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Derivative Hedging Instruments and the Financial Performance of Non-Financial Companies Listed at the Nairobi Securities Exchange

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Abstract

Purpose: This study looked at how swaps derivative instruments affected the performance of non-financial companies listed at Nairobi Security Exchange in Kenya.

Methodology: The study employed behavioral finance theory to guide the examination of these financial tools. Data was collected from all the 15 non-financial institutions listed at NSE as per the 2022 NSE report. Information was collected from CBK. Purposive sampling was conducted since not all the companies utilized swaps derivative instruments. SPSS version 27 was used to analyze the data collected. Regression and inferential data were evaluated. Data was represented in forms of tables and graphs to portray a clear connection between financial derivatives and the financial performance of non-financial firms at NSE perform.

Findings: The study found that swaps derivative instruments had a positive and significant correlation with financial performance, with swaps ($r = 0.707$, $p = 0.000$), showing strong associations with return on investment. Additionally, fixed effects results indicated that swaps had a positive and significant effect on ROI, with a coefficient of 2.6866, meaning a 1- unit increase in swaps leads to a 2.69% increase in ROI. The p-value (0.0411) confirms significance at the 5% level, indicating that swaps positively contribute to firm performance.

Unique Contribution to Theory, Practice and Policy: Therefore, companies should implement internal control mechanisms to monitor swap transactions and ensure compliance with regulatory standards. The Capital Markets Authority (CMA) and financial institutions should facilitate training programs on swap contracts to improve firms' understanding of their risks and benefits.

Keywords: *Derivative Instruments, Financial Performance, Non-Financial Firms, Swaps, Financial Hedging*

Introduction

According to Friedman, companies' primary goal is to maximize shareholder wealth through effective resource use and profit generation within moral and competitive bounds (Kayange & Kayange, 2020). Multinational firms, especially those from developed economies, are motivated by this worldwide quest to increase their operations in emerging markets in order to improve their financial performance. Both operational and financial results are included in firm performance, and financial returns and shareholder value are directly impacted by operational efficiency (Bai, Gao, & Sarkis, 2021; Diallo, 2020). Yet, businesses that operate in erratic markets run a serious risk of losing out on anticipated profits. The significance of derivative instruments as essential instruments for risk management and performance improvement has increased due to the growing complexity of the global financial landscape. Futures, options, swaps, and forwards are examples of derivatives that derive their value from underlying assets or benchmarks. These tools allow businesses to speculate, hedge risks, or gain market exposure without having direct ownership (Demir, 2019; Chance & Brooks, 2021). These tools are now essential for controlling price volatility and stabilizing revenues in a variety of global industries.

Indicators like profitability (return on equity and net profit margins), liquidity (current and quick ratios), and solvency (debt-to-equity ratio) are measures of a company's ability to create value and profits for its stakeholders (Fatihudin, 2018; Alverz et al., 2021; Blessing & Sakouvogui, 2023). Non-financial companies that are listed on stock exchanges are essential to the global economy. As of 2023, the New York Stock Exchange (NYSE) and NASDAQ, for instance, have market capitalizations of approximately $25.56 trillion and $24.56 trillion, respectively, making them the largest stock markets in the world (Trade Brains, 2023). Sustainability and governance are now crucial factors in assessing financial performance in developed areas like the EU (European Commission, 2022).

Urbanization, consumer demand, and technological advancements have driven the rapid growth of non-financial sectors in emerging markets such as China and India, resulting in notable increases in net income, according to the World Bank (2019). On the other hand, political factors, market access limitations, and the volatility of commodity prices cause greater variability in African nations (African Development Bank, 2020). Companies in Africa, including the MTN Group in South Africa and the Dangote Group in Nigeria, have used derivatives like currency swaps and commodity futures to protect themselves from market risks. This has helped them stabilize their revenues and show that they are financially resilient (MTN, 2020; Dangote, 2022).

