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HEDGING PRACTICES AMONG INTERNATIONAL NEW VENTURES IN VIETNAM

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ABSTRACT

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The International New Ventures have recently received much concern from researchers and play an important role in developing the economy of Vietnam. However, little study in Vietnam has taken deep place about knowledge on their financial issues. Recently, the fluctuation of some main currencies has been the constraints for International New Ventures in their seed stage. Some investigated reasons are the spot rate when selling or paying with foreign currency and the value of fixed assets at purchasing and payment times. Due to this, many firms are experiencing the difficulties. This research, thus, investigated the foreign exchange risk management and hedging practices among International New Ventures in Vietnam. The research found that there are some factors which affect the behavior of these firms: Knowledge and vision of the new entrepreneur, culture and legalities on currency trading, nature of business and constraints of banking services.

This research was conducted by analyzing two sources: those theoretical and empirical. The theoretical part gave the general ideas on the definition of International New Ventures, what the driving factors are and what would be the main difficulties of this business model. In addition, Vietnam perspectives are analyzed and foreign exchange risk management frequent techniques were described.

The research method used in this study was qualitative research with five companies and four bank officers. The results of research combines theoretical part and empirical study to help readers understand how International New Ventures deal with Foreign exchange risk in Vietnam

Keywords International New Ventures, Foreign exchange risk, hedging

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ABSTRAKTI

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Uudet kansainväliset liiketoimet ovat viimeaikoina olleet useiden tutkijoiden huolen kohteena, ja ne ovat tärkeässä roolissa Vietnamin kansantalouden kehittämisessä. Tästä huolimatta Vietnamissa vain vähän tutkimusta on kohdistettu näiden taloudellisiin ongelmiin. Hiljattain kurssivaihtelut ovat olleet uusien kansainvälisten liiketoimien rasitteena niiden alkuvaiheissa. Yksi havaituista ongelmista liittyy käyttöomaisuuden spot-hinnan (tai spot-kurssin) määrittämiseen ulkomaisella valuutalla ostettaessa tai myytäessä. Tämä johtaa monilla yrityksillä ongelmiin. Tästä syystä tämä tutkimus keskittyy Foreign exchange riskien hallitsemiseen ja sijoitusten suojaamiseen Vietnamin uusissa kansainvälisissä liiketoimissa. Tutkimuksessa havaittiin, että seuraavat tekijät vaikuttivat yritysten käyttäytymiseen: Yrittäjän tieto ja visio, valuutanvaihtoon liittyvät laillisuus- ja kulttuuritekijät, liiketoiminnan luonne, sekä pankkitoiminnan rajoitteet.

Tämä tutkimus on toteutettu analysoimalla sekä teoriaa, että empiriaa. Teoriaosuus avaa uusien kansainvälisten liiketoimien perusideaa ja määritelmiä, kuten mitkä ovat tämän liiketoimintamallin tärkeimmät tekijät ja suurimmat haasteet. Lisäksi Vietnamilaisten näkökulmia analysoidaan ja Foreign exchange riskin yleisiä hallintatekniikoita esitellään.

Tutkimusmetodina on tässä tapauksessa kvalitatiivinen tutkimus, jossa tutkitaan viittä yritystä ja neljää pankkivirkailijaa. Tutkimuksen tulokset yhdistelevät teoreettista ja empiiristä puolta, jotta lukija saisi mahdollisimman hyvän kuvan siitä, kuinka Vietnamin uusissa kansainvälisissä liiketoimissa otetaan huomioon Foreign exchange riski.

Avainsana	Uudet kansainväliset liiketoimet, Valuuttakurssiriski, sijoitusten suojaaminen

Table of Contents

I. INTRODUCTION 9

1. Background of topic 9
2. Research objectives 10
3. Purpose and scope of the study 11
4. Research methodology 12

II. Theoretical framework 15

1. International new venture 15

1.1 Internationalization and distinctive characteristic 15

1.2 Necessary elements for International New Ventures 16

1.3 Types of international new ventures 18

1.4 Benefits and cost for International New Ventures 19

2. Vietnam general perspective 20

2.1 The changing in currency for recent years 20

2.2 Culture dimension in Vietnam 22

3. Exchange rate risk and management 23

3.1 Exchange rate risk exposure 24

3.2 Management of the exchange rate risk 25

3.2.1 Operational hedging 27

3.2.2 Financial hedging 29

4. To hedge or not to hedge? 35

III. Research analysis 38

1. Research purpose and data collection process 38
2. Questionnaire analysis 39

3. Interview process 42

4. Reliability and validity 42

IV. Empirical study and findings 44

1. Analysis of companies 44

2. Findings from interview 46

2.1 General information on the risk faced by companies 46

2.2 Reaction toward foreign exchange risk 47

2.3 Hedging practices among INVs 49

2.4 Banking services and justification from bank officer 50

V. Discussion and suggestion 53

1. Summarizing of theory and discussion of empirical result 53

2. Implications 54

3. Limitation of study 55

4. Suggestion for further research 56

VI. References 57

Table of Figures

Figure 1: Necessary elements for sustainable INVs 17
Figure 2: Types of International New Ventures... 18
Figure 3: EUR and VND changing in pairs for 12 years 21
Figure 4: USD and VND changing in pairs for 10 years 21
Figure 5: Uncertainty Avoidance Index 23
Figure 6: Classification of hedging instruments 27
Figure 7: Example on the swap process 34

Abbreviation

SMEs	**Small and medium sized enterprises**
INVs	**International New Ventures**
Foreign exchange	**Foreign exchange rate**
CEO	**Chief Executive Officer**
ASEAN	**Association of Southeast Asian Nations**
EU	**Europe Union**
LC	**Letter of Credit**
TT	**Telegraphic transfer**

I. INTRODUCTION

The introduction part gives the general ideas about the thesis and what motivation drives the research problems and conclusions. In this introduction, the background of the thesis, research problem and objectives, purpose and scope of thesis, research methodology and limitation of the study are illustrated.

1. Background of topic

For centuries, international new ventures or INVs have received significant concerns from the researchers in international business fields (Svante, Natasha and Olli 2014), resulting in increasing on number of studies. In a research by Oviatt and Mc Duogall 1994, INV is defined as "Business organizations that from inception seek to derive significant competitive advantage from the use of resources and sale of outputs in multiple countries". The term of International New Ventures and Born Global have been receiving confusing from audiences, however, there is available of criteria as well as methods of internationalization used to define them.

During the centuries, Vietnam has overcome the transitional period from a closed centralized economy to become a market- oriented country (Li and Mai 2008). The rapid development of smaller countries with high amount of foreign investment has created the advantages for the development of new start-up business. They based their resources and facilities in Vietnam while mainly trading with the developed countries to take the competitive perspective and to enjoy larger profit. However, due to the smaller sized compared to others small and medium size enterprises or SMEs of the same industry, INVs will experience significant constraints in the business and difficulties in the developing market which others will not experience. However in other side, the size of INVs should not be too large as by staying relatively small the firm can take benefits from quicker responses to time and adaptability, which mainly enabled them to success in the early internationalization process (Knight and Cavusgil 1996). This issue creates the question for a different strategy used by INVs in different stages of trading development to gain ideal benefits as they become larger when having more oversea partners.

The study from Cao Minh Tri (2012) stated that in Vietnam, there were around 42% of failed INVs due to financial loses with the largest issue of limited financial resources limitation and foreign risk e.g. the exchange rate risk. When having higher proportion of revenue abroad, firms will experience higher foreign exchange rate exposure (Ahmed and Omneya 2007). The exchange rate exposure becomes a significant issue for INVs, especially in a country with a weak currency like Vietnam. With larger amounts of oversea transactions, INVs may have to accept larger amounts of loss because of devaluation of the foreign currency. Moreover, previous studies have showed that the hedging technique in Vietnam as a developing country is not common among smaller firm. Larger firms will have the sufficient resources such as knowledge and people to take financial hedge for their risk, leading to lower exposure of the exchange rate risk to the company. Therefore, they will be the one with higher exposure but take higher incentive to hedge their exposure (Knight and Cavusgil 1996). CEO of Scottsdale – Wolfgang Koester illustrated that the hedging is often more expensive for the business with smaller and medium size than for larger one. The difficulties in taking financial hedge as one of the method to protect from exchange rate risk may come from the bank or contracting issue when they may require and charge more if the firm does not purchase hedging instrument frequently. As a result, INVs in the first internationalization process, may mostly take the operational hedging such as diversification across currency zones or allocation of resources to deal with the exchange rate risk.

The two above issues raise a the research question for this paper and creates the back ground empirical study related to different methods used by INVs during the process of internationalization.

2. Research objectives

As stated above, the main objective of this paper is to investigate the problem faced by INVs when dealing with the exchange rate risk and how they can control this risk from the beginning. However, in this study, it is believed that in different stage of internationalization, INVs may use operational hedge such as diversification of product or relocation of operation to avoid risk instead of financial hedge. The possible reason for this in Vietnam is defined in three points: lacking of knowledge and fear of loss; difficulty in taking financial hedge from bank and trading partner; avoidance of risk and cost in large transaction.

Based on the above statement, the research question is constructed: *"What is the hedging behavior among INVs in Vietnam? "*

To support that main question, the following sub- questions are required:

- What are the characteristics of INVs, which affects their choice of hedging technique?
- What is the role of Vietnam's environment and condition in affecting the method used by INVs in dealing with exchange rates?
- Based on different stages of rapid internationalization, do INVs commonly use different techniques to pass- through exchange rate risks?
- What is the common operational hedge and financial hedge used by INVs in the first step of internationalization?
- What are the characteristics of Vietnam, which would, affects the choice for hedging of INVs?
- What are the difficulties in using hedging technique by small new firms in Vietnam?

