear to engage in risky activities (risk averse), which means that should there be two portfolios that offer same expected return, traders may choose the less risky one. Thus, a trader will opt for riskier only if they expect higher expected returns. Besides, a trader who wants higher expected returns should take more risk. This implies that a rational trader will not trade in a portfolio that is riskier when there is a second portfolio with a more favorable risk–expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns (Markowitz,1952). The theory suggests that in the current era, small scale international traders will try to avoid or limit risk exposure as much as possible, particularly, risk due to currency exchanges.

1.1.4 Contextual background

The context for the study was Small and Medium Enterprises of Kampala, Uganda which have engaged in international trade. In quantitative terms, according to the Ministry of Trade, Industries and Cooperatives (MTIC) in Uganda, Small enterprises are businesses which have total assets ranging from UGX 10Million but don't exceed UGX 100Million and employ between 5 to 49 people. Medium enterprises as those whose total assets range from UGX 100Million to UGX 360Million and employ 50 to 100 people (Kyambadde, 2015)

Uganda is ranked one of the most entrepreneurial countries in Africa and is confined with a number of SMEs across various sectors of manufacturing, service and trade (World Bank Enterprise Survey Report, 2019). Over 48% of the SMEs in Uganda participate in offshore trade and largely contribute to Uganda's economic growth (UIA Report, 2020). Oketch (2019) reports that Uganda has been categorized among those countries that have easy access to foreign currency exchange. According to a survey carried out by Absa Africa Financial Markets Index, 2018, among the 20 countries that were plotted, Uganda was rated third with a score of 83 out of 100 for her SMEs contribution in the East African Market.

Despite the seemingly brilliant environment, Uganda's SMEs participation in international trade involving foreign exchange is still limited (BOU, 2020), with the level of participation of SMEs in Kampala being 20% lower than medium and large firms. The exports from SMEs in Uganda continues to drop and currently stands at only between 10%-25% which is still below the average

(UIA Report, 2020). Many small scale and medium traders have been forced to reduce on their level of participation due to losses accruing from currency fluctuations. Others attempt to hike product prices to recover from losses made due to especially dollar exchange rates but end up not getting customers, exposing them to further losses. In addition to this, others use range trading (identifying foreseeable trends of highs and lows for specific foreign currency pairs), position trading (method of trading necessitates you to buy-and-hold your foreign currency pairs until there is a noticeable increase in their price movements), scalping, day trading, swing trading (identifying market upswings and downward spirals during the week) (Benzinga Money, 2020, KACITA,2018). Other strategies include currency hedging arrangements with local banks like Standard Chartered Bank (SCB, 2019).

To date, there is no local empirical study to establish the common risk management strategies used by small scale and medium scale international traders in Kampala and ascertain whether such strategies have effectively mitigated foreign exchange risks.

1.2 Statement of the problem

Uganda is open to international trade, which accounts for 48.2% of its GDP (World Bank, 2019). With an enabling environment in place, many SMEs are engaging into offshore business which is largely dependent on foreign exchange currencies. This has increased their exposure to a number of foreign exchanges risks such contingent risk, transaction risk, economic risk and translation risk (Vu Hung, 2015). Whereas SMEs have done everything possible to mitigate foreign exchange risks for instance choosing the less risky mode of international trade engagement like exporting, their level of participation is still low (Kampala City Traders Association (KACITA), 2019). This is evident in OECD survey Report (2018) which indicated that the level of participation of SME's in international trade is 20% lower than medium and large firms. Furthermore, SMEs in Uganda account for only between 10%-25 % of Uganda's exports. Besides, international traders and businessmen are trying their best to have strategies in place to manage risk, however, there seem to be limited empirical evidence to inform them on what is the best strategy or strategies to manage risk (Mwesigwa, 2016). Therefore, the level of participation continues to fall since traders continue to suffer losses as a result of gaps in the risk management strategies employed (Bank of Uganda, 2019).

Whereas several studies (Vu Hung, 2015; Bligh, 2012; Aman et al., 2017; Ramtlakana, 2016; Nampeera, 2015) have been done in numerous countries in the world on foreign exchange risk management and Firms participation in international trade, except for Nampeera (2015), none of them addresses the issues in a Uganda context. Similarly, Nampeera (2015) despite being a study in Uganda, focused on forex bureaus instead. Therefore, there was a need for a study in the context of SMEs in Kampala to investigate the mediating role of foreign exchange risk management strategies on the relationship between foreign exchange risk and the level of participation in international trade. This study focused on bridging this knowledge gap.

1.3 Purpose of the study

The study aimed at examining the mediating role of foreign exchange risk management strategies on the relationship between foreign exchange risks and the level of participation in international trade for SMEs in the Business District of Kampala.

1.4 Research objectives

(i) To examine the effect of common foreign exchange risks on the level of participation of SMEs in international trade in Kampala Central business District.

(ii) To examine the effect of common foreign exchange risk management practices on the level of SMEs participation in international trade in Kampala Central business District.

(iii) To investigate the effect of foreign exchange risks management strategies on the level of participation of SMEs in international trade in Kampala Central business District.

(iv) To establish the mediating effect of foreign exchange risk management strategies on the relationship between foreign exchange risk and the level of participation of SMEs in international trade.

1.5 Research questions

(i) What is the effect of common foreign exchange risks on the level of participation of SMEs in international trade in Kampala Central business District?

(ii) What is the effect of common foreign exchange risk management practices on the level of SMEs participation in international trade in Kampala Central business District?

(iii) What is the effect of foreign exchange risks management strategies on the level of participation of SMEs in international trade in Kampala Central business District?

(iv) What is the mediating effect of foreign exchange risk management strategies on the relationship between foreign exchange risk and the level of participation of SMEs in international trade?

1.6 Research Hypothesis

Ho1 Foreign Exchange Risks significantly affect the strategies used by SMEs dealing in international trade in the Kampala Central business District.

Ho2 Foreign Exchange Risks significantly affect the levels and mode of participation in international trade amongst SMEs in the Kampala Central business District.

Ho3 Foreign exchange risk management strategies significantly affect the levels and mode of participation in international trade amongst SMEs in the Kampala Central business District.

Ho4 Foreign exchange risk management strategies have a significant mediating effect on the relationship between foreign exchange risk and the level of participation of SMEs in international trade.

1.7 Significance of the study

There was thus need for empirical research to have proper management of foreign exchange risks and international trade in SME's. This allows them to grow businesses that benefit the entire economy. Without such a study, traders are likely to continue using inappropriate strategies which will continuously expose their businesses to risk and possible collapse.

The study helps the policy makers to come up with recommendations to help traders avoid scenarios that put them at risk of loss owing to foreign currency exchange in their trading activities.

The study also provides an insight for further researchers to study foreign currency exchange and its impact on profitability of trade among SMEs.

1.8. Conceptual framework.

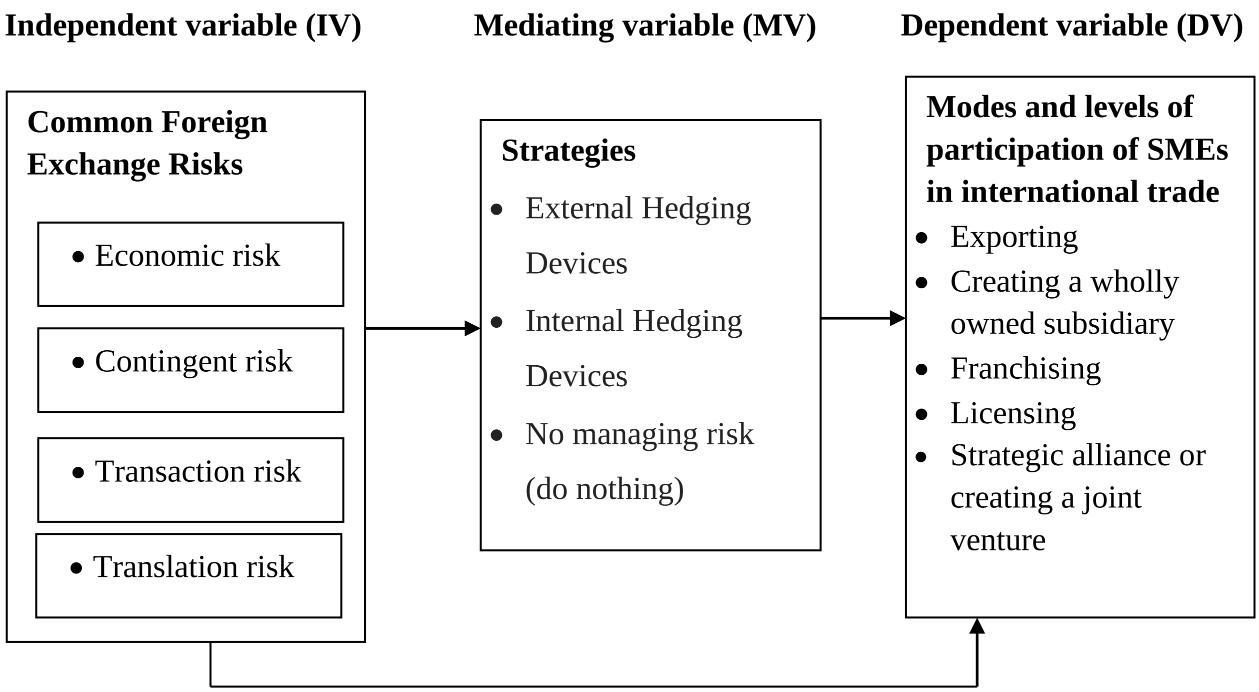

Figure 1. 1: Conceptual framework

Source: (Sarangdevot & Rathore, 2014; Shaw, 2014; Boru, 2011; Choi, 2012**)**

From the above figure, SMEs face various risks while executing international trade. These risks include contingent risk, economic risk, transaction risk and translation risk. These formed one of the independent variables. In face of the above risks, SMEs try to minimalize the impact of the risks using several practices. Such practices include External Hedging Devices, Internal Hedging Devices and No managing risk (do nothing). These practices then influence the modes and levels of participation of SMEs in international trade including; exporting, franchising, foreign direct investment, licensing and joint venture or strategic alliance. Lastly, the figure also indicates that foreign exchange risk management strategies may have a mediating effect on the relationship between foreign exchange risk and the level of participation.

In conclusion, this chapter highlighted the general purpose of the study aimed at establishing the mediating role of foreign exchange risk management strategies on SMEs participation on international trade considering business district of Kampala as an area for the study. The specific objectives were to explore the common foreign exchange risks and how they affect level of participation in international trade and investigate the major foreign exchange risks management strategies that firms have opted for and how they affect their level of participation in international trade.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviewed the relevant literature. The review contains the objectives; that is, to examine the common foreign exchange risks faced by SMEs dealing in international trade in Kampala Central business District, to examine the common management practices used to mitigate foreign exchange risks among SMEs dealing in overseas foreign business trade dealings in the Kampala Central business District and to explore strategies for managing foreign exchange risk among SMEs dealing in international trade in Kampala Central business District. The chapter ends with the summary and gaps identified.

2.2 Theoretical review

This research was guided by the assertions of the Modern Portfolio Theory (MPT) that was put forward by Economist Harry Markowitz in 1952. This theory or mean-variance study, is a statistical framework for analysing a portfolio of assets so that the level of risk is minimized while expected return is maximized (Kim & Francis, 2013). The theory encourages firms to formalize and engage in diversification of buying and selling activities. This is based on the idea that owning a number of financial assets is less risky than owning only one type. The theory uses the variance of asset prices as a proxy for risk.

MPT is based on assumption that traders are fear to engage in risky activities (risk averse), which means that should there be two portfolios that offer same expected return, traders may choose the less risky one. Thus, a trader will opt for riskier only if they expect higher expected returns. Besides, a trader who wants higher expected returns should take more risk. This implies that a rational trader will not trade in a portfolio that is riskier when there is a second portfolio with a more favorable risk–expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns (Markowitz,1952). The theory suggests that in the current era, small scale international traders will try to avoid or limit risk exposure as much as possible, particularly, risk due to currency exchanges.

2.3 Conceptual review

2.3.1 Foreign Exchange

Foreign currency exchange (Forex or FX) refers to a situation where one currency is converted or exchanged for another currency at a foreign exchange rate. The rate for conversion keeps on floating due to the dynamic of market forces of demand and supply. The foreign exchange market facilitates the exchange of all currencies over-the-counter market where trade occurs. It has become the largest with high trading volume and the it is the most liquid market in the world. The survey by Bank of International Settlements' Triennial Central Bank (2016) indicates that on average, a total of $5.1 Trillion is trade in the forex market.

2.3.2 Foreign exchange risk

Foreign exchange risk also known as currency risk refers to financial risk experienced when a a firm's financial transaction is highly denominated by other currencies other than the national currency. The risk arises due to unpredictable variations in exchange rate between the national currency and foreign denominated currency before the period of completing the transaction (Moffett, Stonehill and Eiteman, 2009). Generally, companies engaged in international trade are exposed to Economic, Transaction and Translation exposure (Salifu, Osei & Adjasi, 2007).

The foreign currency exchange market is highly influenced by predominant macroeconomic elements of business environment. These elements influence decision making of traders and may determine the currency rate at any given point in time. The exchange rate of a country's currency is largely determined by the economic factors in play. Existing circumstances and new studies can change the overall economic situation of a country. However, most of the best foreign currency exchange traders are highly disciplined and stick to a set of trading rule (Lioudis, 2020).

In Africa, there are many currencies, with many being characterized by their illiquid, rarely traded status and volatility of global financial market. This poses a real obstacle for those who want to do business in Africa. Currency concerns are one of the biggest barriers to the economic growth of the African continent (Celeste, 2019).

2.3.3 Risk

Risk refers to the probability that an expected outcome or investment's actual returns will be different from a likely return. Risk involve the possibility of making a loss on part or all of the investment (PMI (Project Management Institute, Inc.), 2017).

