

CHALLENGES FACING NON-FINANCIAL FIRMS IN HEDGING FINANCIAL RISKS USING DERIVATIVES

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ABSTRACT

With the advancement in technology and accompanying information age and globalization, firms

are increasingly exposed to financial risks, posing a threat to their financial performance even leading ultimate collapse. Nonetheless, innovation has led to innovative ways of hedging against financial risks through derivatives. However, financial risk hedging and derivative use in Kenya has remained low in Kenya coupled with lack of studies and dearth of knowledge on the possible reasons for limited use of derivatives, this study is warranted. The study looks at financial risk exposures facing financial firms, their hedging practices and challenges facing derivative use. The descriptive study was conducted on the 39 nonfinancial firms listed at the NSE. The firms' heads of finance or risk management department were the targeted respondents to whom semi structured questionnaires were sent. The study used descriptive statistics such as frequency, percentages, mean and standard deviations to analyze and summarize the results. The findings and concluded that nonfinancial firms do not use derivatives owing to managerial skepticism, limited derivative market microstructure, and knowledge on derivative use and accounting. The study recommends that education programs on derivative and their use should be rolled to firm's managers and firms to develop hedging policies that act as blueprint in hedging financial risks.

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