World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:8, No:05, 2014

Hedging and Corporate Governance: Lessons from the Financial Crisis

Authors : Rodrigo Zeidan

Abstract : The paper identifies failures of decision making and corporate governance that allow non-financial companies around the world to develop hedging strategies that lead to hefty losses in the aftermath of the financial crisis. The sample is comprised of 346 companies from 10 international markets, of which 49 companies (and a subsample of 13 distressed companies) lose a combined US$18.9 billion. An event study shows that most companies that present losses in derivatives experience negative abnormal returns, including a number of companies in which the effect is persistent after a year. The results of a probit model indicate that the lack of a formal hedging policy, no monitoring to the CFOs, and considerations of hubris and remuneration contribute to the mismanagement of hedging policies.

Keywords : risk management, hedging, derivatives, monitoring, corporate governance structure, event study, hubris
Conference Title : ICBEF 2014 : International Conference on Business, Economics and Finance
Conference Location : Tokyo, Japan
Conference Dates : May 29-30, 2014