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Currency exchange rate as a tool of strategic analysis (evidence from Russian industry)

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Abstract

Due to the transition to the policy of floating exchange rate, currently undertaken by many countries of the world including Russia, the impact of exchange rates on domestic production becomes particularly important. Growth strategy of manufacturing companies, conducting cross-border financial operations, requires mandatory consideration of the impact of the exchange rate on output. The issue of effective *accounting of the exchange rate fluctuations* in the strategies of Russian companies has become particularly acute over the last years due to economic sanctions. The sanctions apply to the mutual trade and cross-border capital flow. As a result, import substitution has become one of the leading strategic lines of development for Russian companies. Implementation of effective development strategy based on import substitution is possible only if a perspective of exchange rate dynamics is taken into account. This paper is aimed at examining the dynamics of the exchange rate (evidence from Russia) and its relationship with the development strategies of manufacturing companies. The article analyzes theoretical approaches to the assessment of the real exchange rate impact on the manufacturing companies' output, a mechanism of unification has been developed through analyzing three main channels of influence – demand redistribution, overall level of effective demand and cost of imported material resources. With the help of the authors' technique, the impact of the real exchange rate on production in Russia in 2002-2012 has been assessed. This analysis was executed separately for enterprises involved in mechanical engineering, metallurgy, consumer goods industry, food processing and chemical industry. The calculations yielded the results which vary considerably for different industries. It is not only the intensity of the effect

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of exchange rate fluctuations on the output that differs, but also the duration of the lags between currency shocks and production inconsistencies. The obtained results are recommended for use in the strategic management systems of Russian manufacturing companies, as well as in development and implementation of state economic policy.

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1. Introduction

Strategic management in modern companies comes to the foreground among other types of management activities. It is caused by the increasing uncertainty of the business environment, growing competition and its globalization, development of information and communication technologies and other factors described in the literature (Mintzberg, Quinn 1996; Nag, Hambrick, Chen 2007; Porter 1980).

The key aspect of strategic management is to overcome the uncertainty of the future. This is achieved by methods of strategic analysis, by collecting and processing large amounts of relevant information concerning the environmental factors, which essentially influence business. One of these factors is currency exchange rate. In many expanding economies, particularly in Russia, the national currency rate is unstable. This generates essential currency risks that create difficulties in development and implementation of companies' strategies. This is especially typical for companies actively involved in transnational business chains.

The problem of efficient accounting of exchange rate fluctuations in the strategies of Russian companies has become particularly acute in recent years due to the economic sanctions introduced by some developed countries (the US, EU, Canada and others) against Russia. These sanctions apply to mutual trade and cross-border capital flow. As a result, one of the leading strategic lines of development of Russian companies is import substitution (Plotnikov, Vertakova 2014).

It is possible to effectively implement the development strategy based on import substitution only with the prospective dynamics of the exchange rate. In this regard, the subject of this paper is to examine the dynamics of the exchange rate (in Russia) and its relationship with the development strategies of the manufacturing companies.

2. Literature review

The issues of the exchange rate dynamics are considered not only as part of the strategic analysis, but also as that of the theory of international monetary policy. One of its main ideas is to determine the mechanism of the relationship between the exchange rate, domestic production and inflation. These results can be directly used when developing strategies of companies whose activities are related to cross-border operations.

Opinions about the mechanism of the exchange rate effect on the macroeconomic environment characteristics, and, in particular, on the national production (including stimulation or de-stimulation of import substitution) are controversial. An overview of some insights about this issue is presented in Table 1.

These theories of exchange rate influence on the national production are based on similar, but different mechanisms. As a result, exchange rate fluctuations, and, in particular, the devaluation of the national currency, have different effects on domestic production. These effects should be taken into account in development strategies of companies. At the same time, most of the well-known models where devaluation has the effect of reducing the national production, have the following disadvantages: short and long term periods are not clearly divided, they do not take into account the large number of external shocks, the difference in the effect of devaluation in different countries is not considered (Kamin, Klau 1998; Rodionov, Nikolova, Mokeeva 2014). Analysis of alternative models allows systematizing theoretical approaches to assessing the impact of exchange rates on domestic production in terms of its mechanism (Table 2).

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