The risks can be categorized into two types, that is to say, known risks and unknown risks. The known risks are risks that we are certain with and can be recognized while unknown risks are risks that we uncertain of their occurrence.

2.3.4 Risk Management

Risk management is the process of dealing with any possible loss through identifying, assessing, quantifying risks, responding to them with a risk strategy. It may also take a shape of controlling risks from happening. The traders have to pay more attention on risk factor because it largely affects their decision-making process. In addition to that, risk prevents several traders from making business decisions (Sarangdevot & Rathore, 2014). Foreign currency trading is highly risky because currencies fluctuate often which may lead to potential loss of substantial amounts of money. On the other hand, business avenues that are riskier tend to provide more returns to the traders which act as a motivation.

2.3.5 International Trade

International trade is trade between or among countries. The firms engage in international trade through three forms: Importation, Exportation and Entrepot Trade. Entrepot Trade is an involvement in both exportation and importation and is also known as Re-export. This means that one engages in importing goods from one country, adds value and then exporting them to another country (Sunanda, 2010).

Firms engaged in international trade especially through import and export largely depend on foreign currency for exchange. This determines the volume of trade since it facilitates the exchange of goods. It is therefore vital firms to understand the influence foreign currency has on the level of participation on international trade.

2.3.6 Small and Medium Enterprises

Small and Medium Enterprises (SMEs) have been defined in a number of ways with no universally agreed definition (Peter Quartey 2001, Manuel Albaladejo, 2002). Their understanding can be obtained from various descriptions spanning from those hinged-on number of employees to those hinged on business turnover and assets. Even in those various category's definitions vary from country to country depending on the size of the economy and the purpose of the definition. Countries with large and more developed economies tend to have bigger SMEs than those with smaller and underdeveloped economies. The most used definition is one based on the number of employees. However, in situations where financial assistance is offered to SMEs, the definition may include the company asset size and the level of annual turnover.

Table 2.1 presents a summary of the various versions of definition of SMEs compiled by (Kayanula & Quartey, 1999; Quartey, 2001).

Table 2.1:A Summary of SME’s definitions

Source	Definition	
World Bank since 1976	Firms that have non-current assets less than US$ 250,000 in value excluding land	
Grindle et. al. (1989:9-10)	Small-scale enterprises involve those firms with 25 permanent members or less and have fixed assets worth US$ 50,000 excluding land	
USAID in the 1990s	SMEs are those firms that have less than 50 employees and at least half	
UNIDO’s Developing	Large	Commercial enterprises that have 100+ employees
	Medium	Commercial enterprises that have 20 - 99 employees
	Small	Commercial enterprises with 5 - 19 employees
	Micro	Commercial enterprises with < 5 employees
UNIDO’s Definition for	Large	Commercial enterprises with 500+ employees
	Medium	Commercial enterprises with 100 – 499 employees
	Small	Commercial enterprises with ≤ 99 employees

Just like other countries in the world, Uganda too doesn’t have an agreed definition for SME’s. According the Ministry of Finance, Planning and Economic Development (MoFPED), the Micro and Small Enterprises Policy Unit (MSEPU) considered the following definitions for Small and Micro Enterprises:

Micro enterprises can be defined as commercial enterprises which employ not more than 5 people who are usually family members. The value of their assets excluding building, land and working capital isn't more than UGX 2.5Million which translates to approximately USD 1,515; their annual turnover doesn't go above UGX 10Million which translate to approximately USD 6,060.

Small enterprises, however, were defined as commercial enterprises which employ not more than 50 people; value of assets excluding buildings, land and working capital isn't more than UGX 50Million and their annual turnover ranges between UGX 10Million and UGX 50Million.

Currently the government of Uganda is in the process of developing an all-encompassing strategy or policy for Micro, Small and Medium Enterprises (MSME) with support from the Commonwealth Secretariat. In the draft report on the Uganda MSMEs policy and strategy released by the Commonwealth secretariat the following definition of MSMEs has been recommended:

A Micro enterprise was described as a commercial enterprise which employs up to 4 people, mainly family members, with annual sales/ revenue turnover or total assets not exceeding UGX 10Million. A Small Enterprise on the other hand was described as a commercial enterprise which employs between 5 and 49 people with annual sales/ revenue turnover or total assets between UGX 10Million but not exceeding UGX 100Million. A Medium Enterprise, therefore, employs between 50 and 100 people with total assets of more than UGX 100Million and not exceeding UGX 360Million.

2.4 Literature review on study objective

2.4.1 The common foreign exchange risks faced by SMEs dealing in international trade

Economic risk

This is the risk that a firm faces when its market value is affected by exposure to currency instabilities and changes in the economic landscape. It is also termed as forecast risk'. This kind of risk is often created dynamics in the macroeconomic conditions for example fluctuations in exchange rates, geopolitical stability and changes in government regulations. This risk makes international trade riskier than domestic trade. It also affects the shareholders decision in company (Siddaia, 2010). A firm experiences *economic risk* when its market value is affected by unanticipated fluctuations in exchange-rate.

Economic risk largely affects the contemporary value of future cash flows (Eun and Resnick, 2011). In addition, changing legal requirements and regulations on sizes, timing, types, disclosures of bonds and credit quality may directly influence on international trade of a firm (Siddaia, 2010). In a macroeconomic model, the major risks that affect international trade include changes in GDP, commodity-price, exchange-rate fluctuations, and stock-market fluctuations.

Contingent risk

A firm faces *contingent risk* during bidding for oversee projects, negotiating for contracts and when it engages in direct foreign investments. This risk arises when a firm suddenly face a economic foreign-exchange risk due to engagement in some contract or negotiation. For example, when a firm is waiting for the acceptance of a project bid submitted to the foreign business or government which if when accepted in a short while, would minimize risks. However, if the same contract is waited for long, the firm becomes uncertain because there is no assurance that receivable will accrue hence exposure to contingency risk (Eun and Resnick, 2011).

Transaction risk

Transaction risk is a risk that a firm faces as a result of engaging into financial transaction or selling products of a firm that is located in foreign country. The risk arises because of fluctuation of the FX rate before the completion of a transaction. For instance, if the currency of a vendor's country appreciates versus the buyer's currency, the buyer makes a larger payment using his domestic currency in order to meet the agreed price. This risk adversely affects the company when there is much time spent between contracting and settlement which may lead to any chance of currency fluctuation.

The firms must do anything possible to manage transaction risk. This may be done through negotiating for forward contracts and Foreign exchange options (Wagner and Disparte, 2016). It is noted that when firms negotiate for contracts with set prices and delivery dates at the current volatile foreign exchange market, any fluctuation between initiating a transaction and its settlement may expose the firms into a risk that can lead to significant loss (Wagner and Disparte, 2016). Businesses should therefore do anything possible to make all monetary transactions profitable by observing carefully the changes in the currency markets (Wagner and Disparte, 2016).

Translation risk

The translation risk is a risk faced by the firm when its financial reporting is affected by the movements in exchange-rate. As firms are required to prepare periodic consolidated financial statements for reporting purposes, for multinationals, they are required to translate their financial statements and those of subsidiaries, from foreign to domestic currency. Translation risk may not affect the cash flows of the firm; however, it has a significant impact on a firm's the reported earnings and stock price. Translation risk affects the company's equities, assets, liabilities, or income, because they are likely to change in value when there is fluctuation of foreign exchange rates during the conversion. A company involved in operating businesses in foreign country will eventually have convert host country's currency back into their domestic currency. When exchange rates fluctuate by either appreciating or depreciating, it becomes difficult to determine the right value of the foreign currency hence causing risk (Wagner and Disparte, 2016).

Challenges

Besides the above risks, there are related challenges in foreign exchange management in trading. The foreign exchange market today is associated with low transparency especially where direct-dealing market has access to proprietary information while the rest of the market has no easy access to prices or quantities information. Transparency is highly required from foreign exchange electronic brokerages to attract businesses to exchange their currencies. The study by

While Uganda has Uganda Financial Intelligence Authority as a financial regulator, the Authority has limited control over the foreign currency exchange market. The financial authority is mandated to prevent money laundering in the country. The only related regulation is the Foreign Exchange Act 2004 (FEA) which regulates the movement of funds out of Uganda and requires all payments to be made in foreign currency out of Uganda through a bank. This essentially cannot regulate foreign currency exchange trade (Magona & Turyamureba, 2017).

Ugandan financial authority regulates Forex bureaus that are responsible for facilitating currency exchange. Although the African region does show a lot of promise, it does have some major weaknesses. One of the main challenges is the lack of regulators. Only South Africa has a relatively effective body, which is yet not as effective as UK's FCA. Kenya is another country which is trying to monitor the sector under the Capital Markets Authority (CMA) controlled by the Central Bank. However, the overall absence of strong regulatory bodies in the FX industry has led to an increase in scams, lower trading education, and a lack of awareness of trading risk (Celeste, 2019).

The traders' perception on regulatory, social, political, technological, legal, economic and environmental risks with respect to equity share value in the market has to be analyzed. It is further identified that these factors influence customer's perception regarding equity share (Chawla, 2014). It was also identified that except for social factor between unmarried traders, political, regulatory factors for occupation in age were insignificant (Saravana, 2010).

2.4.2 Foreign exchange risks management strategies and participation in international trade.

Chan-Lau (2005) conducted a study in Chile and established that demand for forex hedging was from large firms. Because of the characteristics of SMEs, including limited capital, managerial skills, experience, size differences among other issues; it is likely that SMEs need specific strategies for managing foreign exchange risks which are distinct from those of larger firms as they may face higher risk due to an increase in export sales/total sales ratio over time (Vu Hung, 2015). Vu Hung (2015) attempts to explore foreign exchange risk management in small scale firms but only focuses on hedging strategies and more so in South Africa.

Bligh (2012) noted that forward contract, futures market, money market, currency option, and currency swaps were the most popular hedging instruments amongst the firms in American

Market. Aman, Renuka and Kiran (2017) focuses on an Indian context of SMEs and indicated that there is lack of awareness regarding foreign exchange risk exposure management. Ramtlakana (2016) established that hybrid method of combining hedging instruments and spot rates were the major techniques used by SMEs for managing foreign exchange risks.

There have been local attempts to explore management of foreign exchange risk in Uganda. For instance, Nampeera (2015) conducted a study to establish the relationship between foreign risk management strategies and performance of forex bureaus in Kampala. The study established that there was a significant relationship between FX risk management and performance of foreign exchange bureaus. Nampeera (2015) asserts that foreign exchange risk management practices are relevant in assessing and minimizing the risk associated exchange volatility. However, the focus was on forex bureaus and not the individual international traders who use foreign currency in their business' dealings, creating a knowledge gap on how individual small-scale trader's manage foreign exchange risk. From the above, it is clear that authors do not agree on the most common strategies SMEs use to manage risks.

Kidong'oi (2014) did a study to examine the foreign exchange risk management performance Techniques applied in airline companies of Kenya. The study applied a descriptive survey research design from which data collection was done from 14 registered airline companies in Kenya. The study concluded that Invoicing and Currency clause, Leading and Lagging and Payment Matching were the major techniques applied to manage foreign Exchange risk.

Ngugi, Njagi and Kimani (2013 conducted a study to investigate foreign exchange risk management: strategies and techniques in the banking industry of Kenya. The study used a census survey research design. The population of 42 commercial banks licensed to operate in

Kenya as listed by the Central Bank of Kenya was used. The study established that majority of the banks used forward contract. Study also established that banks used money market hedge and the currency swap.

Furthermore, the study also noted that parallel loans and cross hedging techniques were moderately used. Futures contract, leading and lagging and foreign currency option techniques were occasionally used while the least used technique was prepayment.

Boru (2011) did a study that examined the foreign exchange risk management practices among the oil companies in Kenya. The study collected data from the target population of 27 major oil companies in Kenyan market. The study established that foreign exchange risk was the second most significant risk that oil companies were exposed to when there is fluctuation in the prices of global crude oil. It was therefore found to be an important risk that requires managing. The study also established that 65% of the oil companies apply internal hedging techniques while only 35% applied external hedging techniques (derivatives). The study concluded that internal hedging technique of changing the currency of billing was widely used by oil companies.

Rahman and Hoque (2015) examined and conducted an inquiry on how conventional and Islamic Banks in Bangladesh conduct or control their foreign currency exchange risks and contrasted the results to analytical findings and previous factual research. The findings and details are largely gathered from different issued articles, bulletins, prospectuses, issued documents of Bangladesh Bank and web sites. Rahman and Hoque (2015) found substantial and meaningful differentiations in the foreign currency exchange risk management strategies and procedures, possible recommendations of Bangladesh Bank, leadership failure notably in the choice of various types of exposure to cover plus the hedging instruments used.

The major challenges traders face is the persistent appreciation of foreign currencies as opposed to the local currency and the great effort required in retaining local customers because of the exorbitant prices of imported merchandise, which tend to influence prices of their final commodities sold locally. The outcomes also show that Ghanaian firms involved in international and overseas trade exhibit a low-level use of hedging approaches. Firms like Standard Chartered Bank Uganda Limited revolve around the volatility of the main currencies and are exposed indirectly given that their well thought out position can be damaged by volatile foreign currency exchange (Gopinath, 2015).

Risk management is illustrated as the performance of tasks or ventures designed to decrease or lessen the negative impact (cost) of unpredictability (risk) regarding potential losses (Boz, Gopinath &, Plagborg-Moller, 2017). This section explores the different techniques that can be employed in order to manage foreign currency exchange risks or to hedge against these uncertainties. Accordingly, Cangoz, Dychala, Sulla and Wang (2019) identified that costs, taxes and effects on accounting conventions and regulation can easily affect a risk manager's alternative measure as a hedging technique in mitigating foreign currency exchange associated risks.

The different types of hedging techniques are discussed below.