Non-financial companies make up 31.4% of Kenya's GDP, which is less than the 50% global average for developed nations (Wayongah, 2019). Notwithstanding some notable successes, such as Safaricom Plc, the industry is confronted with difficulties, such as diminishing profit margins (from 10% in 2019 to 6.5% in 2022) and a lower return on assets (from 4.5% to 3.2%) as a result of growing expenses and economic strains (KNBS, 2023; Central Bank of Kenya, 2023). Derivatives trading was introduced by the Nairobi Securities Exchange (NSE), a significant

participant in the capital market since 1954, to give businesses instruments for portfolio diversification and risk reduction (Muiru, 2019; Roche, 2021). In order to preserve profit margins and stabilize financial performance, Kenyan businesses use derivatives to hedge against currency, interest rate, and commodity price risks (Nzioka, 2017).

International businesses frequently use certain derivatives, like swaps, to manage their interest rate and currency risk. To lessen its exposure to variable rates, General Electric, for instance, uses interest rate swaps (GE, 2022). Nevertheless, there is still conflicting data regarding how derivatives affect firm valuation in spite of this financial engineering.

Kenyan businesses' use of derivatives has produced a range of outcomes. In fact, non-financial firms primarily utilize derivatives to hedge against risks, aiming to protect profits and enhance their market value and growth opportunities. However, between 2010 and 2017, despite employing currency, commodity, and interest rate derivatives, these firms did not achieve the desired outcomes. For instance, Kenya Airways reported a net gain of KES 2.5 billion in 2012 from oil derivatives, a significant increase of 652% compared to the KES 328 million reported in 2011. Despite this gain, the company's Tobin's Q ratio fell from 0.19 in 2011 to 0.07 in 2012. In 2013, the financials showed a net gain of KES 602 million, a 75.60% decrease from 2012, but the Tobin's Q ratio improved from 0.07 to 0.16. During these two years, Kenya Airways used futures derivatives to hedge against oil risks, which improved its firm value. However, in 2014, the company switched from futures to options, resulting in a net loss of KES 1.6 billion, representing 6.23% of the total loss for the year. This led to a 50% decline in the Tobin's Q ratio from 0.16 in 2013 to 0.08 in 2014. Similarly, Kenol Kobil reported a loss of KES 4.6 billion in 2012 due to derivatives hedging, accounting for 73.25% of the total loss that year. The Tobin's Q ratio was 0.63, well below the recommended level of 1.00. After canceling the derivative contracts in 2013, the Tobin's Q ratio dropped to 0.53, indicating a decline in the firm's value and making it less attractive to potential investors. In addition, Safaricom, a leading telecommunications company, has consistently experienced revenue growth due to its mobile money services (M-Pesa) and data offerings. In 2022, it reported an increase on return on investments of 14% compared to the previous year after using options as a hedging instrument (Safaricom, 2022).

Similarly, Mumias Sugar Company has historically used derivatives to manage risks related to sugar prices and foreign exchange fluctuations. In 2013, the company reported gains from these instruments, providing a short-term boost to its financial performance (Nairobi Securities Exchange, 2014). However, despite these gains, the firm's Tobin's Q ratio remained below 1.00, indicating it was undervalued relative to its asset base. In 2014, operational challenges led to financial losses, negatively impacting its Tobin's Q ratio and diminishing investor confidence (Standard Investment Bank, 2015). According to the 2016 KPLC annual report, the company has utilized currency and interest rate derivatives to hedge against foreign exchange risk and manage borrowing costs. In 2015, these strategies resulted in net gains that helped stabilize financial outcomes amidst volatile exchange rates. Nevertheless, the company’s Tobin's Q ratio consistently

stayed below 1.00, highlighting ongoing challenges in operational efficiency and profitability. Despite the financial gains from derivatives, the overall firm value and attractiveness to investors did not significantly improve (Capital Markets Authority, 2017).

Besides, the East African Breweries Limited (EABL) has employed derivatives to hedge against risks associated with currency fluctuations and raw material prices. In 2016, the company recorded a moderate net gain from these financial instruments, which contributed to stabilizing its earnings (EABL Annual Report, 2017). However, the Tobin's Q ratio for EABL remained below the optimal level of 1.00, indicating that market valuation did not fully capture the firm's asset value. While derivatives offered some financial protection, they did not sufficiently enhance the company's market value and growth prospects (Mwai & Kariuki, 2018). Another company that has utilized derivatives to manage the risk of raw material price volatility, such as grains is Unga Limited. In 2017, the firm experienced mixed outcomes, with some derivative contracts yielding gains while others resulted in losses (Unga Group, 2018). The use of derivatives offered limited risk mitigation, and the overall impact on the firm's valuation and investor appeal was constrained (Kimani & Mwangi, 2019). These cases demonstrate that although non-financial firms on the NSE have utilized derivatives to hedge against financial risks, the anticipated positive effects on market value and growth opportunities were not always realized.