3. Purpose and scope of the study

International New Ventures and exchange rate exposure is a long- run topic in International Business, but the investigation in Vietnam is limited. This study will then provide in depth knowledge on how new and small trading companies as INVs deal with the volatility of the exchange rate. As a constraint, the study will emphasize on the knowledge of Vietnamese market only, and provide the reader with basic knowledge of internal control in INVs regarding exchange rate exposure. The reason for this research is that Vietnam is a relative small country with a rapid development trend and the number of start- up business in Vietnam is increasing. Moreover, there is limited research concerning the characteristics of Vietnam businesses market and especially in the exchange rate risk issue.

The study will use the exchange rate exposure and determinant theory, International New Ventures investigation and hedging theory as the theoretical basement to determine and critically analyze the research. The exchange rate exposure and determinant theory is illustrated to give the general understanding of the exchange rate issue for firms. The International New Ventures investigation is conducted to gain a deeper knowledge on the motivation for rapid internationalization and what could the characteristics affecting the choice of hedging method be. Lastly, hedging theory is investigated to give the theoretical knowledge on pros and cons of each method and to study how Vietnamese environment affects the use of these methods among INVs.

As stated already, Vietnam will be chosen as the case country. Some startup companies with trading process from the beginning of establishing a business will be chosen as the case companies. They are located along Vietnam from the South to the North to ensure that the research result will not be biased by the geographical factors.

4. Research methodology

Research is said to be the original distribution for the new or developed package of knowledge (C.R.Kothari, 1990). Through the methods and objectives of research, a solution for a problem will be met. Regarding the methodology for a research, there are two regular approaches in a business research, which are deductive and inductive research (Saunders et al., 2009:124). With inductive research, the generation of theory emerging from the resources will be investigated while with deductive research, the researcher often begins with a hypothesis and emphasis is on the causality. This thesis will emphasize on the inductive approach which means that the data is collected using qualitative method and theory background as well.

After discussing the research method, approaching the research process is defined. The research process can be approached inferentially, experimentally or based on simulation. The inferential approach illustrates the way of using data to reveal the characteristics or relationships of samples. The experimental approach focuses on the controlling of the environment researching for the effects of one sample on others under environmental concept. Simulation approach, on the other word, involves the existing of environment from which relevant information can be generated. Under the scope of business, stimulation means the "operation of a numerical model that presents the structure of a dynamic process" (C.K.Kothari, 1990). With the purpose of investigating the environment in Vietnam in relation with the characteristics of INVs, the stimulation approach will be considered.

Also, as illustrated by Saunders et al. (2009:139), the research which aims at investigating new insight in a theory is called exploratory. Therefore, as an exploratory research, this research can be done as quantitative or qualitative research. The quantitative method focuses on numerical data while qualitative research aims at gaining deep knowledge and causation. Qualitative research is crucial when the aim of research is to investigate the underlying motivations for actions (C.K.Kathari, 1990). Based on that reason, this study will use qualitative research in order to gain deeper knowledge on the reasons for choosing a certain strategy by INVs and how this choice is different from each large corporation. Since there are few paper researches studied on this issue, the in-depth interview will be chosen. Through such type of an interview, the whole picture and also the details on each categoy will be investigated. As the end, hypothesis will be explained in an analytical and logical way.

By conducting this research, several case companies will be chosen. All of them are Vietnamese companies with Vietnamese entrepreneurs. The reason is that Vietnamese people will understand truly the situation on the Vietnam business environment and they will then conduct the hedging method based on it. Also, entrepreneurs are said to be affected by the Vietnam culture and the way they will take the risk management is differed from others. Moreover, as the culture of Vietnam, people are more likely to join a long talk rather than spending hours for questionnaires. Also, the research objectives focus on the deep knowledge on the way INVs choose the hedging method and the way they deal with foreign exchange risk. Thus, in- depth interview with around thirty minutes to one hour for each entrepreneur is the most suitable method for this research.

II. Theoretical framework

The theoretical study will give general knowledge on the related issues of the topic. The theoretical part is divided into two smaller chapters which concern the theory on International New Ventures and the Exchange Rate Risk management commonly adopted by firms. The logical linking between the two sections give the basic hypothesis for the possible reason of research questions as the last section of theoretical framework.

1. International new venture

Under this chapter, basic knowledge on International New Ventures will be provided. The first thing is how INVs are described in previous research and what could be the distinctive characteristic when compared to other small and new firms. Secondly, the necessary elements in INVs are illustrated. These elements help to define the main factors for sustainable development of INVs. Also, they are the crucial points in illustrating the choice of hedging among INVs. Lastly, the common types of INVs are analyzed.

1.1 Internationalization and distinctive characteristic

The knowledge on Multinational Enterprises have been focused largely decades ago. However, recent research has raised the ideas about new kinds of MNEs, which are related to innovation in technology and demand from the entrepreneurs establishing new kinds of multinational business from the beginning. With limitations in resources, the beginning process of these firms focuses mainly in searching for the potential market to take advantages from not only domestically environment. Recently, after the main research from M Oviatt and McDougall, the international new ventures have been discovered.

In this research, the definition of International New Ventures (INVs) is defined by Benjamin M Oviatt and Patricia Phillips McDougall (2004) as:

"International New ventures as a business organization that from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries"

The main concern of these businesses is that they often have a proactive strategy to internationalization (M Oviatt & Mcdougall, 2004). Foreign assets are not necessary, but the commitment of resources (e.g., material, people, product and finance) is significant in this kind of business. Therefore, they are more related to the business profit and opportunity rather than asset owned. In the internationalization process, INVs are more concerning with the "inception" word. It implies that the international new ventures make decisions almost based on their inception occurrence. It was implied by Vesper that INVs will have no ultimate point of sale since the existence of INVs in many countries is spreading over time to form certain establishment (Vesper, 1990, P.97). Even when the product is in the development stage, the sales should be committed beforehand in multiple countries. Based on this, the diversification in operating is acquired by International New Venture business easily.

The internationalization of International New venture is extensively different from the internationalization model of MNEs. From the beginning stage, while research on MNEs found that the sources are large and the market is stable and homogenous, INV' resources are typically constrained due to the small size and the market they enter is among the most volatile without experiences.

1.2 Necessary elements for International New Ventures

As a type of a SME in the internationalization process, INVs often acquire some characteristics with main distinctive elements to form the successful INVs.

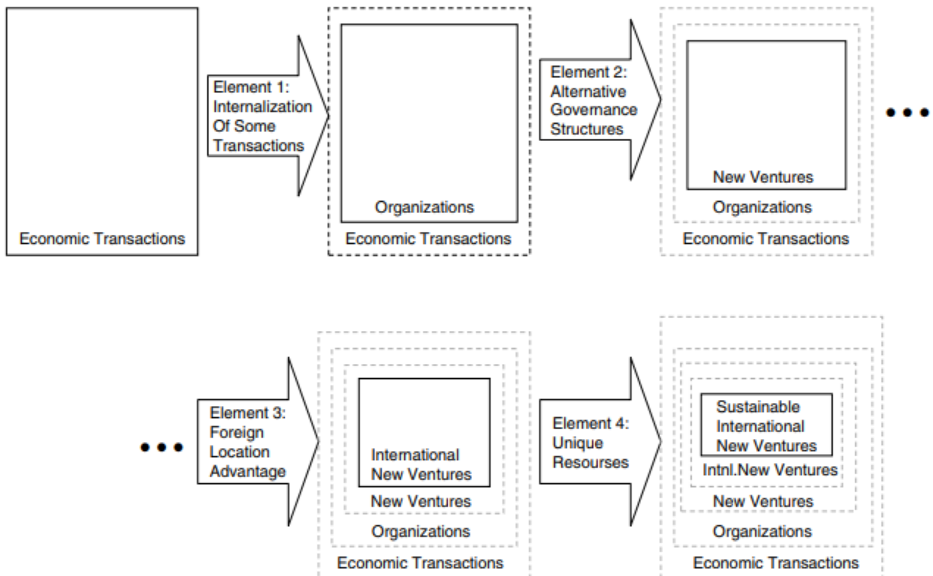

Figure 1: Necessary elements for sustainable INVs

(Oviatt, B. M., & Patricia, P. M. (2005)

As can be seen from Figure 1, the first upper left element is internalization of transaction. Internalization is said to happen when the cost of using spot market as a contractual agreement is larger than making it within the organization. The INVs operation does not need the asset to be owned or subsidiaries in other countries, but it can own assets to make value for exchange in some economic transactions. This will lead to the understanding of the second element, which is alternative governance structure. A new venture usually lacks of resources to control the assets in many countries, leading to the owning of small resources which would be essential for its survival in other countries.

Another element is foreign location advantage. The difference between INVs and domestics firms is that INVs finds the advantage in moving the resources outside their border. The resources can be raw materials, intermediate products or knowledge. Not the same as Multinational enterprises which rely on large scale to overcome the barrier such as government barrier to trade or language, as INVs focus mainly on the other resources. A typical resource is private knowledge. This is the intangible kinds of product such as software or innovate goods. When digging into the new market, in order to compete with others, special knowledge can be an advantage. Therefore, with this characteristic, INVs will then, from their inception, make the market spread to take advantages from a foreign location (M Oviatt & McDougall, 2004). Also, this unique resource can be a typical element for the sustainable development of INVs.