2.4.2.1 External Hedging Techniques

Payments netting

This is used by multinational companies engaging in international transactions. It involves limiting fund transfers between affiliates to only a netted amount. There are two types of payments netting; bilateral and multilateral netting. If a trader's need is to channel a netted amount between two associates, then they can employ bilateral netting as a strategy. To reduce the physical flow of funds from one subsidiary to another, then the payments netting strategy can be employed. As a result, assessable costs such as foreign currency procurement cost, opportunity cost of the float and other business costs are abolished or eradicated (Lai, 2018).

Prepayment

In this method, for cases where importers are supposed to settle off the exporter in full before the shipment is made, then it can be employed. International wire transfers are usually made to the exporters bank account when the payments are being done. This technique gives the supplier the high degree of defense and it is normally sought for by first-time business traders whose credit worthiness is unknown or whose countries are poverty stricken (Choi, 2012).

Hedging with derivatives

This technique employs measures that are focused on decreasing the uncertainty about the subsequent or ensuing (unknow) price fluctuations of a commodity or merchandise, financial security or foreign overseas currencies.

Many financial managers are resorting to the use of hedging techniques as strategies and also using derivatives to bring down risks associated with foreign currency exchange. Previous research has proven that there’s a widespread use of derivatives in Ugandan International Corporations and financial institutions in managing their foreign currency risk as well as being exposed to exchange rate risks in the future (Bradley & Moles, 2015; Jaliv et al., 2014).

Foreign exchange hedging is a common practice among managers of portfolio due to the financial difficulties (Melvin & Prins, 2010). The traders report that adoption of a 50 percent hedge ratio has become common in the market, especially with the hedge being reset periodically (e.g. once a month). A 50 percent ratio helps to minimize “embarrassment risk,” that a firm incurs when the rate moves adversely on an unhedged. Private financial institutions continue to dominate financial exchange trading regularly, with central banks becoming noteworthy participants. When government intervene to influence exchange rates, their trades expected to be informed. The banks should continue to cultivate their relationships with central banks so to keep updated of any fluctuations.

Forward and futures contracts

This contract is made today for delivery of an item at a given current price at a pre-determined period of time in the future. There will be no money or currency changes until the item has been delivered or until the time has elapsed or expired. A futures contract is an exceptional contract that allows determination of standardized distribution dates and rates that facilitate the exchange or swapping (Cleary et al., 2006). The variations in the usage level between forward and futures contracts is determined by the flexibility of forward contracts. It may therefore be tailored to meet needs the needs of clients which may not be possible for futures contracts.

Currency options

This gives one the right, though not obliged to transact on the specific currency at a specific price within a specific period. Currency options are relevant because; It provides an opportunity to hedge against foreign currency exchange rate risk that may arise from importation or exportation of goods. Secondly, it helps to hedge against foreign currency exchange rate fluctuations that are as a result of international trade or financing in any currency. In addition, it offers a very high degree of influence during FX speculations (Cleary et al., 2006).

Currency swaps

A currency swap refers to an arrangement where two parties involve in the transaction (exchange) of two currencies at the current exchange rate or on spot. They enter into agreement to reverse the exchange rate based on the time of the original exchange (Cleary et al.,2006). The agreement requires the party receiving higher interest rate currency of that country to pay the interest to the counter party at a rate that characterizes the interest rate difference amongst the two countries.

2.4.2.2 Internal Hedging Techniques

Leading and lagging strategy

A lead strategy comprises of any attempt to gather foreign currency receivable early when foreign currency is expected to decline and making payments on foreign currency payables before they are due when a currency is expected to gain or appreciate (Hill, 2015). According to Hill (2015), in order for firms to accelerate payments from weak jurisdictions to strong currency jurisdictions, the leading and Lagging strategy can be employed.

However, leading and lagging is a strictly competitive game, that is, while one party benefits, the other matching party loses. Thus, gains from currency exchange rates may be exceeded by the cost of business lose due to competitive nature of this technique. The practice of leading and lagging gained much recognition as one of the methods of hedging against adverse effects of foreign exchange rate fluctuations in Uganda by international corporations.

2.4.2.3 Doing Nothing

This is where firms do not engage on those transaction which are subjected to risks. Firms choose not to get exposed to risks that may subject them to possibility of making a loss because of entering into risky transactions. Foreign exchange involves the movement of exchange rates on either direction that are either more or less risky. The firm should therefore focus on the direction that is less risk and should choose to do nothing on the riskier direction. Firms may not have to hedge their position especially when there is international condition parity for instance in situations of uncovered interest parity, unbiasedness efficiency hypothesis and purchasing power parity. This is because there will be limited foreign-exchange risk associated.

Therefore, the firm does not need to use a forward contract to hedge the position in foreign trade. This is because the bid–ask to spread in the forward markets is often wider than the bid–ask to spread in spot markets. This means that the firm gains more and can minimize foreign exchange risk when it does not involve in transactions that expose it to risks. However, ignoring exploitation of those transactions that are uncovered may yield a high risk in the short run, since mixed results may be obtained with little evidence to support this hypothesis (Moosa, 2010). Yang, Copeland and Laurence (2014) note that deviations are mainly driven by risk premia and expectational errors especially in the short run.

Firms also need not to worry of foreign exchange if it can forecast the fluctuations in exchange rates. The firms should therefore be in position to control FX risk to avoid any further loss. When the firm takes hedging decision when the exchange rates are in favorable direction, it will reduce on the risk. However, due to uncertainty of the market conditions, forecasting the fluctuations in exchange rate becomes difficult (Moosa, 2000a). In addition, condition under which shareholders diversify their portfolios, there is no need for a firm to undertake an expensive hedging transaction since it gives shareholders a natural hedge

2.5 The modes and levels of participation of SMEs in international trade

Stronger involvement by SMEs in international markets creates market opportunities for growth, quicken innovation, facilitate spillovers of knowledge and decision-making; know-how, broaden and deepens the skillset, and improves productivity. Global value chains (GVCs) offer market opportunities to SMEs to integrate the global economy by becoming exporters or suppliers to large firms involved in exportation, and importation of competitively priced foreign technologies and raw materials (Wagner, 2012).

The executives responsible for seizing opportunities and make decisions on market entry have to decide how best to do it. Shaw (2014) provides various options for entry into foreign market which are likely to have a significant effect on the level of participation. These include: exporting, franchising, licensing, joint venture and setting up of subsidiary. According to Shaw (2014). There are higher chances that these options provide variations on; the level of control a firm may have in its operation, initial cost of entry, the level of risk involved, and what percentage of operation's profits the firm retains.

Exporting

Exporting is a mode of participation where goods are manufactured in firm's domestic country after which they are shipped to foreign country for sale. The goods are then received by local firms in foreign countries and sold to their local customers. Many firms that seek to expand their businesses to overseas majorly start as exporters. This is because exporting is deemed a cheaper method for exploring whether a firm's products are eye catching or appealing to local customers in foreign country. It is believed that majority of Asian automakers first entered the U.S. market through exporting. Small firms may therefore undertake exporting as a mode of entry because it is associated with low-cost (Shaw, 2014).

Licensing

While firms may undertake franchising as one of the options for entry in foreign market, licensing is widely common amongst manufacturing firms. Licensing involves a local firm yielding a foreign company the right to manufacture firm's product within a foreign country in exchange for a fee. These relationships often center on patented technology. Licensing enables the firm that granted a license to bypass some of the startup costs, however, it loses some of the control over technology usage and quality control to the licensee. Besides, the firm also gains limited profits from the fees collected from the local firm.

Franchising

Franchising is majorly used by firms in service industries to develop a global presence. Franchising involves local firm in foreign country (called a franchisor) granting another firm from foreign country (known as franchisees) the right to adopt its brand name, sell its products, and use production processes for a fee called (a franchise fee) and a percentage of franchisees' revenues (a royalty fee). Franchising has received wide recognition from firms because it requires little financial startup cost on the side of the franchisor. Indeed, the franchisees incur most of the startup costs to get their businesses up and running. However, franchising allows the franchisor to enjoy only a small percentage of the profits for its brand name (Marek and Walecka, 2013).

Strategic Alliances and Joint Ventures

It is at the interest of every firm involved in international trade to maintain control of its operations. This therefore draws interest into entering into strategic alliances so as to work closely local partners in foreign country. The partners work together towards creating a new entity and contribute resources for the management of business (Shaw, 2014). Joint ventures and strategic alliances are very vital in situations where firm believes that working closely with locals provides knowledge about local market conditions and facilitate acceptance from the government and local authorities in foreign country. A good example in 1980s where the North American Businesses registered a breakthrough the Chinese market through Joint Ventures (Shaw, 2014).

Creating a Wholly Owned Subsidiary

This involves a firm establishing a new business operation in a foreign country that is fully under its ownership. Greenfield venture is one of the ways through which a firm can establish a subsidiary. This means that the firm sets an entire business operation itself. The second option is acquisition of already existing firm from a host country. Regardless of whether a firm decides to set its own subsidiary or acquires an existing operation, having a wholly owned subsidiary can be attractive since it enables the firm to control the operation and retain all the profits (or losses) made (Shaw, 2014).

2.6 Literature summary and gaps

Several studies have been conducted in line with exploring the foreign exchange risks that most firms experience in international trade. For instance, Chan-Lau (2005), Bligh (2012) were largely focused on identifying the foreign exchange risks and what strategies can firms opt for to mitigate those risks. However, the studies did not provide much knowledge on how foreign exchange risks can affect the firm's level of participation in international trade. Besides, the studies have majorly focused on western world context and West Africa with very limited studies conducted in the context of Uganda. Similarly, whereas a study by Nampeera (2015) focused on the context of Uganda, the studies was only limited to exploration of major foreign exchange risks affecting Ugandan SMEs. The current study therefore focused on addressing the knowledge gap and contextual gap by establishing the mediating role of foreign exchange risk management strategies on the relationship between foreign exchange risks and the level of participation of SMEs in the context of Uganda based on the evidence from traders in the business district of Kampala.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The study adopted a cross –sectional survey research design, which involved collecting data from a cross section of respondents at one point in time. This was preferred because data collected at any one point in time was significant for the study, not costly to perform, does not require a lot of time and it was easy to gather and assess (Zangirolami, Jorge &Claudio, 2018). Regarding the research approach, a quantitative and qualitative research approaches were adopted to ease application of statistical tests to address the study objectives that required regression analysis.

3.2 Study Population

The population considered in realizing the research objectives comprised SME traders in Kampala. The only available official list of businesses in Uganda is the census of business establishments in Uganda (2019). This shows that out of a total number of 458,106 establishments, the distributions of businesses by Industry showed that majority 279,715 (61%) of the businesses were Trading followed by Accommodation and Food Services with 64,602 (14%) and Recreation and Personal Services with 41,766 (9%). Businesses in the Agriculture sector (including Fishing and Forestry) accounted for only 8,185 (2%) of the establishments and Kampala has 30% of all business establishments in Uganda. These businesses were projected to grow at 10% per annum. This gives a current business population of 501,024 of which 30% (150,307) are in Kampala.

3.3 Sample size

The study considered SMEs in Kampala as a unit of analysis while the unit of inquiry was composed offirm owners and managers. The study selected the sample of SMEs with the guidance of Krejcie and Morgan's (1970) table for sample determination. Considering accessibility and convenience, the study focused on the trading (91,687) and agriculture (3,006) related businesses forming a population of 94,693. The two strati have been selected because most SMEs in Kampala that are actively involved in international trade are mostly confined under these two segments. This would therefore provide the necessary information that would help to inform this study as compared two other segments not considered. Therefore, from a population of 150,307 SMEs in Kampala, the sample was 384 as detailed below.

Table 3. 1: Population and sample size

Category	Population	Sample	Selection method
Trading	91687	372	Stratified sampling, then simple random sampling
Agriculture sector (including Fishing and Forestry)	3006	12	
Total	94693	384	

Source: (CBE, 2020)

3.4 Sampling Method

The sample was stratified, thus stratified sampling by dividing respondent in business categories. Then, simple random sampling technique was used to identify respondents for the study which gave everyone in the population an equal chance to participate in the study (Frerichs, 2008).

3.5 Data collection methods and Instruments

The study collected data using a self-administered and close ended questionnaire, with a few open questions as a data collection method.

The researcher was around to clear any ambiguities as respondents responded to the tool as long as the respondent called for such help. Since the target respondents were in Kampala, they were physically reached, and the questionnaires were administered. Respondents restrict the answers to every question to a degree to which they agree or disagree with statements provided. The use of questionnaires ensured standardized responses are easily aggregated.

3.6 Sources of Data

The researcher used primary sources of data by collecting data directly from the respondents using a self-administered questionnaire. This was because questionnaires are relevant for gathering data from a wide geographic area (Gwaltney, 2008). Additionally, they are cost effective than other methods. For these reasons, self-administration was the most preferred option.

3.7 Measurement of Variables

The measurement of variables was done using a five level Likert scale on the questionnaire. The respondents were required to rate their responses on various statements based on the Likert scale by expressing either favorable or unfavorable attitudes towards the statements given to respondent in the data collection instrument. Each response was given a numerical score indicating the respondent's opinion and the scores was totaled to measure the respondents' perception.

The independent variable was foreign exchange risks which was conceptualized into four risks; economic risk, contingent risk, transaction risk and translation risk (Shaw, 2014). While, the dependent variable the level and mode of participation of SMEs in international trade which was measured in form of exporting, licensing, joint ventures and owned subsidiary. The mediating variable was risk management strategies which was conceptualized as External hedging devices, internal hedging devices and doing nothing.

3.8 Data Collection Procedure

First, an introduction letter was obtained from Kyambogo University after successful proposal defense. The introductory letter was permitting the researcher to gather data from the field. The traders saw the letter of introduction and easily provided their opinions voluntarily.

