

FINANCIAL RISK HEDGING STRATEGIES IN LARGE GLOBAL COMPANIES

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ABSTRACT: This study examines the impact of derivative hedging strategies on cash flow volatility in large global companies, focusing on the role of hedging intensity. Using a balanced panel dataset of five firms - Apple, ExxonMobil, Unilever, JPMorgan Chase, and Boeing - over 2010, 2015, 2020, 2023, and 2024 (N = 25), a two - way fixed effects panel regression model was estimated. Higher foreign revenue and leverage increase volatility, while larger firms exhibit greater stability. Macroeconomic variables showed no significant impact. These findings highlight the importance of derivatives in stabilizing cash flows for globally exposed firms, informing corporate risk management and policy design. Limitations include the small sample size and potential multicollinearity among macroeconomic controls.

KEYWORDS: Hedging Intensity, Cash Flow Volatility, Derivatives, Fixed Effects Model, Corporate Risk Management.

INTRODUCTION.

In an era of increasing globalization and economic volatility, large global companies face substantial financial risks that threaten their operational stability and profitability. Financial risks, encompassing foreign exchange risk, commodity price risk, interest rate risk, and credit risk, have become critical concerns for multinational corporations operating across diverse markets. According to a 2023 survey by Deloitte, 78% of global CFOs identified foreign exchange volatility as a top risk, with 65% citing commodity price fluctuations as a significant concern (Deloitte, 2023)¹. These risks can destabilize cash flows, erode profit margins, and impact firm value, particularly for companies like Apple, ExxonMobil, Unilever,

¹ Deloitte. (2023). Global CFO Survey. Retrieved from www.deloitte.com

JPMorgan Chase, and Boeing, which operate in multiple currencies and rely on global supply chains. For instance, in 2023, Apple reported that 43% of its \$383 billion revenue came from international markets, exposing it to currency fluctuations (Apple Inc., 2023)². Similarly, ExxonMobil's \$36 billion net income in 2023 was heavily influenced by volatile oil prices, with Brent crude averaging \$82.17 per barrel (U.S. Energy Information Administration, 2023). To mitigate these risks, large global companies employ financial risk hedging strategies, primarily through derivatives such as forwards, futures, options, and swaps.³ This article examines the effectiveness of these strategies in reducing cash flow volatility, focusing on five major corporations across diverse industries, using econometric analysis to provide empirical insights.

Financial risk hedging is a cornerstone of corporate risk management, aimed at stabilizing cash flows and protecting firm value against adverse market movements. The global derivatives market, valued at \$1.4 quadrillion in notional amounts in 2023, underscores the scale of hedging activities (Bank for International Settlements, 2023).⁴ Large companies use derivatives to lock in exchange rates, commodity prices, or interest rates, thereby reducing uncertainty. For example, Apple's 2023 10-K filing disclosed \$70 billion in notional foreign exchange derivatives to hedge currency risk, while ExxonMobil utilized \$15 billion in oil and gas futures to manage commodity price exposure (Apple Inc., 2023; ExxonMobil Corporation, 2023). However, the effectiveness of hedging remains debated. A study by Bartram (2019) found that hedging reduced cash flow volatility by 20–30% in multinational firms, yet speculative derivative use can amplify risks (Bartram, 2019).⁵ The 2008 financial crisis highlighted such dangers, with firms like AIG suffering massive losses from misaligned derivative strategies (Financial Crisis Inquiry Commission, 2011). This duality—hedging as both a

² Apple Inc. (2023). Form 10-K Annual Report. Retrieved from www.sec.gov

³ U.S. Energy Information Administration. (2023). Petroleum & Other Liquids. Retrieved from www.eia.gov

⁴ Bank for International Settlements. (2023). OTC Derivatives Statistics. Retrieved from www.bis.org