Fluctuations in financial performance influence various stakeholders, including investors, employees, creditors, suppliers, customers, regulators, and government agencies (IMF, 2022). Positive fluctuations contribute to increased shareholder returns, job stability, access to capital, stronger relationships with suppliers and customers, and regulatory confidence (Mwangi, 2022). Conversely, negative fluctuations result in decreased shareholder wealth, job insecurity, heightened default risk, supply chain disruptions, decreased customer confidence, regulatory scrutiny, and policy changes aimed at market stability (Abuzelidze et al., 2020). Amidst these performance fluctuations among the non-financial firms listed in NSE, the role of derivative instruments in influencing these firms' financial performance remains ambiguous. It is uncertain whether derivative instruments serve as effective tools for enhancing financial performance or exacerbate existing challenges faced by struggling companies.

Firmansyah et al. (2020) analysed the role of derivative instruments on risk relevance of non-financial firms. The study identified a positive correlation between financial risk hedging practices (which encompassed currency, commodity derivatives, forwards, and futures contracts) and the performance of listed companies. However, the study encompassed both financial and non-financial firms, failing to distinguish between the two, thus underscoring the necessity for a specific study focused solely on non-financial companies.

Similarly, Keffala (2021) discovered an insignificant connection between derivative instruments and the financial performance of Islamic banks, measured by the ROI ratio. While a positive relationship between derivatives and overall firm performance was evident in the broader study, examining commercial banks separately yielded a non-significant relationship. While the above

studies have assessed the influence of derivative instruments on financial of various firms, none has focused on non-financial firms operating at NSE. In addition, none has specifically assessed how swaps specifically influence the financial performance of firms. To address this gap, this study sought to evaluate how swaps influenced the financial performance of non-financial firms listed at NSE.

Literature Review

Theoretical Review

Richard Thaler's behavioral finance theory contends that psychological variables and irrational behavior impact financial decision-making, challenging conventional economic models (Thaler, 1980). It offers a more comprehensive view of economic behavior by incorporating psychological insights to comprehend how social factors, emotions, and cognitive biases affect financial markets and investment decisions. The theory's proponents contend that conventional economic models fall short in capturing the complexity of human decision-making. Tversky and Kahneman (1979). Critics argue, however, that behavioral finance exaggerates the influence of psychological variables on market prices (Fama, 1970). He therefore contends that because markets are primarily efficient, behavioral finance anomalies can be explained within the context of traditional finance, highlighting the importance of efficient markets and reasonable expectations. This theory was used in this study to evaluate how swaps affected the non-financial companies' financial performance. Companies may enter into swap agreements that do not best serve their financial interests due to behavioral biases like loss aversion and overconfidence. For instance, a business's financial performance may be impacted by a skewed view of risk or a preference for short-term gains over long-term advantages.

Empirical Review

Modifications made by the International Bank for Reconstruction and Development (IBRD) in 2019 concerning the reporting of different financial derivative contracts (FDCs) on statement of affairs, which became effective on June 30th, indicate a conformity with the current market conditions. In accordance with IBRD (2019), in certain situations where a legitimate, enforceable principal netting contract between IBRD and affiliated parties exists, this adjustment entails presenting net derivative asset and liability positions along with the related currency security acknowledged by the other party. This is a change from the former presentation style, which showed currency swaps on a gross basis to show how these instruments were settled and interest rate swaps on a net basis each instrument on the statement of affairs.

The question of whether it actually justifies its course has been at the centre of the discussion around mandatory swaps clearance supported by a central clearinghouse and the automation of trading for identical swaps. This discussion is based on a comparison of the quantities of foreign exchange swaps that have been traded; Guo et al. (2019) found that these volumes have either marginally improved or have stayed static for the most part. The survey conducted by Guo et al.

