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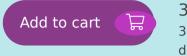


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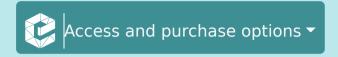
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# Economic exposure to exchange rate risk and financial hedging: Influence of ownership as a governance mechanism

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#### **Abstract**

#### Purpose

The purpose of this paper is to examine the potential nonlinear relationship between family ownership as a governance mechanism and exchange rate exposure of firms that use financial hedging.

#### Design/methodology/approach

The exchange rate exposure is estimated using two-factor Jorion (1990) model for a sample of 312 Indian firms over the period from 2001 to 2016. The cross-sectional regression model is used at the second stage to investigate the effects of family ownership on exposure for the firms that use currency derivatives.

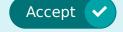
### **Findings**

The results suggest a significant non-linear cubic relationship between family ownership and exchange rate exposure. Exchange rate exposure increases with family ownership at low and high levels (as a result of improper hedging) and decreases with family ownership at intermediate levels (as a consequence of value-enhancing hedging).

## **Practical implications**

The study has practical significance for firms to understand the circumstances in which currency derivatives usage is ineffective in alleviating exposure. Firms that have high or

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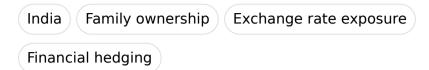


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This study provides new evidence that the relationship between family ownership and exchange rate exposure is non-linear for firms that use financial hedging which has not been investigated before in the prior literature.

# Keywords



#### Citation

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