3.9 Data Quality Control

3.9.1 Validity analysis

Kumar (2011) defines validity as approximate truth of an influence or knowledge claim of relationship based on evidence that supports the interference as being true or correct validity. The questionnaires were mainly adopted from questions that have been used by various scholars who have examined similar variables. To establish the validity of the instrument, the questionnaires were given to the supervisors for commentary and to verify the ability to address the research objectives. The comments obtained were helpful and therefore used to improve on the instrument. Content validity index was computed with comparison made to the threshold of 0.7 as suggested by Kumar (2011)

$$CVI = \frac{\text{Number of items rated relevant by all judges (35)}}{\text{Total number of items in the instrument (50)}}$$

Therefore, from the Content Validity Index was 0.7 which was within the threshold hence suggesting that the instrument was valid for data collection.

3.9.2 Reliability Analysis

Reliability refers to the degree to which a research tool produces consistent results (Kumar, 2011). According to Shruti and Priya (2016), a questionnaire is considered reliable if independent administration of it yields consistent results under comparable conditions. The tool was subjected to a Cronbach Alpha test. The study pretested the questionnaire and SPSS software tool were used for testing whether the tool was reliable where the Cronbach's Alpha was 0.72 above the threshold of 0.70 as suggested by Amin (2005).

3.10 Data Processing and Analysis

Quantitative Data was collected from the field and was carefully edited sorted and coded to ensure quality, accuracy and completeness using descriptive and inferential statistics.

The Data was then entered in the computer using the statistical package for social scientists (SPSS) version 23 for analysis. The most prominent factors were identified using the mean, frequencies and factor analysis based on Eigen values obtained. The factor analysis results are attached in appendix (iii) for reference.

In order to analyze the direct effect of foreign exchange risks on the level of participation, a linear regression was used. To establish the mediating effect of foreign exchange risk management strategies on the relationship between foreign exchange risks and the level of participation, a Sobel test calculator was used to determine the Z – Values and the significance levels.

Qualitative data was collected using interviews. The data was summarized, edited and organized so as to get meaning information. The study used thematic analyses in which data was presented based on emerging themes.

3.11 Ethical Considerations

Considering the crucial importance to adhere to ethical norms in research work, this study was carried out with utmost regard to high professional and ethical standards (Shamoo & Resnik, 2009). The researcher ensured that all the information included is factual. Throughout the data collection procedure, the principles of objectivity and confidentiality were upheld.

For confidentiality respondents were not required to provide their names, personal addresses or contacts. The researcher also got a letter of introduction from Kyambogo University which was presented to the respondents in order assure them that the purpose of the study was strictly for academics.

3.12 Limitation of the Study

During the research, the researcher came across a few limitations. These include: There was lack of cooperation from some respondents. Delayed responses as some respondents might were busy. Loss of some questionnaires from some. The research was thus flexible in all appointments. The researcher also made constant follow ups on respondents. More than the required sample was covered to cater for possible non-returned questionnaires.

In conclusion, this chapter presents the methodological approach that was adopted in the study. For instance, it presents the research design, the study population and sample, the data collection techniques and data analysis methods that were used to achieve the study objective.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter contains the presentation, analysis and interpretation of findings. The presentation follows the order of the objectives, namely; to examine the common foreign exchange risks faced by SMEs dealing in international trade; to examine the common Foreign Exchange Risk management practices among SMEs dealing in international trade; and to explore strategies for managing foreign exchange risk among SMEs dealing in international trade in Kampala Central business District.

4.1 Response rate

The study computed the response rate to find out how many respondents participated in the study. From 384 questionnaires that were distributed to the targeted sample of respondents, only 128 were returned fully answered and ready for analysis. This constituted a response rate of 33.3%. This response rate according to Fincham (2008) is considered appropriate for the study in situations of non-response. With COVID19 largely affecting and causing closure of businesses especially those operating on international trade, it was indeed difficult to achieve high response rate.

4.2 Demographic characteristics

The study also explored the demographic characteristics of the participants and their businesses as presented below;

Table 4.1: Gender of Respondents

Gender	Frequency	Percentage
Male	90	70.3
Female	38	29.7
Total	128	100.0

Source: Primary data

From the findings in Table 4.1 above, it was established that majority of the SMEs dealing in International trade in Kampala central business district were either owned or managed by male. This is from the evidence where majority of the respondents from SMEs were male constituting of 70.3% while female constituted only 29.7%. This implies that most SMEs that participated in international trade were mostly owned or managed by male as compared to female.

Table 4.2: Age of respondents

Age	Frequency	Percent
20 – 29	32	25.0
30 – 39	49	38.3
40 – 59	29	22.7
60 and above	18	14.1
Total	128	100.0

Source: Primary data

From the evidence presented in Table 4.2 above, findings indicate that the respondents between the age bracket of 30 – 39 years were 38.3%. This is followed by those that were between 20 – 29 (25%) and those between 40 – 59 constituted 22.7%. Lastly, respondents that were 60 and above years only constituted 14.1%. This implies that majority of SMEs involved in international trade were either owned or managed by energetic vibrant individuals who can manage the pressure in international trade.

Table 4.3: Academic qualification

Academic Qualification	Frequency	Percent
O-level	10	7.8
A-level	31	24.2
Diploma	31	24.2
Bachelor’s Degree	19	14.8
Post Graduate Diploma	27	21.1
Master’s degree	10	7.8
Total	**128**	**100.0**

Source: Primary data

The findings in Table 4.3 above show that individuals of various qualification right from the ordinary level of education to the higher levels of Masters were either owners or employees in these SMEs. For instance, 7.8% of the respondents had O-level. Those that had either A-level or Diploma ranked the highest constituting 24.2% of the respondents. Respondents with bachelor’s degree constituted 14.8% while post graduate respondents accounted for 21.1% and lastly master’s degree only constituted 7.8%. This implies that most of the SMEs were either owned or managed by educated individuals who had at least attained education certificate.

Table 4.4: Duration in Business

Duration in Business	**Frequency**	**Percent**
1- 4 years	10	7.8
5- 8 years	40	31.3
9- 12 years	23	18.0
13- 16 years	45	35.2
17 years and above	10	7.8
Total	**128**	**100.0**

Source: Primary data

The evidence in Table 4.4 indicates that respondents who were either the owners or employees of the SMEs had stayed in business for quiet reasonable time.

For instance, the highest percentage of respondents (35.2%) had been involved in business for a period between 13-16 years. This was followed by those that had been in business for a period of 5-8 years (31.3%). Respondents who had served for 9-12 years were 18%. Respondents that worked for 1-4 years and those that worked for 17 years and above each constituted 7.8%. This implies that majority of respondents who took part in the study had experience in managing international business operations since they had been in business for at least more than 1 year.

Table 4.5: Type of business

Type of Business	Frequency	Percent
Trading	83	64.8
Agriculture sector (including Fishing and Forestry)	45	35.2
Total	128	100.0

Source: Primary data

From the findings in Table 4.5 above, it was revealed that majority of the businesses were involved in trading (64.8%). Those businesses that were dealing in agricultural sector only constituted 35.2%. This implies that majority of the SMEs largely participated in trading business in the international trade as compared to those that focused on agricultural products.

Table 4.6: Foreign currency used

Most common type of foreign currency used in trade	**Frequency**	**Percent**
USD/UGX	50	39.1
EUR/UGX	26	20.3
CAD/UGX	8	6.3
GBP/UGX	24	18.7
AUD/UGX	5	3.9
KSH/UGX	15	11.7
Total	**128**	**100.0**

Source: Primary data

From the evidence in Table 4.6 above, it was revealed that various currencies were used to facilitate trade by SMEs dealing in international trade in Kampala. For instance, 39.1% of the SMEs used USD currency. 20.3% of the SMEs were using EUR currency. SMEs that use CAD currency constitute 6.3%. 18.7% of the SMEs were using GBP while only 3.9% were using AUD currency. Lastly, 11.7% of the SMEs were using KSH currency while trading. This implies that dominant currency that was being used by SMEs in Kampala during international trade operations was US dollar compared to other currencies.

4.3 Participation in International Trade

The study requested respondents to indicate their extent of participation in international trade by indicating how much sales they collected from exports, how much spent on imports and how much spent on capital imports. Findings are therefore presented in Tables 4.7, 4.8 and 4.9 below.

Table 4.7: Sales from export

How much of your sales come from exports?	Frequency	Percent
5% - 25%	24	18.8
26% - 50%	55	43.0
51% - 75%	26	20.3
76% and above	23	18.0
Total	**128**	**100.0**

Source: Primary data

The evidence presented in Table 4.7 above indicates that for the SMEs involved in international trade in the central business district of Kampala, 18.8% of them have between 5% - 25% of their sales coming from exports. 43.0% of SMEs have between 26% - 50% of their sales coming from exports while 20.3% of the SMEs have between 51% - 75% of the sales from exports and lastly, 18.0% of the SMEs generate 76% and above sales from exports. This implies that most SMEs that participated in international trade were able to generate up to at least 25% of the sales.

This implies that exporting is one of the major activities that SMEs are involved in so as to generate revenue despite the variances in the amount of sales received by SMEs across trade and agricultural sector.

Table 4.8: Purchases imported by SMEs

How much of your purchases are imported	**Frequency**	**Percent**
5% - 25%	49	38.3
26% - 50%	57	44.5
51% - 75%	18	14.1
76% and above	4	3.1
Total	**128**	**100.0**

Source: Primary data

Findings in Table 4.8 above show that 38.3% of the SMEs were importing between 5% - 25% of their purchases from foreign countries. 44.5% of the SMEs were importing between 26% - 50% of their purchases while 14.1% of the SMEs were importing between 51% - 75% and only 3.1% of the SMEs imported 76% and above of their purchases. This implies that SMEs involved in international trade had a proportion of their purchases imported and a proportion of purchases got from the domestic market since the least number of SMEs were importing 76% and above.

Table 4.9: Stock/Capital imported by SMEs

What percentage of your capital equipment is imported?	Frequency	Percent
5% - 25%	49	38.3
26% - 50%	57	44.5
51% - 75%	17	13.3
76% and above	5	3.9
Total	**128**	**100.0**

Source: Primary data

From Table 4.9 above, it was established that 38.3% of the SMEs were importing between 5% - 25% of their capital equipment from foreign market. 44.5% of the SMEs were importing between 26% - 50% of the capital equipment.

In addition, 13.3% of the SMEs were importing between 51% - 76% while only 3.9% of the SMEs were importing 76% and above of their capital equipment. This implies that out of the capital equipment utilized by SMEs involved in international trade in Kampala, there was also a proportion of supply of capital equipment from the domestic market since the smallest number of SMEs were importing 76% and above.

4.4 Frequency of participation

The study established how often SMEs participated in international trade. This was investigated through seeking for responses in terms of frequency of participation on exportation, importation and re-exportation and the findings are presented below.

Table 4.10: Frequency of exportation

Export	Frequency	Percent
Monthly	19	14.8
Quarterly (every 3 moths)	69	53.9
Bi-annually (every 6 months)	13	10.2
Annually (once in a year	27	21.1
Total	**128**	**100.0**

Source: Primary data

The evidence from the findings presented in Table 4.10 above, it was established that majority of the SMEs were involved in exportation on a quarterly basis (53.9%). SMEs that indicated that they exported on monthly basis constituted 14.8% while 10.2% of the SMEs exported bi-annually and 21.1% of the SMEs exported once in a year. This implies that in an entire year SMEs were involved in an international trade despite the variation in frequency of involvement.

Table 4.11: Frequency of importation by SMEs

Import	Frequency	Percent
Monthly	26	20.3
Quarterly (every 3 moths)	54	42.2
Bi-annually (every 6 months)	37	28.9
Annually (once in a year	11	8.6
Total	**128**	**100.0**

Source: Primary data

The evidence from the findings presented in Table 4.11 above, it was established that 20.3% of the SMEs imported items on monthly basis. 42.2% of the SMEs imported items on quarterly basis and 28.9% imported on bi-annual basis while only 8.6% of the SMEs were importing once in a year. This implies that SMEs were involved in importation throughout the entire year despite the variations in frequency of importation across SMEs.

Table 4.12: Frequency of re-exportation by SMEs

Re–export (exporting imported goods e.g. to DR Congo, South Sudan etc.)	**Frequency**	**Percent**
Monthly	11	8.6
Quarterly (every 3 moths)	46	35.9
Bi-annually (every 6 months)	29	22.7
Annually (once in a year	16	12.5
do not re-export	26	20.3
Total	**128**	**100.0**

Source: Primary data

From the findings in Table 4.12 above, it is observed that only 8.6% of the SMEs that imported items would re-export them on a monthly basis. 35.9% of the SMEs would re-export items on quarterly basis. In addition, those SMEs that would often re-export on bi-annual basis were 22.7% while 12.5% of the SMEs would re-export items on annual basis and 20.3% would not be involved in re-exporting. This implies that SMEs involved in international trade were supply for both domestic consumption and foreign consumption.

4.5 Mode of Participation

The study sought to establish the mode of participation used by SMEs in international trade by requesting for responses on whether SMEs physically travelled to export destination, whether

SMEs physically travelled to import destination or whether they involved third party agents. The findings of the study are presented below.

Table 4.13: Physical travel to export destination by SMEs

Physically travel to export destination	Frequency	Percent
YES	75	58.6
NO	53	41.4
Total	**128**	**100.0**

Source: Primary data

Table 4.13 above shows that 58.6% of the SMEs physically travel to the export destination to sale the items while 41.4% of the SMEs do not physically travel to the export destination. This implies that both indirect and direct channels of distribution were used by SMEs involved in international trade in Kampala.

Table 4.14: Physical travel to import sources by SMEs

Physically travel to import sources	Frequency	Percentage
YES	52	40.6
NO	76	59.4
Total	**128**	**100.0**

Source: Primary data

Table 4.14 above shows that 40.6% of the SMEs were travelling to the destination of their suppliers of imports while 59.4% of the SMEs were not physically involved in travelling to import sources destinations. This implies that SMEs were using virtual mechanisms of trading and had trust on suppliers.