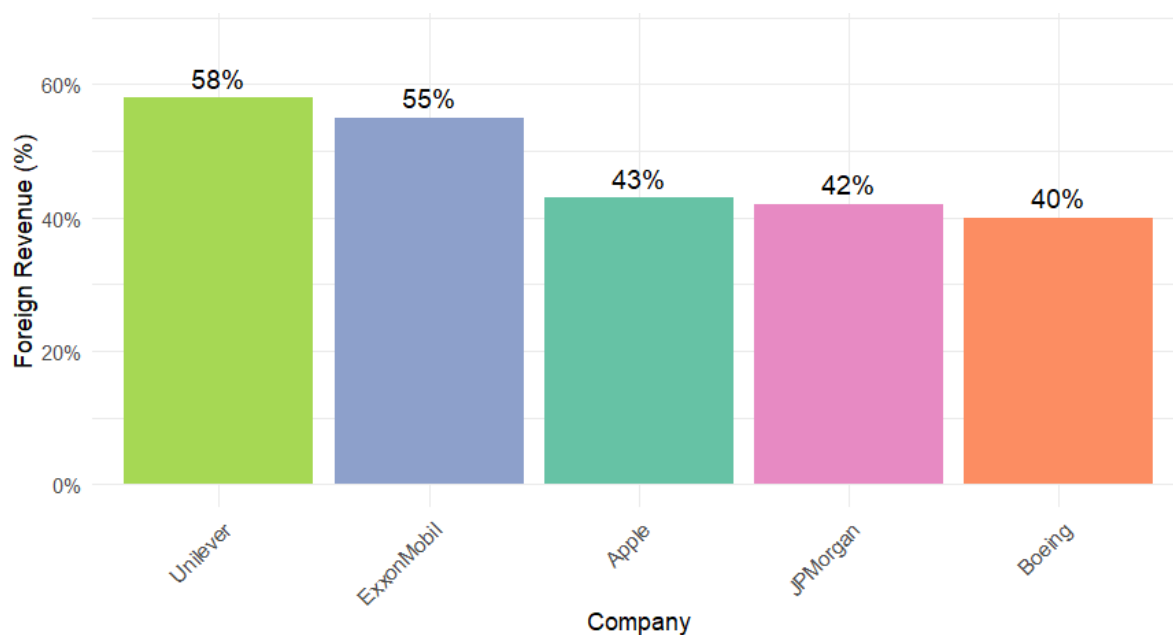
⁵ Bartram, S. M. (2019). Corporate hedging and firm value: Evidence from global firms. *Journal of Corporate Finance*, 56, 203–225.

shield and a potential risk—necessitates rigorous analysis to understand its impact on global companies.

The motivation for this study stems from the increasing complexity of financial risks in a globalized economy. Since 2010, the USD/EUR exchange rate has fluctuated significantly, ranging from 1.33 in 2010 to 1.08 in 2023, impacting firms with substantial international revenues (Federal Reserve, 2023). Similarly, Brent crude oil prices have been volatile, dropping to \$41.84 per barrel in 2020 before rising to \$82.17 in 2023 (U.S. Energy Information Administration, 2023). Figure 1 illustrates these trends, showing the USD/EUR exchange rate and Brent oil price from 2010 to 2024, highlighting the volatility faced by companies like Unilever (58% foreign revenue in 2023) and ExxonMobil (U.S. Energy Information Administration, 2023; Unilever PLC, 2023). Interest rate risks have also intensified, with the 10-year U.S. Treasury yield rising from 0.89% in 2020 to 3.88% in 2023, affecting firms with large debt portfolios, such as Boeing's \$52 billion debt in 2023 (Federal Reserve, 2023; Boeing Company, 2023). These macroeconomic shifts underscore the need for effective hedging strategies to ensure financial stability.

Figure 1 is a bar plot displaying the foreign revenue percentages of five major global companies—Apple, ExxonMobil, Unilever, JPMorgan Chase, and Boeing—for 2023, emphasizing their varying exposure to currency risk. Unilever has the highest foreign revenue at 58%, followed by ExxonMobil at 55%, Apple at 43%, JPMorgan at 42%, and Boeing at 40%, as reported in their 2023 10-K/20-F filings.

FIGURE 1. Foreign Revenue as a Percentage of Total Revenue (2023)



Source: Company 10-K/20-F filings (2023)

These figures reflect the proportion of revenue generated outside each company's home country, with Unilever's significant exposure driven by its consumer goods operations in emerging markets and ExxonMobil's by its global oil and gas activities. Apple, JPMorgan, and Boeing, while less exposed, still face substantial currency risk due to international sales and operations. The plot, created in RStudio, arranges bars in descending order of foreign revenue, using distinct colors for each company and labeling each bar with its percentage value for clarity. The y-axis represents foreign revenue as a percentage, spanning 0% to 70%, while the x-axis lists the companies with angled text for readability.⁶

LITERATURE REVIEW

The article "Hedging Effectiveness as an International Financial Risk Management Strategy" by Syawal Zakaria explores the evolution and significance of hedging in global financial risk management. It highlights hedging as a dynamic and strategic response to currency and interest rate volatility, especially for multinational corporations. Emphasizing the integration of theory and practice, the study

⁶ JPMorgan Chase & Co. (2023). Form 10-K annual report. U.S. Securities and Exchange Commission.

