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# Natural hedging as a risk prophylaxis and supplier financing instrument in automotive supply chains

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## Abstract

### Purpose

Supply chain risks significantly endanger small and medium-sized enterprise (SME-) suppliers in different currency areas in purchasing and sales. The purpose of this paper is twofold: to describe the concept of natural hedging in supply chains, and to highlight the potentials of natural hedging as a risk prophylaxis and a supplier financing approach.

### Design/methodology/approach

The paper uses a brief literature review and a conceptual research design, taking the financial and physical component of natural hedging (in this case between an OEM and its SME-suppliers in the automotive industry) into consideration.

### Findings

Natural hedging of currency and commodity price fluctuations can contribute to the reduction of SME-suppliers' supply chain vulnerability, also benefiting an OEM.

### Research limitations/implications

This research focuses exclusively on relationships between SME-suppliers and large OEMs in the automotive industry. Studies of other types of companies and industries, such as the capital goods industry, might reveal divergent practices.

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chains, especially in recessionary times. The concept is a

source for supplier financing.

## Originality/value

This research shows that a globally active focal firm – an OEM in the automotive industry, for instance – can hedge currency and commodity price risks (financial components), as well as operational supply risks (physical components), by centralizing commodity supply with its SME-suppliers. It can serve as a basis for future research.

## Keywords

Automotive industry

Supply chain management

Risk management

Small to medium-sized enterprises

Financial performance

## Citation

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