

The Determinants of Corporate Hedging Strategy

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Abstract : Previous studies have explored several rationales for hedging strategies, but the evidence provided by these studies remains ambiguous. Using a hand-collected dataset of 2460 observations of non-financial firms in eight African countries covering 2013-2022, this paper investigates the determinants and extent of corporate hedge use. In particular, this paper focuses on the link between country-specific conditions and the corporate hedging behaviour of firms. To our knowledge, this represents the first African studies investigating the association between country-specific factors and corporate hedging policy. The evidence based on both univariate and multivariate reveal that country-level corruption and government quality are important indicators of the decisions and extent of hedge use among African firms. However, the connection between country-specific factors as a rationale for corporate hedge use is stronger for firms located in highly corrupt countries. This suggest that firms located in corrupt countries are more motivated to hedge due to the large exposure they face. In addition, we test the risk management theories and observe that CEOs educational qualification and experience shape corporate hedge behaviour. We implement a lagged variables in a panel data setting to address endogeneity concern and implement an interaction term between governance indices and firm-specific variables to test for robustness. Generally, our findings reveal that institutional factors shape risk management decisions and have a predictive power in explaining corporate hedging strategy.

Keywords : corporate hedging, governance quality, corruption, derivatives

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