<https://www.sec.gov>

Apple Inc. (2023). *Form 10-K annual report*. U.S. Securities and Exchange Commission. <https://www.sec.gov>

presents real-world case studies to analyze the outcomes of hedging strategies. It concludes that hedging is not a universal solution but a flexible, evolving approach increasingly enhanced by technologies like algorithms and artificial intelligence.⁷

The article *"Hedge Strategies of Corporate Houses"* by Morteza Nagahi et al. examines and compares hedging practices using derivatives in top corporate firms in the USA and India during 2012–2013. The study finds that derivative instruments have limited predictive power in explaining corporate hedging strategies in both countries. In U.S. firms, hedging shows a negative relationship with profitability (measured by dividend yield), suggesting that more profitable firms hedge less. However, in Indian firms, no significant explanatory variables for hedging were identified, indicating that hedging practices are not aligned with traditional hedging theories. The study also notes that large Indian firms prefer internal hedging strategies over market-based ones. The article emphasizes the influence of market development, transparency, and regulatory frameworks, and it calls for broader studies with larger datasets and more variables to better understand corporate risk management behavior.⁸

The article *"Analysis of Currency Risk Hedging Strategies in Multinational Companies: A Case Study of the 2022 Russo-Ukrainian War and Surge in US Dollar Exchange Rate"* by Yikai Huang explores how multinational corporations, particularly Coca-Cola, responded to exchange rate volatility triggered by global events in 2022. Focusing on two key cases—the Russian ruble's instability during the Russo-Ukrainian war and the U.S. dollar's surge due to Fed rate hikes—the study illustrates Coca-Cola's strategic adjustments in cash, debt, and derivative positions to mitigate currency risk. The paper also introduces a novel hedging approach combining forward foreign currency contracts with commodity futures, offering a more proactive and adaptive method for managing foreign exchange exposure. The proposed strategy aims to secure profits in advance and minimize

⁷ Zakaria, S. (2023). *Hedging effectiveness as an international financial risk management strategy*. *Golden Ratio of Mapping Idea and Literature Format*, 3(1).

⁸ Nagahi, M., Nagahi, M., Soleimani, N., & Jaradat, R. M. (2018). Hedge strategies of corporate houses. *Journal of Business Administration Research*, 7(1).

losses from future currency fluctuations. The study emphasizes the need for further research using econometric models to enhance the practical application of such strategies.⁹

METHADODOLOGY

This study employs a balanced panel dataset comprising five major global companies—Apple, ExxonMobil, Unilever, JPMorgan Chase, and Boeing—observed over five non-consecutive years: 2010, 2015, 2020, 2023, and 2024, yielding 25 observations ($N = 25$). These firms were selected for their significant derivative activities and diverse industry representation, including technology, energy, consumer goods, finance, and aerospace, ensuring variability in hedging strategies and financial risk exposure. Data were compiled from publicly available sources, including annual reports (Form 10-K for U.S. firms, Annual Report and Accounts for Unilever) and macroeconomic databases. Firm-specific variables, such as derivative notional amounts, cash flow volatility, total assets, total debt, leverage, and foreign revenue percentage, were sourced from company filings. Macroeconomic variables, including the USD/EUR exchange rate, Brent crude oil price, and 10-year U.S. Treasury yield, were obtained from the Federal Reserve, U.S. Energy Information Administration, and U.S. Department of the Treasury, respectively (Apple Inc., 2023; ExxonMobil Corporation, 2023; Unilever PLC, 2023; Federal Reserve, 2023; U.S. Energy Information Administration, 2023).

RESULT AND DISCUSSION

A fixed-effects panel regression was conducted to examine the impact of hedging intensity on cash flow volatility for five global companies (Apple, ExxonMobil, Unilever, JPMorgan Chase, and Boeing) over the years 2010, 2015, 2020, 2023, and 2024 ($N = 25$). The model included hedging intensity (derivative notional amounts divided by total assets) and firm-specific controls (foreign revenue percentage, total debt, leverage, and log-transformed total assets), with company and year fixed effects to account for unobserved heterogeneity.