Table 4.15: Involvement of third-party agents in international trade

Send third party agents for a fee to trade on my behalf	Frequency	Percent
YES	45	35.2
NO	83	64.8
Total	**128**	**100.0**

Source: Primary data

The evidence in Table 4.15 above shows that 35.2% of the SMEs were involving third-party agents in their trading process while 64.8% of the SMEs were not using third-party agents when conducting international trade. This implies that majority of SMEs utilized direct channels of trading which may be a means of cutting down costs.

4.6 Common foreign exchange risks faced by SMEs dealing in international trade

The study required respondents to give their perception on which foreign exchange presented to them in Table 4.16 below affect SMEs dealing in international trade.

Table 4.16: Common foreign exchange risks faced by SMEs

Descriptive Statistics	**Mean**	**SD**
Common foreign exchange risks		
I face risks related to uncertainty in the political situation of trading partners countries.	3.828	0.549
Is it challenging to adhere to all the laws?	2.867	0.983
Sometimes I am not adequately prepared for uncertainties.	4.328	0.471
At times I delay making transactions which expose me to risks I would avoid.	3.320	1.049
I do not get information on time related to currency price changes.	2.641	1.010
Changes in currency prices have adversely affected my business.	3.539	0.913
More diversification in business always negatively affects business.	2.211	0.728
Foreign exchange rate fluctuations have negatively affected my business.	4.047	0.304
It is common for my business to incur losses due to changes in foreign currency rates.	3.570	1.113
Grand mean	**3.372**	**0.791**

Source: Primary data

From the evidence presented in table 4.16 above, it is observed that SMEs that are involved in international trade face a variety of risks that are categorized into contingency risks, transactional risks and translation risks. However, there is a notable variation of the level to which each risk is experienced by SMEs. For instance, under contingency risk, the highest number of SMEs agreed that they are not often prepared to tackle uncertainties which exposes them to contingency risk (Mean = 4.328 and SD = 0.471).

It was also noted that SMEs face uncertainties in the political atmosphere of trading partner countries (Mean = 3.828 and SD = 0 .549) while there seemed to exist a disagreement that it is challenging to adhere to all laws with a mean score of 2.867 and SD of 0.983.

Under transactional risks, it was established that SMEs agree that they delay making transactions (Mean = 3.320 and SD = 1.049. They also agreed that changes in currency affect business. These therefore exposed them to transactional risks. However, it was established that there was a disagreement by SMEs on whether they often did not get information regarding currency changes on time with a mean score of 2.641 and standard deviation of 0.913.

Under translation risks, the study established that SMEs disagree that diversification does not affect businesses negatively with Mean of 2.211 and SD of 0.728. It was also noted that SMEs strongly agreed that foreign exchange fluctuations expose business to translation risk (Mean = 4.047 and SD of 0.304). Furthermore, SMEs agreed that business often incurred losses which exposed them to risks especially due to the changes of in foreign currency (Mean =3.570 and SD of 1.113).

This is supported by interview response from manager of one of the SMEs who had this to say regard the common risks affect SMEs.

"In this business of exporting to foreign countries, there are a number of risks that we face. For instance, in Southern Sudan where we are majorly based, we have faced political unrest, loss of lives and destruction of items. These have drastically affected our performance and participation in international trade. Our stock worth UGX 15 Million was destroyed in Southern Sudan in 2016 when there was political instability. The worst problem is that these risks are unpredictable. They suddenly happen and we often do not get information on time. We also face currency devaluations and price fluctuations which all have a negative effect in our international business operations."

4.7 Common foreign exchange risk management practices among SMEs dealing in international trade

In order to establish the foreign exchange risk management practices, respondents were required to show the extent to which they either agreed or disagreed with the statements presented to them and findings are presented in Table 4.17 below.

Table 4.17: Risks management practices used by SMEs

Descriptive Statistics	Mean	SD
I use Forward and futures contracts to limit risk exposure	2.680	1.042
I use currency swaps to limit risk exposure (exchange an equivalent amount of money with each other but in different currencies)	2.281	0.663
I use currency options that are available to limit risk exposure.	3.922	0.446
I at times combine hedging instruments and spot	4.102	0.373
I commonly use forward contracts to manage forex risk exposure.	2.656	1.139
I have no active means of managing forex risk in my business.	1.961	0.405
At times I do not manage risk at all.	2.016	0.602
Grand mean	**2.803**	**0.667**

Source: Primary data

Evidence presented in Table 4.17 above shows that majority of the SMEs did not apply mostly external hedging devices as a risk management strategy. For instance, on whether the SMEs use forward and future contracts to curb risks, the respondents disagreed with a mean score of 2.680. The respondents also disagreed to whether they use currency swaps to limit risk exposure with a mean score of 2.281. However, it was established that SMEs agree to only using currency options available to manage risks with a mean score of 3.922.

In regard to the use of internal hedging devices to manage risks, it was established that majority of the SMEs agreed to combining hedging instruments and spot which registered a mean score of 4.102. However, majority of the SMEs disagreed to using forward and future contracts to manage forex risk exposure.

This was supported by the interview response from the owner of SME involved in importing textile products who had this to say;

"We have designed a forex risk management strategy that is known to all our employees involved in importation. For instance, we use various currency options to avoid over reliance in one currency that may expose us to risks. It has been very difficult to engage our suppliers on future and forward contracts because of stiff competition for items. They prefer on spot purchase so as to protect their interest. As a result, we have found it difficult to use future and forward contracts as a forex risk management strategy."

Lastly, in regard to whether SMEs were doing nothing to manage risks, the results indicate that SMEs disagreed with all the statements that were used to determine. For instance, respondents disagreed with whether they had no active means of managing forex risks (Mean = 1.961). Implying that they had knowledge on risks and were actively doing something to manage forex risks. The respondents also disagreed when asked whether they do not manage risks at all (Mean = 2.016).

This is supported by response from one SME who had this to say;

"Risk management is our priority. We would have not succeeded in this business if we were not prioritizing managing foreign exchange risks. We have involved our staff involved in importation and exportation to brainstorm on the best practices we can use to deal with various risks. So, I confirm to you that we do not sleep. We do all our best to analyze, plan and manage foreign exchange risks."

4.8 Strategies for managing foreign exchange risk among SMEs dealing in international trade

The study also explored the foreign exchange risk management strategies used by SMEs dealing international trade by requesting respondents to indicate their responses on the selected strategies following the Likert Scale of 1-5. The findings are presented in Table 4.18 below.

Table 4.18: Strategies for managing foreign exchange risk

Descriptive Statistics	**Mean**	**SD**
Strategies for Managing Foreign Exchange Risk		
When trading, I ensure that I target either minimum risk and or minimum gain.	2.281	.783
At times I buy forex in advance to cater for my future transactions.	2.351	1.220
At times, I make consolidated payments to minimize my risk exposure.	2.445	1.175
I make choices in trade that ensure that I minimize possible losses.	3.335	1.013
I ensure that my losses are offset by my profits by design.	3.765	.657
I tend to agree on future prices for my suppliers to reduce risk.	3.875	.601
I make use of forecasts and act fast to minimize business risks related to forex.	3.914	.823
Grand mean	**3.138**	**0.896**

Source: Primary data

In table 4.18 above, it was established that most SMEs have strategies for managing foreign exchange risks in place. This is because when asked whether SMEs would only target minimum risk areas, respondents disagreed (Mean =2.281). This implies that SMEs were traded in risk ventures and was important is managing the risk. The findings also revealed that respondents disagreed on whether SMEs would buy forex in advance to cater for my future transactions (Mean=2.351) implying that they were ready to tackle any risk as it happens with strategies in place. In the same line, respondents also disagreed with whether SMEs could make consolidated payments to minimize my risk exposure (Mean =2.445). On the other hand, respondents agreed that they make choices in trade that ensure that they minimize possible losses (Mean =3.335) implying that one of the strategies they applied was avoiding risky activities. Furthermore, respondents also agreed that they designed a strategy in which they ensure losses are offset (Mean =3.765).

In addition, respondents also agreed that as a strategy of managing future risks, SMEs would enter contractual terms with suppliers where future prices are agreed in advance so as to avoid risks (Mean =3.875). tend to agree on future prices for my suppliers to reduce risk.

Lastly, the respondents agreed that they make use of forecasts and act fast to minimize business risks related to forex (Mean = 3.914). All in all, the findings demonstrated the evidence that SMEs have tried as much as possible to develop foreign exchange management strategies by involving into forecasting, planning and risk analysis.

4.9 The modes and levels of participation

In order to investigate the level of participation by SMEs in international trade, respondents were presented with statements in which they were required to indicate the extent to which they either agreed or disagreed with the selected modes such as exporting, franchising, licensing and joint venture. The findings were presented in Table 4.19 below.

Table 4.19: Level of participation

Descriptive Statistics	**Mean**	**SD**
The Modes and Levels of Participation		
I do export.	2.258	1.218
My business revenue is largely from exports.	2.414	1.161
I trade regularly outside Uganda.	3.797	0.691
I operate as a subsidiary business of an international company.	2.148	0.576
I hold a franchise (my business is branded and overseen by a much larger company or business)	1.922	0.848
I am licensed by an international company to do business under its name and brand.	2.031	0.904
I have intentions of being licensed by an international company to do business under its name and brand.	1.883	0.610
I operate as a joint venture.	2.281	0.783
Grand mean	1.867	0.849

Source: Primary data

The findings presented in Table 4.19 above show the extent and mode used by SMEs to participate in international trade. The results show that majority of SMEs participating in international trade were involved through importation because respondents agreed that they operate regularly outside Uganda (Mean =3.797). However, it was established that majority of the respondents disagreed when asked whether they were involved on exportation (Mean = 2.258). Implying that the SMEs that participated in international trade were more in importation than exportation.

In regards to whether SMEs participated in international trade through setting up a wholly owned subsidiary in foreign country, it was established that this was not the mode majorly used with majority of the respondents disagreeing with whether it was the mode they used (Mean = 2.148).

Furthermore, the study established that franchising was also not the popular mode of participation in international trade by SMEs with majority of them disagreeing when asked whether they operated as a franchise (Mean = 1.922). In addition. The findings also revealed that licensing was not majorly used by SMEs as a mode of participation. This is respondents disagreed when asked whether they were using or had any intension of getting involved in licensing as mode of participation in international trade with mean scores of 2.031 and 1.883 respectively.

These findings are supported by the interview response from one of the owners of SMEs who when asked of the major mode of participation used by SMEs had this to say;

"I am aware of the various modes of participation such as exportation, franchising, licensing and direct investment. However, it should be noted that most of our SMEs are still small and other modes may be very expensive for them making it no option for them. As a result, it should be noted clearly that majority of our businesses are operating through exportation or importation. But also because of the quality of our products that make it difficult to compete in the foreign market, SMEs end up into importation only. That is why we have very few SMEs involved in exportation."

4.10 The relationship between study variables

A correlation analysis was performed to establish the nature of relationship between study variables and findings are presented in Table 4.20 below.

Table 4.20: The correlation results on the relationship between study variables

Correlations

Variables		**1**	**2**	**3**
Foreign exchange Risks (1)	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	128		
Foreign risk management strategies (2)	Pearson Correlation	-.283**	1	
	Sig. (2-tailed)	.001		
	N	128	128	
Level of participation (3)	Pearson Correlation	-.202*	.575**	1
	Sig. (2-tailed)	.022	.000	
	N	128	128	128

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Primary data

From the correlation results in table 4.20 above, it was established that foreign exchange risks have significant negative relationship with the level of participation of SMEs in international trade (r = -0.202 and Sig. = 0.022). This implies that as SMEs encounter more foreign exchange risk, it is likely to lead to reduction in the level of participation in international trade.

Furthermore, the findings revealed that foreign exchange risk management strategies have a positive significant relationship with level of participation in international trade by SMEs (r = 0.575 and Sig. =0.00). This implies that as SMEs adopt risk management strategy, they are likely to engage more in international trade as compared to those firms that have no mitigation strategies.

4.11 The effect of foreign exchange risk on the level of participation

In order to establish the effect of foreign exchange risks on the level of participation in international trade, a regression analysis was conducted, and findings presented in Table 4.21 below.

Table 4.21: Regression results on the effect of foreign exchange risk on level of participation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.202[a]	.041	.033	.50200	5.382	.022b

a. Predictors: (Constant), Risks

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.589	.539		6.653	.000
	Risks	-.370	.159	-.202	-2.320	.022

a. Dependent Variable: Partr44

Source: Primary data

Findings in Table 4.21 show F-value of 5.382 and P<0.05 which implies that the regression model is statistically significant and was a good fit for the data. It also indicates an adjusted R square of 0.033 which implies that 3.3% variations in the level of participation is explained by foreign exchange risks. Furthermore, the model revealed that a unit increase in the foreign exchange risks would lead to a decrease in the level of participation in international trade by

SMEs by 0.370 as indicated in Beta of -0.370. Therefore, the study obtained a statistical evidence to support the hypothesis that foreign exchange risks have a significant influence on the level of participation in international trade.

This was also supported by the interview response from the manager of one SME who had this to say;

"International trade is not as simple as operating within the boundaries of this country. We experience a number of foreign exchange risks which in most cases reduces our level of participation in international trade. A very good example is the political risks in Southern Sudan where we used to export products worth UGX 100 Million before, but now, we are scared and we only export items worthy UGX 30 – UGX 40 Million because of fear of losses as result of variations in foreign currency value. As a result, I have much confidence that foreign exchange risks have a significant influence on the SME's level of participation in international trade."