1.3 Types of international new ventures

The basic characteristics of INVs are the main elements defining their types and activities. It is varied based on their coordination with internationalization activities and their degree of sales. In this section, the four common types of INVs will be discussed. The basic information can be seen in the Figure 2 below.

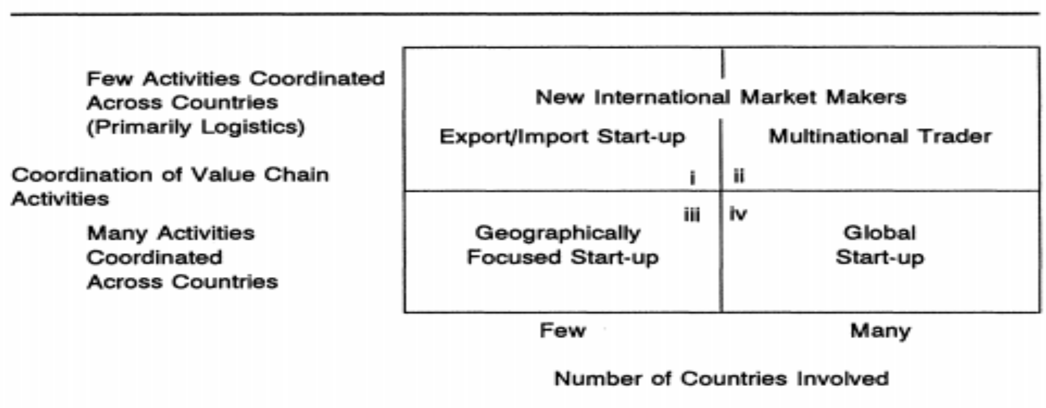

Figure 2: Types of International New Ventures

(Oviatt, B. M., & Patricia, P. M. (2005)

1.3.1 New international market maker (quadrant I and II)

With new international market maker, the movement of outbound and inbound in logistics is concerned. Mostly they move the goods from locations to locations which needs their product. Direct investment is limited at minimum point since the main focusing point is the location advantage. They rely on their ability to see the imbalances of goods between countries to import or export the goods (M Oviatt & Mc Dougall, 2004). As the result, the changing of location of export and import can be easier at the first stage when commitment is not strong and when the flexibility in moving is great. Thanks to this ability, firms can take advantages from avoiding exchange rate risks in a volatile market.

The main kinds of INVs are export/ import start-ups or multinational traders. While export/ import start-ups focus on few markets, the trader will take the array of countries where they found the opportunities at lowest risk (M Oviatt & Ms Dougall, 2004)

The Geographically focused start- ups take the advantage by dealing in a particular region. They are more limited in location rather than Multinational Trader.

A global start- up is the most radical type of INVs since they take the great advantages from the multinational coordination among countries they operate. They take the chance in selling the goods in every region at which they find value (M Oviatt & Mc Dougall, 2004). In other words, it is an active response in the global market. The main strategy used in this kind of business is the proactively finding of location and diversification in operation.

1.4 Benefits and cost for International New Ventures

It is illustrated in the study from Stephanie (2014) that the most notable benefit for International New Ventures is increasing the cash flow into operations by extending rapidly. It is also given that in order to overcome the cost for new business, growing and expanding in the new market is critical. The second benefit is growing together with the partner in a strong relationship. It is then revealed that the relationship in business is strongly important for INVs taking first step sustainably.

However, there are also many costs involved in the beginning process of INVs. The possible factors could be unfamiliar with foreign environment, lack of relationship and weak risk management portfolio (Stephanie, 2014). The lacking on knowledge on new international market leads to the requirement for trade- offs process of expending in order to get better experiment and become familiar with the new market. The second factor is financing risk. As nature of business, INVs often get the financing support externally from selling revenue. The risk for them could arise from pre-shipment financing. However, small businesses often do not make use of sufficient human resources to hedge fluctuation of commodities prices and exchange rates (Hofmann, 2011) and little practices are done to access concrete risk management. These two factors appear to make the hypothesis that INVs would be willing to take the natural business practices or expanding as much as possible to trade- offs the risk, rather than having the financial risk management portfolio.

2. Vietnam general perspective

The general perspective in Vietnam gives the most basic knowledge on the currency risk situation in Vietnam. For more detail, this chapter illustrates the direction of Vietnam Dong toward other currencies. Also, under this part, typical culture of Vietnam will provide a deeper understanding of the mindset of Vietnamese entrepreneurs.

2.1 The changing in currency for recent years

Figure 3: EUR and VND changing in pairs for 12 years

Figure 4: USD and VND changing in pairs for 10 years

(XE currency chart)

In 2015, as can be seen from Figure 4 above in currency change regarding EUR-VND and USD-VND, the exchange rate was the hot issue in Vietnam due to the China's devaluation of Yuan, FED's interest rate adjustment and US appreciation, together with EUR depreciation. In this period, VND became stronger against another currencies (Vinh, 2017), leading to the competitiveness of Vietnam in trading affected in a negative way. Therefore, in order to keep the business relationship and partners, Vietnamese firms have to reduce their margin to keep the price at reasonable and competitive level. Moreover, at this time, a loan from bank also became a barrier for firms. Banks often require an advance notice on the requisition for a loan, normally a month before. However, as for the INVs, they often receive and start business with no long term awareness or no long term planning. As a result, they cannot accept the requirement from the banks due to their nature of business, to be fast in transaction.

Also, when dealing with a foreign currency in exporting and importing, firms with no market power seem to take the vendor's currency choice to maintain the first relationship. By doing this, firms convert the interests and payment for the bank at the exchange rate of a future date, leading to unpredictable mode which could be favorable or unfavorable to firms. In the unfavorable situation, it could be considered as large cost for new firms. In order to managing this risk, firms will shift the costs by diversify scale of production and the location to get a more favorable situation. It is traced to be the operational hedging, which will be explained carefully later in this paper.

2.2 Culture dimension in Vietnam

Hofstede's cultural dimensions is one of the important theories to define and compare the culture of one country to others. It also helps researchers define the alignment of culture to actions related to business.

Geert Hofstede is a researcher in field of economics and management. He identified culture with four dimensions of Power distance, Individualism vs. Collectivism, Uncertainty Avoidance and Masculinity vs. Femininity. In this research, the uncertainty avoidance dimension will be focused on. In the research, the uncertainty avoidance index illustrates the "society tolerance for uncertainty and ambiguity" (Dissanayake, 2015). People who are in the culture with high score of uncertainty avoidance will tend to be emotional and they will try to minimize the occurrence of unknown and unusual circumstances. Based on the study of Dissanyake, 2015, the number of Vietnam under this dimension is around 30 which is quite low, as can be seen in Figure 3 below. Therefore, people in Vietnam could take the risk more frequently than others and do not see uncertainty as important for the decision. They take little structure and more to be stress- free than another countries. In details of financial aspects, in lower uncertainty avoidance countries, people are less being surprises with the unexpected risk.

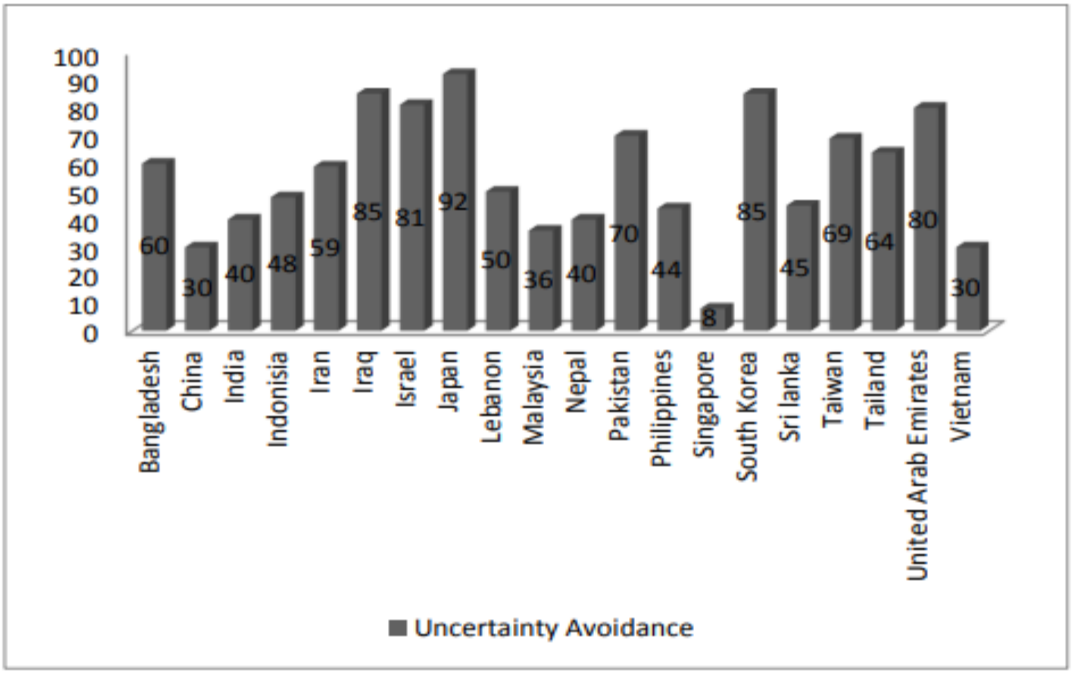

Figure 5: Uncertainty Avoidance Index

(Dissanayake, 2015)

As can be seen from Figure 5, Japan is one country with a highest score on uncertainty avoidance. Also, the hedging practices in this country are frequently used. The study of Takatoshi, Satoshi, Kizotaka and Junko in 2015 showed that in Japan firms often even combine operational hedge, financial hedge and the choice of currency to protect themselves from the foreign exchange rate risk. Also, their findings suggest that these tools build more efficiency in the risk management practices for the Japanese firms. Based on this, the proposal is that the hedging using in Vietnam could be affected by its culture and the use of hedging is not common in Vietnam.