(2019) shed light on the causes for the sluggish growth in the foreign currency and over-the-counter derivatives markets. Guo et al. (2019) have identified several factors that are contributing to this trend, such as the lack of clarity in the market system, the uncertainty surrounding the establishment of international trading rules (particularly with regard to the guidelines of the American SEC and European rules), distinct liquidity pools, and the elevated costs associated with non-cleared transactions.

In Ito et al. (2018)'s study on new funding sources for education in developing countries, they stressed the importance of debt swaps. One benefit of using debt swaps, they discovered, was that emerging countries' debt commitments were reduced, freeing up money for social development. While debt-for-education swaps were a popular financial innovation between 1980 and the 2000s, the study found an intriguing historical trend that showed that this practice reduced in the 2010s, especially following the 2008 financial crisis.

Ito et al. (2018) looked at research from nations like Indonesia and Cameroon to establish the viability of debt-for-education swaps as a way to get funding. They did, however, recognize that there would be requirements for these swaps to be successful in the future, such as the requirement that the swap size be big in order to have a significant impact on the borrowing country's overall economy. In continuing initiatives, borrowing nations' autonomy and ownership were to be respected, and lender nations were also required to keep an eye on how the money were being used. The report outlined several obstacles to the implementation of debt swaps in social development, including long repayment terms, borrower country default rates, and difficulties in allocating the returns from debt swaps in national budgets.

By taking debt-for-development swaps into consideration, the Federal Ministry for Economic Cooperation and Development [FMECD] (2019) added to the conversation on debt relief. The documentation recognized swaps as important instruments for growth initiatives. Germany's implementation of bilateral debt swaps since 1993 has shown to be successful, according to FMECD (2019). Under this strategy, Germany forgives part of the debts resulting from Monetary Cooperation, provided that the recipient developing country uses the funds for a range of infrastructure projects. Germany has already written off 929 million euros in debt after the participating poorer countries paid their share.

Methodology

The study used a longitudinal research designand collected secondary quantitative data over a ten-year period (2013–2022) from sources like KNBS publications, Management Accounts, and NSE annual reports. The relationships between financial performance and derivative instruments over time are successfully examined by this design (Bhatt, 2022; Miksza & Elpus, 2018). Forty NSE-listed non-financial companies were part of the target population because of their noteworthy performance and market contribution (NSE, 2022). In order to guarantee data homogeneity and relevance, the study used purposive sampling to concentrate on 15 companies that were actively using swaps derivative instrument.This improved internal validity by lowering bias from

companies that did not use derivatives (Mugenda, 2018). SPSS version 27 was used to analyze 150 data points that were gathered methodically from validated secondary sources. The Kaiser-Meyer-Olkin (KMO) measure and expert reviews were used to ensure validity while reliability was measured by Cronbach's alpha with a threshold of 0.7 (Fox et al., 2020). To improve data gathering tools, a pilot test was carried out on all 15 businesses (Patel et al., 2017). Data analysis included both descriptive and inferential statistics, using panel regression models, including models for individual derivatives and combined effects, to evaluate the relationships between financial performance (a dependent variable) and derivatives (an independent variable). The fixed-effects model, which took firm-specific factors into account over time, was the main model employed. Assumptions for regression analysis were validated through diagnostic tests for autocorrelation (Durbin-Watson), normality (Shapiro-Wilk), heteroscedasticity (Modified Wald), and model selection (Hausman test), and guaranteeing solid and trustworthy results (Khaled et al., 2019).

$$Y_{i,t} = \alpha + SW_{i,t} + \mu_{it} + \varepsilon_{it} \quad \text{.....1}$$

SW = Swaps,

Y is the Financial Performance of non-financial companies listed at the NSE;

Results and Discussion of Findings

Trend Analysis

The ROI trend for non-financial firms trading at the Nairobi Securities Exchange (NSE) from 2013 to 2022 showed steady growth, with resilience during the COVID-19 pandemic. Starting at approximately 60 billion in 2013, ROI gradually increased to 120 billion by 2019, with a brief slowdown around 2020 due to the pandemic. However, by 2021, ROI resumed its upward trajectory, reaching 160 billion by 2022. Based on the resource management theory, firms use financial instruments and strategies to mitigate risks and manage uncertainties in their environments. Thus, the firms' ability to recover from the pandemic demonstrated effective risk management strategies, such as cost optimization and strategic adjustments, to maintain profitability. Furthermore, the findings align with modern portfolio theory, which suggests that diversified risk management strategies, including hedging instruments, can stabilize returns, particularly during uncertain periods (Markowitz, 1952). In this regard, the pandemic-induced disruptions required firms to adapt quickly, leveraging hedging strategies such as swaps, options, and futures. This adaptability highlighted a firm's strategic flexibility, allowing firms to navigate volatile environments and preserve financial performance. The overall upward trajectory of ROI implied that non-financial firms at the NSE effectively mitigated the potential risks brought on by the pandemic.

