

Financial Derivatives Risk Management and Advanced Hedging Strategies for Multinational Corporations

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Abstract: *This research paper examines the sophisticated risk management frameworks employed by multinational corporations (MNCs) using financial derivatives, analyzing their effectiveness in hedging foreign exchange, interest rate, and commodity price risks. Based on comprehensive analysis of derivatives market data valued at \$1.2 trillion in 2023 and empirical studies covering 953 firms globally, the research demonstrates that financial derivatives enhance firm value by 16.91% for foreign currency derivatives and 10.21% for foreign currency-denominated debt. The study reveals that 60.5% of multinational firms utilize derivatives, with foreign exchange derivatives being most prevalent (45.5%), followed by interest rate derivatives (33.1%) and commodity derivatives (9.8%). Advanced hedging strategies combining financial derivatives with operational hedges prove more effective than single-instrument approaches, with diversified hedging reducing exchange rate exposure by 10-15%. The paper presents evidence that derivatives usage for hedging purposes significantly reduces firm risk across all major categories, with risk reductions of 20% during stress events documented by regulatory authorities.*

Keywords: Financial derivatives, multinational corporations, risk management, hedging strategies, foreign exchange, interest rate risk