3. Exchange rate risk and management

This chapter is divided into two sections. The first section gives the general idea on the types of risk brought from exchange rate change. The basic knowledge on how exchange rate fluctuation affects firms is provided. After that, the way firms often prevent this risk affecting their business is illustrated. Thus, in that chapters, two typical types of hedging are provided.

3.1 Exchange rate risk exposure

After the collapse of Bretton Wood system in 1973, the exchange rates of major currencies were allowed to float freely in the market with the comparison to other currencies. Also, the world trade has a large impact on the fluctuation in the currency rate (Maurer & Valiani, 2017). Due to this aspect, the trends in currency exchange rates are difficult to define or forecast. The exchange rate risk in common will relate to the unexpected risk regarding exchange rate for the value of firm. For more details, it is the direct loss due to an unhedged exposure or the indirect loss in the firm is cash flow, net profit or liabilities (Papaioannou & Michael G, 2006).

In doing oversea business, multinational or international new firms will experience risk when they engage in the overseas currency denominated transactions (Papaioannou & Michael G, 2006). The risk can be categorized to three types which will be considered in this research:

- Transaction risk relates to the cash flow risk and the risk in dealing with the effects of exchange rate risk. Specifically, it is the transactional account exposure in export contract (account receivable) or import contract (account payable). When a firm makes the transaction outside the border of their host country, the risk will be direct transaction exchange rate risk to the firm.
- Translation risk relates to the risk of balance sheet when the subsidiaries in the oversea market are consolidated to the parent company's balance sheet. When consolidating the financial statement, the firm will take the exchange rate at the spot date, which is the end of period or the average exchange rate over the period. The income statement is translated at the average rate while the balance sheet is often translated at the rate of the consolidation time, leading to the risk for firm.
- Economic risk illustrates the risk relating to cash flow when making the current present value of future cash flow. For more detail, the hypothesis example is

when a firm just sells locally, it still has to lower price to attract customers due to the depreciation in oversea currency.

3.2 Management of the exchange rate risk

After the identification and measurement of the risk, international firms need to define the method or strategies to control and eliminate this risk. Thus, managing foreign exchange risk becomes an integral part in every firm's decision making (Papaioannuo, 2006). The currency risk hedging is the entail process which involves the understanding of the risk from firms, and choosing the appropriate way for hedging. When choosing the way for hedging, firms need the measuring on how much they are exposed to the risk, and the degree they need to prevent this risk.

The transaction risk is normally hedged by the selective way or by strategic way. The selective way involves the preventing of the risk in short term, relating to the receivable account for cash inflow and the cash outflow for costing measuring. However, in the long run, firms would take the strategic hedging to prevent this risk, involving the same structure of hedging over the time or the time under contractual hedging will be longer. Besides these two methods, some firms would take the passive hedging method, which do not require firm to take the currency view by time. For example, firms may take the future contract with bank for a long time and with automatic renewed process to prevent the risk of currency changing in that time (Papaioannuo, 2006)

In addition, the translation risk which is related to the balance sheet and the changing in net assets value. Since this risk will not affect the income statement, it could not be prioritized when dealing with the foreign exchange risk management. Also, firms often hedge the net value for assets of its subsidiaries which could not take severe exposure of any changing movement (Papaioannuo, 2006)

Lastly, for the economic risk, firms often take the residual risk (Papaioannuo, 2006). Since the economic risk is related to the expose of the present value on future cash flow, firms have to define the deviation due to the differences of the benchmark firms used for the forecasting and the real value during that period. Normally, the impact on this flow will be netted off with other flows thanks to the differences in product lines, location and time of forecasting. This is considered as operational hedging which will be discussed later in this research.

International new ventures mainly operate in overseas countries with the production outsourced or simply trading process in export and import. Moreover, as mentioned before in the important elements for INVs, the asset is not required and the subsidiaries in other countries are not available at the first stage. Therefore, the hypothesis is that INVs will be severely exposed by the transaction risk only.

The first step in considering the managing of foreign exchange risk is to illustrate where and how much the company is exposed to the fluctuation. With the core business of importing and exporting from beginning, the distribution of goods and manufacturing of goods in new INVs can result in the fact that receipt and invoice comes in at different time (Kroll, 2006). With that situation, the amount of transaction can be low but the varying in transaction's currency is clearly shown.

Some companies often decide to do the business with receipts, invoices and quotations in their domestic currency and thus eliminate the transaction risk. However, they will lose their competitive edge when their competitors agree to take the currency of trading partners (Kilkelly, 2005). So, instead of losing competitiveness, the exporter can minimize it through, commonly, appropriate hedging techniques. In general, hedging is said to be involved in the investment made to reduce the risk of adverse fluctuation of asset price (Najjar, 2012). The hedging can be divided into two categories: one of them is operational hedging which refers to the geographical diversification and the other one is financial hedging with derivative instruments. The table below shows these two kinds.

Table 1: Classification of hedging instruments

classification in hedging literature	**financial hedges**		**operational hedges**
classification in financial statements	**derivative hedges**	**natural hedges**	
examples	forwards (futures), options, swaps	foreign-currency debt	diversification across currency zones, operational matching of revenues and expenditure

Figure 6: Classification of hedging instruments

(Björn Döhring, 2008)

3.2.1 Operational hedging

Quoted by Ding and Kouvelis (2001, P.2), the "*operational hedging strategies can be viewed as the real options that are exercised in response to demand, price and exchange rate contingencies faced by the firms in global supply chain context*". In other words, it is the changing in logistic, location of exporting and switching of market which is based on exchange rate uncertainties. The operational hedging is said to have a great effect on the output and operation of the firm. When they forfeit the operational hedging, they often reduce the production or exported product to sell exclusively in market with unfavorable spot exchange rates (Wong, 2008). It is the opportunities to delay and adjust the investment of firm to suitable market with response to the uncertainty (Triantis, 2000). When taking the exchange rate exposure as the main concept to illustrate, this financial hedging is more common with hedge contract or options, but in addition to the contractual agreement between parties, operational activities are more and more engaged by firms to manage risk exposures.

In the business of International New Ventures, in the case of the new international market maker as the first and most common type of INVs in Vietnam, they will produce domestically and sell only in the foreign market which is exposed to the demand and less exchange rate risk (Boyabatli & Toktay, 2004). The reason for this practice in operation is that the small firm will depend on the volatility of the main currencies on which they have their exported product or outsourcing of production (J. Abor, 2005). Even if they are not exposed directly to the exchange rate risk, the strategic position will indirectly affect. As a result, a delay in market with large uncertainty happens. Thanks to the unnecessary of having the assets outside domestic countries, INVs may delay its commitment of resources by using the operational hedging. The location with the minimum cost thanks to exchange rate realization will be chosen. This operational hedging is commonly used by firms with ease in diversification due to small size and less commitment to foreign facilities.

Another kind of operational hedging is geographical diversification which mainly focus on aligning the location of cost and revenues so the firms are exposed to the same risk (Boyabatti & Toktay, 2004). In other words, it is the strategies of hedging in respect to the exchange rate and demand risk. Firms using the geographical diversification will align the cost and revenues to expose to the same risk by diversification. The small domestic firm that sells products in the foreign market or new market trader (first type of INV), will try to make the revenue and cost in the same countries by opening part or whole production facility in the same market (Boyabatti & Toktay, 2004). As a result, they reduce the risk in unappreciated local currency. Crowdry and Howe in 1999 defined that the diversification in operation of global start-ups gives operational hedging large opportunities. By having the product sale in many markets in order to find the opportunities and to network, operational hedging is used to shifting the cost across region. While export activities in Indonesia make a loss in revenue due to depreciation of Rupiah, the activities in Japan receive the advantages thanks to appreciation of JYP Japanese Yen. This situation will not create the risk for company in paying the loss thanks to having diversification in many countries.

Theoretically, the operational hedging needs high investment compared to financial hedging, due to cost in opening of new production and investigate the possibility of doing business in new market. Moreover, in operational hedging, firms will exposed to some costly issues. When reentering the market, firms will face the cost for missing loyal customers, Research and Development in the new market and cost for regaining the market power and relationship. However, it makes the hedge against loss for long term (Boyabatti & Toktay, 2004). Also, as mentioned above, thanks to the core business and formation of INVs, operational hedging is used largely among these firms which prefer ability at seed stage when the market power and relationship is not strong and the small size enable the ease of moving.

3.2.2 Financial hedging

While operational hedging concerns the process of changing market and activities to avoid risk, financial hedging means similar to the insurance for the company. The financial hedging concerns more the instruments or derivatives with bank and partners used to avoid the uncertainty in the future of exchange rate. As the currency exposure is one of the major risks to companies with operation worldwide, future cash flow of these firms can be affected. By using the derivatives, companies can manage the risk and reduce the variance in value of firms for future cash flow. In the business world today, the financial derivatives are powerful tools for managing the currency risk. However, due to lack of knowledge and difficulties in understanding this complex technique, it is not common (Winkel, 2013). Also, firms will consider the motivation to use derivatives based on the cost of hedging. Normally, bigger firms are overrepresented than others regarding currency derivatives. Financial hedging requires the resources, competencies and willingness to monitor the existing contracts (Winkel.2013) that is costly, especially for small businesses with limited knowledge and competencies.