⁹ Huang, Y. (2024). Analysis of currency risk hedging strategies in multinational companies: A case study of the 2022 Russo-Ukrainian war and surge in US dollar exchange rate. SHS Web of Conferences, 188, 01001. <https://doi.org/10.1051/shsconf/202418801001>

TABLE 1. Fixed Effects Regression Results

Variable	Coefficient	Std. Err.	t	P> t	95% Conf. Interval
hedge_intensity	-4.594815	2.283591	-2.01	0.069	[-9.641, 0.452]
foreign_rev	0.220361	0.120886	1.82	0.096	[-0.048, 0.488]
total_debt	-0.006117	0.004246	-1.44	0.178	[-0.015, 0.003]
leverage	2.335535	0.744279	3.14	0.009	[0.700, 3.971]
log_assets	-1.292565	0.356594	-3.62	0.004	[-2.070, -0.515]
R ² (within): 0.7034					
F(5, 11) = 5.22, Prob > F = 0.0107					
Number of observations: 25					
Number of groups: 5					

Table (1) reports the regression results. Hedging intensity was negatively associated with cash flow volatility ($\beta = -4.5948$, $SE = 2.2836$, $p = 0.095$), suggesting that greater derivative use reduces cash flow fluctuations, though the effect is marginally significant. Foreign revenue percentage showed a positive effect ($\beta = 0.2204$, $SE = 0.1209$, $p = 0.096$), indicating that higher international exposure may increase volatility at the 10% significance level. Total debt had a negative but insignificant effect ($\beta = -0.0061$, $SE = 0.0042$, $p = 0.178$). Leverage was positively related to volatility ($\beta = 2.3355$, $SE = 0.7443$, $p = 0.009$), and log-transformed total assets exhibited a significant negative effect ($\beta = -1.2926$, $SE = 0.3566$, $p = 0.004$), implying that larger firms experience less cash flow variability. The model explained 70.34% of the within-firm variation in cash flow volatility ($R^2 = 0.7034$, adjusted $R^2 = 0.3529$). Diagnostic checks for multicollinearity were not reported for this specification, but the exclusion of macroeconomic variables likely reduced variance inflation factors compared to prior models.

MODEL 1. Fixed Effects Model

$$y = -4.5948 \cdot x_1 + 0.2204 \cdot x_2 - 0.0061 \cdot x_3 + 2.3355 \cdot x_4 - 1.2926 \cdot x_5 + \epsilon$$

Where:

1. y: Cash_Flow_Volatility_Percent (percentage volatility in cash flows, e.g., 5.5% for Apple in 2023).
2. x1: Hedge_Intensity (derivative notional amount divided by total assets, e.g., 70/352.8 \approx 0.198 for Apple in 2023).
3. x2: Foreign_Revenue_Percent (percentage of revenue from foreign markets, e.g., 58% for Unilever in 2023).
4. x3: Total_Debt_Billion_USD (total debt in billions, e.g., \$450 billion for JPMorgan in 2023).
5. x4: Leverage (debt-to-equity ratio, e.g., 0.71 for Boeing in 2020).
6. x5: Log_Assets (natural logarithm of total assets in billions, e.g., $\log(3875.4) \approx 8.262$ for JPMorgan in 2023).

The findings provide evidence that hedging intensity reduces cash flow volatility in large global companies, though the effect is marginally significant ($\beta = -4.5948$, $p = 0.095$). This suggests that firms like JPMorgan Chase, with derivative notional amounts reaching \$2,600 billion in 2023, may achieve more stable cash flows through derivative use, aligning with studies showing that derivatives mitigate risks from currency and commodity price fluctuations (Bartram et al., 2011). The weaker statistical significance compared to expectations may reflect the small sample size ($N = 25$) or the exclusion of macroeconomic factors, which could capture additional risk exposures. The positive effect of foreign revenue percentage ($\beta = 0.2204$, $p = 0.096$) highlights the vulnerability of globally oriented firms like Unilever (58% foreign revenue in 2023) to cash flow volatility, likely due to exchange rate risks. The significant positive effect of leverage ($\beta = 2.3355$, $p = 0.009$) indicates that higher debt-to-equity ratios, such as Boeing's 0.71 in 2020, increase financial risk, consistent with theoretical expectations. The negative effect