4.12 The effect of risk management strategy on the level of participation

The study sought to establish the influence of foreign exchange risk management strategy on the level of participation in International trade by SMEs. In order to achieve this, the study conducted a regression analysis and the findings are presented in Table 4.22 below.

Table 4.22: The regression results on the effect of foreign exchange risk management strategies of the level of participation in international trade

Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	F	Sig.
1	.575[a]	.331	.325	.41941	62.224	.000b

a. Predictors: (Constant), Risk management strategies

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.271	.265		1.022	.309
Risk management strategies	.660	.084	.575	7.888	.000

a. Dependent Variable: Level of participation

Source: Primary data

From the findings in Table 4.22 above, it was established that the regression model was statistically significant and a good fit for the data as indicated by F-value of 62.224 and P value of 0.000. It was also established that foreign risk management strategy explains 32.5% variations in the level of SME participation in international trade (Adjusted R square of 0.325). In addition, the findings also indicated Beta of 0.575 which implies that a unit increase in foreign risk management strategy would lead to 0.575 increase in the level of participation in international trade by SMEs. The findings therefore provided a statistical evidence to support the hypothesis that foreign risk management strategy has a significant influence on the level of participation in international trade.

This was also supported by the interview response from one of the SMEs owners who said;

"Foreign risk management is very vital in determining the level of participation in international trade. Ever since we established a risk management strategy two years back, our confidence to participate in the trade has increased. This is because it has enabled us to be aware of the likely risks and how best to deal with each risk. For instance, we are able to involve our suppliers into signing forward and future contracts to avoid risks of price fluctuations. We are also able to deal with on spot risks such as high prices by have a number of suppliers. It is therefore clear that risk management strategy has a positive significant influence on the level and mode of participation in international trade."

4.13 The mediating effect of foreign exchange risk management strategies on the relationship between foreign exchange risk and the level of participation of SMEs in international trade.

The study tested whether foreign exchange risk strategies have a significant mediating effect on the relationship between foreign exchange risks and the level of participation. A Sobel test calculator was used to determine the mediating effect as supported by Baron and Kenny (1986) and Sobel (1982). The calculator required determination of direct effect of foreign exchange risk on foreign exchange risk management strategy which was done using linear regression. From the findings, the model established unstandardized coefficient of 0.349 and unstandardized error of 0.101. It was established that there is a significant direct effect of foreign exchange risk on foreign risk management strategies (Sig Value =0.001).

Besides, the calculator also required determination of the unstandardized coefficients and errors from running a multiple regression on the effect of foreign exchange risk and foreign exchange risk management strategies on the level of participation. The study established unstandardized coefficient of -0.053 and error of 0.118 for foreign exchange risk and unstandardized coefficient of 0.647 and error of 0.088 for foreign exchange risk management strategies. It was established that there is a significant direct effect of foreign exchange risk management strategies of the level of participation (Sig Value of 0.000).

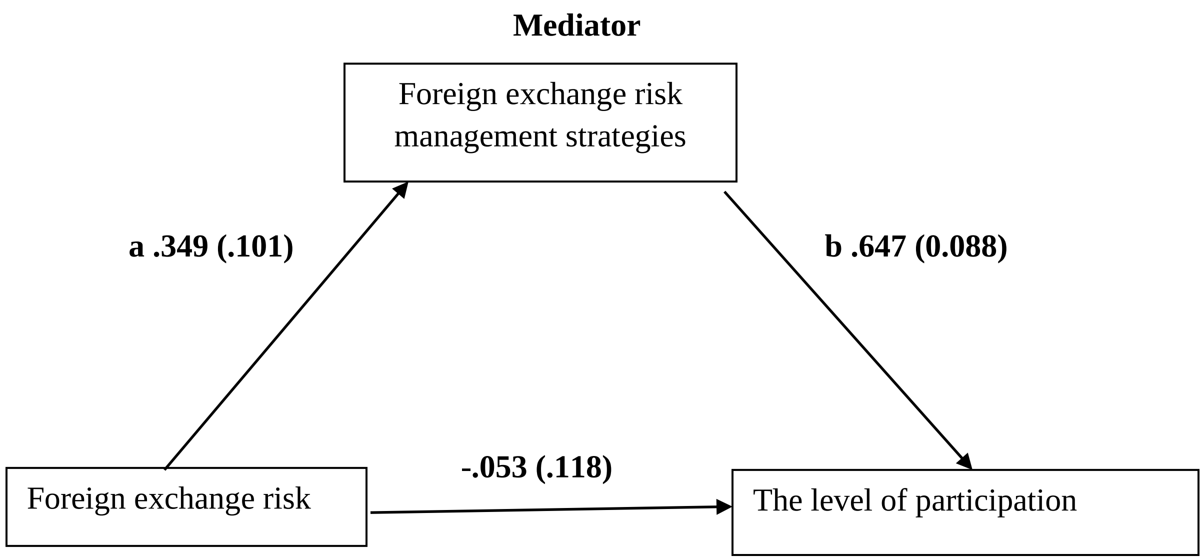

Figure 4. 1 The model showing the findings on the mediation effect

The findings in the model that is to say the unstandardized coefficients and errors were inserted on the Sobel test calculator in order to determine the indirect influence of foreign exchange risks on the level of participation through foreign exchange risk management strategies. The findings indicated (Sobel test statistics; z =3.127 and P-value =0.0017) implying that indeed foreign exchange risk management strategies have a significant mediating effect on the relationship between the foreign exchange risks and the level of participation of SMEs in international trade. This implies that the level of participation may be indirectly influenced by foreign exchange risks through the foreign exchange risk management strategies. This may be in situations where the strategies adopted by the firm may not be well formulated or may not be directly responsible for addressing the specific risks.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary and discussion of findings, conclusion and recommendations. The presentation is in accordance with the study objectives namely; (i) to examine the common foreign exchange risks faced by SMEs dealing in international trade in Kampala Central business District (ii) to examine the common Foreign Exchange Risk management practices among SMEs dealing in international trade in Kampala Central business District (iii) to explore strategies for managing foreign exchange risk among SMEs dealing in international trade in Kampala Central business District. The study also examined the influence of foreign exchange risk and foreign risk management strategies on the level and mode of participation of SMEs in international trade.

5.2 Summary of findings

The study established that the most commonly used mode of participation by SMEs in international trade was exporting with very few firms engaged into importation, joint venture, franchising and licensing. The firms involved in importation were physically travelling to the import destination and this was done across the entire year. However, majority of the SMEs would import after every 6 months. The study sought to examine the foreign exchange risks that affect the mode and level of participation of SMEs in international trade.

From the findings it was established that SMEs are exposed to a number of foreign exchange risks that include; contingent risks such as political uncertainty in which most SMEs are not prepared well enough to handle, transaction risks such as delayed transactions and currency variations which affect prices and lastly, translation risks such as foreign exchange fluctuation and changes in foreign exchange rates. These risks were found to have a significant negative influence on the level of participation whereby an increase in foreign exchange risks would lead to a reduction in the level of participation in International trade by SMEs.

Furthermore, the study sought to establish the risk management strategies used by SMEs and how they influence the level and mode of participation in international trade. The findings revealed that SMEs were cautious of the foreign exchange risks and would try their best to manage the risks. For instance, it was revealed that SMEs would choose to participate in trade with minimum risks. They also engage their suppliers into future contracts so as to minimize price fluctuation risks. SMEs were also considering forecasting the potential future risks so as to develop appropriate plans of handling such risks when they occur. The study further established that foreign risk management strategies have a significant positive influence on the level of participation of SMEs in international trade.

5.3 Discussion of Findings

5.3.1 The common foreign exchange risks faced by SMEs dealing in international trade

The study examined the foreign exchange risks faced by SMEs dealing in international trade and whether these risks affect the SMEs' level of participation in international trade.

From the findings it was established that SMEs are exposed to a number of foreign exchange risks that include; contingent risks such as political uncertainty which SMEs noted that they are often not prepared well enough to handle this risk, transaction risks such as delayed transactions and currency variations which affect prices and lastly, translation risks such as foreign exchange fluctuation and changes in foreign exchange rates. Furthermore, foreign exchange risks were found to have a significant negative influence on the level of participation whereby an increase in foreign exchange risks would lead to a reduction in the level of participation in International trade by SMEs.

This is supported by the arguments of the Modern Portfolio Theory which assumes that traders are risk averse, meaning that given two portfolios that offer the same expected return, traders will prefer increasing their level of participation on the less risky one (Markowitz,1952). This therefore implies that the increase in foreign exchange risk is likely to lead to reduction in the level of participation as established in the findings of the study. Eun and Resnick (2011) also noted that firms face contingent risk which arise due to uncertainty. Firms are often uncertain as to whether the contract will be accepted by foreign business or government. Wagner and Disparte (2016) also support the fact that business involved in international trade face transaction risks especially when involved in transactional exchange with a foreign business. They also note that transaction risks have adverse effects on the level of participation in international trade. This is because depreciation in currency values may affect the prices of exchange which affects the level of participation.

The findings are also in line with Chawla (2014) who also identified that regulatory, political, social, technological, economic and environmental risks influence the perception of traders involved in international trade. Celeste (2019) also supports that business involved in international trade face foreign exchange risks because of the limited regulatory framework and uncertainties. He notes that because of the foreign exchange risks, firms have been forced to reduce on the level of participation and reconsider their mode of involvement in international trade. It can therefore be concluded that foreign exchange risks negatively affect the level of participation in international trade. As a result, SMEs have to consider dealing in less risk businesses as proposed by the Modern Portfolio Theory.

5.3.2 The common Foreign Exchange Risk management practices among SMEs dealing in international trade

The study established that the widely used foreign exchange risk management practices by SMEs are currency options and combined internal hedging instruments with spot. It was found that SMEs do not apply mostly external hedging devices. This is supported by Cleary et al. (2006) who noted that currency options help businesses to hedge against foreign exchange rate risks such as currency rate fluctuations. This therefore makes it a widely used foreign exchange risk management practice amongst SMEs. Bradley and Moles (2015) also supports that internal hedging instruments such as forward contracts help businesses to reduce uncertainty on future prices of commodity. It is therefore ac risk management practice that should be adopted by SMEs who regularly face price fluctuations risks when dealing in international trade.

This is also supported by Jaliv et. al. (2014) who urge firms to adopt hedging strategies so as to speculate on future currency fluctuations that they have adverse effects on the level of participation in foreign trade.

5.3.3 Strategies for managing foreign exchange risk among SMEs dealing in international trade

The study established that SMEs were cautious of the foreign exchange risks and would try their best to manage the risks. For instance, it was revealed that as a risk management strategy, SMEs would choose to participate in trade with minimum risks. They also engage their suppliers into future contracts to minimize price fluctuation risks. SMEs were also considering forecasting the potential future risks to develop appropriate plans of handling such risks when they occur. The study further established that foreign risk management strategies have a significant positive influence on the level of participation of SMEs in international trade.

The findings are in support of the public perception which urges that businesses involved in international trade should consider managing foreign exchange risks if they are to succeed in their businesses. This is also supported by Kidong'oi (2014) who also identified that currency clause, payment matching are the main foreign exchange risk management strategies that may be employed by a business. He further asserts that foreign exchange risk management strategies have a significant influence on international trade performance. Ngugi, Njagi and Kimani (2013) also in their survey on the foreign exchange risk management strategies note that forward contracts are the most fundamental risk management strategies that need to adopted by firms because they have a significant influence on firm’s performance in international trade.

Furthermore, Boru (2011) also supports the fact that foreign exchange risk management strategies have a significant influence on the level of participation in international trade. He established that firms should practice internal hedging strategy of managing risk through changing the currency of billing. In the same vein, Rahman and Hoque (2015) also assert that hedging instruments support businesses to manage foreign exchange risks. In conclusion therefore, SMEs should consider setting up a foreign risk management strategy so as to deal with the foreign exchange risk if they are to increase the level of participation in international trade because according to the findings, any effort to increase the foreign exchange management strategy may lead to an increase in the level of participation in international trade.

5.3.4 The mediating effect of foreign exchange management strategies on the relationship between foreign exchange risks and the level of participation

The study established that foreign exchange risk management strategies have a significant mediating effect on the relationship between foreign exchange risks and the level of participation of SMEs in international trade. This means that despite having a direct effect on the levele of participation, foreign exchange risks may also have a significant indirect influence on the level of participation through foreign exchange management strategies. This is in line with the traders' perception that even if firms may have strategies to manage foreign exchange so as to boost their level of participation in international trade, they are likely to experience an indirect influence through their strategies which may affect the level of participation. This may be because some of the strategies may not be carefully planned. Besides, the strategies may not have the ability to manage all risks because of the dynamic nature of the business environment in international trade.

This is supported by the general public perspective that believes that participation in international trade is more risk compared to domestic trade. The business world thinks that any attempt to engage in international trade exposes businesses to disastrous risks which may directly or indirectly affect the level of participation in foreign trade even if the strategies to deal with them are in place. Furthermore, Yang, Copeland and Laurence (2014) also supports the fact that doing nothing may be good for some firms that are not in position to forecast the dynamics in the market because despite having risk management strategies in place, it may not be enough to manage some risks that are so acute to have indirect influence on the level of participation.

5.4 Conclusion

The study concludes that the major foreign exchange risks that affect SMEs participation in international trade include contingent risks such as political uncertainty due to SMEs unpreparedness to handle this risk, transaction risks such as delayed transactions and currency variations which affect prices and lastly, translation risks such as foreign exchange fluctuation and changes in foreign exchange rates.

The study further concludes that foreign exchange risks have a significant negative influence on the SMEs level of participation in international trade. As a result, owners and management of SMEs should understand that the more they are exposed to foreign exchange risks, the more they are likely to lose interest in participating in international trade.

I conclude that foreign exchange risk management strategies have a positive significant effect on SMEs level of participation in international trade. SMEs that develop foreign exchange management strategies to handle the risks are likely to have a boost in their level of participation in International trade.