The derivatives are the financial instrument with the value based on the value of hidden variable. This could be the stocks, currency changing and commodities. It is the method of managing the risk to the extent that makes it bearable (Kameel, 202). The most common derivatives in hedging are forward contracts, future contracts, options and swaps.

a. Forward contract

In the European Economic paper 299 in January 2008, the forward contract is defined as: "The agreement to buy or sell a given amount of foreign currency at a certain point in time at an exchange rate fixed today". In other words, it is the customized agreement between parties to fix the rate in buying or selling of goods. At the time entering the contract, there is no cash transaction since the parties agree to take the forward price in the same amount as delivery price. In the contract, parties can be in short or long position. The party in long position will buy the currency on a specific date in future for certain rate and the party in short position will sell the currency for specific exchange rate. In this contract, the transaction is settled at the current date in future or maturity date with the spot rate of current time. At the maturity date, the contract will give the positive or negative value for long or short position. If the rate for changing currency increases, the long position will take the positive value and in opposite side with short position.

The forward contracts are traded "over the counter" (OTC). The forward contract can be easily used to eliminate the risk but it is hard for the other party to agree on the fixed rate for the amount and time when the relationship is new as INVs situation. For example, the seller as INVs will sell the goods in the European market at the amount of 100 EUR or 2 401 500 VND and the payment should be made after the shipment. The buyer as the counterpart will agree to pay that amount of VND as the currency base in three months. At that time, the payment is made, with the appreciated rate in VND. As the result, the seller enjoys the increase while the buyer still has to pay for the fixed amount in fixed time. This is a losing situation for the buyer in the oversea market. However, it is quite common now that the parties can shift the risk to the bank when having a forward rate arrangement as a service from the bank (Kameel, 2002). The bank now will bear the risk by arranging management of the risk. Small businesses, they often make the assessment of the transaction and the firm assessment. The transaction is preferred to a firm with long- term relationship. Moreover, when the transaction with the bank is not frequent as the case of INVs, the bank will charge more. In the seed stage when controlling expenses for the firm is large and the amount of transactions is low, INVs will prefer to use other strategic hedging techniques.

b. Future contract

In the future contract, buyer and seller can agree to buy or sell a product with locked currency in the future (Winkel, 2013). A future contract is of the same kind with forward contract when the parties agree to pay a fixed rate at a fixed time in the future. However, it is more liquid (Kameel, 2002) since it can be traded in the market. Moreover, the future contract can be removed before the expiry date by entering in the opposite transaction. In a situation which is unfavorable for buyer or seller, they can buy back the contract at a different rate and amount. However, when entering the future contract, the trader needs to have the deposit known as the initial margin. The contract will then be tracked. If a loss happens then the trader needs a margin call or variation margin to pay up the losses (Kameel, 2002).

Price of the futures can be determined under the formula

Fut= S. exp [(Ri-Rf).t]

Under this formula, i is the interest rate, f is foreign interest rate, term "exp" is exponential function, S stands for the spot rate and t is residual life on an annual basics. For more details, the spot rate is the changing rate between two currencies on basic of rating between two currencies and the interest rate is based on the market with t is the time until maturity date.

Being different from the forward contract, the future contract often requires some standardized factors such as expiry date, contract month, contract size and position limits (Kameel, 2002). Thanks to these features, the future contract is more liquid than the forward contract.

c. Options

Options in currency is illustrated as the contract between buyer and seller at which the buyer has the right but not the obligation to buy or sell the currency at spot exchange rate before or at the agreed date (Eiteman et al, 2004). There are two kinds of options:

- Call option: the buyer in this option will have the right to buy currency at a defined rate, at or before the specified date. The call option is often used when the upward trend in currency happens
- Put option: the buyer has the right to sell the currency at a defined rate, at or before specified date. The put option is often used when the downward trend in currency happens.

(Kameel, 2002).

Since the buyer holds the right, sometimes the seller needs to be compensated for giving such right based on the premium price of the option. This is called the upfront fee. When considering the way to hedge and the choice of hedging, payoff price should be taken into consideration. It is not only the spot price for the contract, but the average spot price over the time of the contract. Therefore, the options can be useful for the firm with the steady in and out flow of the oversea currency (Bodnag, 2007).

The currency options have three categories of prices which are "in the money", "at the money" and "out of the money" situation. For more details, the exchange rate at which the buyer of option can purchase and sell is the strike price. The value of the option is option price and the spot rate of currency is spot price. If the spot price is higher than the strike price, the goal of call option is reached and "in the money" situation is defined (Winkel, 2004). If the spot price and the strike price are nearly equal to each other, the "at the money" situation is reached. On the other hand, if the spot price is lower than the strike one, the "out of the money" situation is reached. These terms are used to define the situation of put and call options.

Lastly, the advantage of option hedging is said to be the choice of buyer. They can decide to exercise his/her right. And the disadvantage is that the purchaser has to pay a premium when buying the option and the return will be reduced based on this

All in all, considering the financial hedging in business is important. There are two points that are needed in business risk accessing. The first one is the locking of price in specific rate; the firm will then substitute the domestic price risk for the real exchange rate risk (Bodnar, 2007). Then, the risk happens when the price level more volatile than the normal exchange rate. Also, financial hedging is said to be the technique for soften the blow of exchange rate risk but it is the temporary shelter for firm (Bodnar, 2007). It can be that the financial hedging will provide the wrong sense for owner who may delay to have real option to reduce the risk for long term. Besides, financial hedging is the insurance. By having it, firms should waste money for it in term of HR hiring, planning time, and the explicit cost.

d. Swaps

"Foreign exchange swaps involve the sale or purchase of a currency on one date and the offsetting purchase or sale of the same amount on the future date, with both dates agreed when the transaction is initiated", stated by Marc Levinson in 2005 under The economist paper. In other word, it is the transformation of loan in one currency to loan in other currency (Winkel, 2003) involving two parties for the interest in hedging the risk for currency changing with the intermediaries as banks, Multinational Corporation or institutional investors. For example, an American company want to invest in Vietnamese market so they need VND as foreign currency and Vietnamese firm want to invest on America so it need the USD. If both banks borrow the foreign currency in their local bank, the interest rate would be high compared to what they borrow in their local currency. So they decide to get into the swaps contract. At which, the American firm will start loan in USD currency with the interest rate of 3% as example, and Vietnamese firm start loan in VND with interest rate of 5% as example. They will then swap the loan and take the interest rate on loans to the respective domestic bank in original borrowed currency until the date they get the installment (maturity date) with the spot rate or with agreed rate. Thanks to this, both parties will pay less than they would have if they borrowed directly in foreign market (investopedia by Pinkasovitch). The basic diagram of the currency swap will be illustrated as below

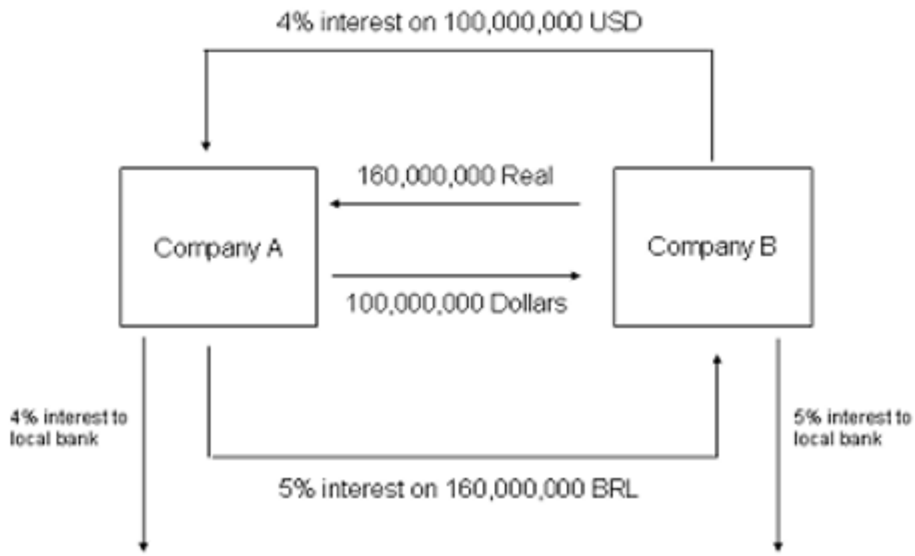

Figure 7: Example on the swap process

Pinkasovitch, Investopedia

In Swaps contract, the rate used at the offsetting purchase called swap rate. The swap dealer or the bank will be the one who makes the agreement. Both parties in this agreement will decide on the time, date and rate of two currencies. The swaps can be deal under long period or extend for years with the bank as intermediaries and when both parties pay interest and installment for each other (Winkel, 2003). During the swap period, both parties pay the interest based on the swapped principal loan amount. At the end of the contract, the installment can be made under spot rate or the agreed rate (ACCAglobal blog, 2018). All in all, the swaps contract requires the strong relationship between both parties and the cost for service from bank.

e. Other strategies for currency risk adopted by young businesses

- **Currency risk shifting**

Currency risk shifting is another way as the combination of operational and financial hedge is risk shifting. The requirement for the split of risk is adopted. Based on the changing in exchange rate from agreed date to the date of transaction, fluctuation amount of currency is divided for two parties. Under the risk sharing model, the seller and the buyer often agree on the sharing of risk based on the contract.