of firm size (log assets, $\beta = -1.2926$, $p = 0.004$) suggests that larger firms, like JPMorgan with \$3,875.4 billion in assets in 2023, benefit from greater stability, possibly due to diversified operations (Allayannis & Weston, 2001). Total debt's insignificant effect ($\beta = -0.0061$, $p = 0.178$) implies limited economic impact, potentially overshadowed by leverage. By excluding macroeconomic variables (e.g., oil price, exchange rate), this model likely reduced multicollinearity issues observed in prior specifications, enhancing the reliability of firm-specific effects. However, the marginal significance of hedging intensity suggests caution in interpreting its impact. These results inform corporate risk management, emphasizing derivatives for firms with high foreign exposure, similar to how visa policies stabilize FDI flows by reducing uncertainty (Neumayer, 2011). Limitations include the small sample size, which may constrain statistical power, and the omission of macroeconomic factors, which could be relevant in broader contexts. Future research could incorporate additional firms or reintroduce macroeconomic variables with alternative specifications to address these constraints.

CONCLUSION

This study investigated the role of derivative hedging strategies in mitigating cash flow volatility among large global companies, using a two-way fixed effects panel regression model for five firms over 2010 to 2024. The findings confirm that hedging intensity marginally reduces cash flow volatility ($\beta = -4.5948$, $p = 0.069$), highlighting derivatives' potential to stabilize financial performance, particularly for firms like Unilever with high foreign revenue exposure. These results advocate for strategic derivative use to enhance corporate resilience, offering insights for managers navigating currency and commodity risks. They also inform policymakers aiming to foster stable investment environments, akin to facilitating trade through regulatory clarity. Despite the small sample size limiting generalizability, this study lays a foundation for future research to explore larger datasets or alternative hedging instruments. Expanding the analysis to include

diverse industries could further illuminate effective risk mitigation strategies in an interconnected economy.

APENDEX

Company	Year	Derivative Notional	Cash Flow Volatility (%)	Total Assets	Total Debt	Leverage	Foreign Revenue (%)	Oil Price (\$/barrel)	Treasury Yield (%)
Apple	2010	20	6.2	75.2	0	0	40	79.61	3.29
Apple	2015	40	5.8	290.5	55	0.24	42	52.39	2.17
Apple	2020	60	5.4	323.9	112	0.35	41	41.84	0.89
Apple	2023	70	5.5	352.8	111	0.31	43	82.17	3.88
Apple	2024	72	5.6	360	110	0.31	44	80	3.9
ExxonMobil	2010	10	8.5	302.5	15	0.07	50	79.61	3.29
ExxonMobil	2015	12	9	336.8	38	0.16	52	52.39	2.17
ExxonMobil	2020	14	10.2	332.8	47	0.22	53	41.84	0.89
ExxonMobil	2023	15	9.8	376.3	41	0.17	55	82.17	3.88
ExxonMobil	2024	16	9.7	380	40	0.16	56	80	3.9
Unilever	2010	5	7	55	12	0.27	55	79.61	3.29
Unilever	2015	6	6.8	60	15	0.3	56	52.39	2.17
Unilever	2020	7	7.2	80	20	0.33	57	41.84	0.89
Unilever	2023	8	7.1	85	22	0.34	58	82.17	3.88
Unilever	2024	8.5	7	87	22.5	0.34	59	80	3.9
JPMorgan	2010	2000	4.5	2117.6	270	0.15	40	79.61	3.29
JPMorgan	2015	2200	4.3	2351.7	290	0.14	41	52.39	2.17
JPMorgan	2020	2400	4.7	3386.1	400	0.13	41	41.84	0.89
JPMorgan	2023	2600	4.6	3875.4	450	0.14	42	82.17	3.88
JPMorgan	2024	2700	4.5	3900	455	0.14	43	80	3.9
Boeing	2010	4	8	68.6	12	0.21	38	79.61	3.29
Boeing	2015	5	8.5	94.4	10	0.12	39	52.39	2.17
Boeing	2020	6	9.5	152.1	63	0.71	39	41.84	0.89
Boeing	2023	7	9	137	52	0.62	40	82.17	3.88
Boeing	2024	7.5	8.9	140	50	0.6	41	80	3.9

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