Furthermore, I conclude that foreign exchange risk management strategies have a positive significant effect on SMEs level of participation in international trade. SMEs that develop foreign exchange management strategies to handle the risks are likely to have a boost in their level of participation in International trade.

Lastly, I conclude that despite having a direct influence on the level of participation of SMEs on international trade, foreign exchange risks also have a significant indirect influence on the level of participation through foreign exchange management strategies. Implying that if organizations establish risk management strategies, their level of participation is likely to increase despite the existence of foreign exchange risks.

5.5 Recommendations

Having established that foreign exchange risks have a significant negative influence in the level of participation in international trade, I recommend the owners and management of SMEs to often develop and update their risk maps so as to have a clear understanding of the potential risks that may have a likely impact in their level of participation in international trade. This would help them to know the frequency of occurrence and the likely consequences each risk may have in business.

Secondly, I recommend SMEs to develop risk management strategies and practices that may be helpful in dealing with the consequences of the potential risks. For instance, they may consider avoiding high risky trade activities or consider less risky mode of participation such as exporting. All this is because the study established that foreign exchange risk management strategies have a significant positive influence on the level of participation in international trade.

SMEs are also recommended to match the foreign exchange risks with respective foreign exchange management strategies so as to be very specific on how to deal with each risk. This is because organizations that have risk management strategies in place will have their foreign exchange risks contained there by increasing the level of participation in international trade. This can be done through developing programmed strategies that are specific to certain risk especially in the volatile business environment

5.6 Areas for further study

Future studies should be considered to investigate the extent to which the identified foreign exchange risks may influence the level of participation amongst large firms in Uganda so that may be SMEs may also consider expanding their business.

Secondly, studies should also be done to establish the effect of foreign exchange risk management strategies on the financial performance of SMEs' in Uganda.

REFERENCES

Abor, J. (2005). *Managing foreign exchange risk among Ghanaian firms, University of Ghana Business School*, Legon, Ghana.

ACCA (2013), *Global Economic Conditions Survey Report: Q1, 2013*

Aman, C., Renuka, S., & Kiran, M. (2017). *Managing Forex Risk Exposure: A Study on SMEs and Unlisted Non- Financial Firms in India*

Bank of Uganda. (2019). *Annual report*. Bank of Uganda.

Baron, R. M., & Kenny, D. A. (1986). The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical consideration. *Journal of personality and social Psychology*.

Benzinga Money (2020). Accessed on 14 Sep 2020 on https://www.benzinga.com/money/forex-trading-in-uganda/.

Boru (2011). Factors determining the foreign exchange risk management practices by oil companies operating in Kenyan market. Unpublished MBA Project, University of Nairobi.

Boz, E., Gopinath, G., Plagborg-Moller, M. (2017). Global Trade and the Dollar. NBER Working Paper 23988

Bradley, K., & Moles, P. (2015). Managing strategic exchange rate exposures: evidence from U.K. firms, *Managerial Finance,* Vol. 28 No. 11, pp. 28-42

Bromiley, G.W. (1995). International Standard Bible Encyclopedia: A-D Wm. B. Eerdmans Publishing.

Cangoz,C., Dychala,C., Sulla,O., & Wang,C.L. (2019). A Joint Foreign Currency Risk Management Approach for Sovereign Assets and Liabilities

Celeste, S. (2019). Africa’s FX Industry is Benefitting from ESMA’s Regulations, accessed on 13 Mar 2020 from https://www.financemagnates.com/forex/analysis/africas-fx-industry-is-benefitting-from-esmas-regulations/.

Chan-Lau, J. A. (2005). Hedging Foreign Exchange Risk in Chile: Markets and Instruments. *International Monetary Fund, IMF Working Paper* (WP/05/37).

Choi,S. (2012). Exchange risk exposure of Korean SMEs: issues in Firm Location, exchange rate type and exchange rate changes size. *procedia, social and behavioral sciences, 65(ICISoS), 860-866.*

Chugh, A., Sharma, R., & Mehta, K. (2017). Forex Risk Management by SMEs and Unlisted Non-financial Firms: A Literature Survey. *Journal of Technology Management for Growing Economies (JTMGE) VO - 8, 8(2), 145*

Cleary, Gottlieb, Steen & Hamilton (2006). Foreign Exchange Risk Mitigation Techniques Structure and Documentation, A Technical Guide for Microfinance Institutions Foreign Exchange Risk Mitigation Techniques Structure and Documentation A Technical Guide for Microfinance Institutions, available on https://www.cgap.org/sites/default/files/CGAP-Technical-Guide-Foreign-Exchange-Risk-Mitigation-Techniques-Structure-and-Documentation-Oct-2006.pdf

Crump, T. (2012). The Phenomenon of Money (Routledge Revivals) Taylor & Francis US.

El-Masry, A A. (2006). Derivatives use and risk management practices by UK nonfinancial companies. Managerial Finance volume 32 number 2, pp.137-159

Eun, C.S., and Resnick, B.G. (2011). *International Financial Management, 6th Edition*. New York, NY: McGraw-Hill/Irwin

Frerichs, R.R. (2008). Simple Random Sampling, (unpublished), accessible on http:// www. ph.ucla.edu/epi/rapid surveys/RScourse/RSbook_ch3.pdf

Geisst, C. R. (2005). *Encyclopedia of American business history*. New York. p. 39. ISBN 978-0-8160-4350-7.

Ghana and Malawi, IDPM Finance and Development Research Programme Working Paper No. 15

Gopinath, G. (2015). The International Price System. NBER Working Paper 21646

Gwaltney, C.J., & Shields, A.L., & Shiffman, S. (2008). Equivalence of electronic and paper-and-pencil administration of patient-reported outcome measures: a meta-analytic review. *Value in Health*;11(2):322-33.

Hasebroek, J. (2012). Trade and Politics in Ancient Greece Biblo & Tannen Publishers.

Hill, C.W.L. (2001). *International Business:* Competing in the Global Marketplace, 3rd ed., Irwin/McGraw-Hill, Boston, MA.

Kantox (2013), *Hedging FX Risk – Taking Stock of the Challenge for Mid-caps and SMEs*

Kayanula, D., and Quartey, P (1999). The Policy Environment for Promoting Small and Medium Enterprises in

Kidong'oi, J.M. (2014) An Analysis of Foreign Exchange Risk Management Performance Techniques used by Airline Companies in Kenya. Research Project, Master of Business Administration, University of Nairobi.

Kim, D., & Francis, J. C. (2013). *Modern portfolio theory: Foundations, analysis, and new developments*. John Wiley & Sons.

King, M. R. and Dagfinn Rime (2010). The $4 trillion question: What explains FX growth since the 2007 survey? *BIS Quarterly Review,* (4), pp. 27–42.

King, M. R., & Carlos, M. (2010). A user’s guide to the Triennial Central Bank Survey of foreign exchange market activity. BIS Quarterly Review, (4), pp. 71–83.

King, M.R., Osler, C.and Rime, D. (2011). Foreign exchange market structure, players and evolution

King, M.R., Osler, C.and Rime, D. (2011). Foreign exchange market structure, players and evolution.

Krejcie, R.V., & Morgan, D.W. (1970). Determining Sample Size for Research Activities, *EducationaL and Psychological Measurement.*

Kumar, R. (2011). *Research methodology: A step-by-step guide for beginners*. Sage Publications Limited.

Kyambadde (2015). Uganda Micro, Small and Medium Enterprise (MSME) Policy, Ministry of Trade, Industry and Cooperatives, Kampala, Uganda.

Lai,R. (2018). Handbook of Blockchain, Digital Finance, and Inclusion, Volume 1, 2018

Linnainmaa, J.T. (2010). Do Limit Orders Alter Inferences about Investor Performance and Behavior? *Journal of Finance*, 65(4), pp. 1473–1506.

Lioudis, N. (2020). Economic Factors That Affect the Forex Market accessible on https://www.investopedia.com/articles/forex/11/economic-factors-affecting-forex.asp

Love, J. and Roper, S. (2013), *SME Innovation, Exporting and Growth*, Enterprise Research Centre paper no. 5, April

Madura, J. (2003). *International Financial Management, 7th ed.,* South-Western College.

Madura, J. (2010). International Financial Management, 10th Edition, South-Western College Publishing.

Markowitz, H.M. (1952). "Portfolio Selection". *The Journal of Finance*. 7 (1): 77–91

Melvin ,M. , & Wen,L. (2013).The choice of direct dealing or electronic brokerage in foreign exchange trading, *Istanbul Review 13 (2013)* 10e21.

Melvin, M., & Prins, J. (2010). The equity hedging channel of exchange rate adjustment. type-script, Blackrock.

Moffett, M. H., Stonehill, A. I., Eiteman, D. K. (2009). *Fundamentals of Multinational Finance, 3rd Edition*. Boston, MA: Addison-Wesley

Mogalad, G.T. (2016). The management of foreign exchange risk by JSE-listed companies: an empirical investigational thesis presented to the Graduate School of Business University of Cape Town in partial fulfilment of the requirements for the Master of Commerce in Development Finance Degree.

Moosa, I. (2010) *International Finance: An Analytical Approach*. Sydney: McGraw-Hill

Mwesigwa, A. (2016). Ugandans to receive cash to trade in currencies, accessed on 4 Feb 2020 from https://observer.ug/ business/ 38-business/45426-ugandans-to-receive-cash-to-trade-in-currencies

Mwesigwa, A. (2016). Ugandans to receive cash to trade in currencies, accessed on 4 Feb 2020 from https://observer.ug/ business/ 38-business/45426-ugandans-to-receive-cash-to-trade-in-currencies.

Nampeera, J. (2015). Foreign exchange risk management and performance of forex bureaus in Uganda.

Naseem, A. (2013). Risk Management in Forex Market: Preparation of Exchange Rate Fluctuation Anticipation Model Vol. 3, Issue. 7.

Ngugi, N.N., Njagi, G.M., & Kimani, E.M. (2013). Factors Influencing Development of Financial Derivatives Markets: A Survey of Listed Companies in Kenya. Global Advanced Research Journal of Management and Business Studies, 2(5), 258-267. Boru (2011)

Nolte, I., & andra Nolte (2009). Customer Trading in the Foreign Exchange Market. Empirical Evidence from an Internet Trading Platform. Working Paper 09-01, FERC.

Oberlechner, T., & Osler, C.L. (2011). Survival of Overconfidence in Currency Markets. *Journal of Financial and Quantitative Analysis*. 47(01):91 - 113

OECD. (2007a). Glossary of Statistical Terms: Organisation for Economic Co- operation and Development.

Oketch, M.L. (2019). Uganda ranked third in ease of foreign exchange access, accessed on 3 Feb 2020 from https://www.monitor.co.ug/Business/Finance/ Uganda-ranked-third-in-ease-of-foreign -exchange -access/ 688608-4946602-lxs4mo/index.html.

Oketch, M.L. (2019). Uganda ranked third in ease of foreign exchange access, accessed on 3 Feb 2020 from https:// www. monitor.co.ug/Business/Finance/ Uganda-ranked-third-in-ease-of-foreign -exchange -access/ 688608-4946602-lxs4mo/ index.html.

Pandey, R.P. (2018). Project on Foreign Exchange Risk Management in Small and Medium Enterprises Submitted, Delhi School of Management Delhi Technological University Bawana Road Delhi 110042.

Pasmantier, A. (1993). Hedging foreign exchange exposure, *Journal of Cash Management,* Vol. 13 No. 6, pp. 36-43.

PMI (Project Management Institute, Inc.) (2017). A guide to the project management body of knowledge (PMBOK Guide), 6th ed. PMI Book Service Center, Atlanta

Quartey Peter (2001), Regulation, Competition and Small and Medium Enterprises in Developing Countries, Centre of Regulation and Competition IDPM University of Manchester, Working Paper No. 10

Raghavendra, R. H., & Velmurugan, P. S. (2014). A Survey of Currency Hedging Practices by Indian IT firms. *Journal of Commerce and Management Thought, 5(4), 574.*

Rahman, M.D., & Hoque, M.D. M. (2015). Foreign Exchange Risk Management in Banks: A Comparative Study of Some Selected Banks in Bangladesh. 10.13140/RG.2.2.10 590. 95043/1.

Rahman, M.D., & Hoque, M.D. M. (2015). *Foreign Exchange Risk Management in Banks: A Comparative Study of Some Selected Banks in Bangladesh. 10.13140/ RG. 2.2.10590. 95043/1.*

Ramatlakana, R.M. (2016). Management of foreign exchange risks exposure by SMEs in South Africa.

Ramtlakana, R.M. (2016). *Management of foreign exchange risks exposure by SMEs in South Africa, A research report submitted to the Gordon Institute of Business Science, University of Pretoria, in Partial fulfiment of the requirement for the degree of Master of Business Administration.*

Rhodes, A. (2020). A Brief Summary of the Long History of Risk Management, accessed on 22 Nov 2020 from https: //blog. ventivtech. com/blog/ a-brief-summary-of-the-long-history-of-risk-management

Robinson, R. (2020). International trade accessed on 25 Nov 2020 from https: //www. britannica.com/topic/international-trade. Professor of Economics, University of Toronto.

Salifu, Z., Osei, K A. & Adjasi, K. D. C. (2007). Foreign exchange risk exposure of listed companies in Ghana. The Journal of Risk finance,8(4), 380-393

Sarangdevot, S., & Rathore, Y. (2014). Growth & Future of Derivatives in India: A Study. *Int'l Journal of Computing, Communications & Instrumentation Engg*. (IJCCIE).

SCB (2019). Extract of financial statements for the year ended 31 December 2019. https://av.sc.com/ug/content/docs/ug-scb-financial-statement.pdf.