- **Leading and lagging**

Under this model, the aligning with timing of foreign currency cash flow is adopted. When the appreciation happens for currency, firm often pay off for liabilities early and take the receivable later. For more details, in a business transaction with one foreign currency, e.g. EUR and the business report is in VND. Both supplier and the buyer agree to pay on the fixed amount of EUR. In case of the value of EUR to VND goes up, buyer pays more in VND. Leading and lagging, thus, the solution for this. In case buyer believe that this situation will happen, they will pay the bill before maturity date to avoid. This is mostly used when under the contract; firms are in advantage side in trading.

4. To hedge or not to hedge?

The main purpose of hedging is to prevent return the uncertainty and achieve the result in predictable future. Thanks to this, firms can improve the planning competencies and have clearer investment possibilities when the future of cash flow is fixed as planned. However, hedging can demotivate firms to use it due to its cost.

Derivatives is not free at all (Winkel, 2013). When using financial hedging techniques, specialized accountant is needed, leading to the increase in fixed cost for firms. Moreover, when firms take the derivatives for a long-term period, firms may be involved in the cost of controlling for new techniques. Besides, by using different methods of hedging, firms will receive different amount of sales comes from various time, depends on the contract time. The INVs who seek for global advantages with a variety of sale locations, they will receive the cash flow in different time with different currency in future. In this case, while hedging can help them to have better view for future, the cost in planning can be high and cash flow in/ out may be affected. Thus, this flow must be carefully followed and controlled. While the instruments in financial hedge can save tax, lower the distress cost and has less influence on the cash flow of firm; little evidences show that firms often take the hedging as initial motivation at the first stage. It can be possible that hedging is often more expensive for smaller size businesses than the larger ones, said Jiro Okochi, founder of Reval Inc, New York. For instance, the bank may charge more if they take the forward contracts unusually. Besides, taking options as one of the main hedging technique for business, the complexity in taking the options and the negatives from paying the premium will discourage young entrepreneur from using it. Moreover, blocking the currency rate in fixed time in future, firms may face the explicit cost. Basically speaking, when the currencies go in the advantage direction for exporter, the importer will face loss in their contract price.

Therefore, the trade- offs seem to be simply that firms should hedge when the cost is lower than the benefits they received. Due to the possible large cost of hedging, some start-ups often take the diversification of risk portfolios as investment to reduce the risk, which is known as the operational hedge. Moreover, as the currencies and commodities prices move significantly over the years based on EUR and JYP currency, the trading in Vietnam faces dramatic exposure. Up to this point, within the business of new international firms, lack of knowledge, understanding hedging techniques and fear of what will be perceived lead to the infrequent using of hedging among them. Moreover, the risk accessing and risk-controlling department is not visible in the company, leading to the fact that hedging based on the interest of the entrepreneur in most cases.

At the seed stage, carefully considering the small risk in business is not important. INVs often take more views on the opportunity to run better business and expand itself as a way of making its core business become real. During this time, the transaction is small and the requirement for hedging is limited. Based on this, the operational hedging is often adopted by young businesses, especially INVs, thanks to their ease of diversification.

III. Research analysis

The research analysis analyzes the basic process of the research. First, the purpose of the research and how the data was collected and illustrated. The list of frame questions for interviewee is provided together with the analysis for validity and reliability of the result.

1. Research purpose and data collection process

As mentioned in the first part of this research, the research methodology used in this study will be qualitative research. The main purpose of this research is to investigate the reason and process of managing currency risk in INVs. Also, aligning with this topic, the banking services and analysis regarding financial derivatives is illustrated. Based on this, in-depth interviews would be most suitable. Through the qualitative research with in- depth interview, the mindset of entrepreneur, the picture behind their decision and the way they do it in details will be analyzed. Based on this method, the data generation will be both flexible and sensitive data generation, rather than the standardized or in a structured way (Manson, 2002). Thus, the structured questionnaire is not used in this study. Instead, the flexible method will be used. However, in order to comply with the purpose of the research, the frame questions will be prepared which is for both bank and INVs.

The research is conducted with some officers in the Bank and some financiers in INVs with the location in Vietnam. Due to the geography barrier, some researches are conducted by phone or video call. In order to get a deeper in understanding the mind set of INVs financier and the service from the bank, the frame questions was asked interwoven during the interview. Based on the nature and the willingness to share information of interviewee, the other questions will be added based on the answers of interviewee.

2. Questionnaire analysis

As mentioned above, the qualitative data is collected from the interview. Most of the frame questions were asking about the practices of using operational hedging or financial hedging among INVs in Vietnam. The question will not mention or based on any theory which was illustrated in order to avoid biases in this study. Moreover, the frame questions just ask for the reason for hedging and how the companies deal with the foreign exchange management. The other questions that were asked for the interviewees based on the nature of the interview process and the extent at which the interviewees want to share their situation and knowledge.

The companies were chosen based on the relationship with friends and randomly called to make an appointment. The focus is small and new established companies with location in Vietnam and Vietnamese entrepreneur are Vietnamese people. Moreover, in order to gain deep knowledge on the banking service and number of INVs who take the financial contract for foreign exchange risk management with the bank; some officers in several banks were chosen. Therefore, the questionnaire is prepared for both bank officer and the INVs. Since the interviewee is Vietnamese people, the questions were translated into Vietnamese for easier communicating.

For the bank officer, the frame questionnaires are drafted as below:

1. What is your daily work and for how long did you work in this bank ?
2. What is the main credit service from bank to the small and newly established firms? For example of the foreign loan or LC and TT process
3. In order to offer foreign loans to firms, what is the assessment that you have?
4. As you know, financial hedging for firms to protect against the foreign exchange risk is quite common. Do you have these instruments to offer? What is the requirement when offering firms this method?

5. Is the banking services regarding these instruments is limited accessed? In you opinion
6. Was this service offered to large companies more than the small and new ones? Why?

The first question takes the general ideas on the work of interviewees and the time experienced by bank officer will say much on how he or she is expert at the service and how the process has been changed through the year. The officer with longer experience will say more about the interviewer can focus on seeking the information during the long fluctuation period of the currency since he/ she is able to answer it. The second and third question mentions the information on loan provided by the bank. Also, the question focus on the small and new establish firm in order to get the idea of bank officer in assessing the firm to offer loan for them. Based on this question, interviewer will know more on the differences, if any, on the assessment of bank toward corporation and INVs. The fourth and fifth question answers the main purpose of interview on the financial hedging provided and usage among small firms. Lastly, the final question illustrate on the using of small and new established firms compared to the large one.

For the INVs, the frame questions for all firms are as below:

1. Introduce something about your company and your work
2. Did you experience any transaction in foreign currency during the time you have worked here? What it is mostly about?
3. Since the company would have the transaction in foreign currency, you should be exposed to the exchange rate risk. So this risk will be in the transaction, translation or economics risk?
4. When did you exposed to the exchange rate risk ?
5. With your business partner such as supplier or customer, do you have any agreement regarding payment on foreign currency? Is there any special point which needed to be consider when working with them? Any special point required by the supplier

6. Do you have any assessment team to work on the prevention of fore risk?
7. Do you currently use the financial hedging method? With which supplier/ customer?
8. When using these instruments, do you experience any barrier or struggle with bank to get the contract?
9. As your opinion with your company situation, do you think financial hedging will be better for you? Why?
10. According to your opinion, when will be the best time to take the financial hedging?

In the same way with the bank officer's question, the first question will take the general ideas on what they are working and how it is. During the following three questions, the kind of foreign exchange risk to firms will be defined. The fifth question illustrates the relationship between firms and the partners. In the in- depth interview, the interviewer will know more on the special point of the agreement between both parties and if the factor of being small and new established will affect the relation. After that, the interviewer will focus on asking the management of foreign exchange risk in firms based on the general information and how firms are dealing with it. Also, the interviewer will focus on asking if INVs use the financial hedging and if you experience any difficulties with bank regarding this topic. The two last questions define the idea of the interviewer who could be financial specialist or the entrepreneur of the company based on their view on preventing the risk from fluctuation of foreign risk. And whether they see the hedging instruments is necessary for their business. Besides, as mentioned above, the adding-up questions are really based on the answer of interviewees, as the interviewer can ask more details on each questions based on the situation. However, based on these frame questions, the general ideas and the necessary information are already defined if interviewees agree to answer all.

3. Interview process

The interview process starts with finding suitable firms for the topics. The firms chosen are based on the relationship as most. Since in Vietnam, a situation when a strange person contacts and asks for the interview is not so often, then people intent not to reply. Due to this issue, the firms, which are used to the interviews, are found thanks to relationships. There were 5 companies and 4 bank officers chosen to be the interviewees.

The interviewees are contacted separately. The topics of study and the method of interview are introduced before the interview. Both sides, then, agree to take the appointment. Since they are located in both Hanoi and Ho Chi Minh City, it is hard to meet face- to- face all of the interviewees. Thus, four of them were interviewed through video call and one by face- to- face interview. All of the conversations are recorded and kept for possible further investigation of details.

During the interview, both sides are free to ask questions and answer the questions from the other party. The interviewer wrote all the information. From the bank officers' side, in addition to the question given by interviewer, they also share the information on their experiences and knowledge of why INVs often did not take the financial hedging.

4. Reliability and validity

Validity and reliability are crucial parts in a research, which represents the creditability and usefulness of a research. Validity presents how the research truly measures and the extent of truthful it is (Golafshani, 2003). Throughout this research, the theory is taken from older research with citation and the knowledge with questions for interview is strongly based on the theory. Reliability is the measurement on how the data collection techniques and the way analyze the findings will lead to the correct findings. In order to ensure the reliability of the research, trustworthiness is analyzed (Golafshani, 2003). Based on this, the questions are translated into Vietnamese at the best suitable way to ask Vietnamese people. Also, the structure is described before conducting the interview and the language is clear for avoiding misunderstanding.

The questions used for the interview are mostly based on the purpose of investigating the practices and reason for that practices from INVs entrepreneur. Beside, as hedging practices can be described as contractual practices between the bank and the financier of the firms, the interview with bank officer is also conducted. The questions are written in the way that direct to the objective with no touching with the sensitive information. Therefore, it was asked in the most general and objective way. Besides, the adding question was based on the process and the extent people want to share their knowledge so the research is validity with no forcing for expected information.

During the process of the interview, the researcher and the interviewee always try to keep the truth for the research. However, some figures from firms are rarely investigated since the firms could not show a large amount of data as they are in the new commercial process. Additionally, some interviews, due to the barrier in geography, cannot be conducted on face- to- face process, but through the phone. The expression and body language from researcher and the interviewees will be limited. Thus, the research objectives and question details was explained carefully before conducting the interview in order to secure the validity.

IV. Empirical study and findings

The empirical result will provide the details of how research question is answered based on the data from interview process. The first part will analyze the basic information of the companies and bank officers while the second part gives the details of their answer and how it is linked with the theory provided before in this research.

1. Analysis of companies

The first company is Vital Joint Stock Company in Vietnam. This is small company, which belongs to the corporation named Bitexco, one of the largest financing corporations in Vietnam. However, Vital is known as the new established and independent company. Their main product is mineral water. Exporting and importing from the beginning has been one of the main factors in the mindset of director in the process of developing company. Based on the theory of INVs' types illustrated before, the Vital Joint Stock Company could be considered as Export/ Import start-up. They started their operation about 3 years ago with the main importing process from China and exporting to some European countries such as Germany. They also import cleaning facilities and small equipment from Germany, France and Italy for the water producing system. The organization chart in the company is quite simple with the main operational decisions comes from Director and the Financial Director. Besides, Financial Director will decide all of the decision related to the financial transaction.

The second company is IDD Co., Ltd Vietnam. Its main product is coffee in packs, which is used to be exported. As Vital, it is the Export/ Import start-up. It is the new established company with operation of around one year now. Until now, the amount of foreign transactions in their business have been not so much, mainly importing the materials for packaging from China and Korea and exporting coffee in packs to China. The organization chart of the company is quite simple with the

Director and several small departments. The decision for managing the foreign transaction depends on the Director.

The third company is Minh Lap Thanh. They are focusing on the distribution of electronic accessories in Vietnam market and Asian market. However, from the beginning, they seek to expand their sources of materials and exporting their product by extending and changing the business partner in other countries. Until now, they have been operating in this field for 2 years with around 80 employees. The decision toward choosing partners and process of payment in foreign currency depends on the Director.

The fourth company is Avintech Vietnam. They have been working for around 6 years with the number of employees is around 70 people. Their main activities are importing facilities for some private airlines in Vietnam and exporting Vietnamese product for some private airlines in other countries. Based on the nature of their business, they are shown to be the multinational trader since their main motivation of business is to locate the products based on the demand. This is quite surprising since they are new in the market but they win quite many contracts through bidding. Their oversea partners are from United States, Australia, Germany, Italia and Japan. Since they have the operating and foreign transaction with large amount, the main decision regarding the transaction of foreign currency and the business partner in other countries is based on both Director and the financial department.

The last one is a Rice exporting company (The name of this company will be hidden as the requirement from interviewer). From the beginning time of operating business, they are intending to export the rice of Vietnam worldwide. Now, they have corporation with many countries such as Germany, France, and Japan. Based on this nature of business, they could be seen to be geographic focused start-up. They are now seeking the market in the United States. Despite the fact that they have been in Vietnam for 2 years, their operation in current oversea countries is quite stable now, their employees are not so many with only about 30 people. Thus, the Director will decide all of the financing related issue.

Besides, the interviews were conducted for some bank officers. One of them is from Joint Stock Commercial Bank for Foreign Trade of Vietnam or Vietcombank, two of them are from Joint Stock Commercial Bank of Investment and Development of Vietnam, which is one of the state- owned banks in Vietnam and is referred as BIDV. The last one is from ACB or Asia Commercial Bank, the largest private bank in Vietnam. All of the interviewee is from these banks with around 2 to 3 years of working. Also, they are all from the customer relations department or from Credit process department with responsibility for small sized companies.

2. Findings from interview

Under this chapter, details of finding will be analyzed. Firstly, the general information on how companies are faced with the changing of currency value and what kinds of risk they are facing. Secondly, the managing of foreign exchange risk in these companies is provided. Finally, the reason for their practices is illustrated.

2.1 General information on the risk faced by companies

All of the firms chosen to be interviewed are exposed to the translation risk. During the first period of entering the new business, they experience the exposure of foreign exchange rate only once when buying the assets for the companies. However, this amount is not too high.

"*We bought the coffee machine at the beginning of running business. At that time we use the spot rate at bank to transfer the amount to vendor, and in that transaction, and we do not consider it as the risk of exchange rate since it happens once". (IDD Co.Ltd)*

During the period running the business, they have the transaction with business partner in both exporting and importing of goods in foreign currency. However, the amount is small and the transaction is not frequent and cannot be forecasted.

"The transaction is mostly in USD which is quite stable, and the amount is quite small" (Vital Joint Stock Company)

"We have the foreign transaction but it really depends on the requirement from customers. When they need, they would ask for the price and the amount. At that time, we still do not have the contract for stable amount in advance" (Director of rice exporting company)

"Even when we are the buyer, the amount of goods supplier can give us is not stable, since they will prioritize for other long- term partners, and the amount of goods left they can offer us" (Minh Lap Thanh trading company)

Therefore, for all the case companies, they are often exposed to the transaction risk, which concerns the risk of buying and selling at spot rate, which will direct affect the cash flow and revenue of company in certain period.

2.2 Reaction toward foreign exchange risk

Most of the firms attended in the interview do not have the foreign exchange risk management and most of them use the spot rate and one of them take black market when dealing with the foreign currency transaction. In some cases, they take the operational hedging with some partners and in selective period.

First of all, 4 out of 5 firms chosen to be the interviewees do not have a specific way to deal with the exchange rate.

"We do not have any methods or controlling process to work with foreign exchange risk. One of the reasons for this is that we are too small and we do not have enough capacities to deal with it. Besides, most of the decision now is based on the view of Financial Director. As the result, the hedging behavior is depended totally on him" (IDD Co., Ltd)

Besides, most of the interviewees admitted that they are lacking knowledge in this field. Due to this, they use the traditional method to managing the foreign currency transaction. Moreover, they often have the difficulties in dealing with bank for small transaction.

"The transaction is not frequent, and often urgent. When working with the bank, they would require some specific document to verify that we will receive that amount in the future and we will deliver the goods at the agreed date. Also, the document process is quite slow while the transaction and requirement from customer are urgent. We, thus, often did not take the forward contract with bank. We then often use the spot deals at the bank to receive the money when customers confirm receiving of the goods or to pay the money for vendor when importing goods" (Rice Exporting Company)

As a result, they need to use another method to changing the currency for payment of transaction; one of the methods is exchanging currency in black market. It is admitted clearly in Vietnam that the exchange rate in black market is much favorable for firms than at bank and the cost is free. Also, the controlling of black market in Vietnam is not strong and little prohibition is shown.

"*The requirement from bank is hard for us to declare clearly. Also, the changing of currency at bank cost much more than changing in another place. As the result, we often exchange the currency in black market and put the foreign currency in foreign bank account" (One of the interviewees)*

Lastly, firms often acquire the operational hedging or other methods such as currency risk shifting. For example, Vital Joint Stock Company and rice exporter use the risk sharing model and operation hedging.

"We align with each other to pay in USD for all the transaction. One of the reason to do this is the flat in price of USD and the requirement from supplier. Since they have the bank account in USD and this currency is used for reporting, they prefer to be paid by USD. Also, from our side, this currency is stable compared to EUR and JPY recently. Moreover, choosing of currency in a transaction is based much on the partner so we have to deal it carefully for win- win situation" (Financing director form Vital)

"*During the period of devaluation in EUR, in most case, we shift the main partner to China. Even that that sale volume in that location is not as good as, the cost of saving is much larger to maintain our business. As our advantage is no ultimate point of sales, we can shift the location easily" (Rice exporter)*

2.3 Hedging practices among INVs

The results show that most of the firms chose the operational hedging or do not have any hedging method during their first step in business. The first reason is that they care much about expanding rather than hedging. The second reason is that financial hedging is cost much than what firms can take benefits from it.

As illustrated above, most of them use the spot rate to pay or receive money from the partner. One of the reasons for this is the following of INVs concept as expanding is more important than be much on profit. Moreover, for their business, the flow of cash is faster at the first stage. As a result, they do not prefer to use banking service in financial hedging, as it is too slow.

"We often focus on seeking the partner in several countries to find the best solution. Besides, we create the circle of relationship at the first step of digging into business. From the beginning, the expanding process is much important than the insurance to protect us from risk" (Rice exporter)

"Our cash flow is quite fast. When we receive from the customer, we then use that revenue to pay for cost in short time and the circle start again soon. Since we want to expand the market first, we often did not consider much on the profit. Currency changing would affect us quite a lot. As the result, we export as much as possible, as wide as possible for offsetting the risk" (Financial Director from Vital Joint Stock Company)

Moreover, the factor of being new in business restricts firms from using the hedging methods.