Schizas, E., Jarvis, R. and Daskalakis, N. (2012), *SMEs and their Advisers: Measuring Trust and Confidence*, ACCA research report no. 127

Scibetta, C.C. (2019). Window Theory for Forex, *Journal of Finance and Investment Analysis*, SCIENPRESS Ltd, vol. 8(3), pages 1-2.

Shamoo, A.E., & Resnik, B.D. (2009). Third Edition, *Responsible Conduct of Research.*

Shruti, D., & Priya, C. (2016). How to measure the reliability of questionnaires?

Siddaiah, T. (2010). *International financial management*. Upper Saddle River, NJ: Pearson.

Sobel, M. E. (1982). Asymptotic intervals for indirect effects in structural Equation models. In S. Leinhart, Sociological methology 1982 (pp.290-312).

Sunanda, S. (2010). International Trade Theory and Policy: A Review of the Literature

Sunner, D. (2017) “Trends in Global Foreign Currency Reserves”, Reserve Bank of Australia.

Terada, T., Higashio, I. & Iwasaki, J. (2008). Recent trends in Japanese foreign exchange margin trading. *Bank of Japan Review*, (3).

Vu Hung, D. (2015). *An Investigation of Foreign Exchange Risk Management by Exporting Small and Medium Sized Enterprises. A thesis submitted to Victoria University of Wellington in fulfilment of the requirements for the degree of Doctor of Philosophy, Victoria University of Wellington.*

Wagner D.and Disparte D. (2016). Transactional Risk Management. In: Global Risk Agility and Decision Making. Palgrave Macmillan, London. https://doi.org/10.1057/978-1-349-94860-4_12

Wagner. J. (2012). International Trade and Firm Performance: A Survey of Empirical Studies since 2006", Review of World Economics, 148(2): 235-267.

Worasinchai, L. (2013). What is the management Attitude of Leading Thai Organizations towards currency Hedging strategy in Today's Dynamic Environment? Management, Leadership and Governance, 340

World Bank. (2019). *The World Bank Annual Report 2019: Year in Review*. The World Bank.

Yang, Yan; Copeland, Laurence (2014): The Effects of Sentiment onm Market Return and Volatility and The Cross-Sectional Risk Premium of Sentiment-affected Volatility, Cardiff Economics Working Papers, No. E2014/12,

Zangirolami, J.R., Jorge, O.E., &Claudio, L. (2018). Research methodology topics: Cross-sectional studies, *Journal of Human Growth and Development*. 28(3):356-360.

APPENDIX I: QUESTIONNAIRE FOR SMALL AND MEDIUM SCALE INTERNATIONAL TRADERS IN KAMPALA

Introduction

Dear Respondent,

I am a student of Kyambogo University, pursuing a Master of Business Administration (GMBA) of Kyambogo University. I am currently carrying out research on the topic "foreign exchange risks, foreign exchange risk management strategies and participation of small and medium enterprises in international trade. A case study of traders in the central business district of Kampala*."* You have been identified as a key and valuable respondent in carrying out this research. This is purely an academic research being undertaken. Your responses will be treated with utmost confidentiality and will be purely used for this study. It is my humble request that you will spare part of your valuable time and answer the following questions.

I appreciate your cooperation.

Anita Atuhaire

TEL:+256782067424

SECTION A: BACKGROUND INFORMATION

In this section, kindly tick where applicable

Gender:

Male ☐ b) Female ☐

Age:

a) 20 -29 ☐ b) 30- 39 ☐ c) 40 -59 ☐ d) 60 and above ☐

Academic Qualification

O level ☐ b) A - level ☐ c) Diploma ☐ d) Bachelor's Degree ☐ e) Post Graduate Diploma ☐

f) Master's degree ☐ g) others (Please specify)

Duration in Business

1 - 4 years ☐ b) 5 - 8 years ☐ c) 9 - 12 years ☐ d)13 - 16 years ☐

e)17 years and above ☐

Type of business

	Type of Business	Please tick as appropriate
a	Trading	
b	Agriculture sector (including Fishing and Forestry)	

Most common type of foreign currency used in trade

a) USD/UGX ☐ b) EUR/UGX ☐ c) CAD/UGX ☐

d) GBP/UGX ☐ e) AUD/UGX ☐ f) KSH/UGX ☐

Others (please specify ……………………………...

Participation in International Trade

In terms of percentages, choose an option which best reflects your participation in international trade;

Question	5% - 25%	26% - 50%	51% - 75%	76% and above
How much of your sales come from exports?				
How much of your purchases are imported?				
What percentage of your stock or capital is imported?				

Frequency of participation

How often do you engage in the following international trade activities?

Question	Monthly	Quarterly (every 3 moths)	Bi-annually (every 6 months)	Annually (once in a year
Export				
Import				
Re–export (exporting imported goods e.g. to DR Congo, South Sudan etc.)				

Mode of Participation (tick as appropriate)

	Yes	No
Physically travel to export destination		
Physically travel to import sources		
Send third party agents for a fee to trade on my behalf		

SECTION B: Common Foreign Exchange Risks Faced by SME's Dealing in International Trade in Kampala Central Business District

The following statement is about common foreign exchange risks faced by SMEs dealing in international trade in Kampala Central business District. Please read each statement carefully and rate them using the scale below.

Strongly Disagree (SD) = 1, Disagree (D) = 2, Not Sure (NS) = 3, Agree (A) = 4, Strongly Agree (SA) = 5

Common Foreign Exchange Risks Faced by SMEs Dealing in International Trade in Kampala Central Business District.		SD	D	NS	A	SA
	Contingent risk					
1	I face risks related to uncertainty in the political of trading partners countries.	1	2	3	4	5
2	Is it challenging to adhere to all the laws.	1	2	3	4	5
3	Sometimes I am not adequately prepared for uncertainties.					
	Transaction risk					
4	At times I delay making transactions which expose me to risks I would avoid.	1	2	3	4	5
5	I do not get information on time related to currency price changes.					
6	Changes in currency prices have adversely affected my business.	1	2	3	4	5
	Translation risk					
7	More diversification in business always negatively affects business.	1	2	3	4	5
8	Foreign exchange rate fluctuations have negatively affected my business.	1	2	3	4	5
9	It is common for my business to incur losses due to changes in foreign currency rates.	1	2	3	4	5

SECTION C: Common Foreign Exchange Risks management practices used by SMEs Dealing in International Trade in Kampala Central Business District

The following statement is about common foreign exchange risks management practices used by SMEs dealing in international trade in Kampala Central business District. Please read each statement carefully and rate them using the scale below. Strongly Disagree (SD) = 1, Disagree (D) = 2, Not Sure (NS) = 3, Agree (A) = 4, Strongly Agree (SA) = 5

Common Foreign Exchange Risks management strategies used by SMEs Dealing in International Trade in Kampala Central Business District		SD	D	NS	A	SA
	External Hedging Devices					
1	I use Forward and futures contracts to limit risk exposure (the buyer and seller agree to buy or sell an underlying asset at a price they both agree on at an established future date).	1	2	3	4	5
2	I use currency swaps to limit risk exposure (exchange an equivalent amount of money with each other but in different currencies)	1	2	3	4	5
3	I use currency options that are available to limit risk exposure.	1	2	3	4	5
	Internal Hedging Devices					
4	I partly hedge my forex risks	1	2	3	4	5
5	I have accountants who provide the financial advice to manage forex risk.	1	2	3	4	5
6	I at times combine hedging instruments and spot	1	2	3	4	5
7	Transactional risk is the most prioritized form of foreign exchange exposure and my focus is largely on that.	1	2	3	4	5
8	Economic exposure is also highly regarded at guarded against	1	2	3	4	5
9	I commonly use forward contracts to manage forex risk exposure.	1	2	3	4	5
10	I commonly use prepayments to manage forex risk exposure.	1	2	3	4	5

11	I use leading and lagging strategies to limit risk exposure.	1	2	3	4	5
12	I use payments netting to limit risk exposure.	1	2	3	4	5
	No managing risk (do nothing)					
	I have no active means of managing forex risk in my business.	1	2	3	4	5
13	At time I do not manage risk at all.	1	2	3	4	5
14	Netting is not a common practice in use here for risk management.	1	2	3	4	5
15	My attention to forex risk management is driven by the percentage of foreign currency denominated expenses.	1	2	3	4	5

SECTION D: The Modes and Levels of Participation of SME's in International Trade in Kampala Central Business District

The following statements are about the modes and levels of participation of SME's in international trade in Kampala Central business District. Please read each statement carefully and rate them using the scale below. Strongly Disagree (SD) = 1, Disagree (D) = 2, Not Sure (NS) = 3, Agree (A) = 4, Strongly Agree (SA) = 5

The Modes and Levels of Participation of SME's in International Trade in Kampala Central Business District		SD	D	NS	A	SA
	Exporting					
1	I do export.	1	2	3	4	5
2	My business revenue is largely from exports.	1	2	3	4	5
3	I manufacture or produce my services largely for export.	1	2	3	4	5
4	Most of my stock or services are imported largely.	1	2	3	4	5
5	I trade regularly outside Uganda.	1	2	3	4	5
	Creating a wholly owned subsidiary					

6	I operate as a subsidiary business of an international company.	1	2	3	4	5
7	I have subsidiary companies in other countries.	1	2	3	4	5
	Franchising					
8	I hold a franchise (my business is branded and overseen by a much larger company or business)	1	2	3	4	5
9	I have intentions of becoming a franchise of another company.	1	2	3	4	5
	Licensing					
10	I am licensed by an international company to do business under its name and brand.	1	2	3	4	5
11	I have intentions of being licensed by an international company to do business under its name and brand.	1	2	3	4	5
	Creating a joint venture or strategic alliance.					
12	I have trading partners in various countries.	1	2	3	4	5
13	I operate as a joint venture.	1	2	3	4	5
14	Bing a joint venture has potential to reduce my exposure to risk	1	2	3	4	5

SECTION E: Strategies for Managing Foreign Exchange Risk among SMEs Dealing in International Trade in Kampala Central Business District

The following statements are about strategies for managing foreign exchange risk among SMEs dealing in international trade in Kampala Central business District. Please read each statement carefully and rate them using the scale below. Strongly Disagree (SD) = 1, Disagree (D) = 2, Not Sure (NS) = 3, Agree (A) = 4, Strongly Agree (SA) = 5

	Strategies for Managing Foreign Exchange Risk Among SMEs Dealing in International Trade in Kampala Central Business District.	SD	D	NS	A	SA
1	When trading, I ensure that I target either minimum risk and or minimum gain.	1	2	3	4	5
2	I make choices in trade that ensure that I minimize possible losses.	1	2	3	4	5
3	I ensure that my losses are offset by my profits by design.	1	2	3	4	5
4	At times, I make prepayments to ensure that future currency rates do not largely negatively affect my business.	1	2	3	4	5
5	At times, I make consolidated payments to minimize my risk exposure.	1	2	3	4	5
6	At times I buy forex in advance to cater for my future transactions.	1	2	3	4	5
7	At times I make orders well in advance to guard against future currency changes.	1	2	3	4	5
8	I make use of forecasts and act fast to minimize business risks related to forex.	1	2	3	4	5
9	I tend to agree on future prices for my suppliers to reduce risk.	1	2	3	4	5
10	I tend to agree on future supply prices for my consumers abroad to reduce risk	1	2	3	4	5
11	I agree to sell my goods at a future agreed price as a guard against risk.	1	2	3	4	5
12	I make use of insurance as a guard against currency exchange risks.	1	2	3	4	5

Thank you very much for your time!

APPENDIX II: KREJCIE AND MORGAN'S TABLE OF SAMPLE DETERMINATION

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

Appendix III: Factor Analysis Results

Communalities

	Extraction
Foreign exchange risks	
I face risks related to uncertainty in the political situation of trading partners countries.	0.649
Is it challenging to adhere to all the laws?	0.691
Sometimes I am not adequately prepared for uncertainties.	0.827
At times I delay making transactions which expose me to risks I would avoid.	0.688
I do not get information on time related to currency price changes.	0.644
Changes in currency prices have adversely affected my business.	0.818
More diversification in business always negatively affects business.	0.692
Foreign exchange rate fluctuations have negatively affected my business.	0.635
It is common for my business to incur losses due to changes in foreign currency rates.	0.756

Foreign risk management strategies	
When trading, I ensure that I target either minimum risk and or minimum gain.	0.554
At times I buy forex in advance to cater for my future transactions.	0.891
At times, I make consolidated payments to minimize my risk exposure.	0.892
I make choices in trade that ensure that I minimize possible losses.	0.778
I ensure that my losses are offset by my profits by design.	0.662
I tend to agree on future prices for my suppliers to reduce risk.	0.746
I make use of forecasts and act fast to minimize business risks related to forex.	0.778

Level and mode of participation

I do export.	0.897
My business revenue is largely from exports.	0.919
I trade regularly outside Uganda.	0.504
I operate as a subsidiary business of an international company.	0.881
I hold a franchise (my business is branded and overseen by a much larger	0.789
I am licensed by an international company to do business under its name and brand.	0.897
I have intentions of being licensed by an international company to do business under its name and brand.	0.556
I operate as a joint venture.	0.643

APPENDIX III: WORK PLAN AND TIMEFRAME

Activity	November 2020	December 2020	march 2021	March 2021	March 2021
Proposal writing , Supervisor reviews and submission					
Preparation for data collection and data collection process					
Processing and Analysing data					
Report compilation and sharing with the supervisor					
First submission of the report					
Defense and Feed back from extenal supervisors					
Final corrections and final submission					

APPENDIX IV: BUDGET

ACTIVITY	BUDGET
Proposal Writing	
Developing the proposal	500,000
Submission of proposal (printing)	90,000
Data collection	
Data collection tools designing	70,000
Pretest	100,000
Actual data collection	500,000
Data analysis	
Data entry and Data processing	400,000
Report Writing	
Drafting	400,000
Report printing	70,000
Final submission (hard cover, CD, etc)	100,000
Total	2,230,000