"Our customers often require the delivery of goods in advance when selling and the Letter of Credit when importing the goods. One reason is our liquidity is not

stable and strong. Another reason is our reputation is not strong in the market. Besides, when take the foreign loan or agree on payment of future date, bank often check our liquidity and our credit situation. So, this restriction prevents us from using this method. Also, when make the contract with bank; we need the specialist to checking and dealing of the fixed rate in the future. With limited personnel, this practice is not available" (Vital Joint Stock Company)

Besides, they stated that using the financial hedging is costly. One of five firms took the hedging with bank stated that they lose much when did not take the instrument on time and on the right way.

"*Before going into the contract with the bank, we often have the reserved and adding up amount of 3% to 5% for the cost of exchange rate risk; this part is belonged to the cost of producing goods. In the past, we have the financing team to deal with the process of forward contract with bank and we took the contract with our Australia vendor in AUD. However, since the contract is lasted long for 3 months after settlement date, the AUD go into the unfavorable way to us. At the agreed payment date, we settle the amount with nearly 1 billion VND losses. This was the large risk for company when we were too small at that time" (Financing Director of Avintech Joint Stock Company)*

"Hedging is good for the translation risk as it reduce the failure in forecasting, better planning for the cost of goods. However, when the currency goes to the unfavorable way compared to the agreed rate, company loss much. With the small and new established, we consider this loss as the large impact for the operation of production" (Financing Director of Avintech Joint Stock Company)

2.4 Banking services and justification from bank officer

The interviews were conducted with 4 bank officers from 3 different banks: ACB, Vietcombank and BIDV. All of them verify that the hedging practices among small firms with bank are limited and most of the INVs come to us take the spot rate for transaction. The possible reason is difficulties in making a contract with the bank and the banking service for financial hedging is not common introduced.

"When we check the credit situation of firms before going with the hedging contract, we often take the relationship with bank as the first factor. Since the bank confirms that only in case that their customer is liquid enough for the payment, they will issue the contract. When the firm is recorded as fine with the credit and bank relationship in the past, the assessment is much easier. However, when justify new established firm with fast cash flow, bank will check the credit situation, the available surplus in bank account, the contract of good delivered and the amount of payment with partner in the future. Most of INVs could not provide due to fast agreement with no future and specific date of delivery" (The Officer in ACB).

Moreover, another reason could be the lacking of knowledge and low level of avoiding risk in future from INVs. Also, banks often do not make the large marketing for this service, leading to the low awareness of the new entrepreneur.

"INVs often focus on the operational issue, not the financial at the beginning stage" (Techcombank officer)

"We unusually meet the Director from INVs to ask for the hedging contract with bank. However, their knowledge is limited with no experience. When acknowledging the requirement from bank, they often feel stress and decide not to hedge. As my opinion, the main reason is the limited in knowledge and limited in vision. The new firms with small transaction amount and short period of cash flow will often prefer spot rate as the traditional and safe for their knowledge. Also, Vietnamese culture is not the long-term vision and entrepreneur is not stressed with the uncertainty. Entrepreneur often care on the near future rather than long term. As the result, they often take the safe techniques and try to dealing with the cost by another method" (BIDV, branch of Bien Hoa, Ho Chi Minh city)

Furthermore, the banking services are also not common in Vietnam. All of the bank officers in the interview verified that the hedging contracts often made by the one- side requirement from customers with no marketing. They define that:

"Often, when firms want to take the financial derivatives, they would come and ask for the requirement. We have the list of services in our website, but not the detail information" (BIDV officer, Branch Binh Thanh, Ho Chi Minh city)

Thus, the knowledge on the suitable hedging instrument is needed to start with the hedging contract, since the bank will not offer and consult for the suitable service. With no risk management team, INVs would hard to have the better management of the financial hedging.

V. Discussion and suggestion

1. Summarizing of theory and discussion of empirical result

INVs is said to be talented in internationalization thanks to their rapid expanding and brand creating over the world. However, one of the missing part is financing support. The managing of variance in future cash flow is important for forecasting, planning and calculating of profit or loss. Based on this requirement, the financial derivatives are a powerful tool for preventing of the risk. But, lack of knowledge and difficulties in understanding the complex of the hedging, INVs are often demotivate to take this technique. They often define the reason for using this technique based on the cost and benefit. As the monitoring of the contract process, competencies and willing to use this are not large enough; INVs often less prefer to use financial hedging (Winkel, 2013). The result also show that the practices of hedging among interviewees is limited due to no availability of financing department who will take care of this issue, and the lacking of awareness of necessary in using the hedging techniques for preventing of foreign exchange risk.

Besides, as mentioned before, it is possible that the hedging is often more expensive for smaller size business than the larger one, said by the founder of Reval Inv, New York. It is true for the situation of the interviewed firms. Since the direction of currency is not expected and a small unfavorable amount would mean a large cost for INVs. Moreover, when dealing with banks, the service availability is limited and the requirement for having good understanding of the requirement and practices from bank often discourage firms from investigating of the time and managing cost in this issue. Also, in the unfavorable situation for INVs, hedging would lower the cash flow (Winkel, 2013). The real situation of Avintech revealed that with no assessment of the risk and proper controlling of current and future cash flow, a firm may exposed to the large cost even using the financial derivatives. In situation of Avintech, they did lost much money due to unplanned of the future cash flow taking the derivatives.

Lastly, the traditional environment in Vietnam prevents INVs from using the new instrument. During this period, the black market in Vietnam is still in strong operation. This would offers the possibility for a firm to prevent taking transaction with Bank due to the benefit it brings. Also, dealing exchanging currency in the black market brings larger benefit to the firms thanks to higher rate of VND compared to the bank. Furthermore, Vietnam is taken to be one of the countries with low uncertainty avoidance. People in Vietnam keep taking the short term planning with spot rate of transaction with less concern on the uncertainty of the future cash flow when the payment is settled. The practices of hedging are then less used than other countries and less used for INVs than MNEs when the knowledge is limited. Lastly, the banking services for financial hedging are Vietnam is still limited. Banks have the service but no publishing of required documents and FAQ listed in the website. Until now, some banks in Vietnam such as ACB even plan to stop the hedging contract for small businesses.

2. Implications

This study provides the general knowledge for managerial level and individual level on hedging behavior among International New Ventures, especially in Vietnam. For the national level, research provides the multiple calls for countries to take deeper knowledge on the relationship between new startups and national regulation regarding currency risk. It is demonstrated that in Vietnam, the International New Ventures are exposed to the translation risk due to currency fluctuation. However, they do not acquire the practices of financial hedging mostly.

One of the reasons for this is the competencies to control foreign exchange risk is weak. Normally INVs do not have the specialist to analyze the risk and the decision for hedging is based mostly on Director's interest. Besides, the transaction amount is not significant and the payment term is short. Due to this, INVs often do not prefer to take the financial hedging. Moreover, since they are new in business and requirement from partner is to have the payment in advance, INVs often have to take the spot rate to transfer money urgently or take the Letter of Credit when importing. In side of exporting, they often be paid by the foreign currency right after the shipment of goods. The last reason is typical environment in Vietnam. Being recorded as the country with low level of uncertainty avoidance, people often take the risk as not important. Therefore, in the mindset of the entrepreneurs, they often care much about the profit they will receive and how their business will expand, but little on the risk they may reach. Besides, the availability of black market discourage the firm in using the service from banks because of no requirement for documents and fast service. This could be the typical point in Vietnam that small businesses keep trading in black market frequently with little prohibition from government.

3. Limitation of study

Regarding the requirement for a through research, this study has some limitations in theoretical and empirical part.

With regard to the theoretical part, the number of INVs affected severely by the exchange rate risk is not measured and revealed. Therefore, the impact of foreign exchange risk to INVs' operation cannot be measured strongly. Furthermore, the research on Hofstede's culture dimension is just analyzed on only one dimension which is related to the hypothesis of the research. Thus, reader could not see the general analysis of whole culture. Furthermore, Hofstede's culture dimension is criticized to be subjective and generalized (Chiang, 2005). Due to this, the culture of Vietnam as one of critical factor for investigating factors affecting INVs is not strongly discovered.

In term of methodology related limitation, the number of interviewees is small portion over total number of INVs in Vietnam. Due to this, the research result could be affected and not generalized. Secondly, the selected candidates are found thanks to the relationship and some of them is not so new in business. Thus, their decision made at the beginning of business is based on different time of exchange rate situation. As the result, the research result is varied and cannot be compared.

Besides, in Vietnam, the sharing for strange people is not frequent. As a result, the interview process with Directors could not last long and the results from interview, thus, are general. One of the interview was conducted via Skype, leading to the possibility of hardly observing the face expression and body language of the interviewee. Besides, Internet disruption is also one factor affecting the research process.

4. Suggestion for further research

The research focuses on the basic information of outside factors affecting the choice of hedging among INVs. Then, the further research could take deeper knowledge on the inside factors, such as mindset of entrepreneur to verify the reason for hedging practices. As the result, research on hedging behavior of INVs can be conducted throughout and be enriched.

Besides, the research concluded with the result of environment in Vietnam with regulation regarding currency trading is much weak. Further research, thus, can focus on investigating the reason and the extent this factor affects choice of management for currency fluctuation in Vietnam. This could be large contribution to the comparison of managing currency in developed and developing countries.

Another option for further research is to conduct a comparison research of two different countries, but could be developing as both, to analyze the typical and specific factors affecting the choice of managing currency risk.

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