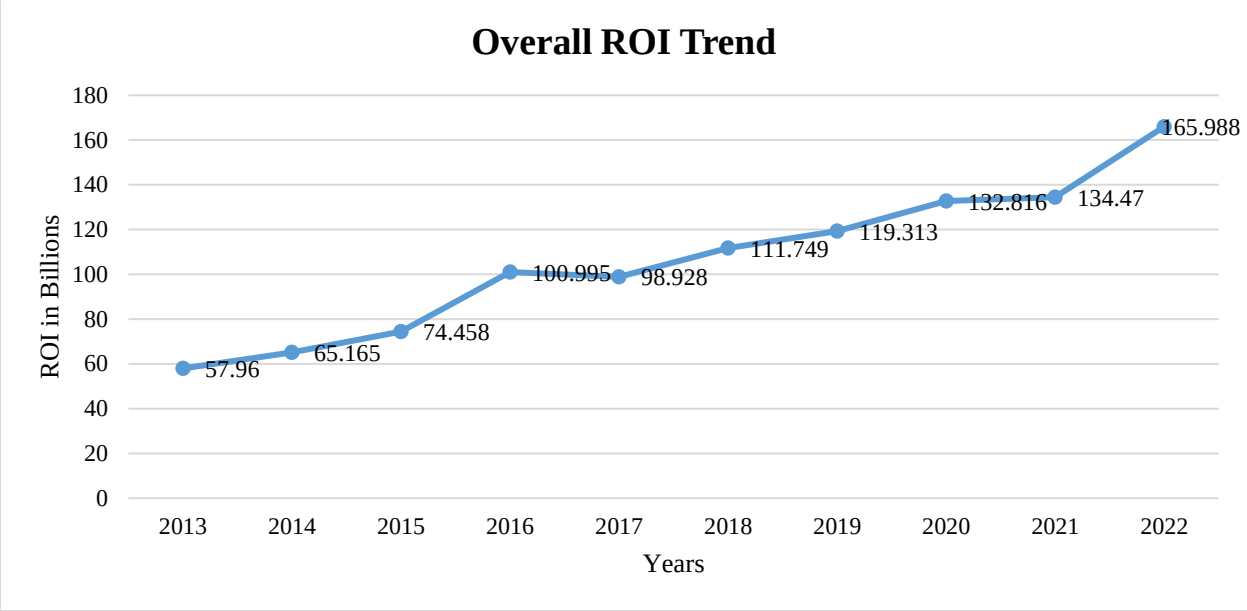

Figure 1 Trend Analysis for ROI

Trend Analysis of Swaps

The trend in swaps from 2013 to 2022 reflected fluctuations, with steady growth until 2018, followed by a notable dip in 2020, and a recovery in 2022. From 2013 to 2018, swaps rose gradually from 4.6 million to 6.2 million, but the COVID-19 pandemic led to a decrease in 2020 to 5.9 million, reflecting lower investment activities and liquidity constraints. The value further declined in 2021 to 4.3 million, with a sharp recovery to 6.7 million in 2022. This trend corresponds with behavioral finance theory, which opined that during periods of extreme market uncertainty, firms reduce or halt hedging activities since investors and managers experience heightened risk aversion (Kahneman & Tversky, 1979). During the pandemic, risk aversion likely increased among firms, leading to reduced swap usage. However, as the market stabilized and firms regained confidence, swap contracts became more attractive again. This behavior is also consistent with risk management theory, which emphasizes that firms adjust their hedging strategies based on risk perceptions (Taleb, 2007). Therefore, the sharp recovery in 2022 implied that firms adjusted their strategies to mitigate inflationary pressures and currency volatility, signaling a return to more favorable risk management practices.

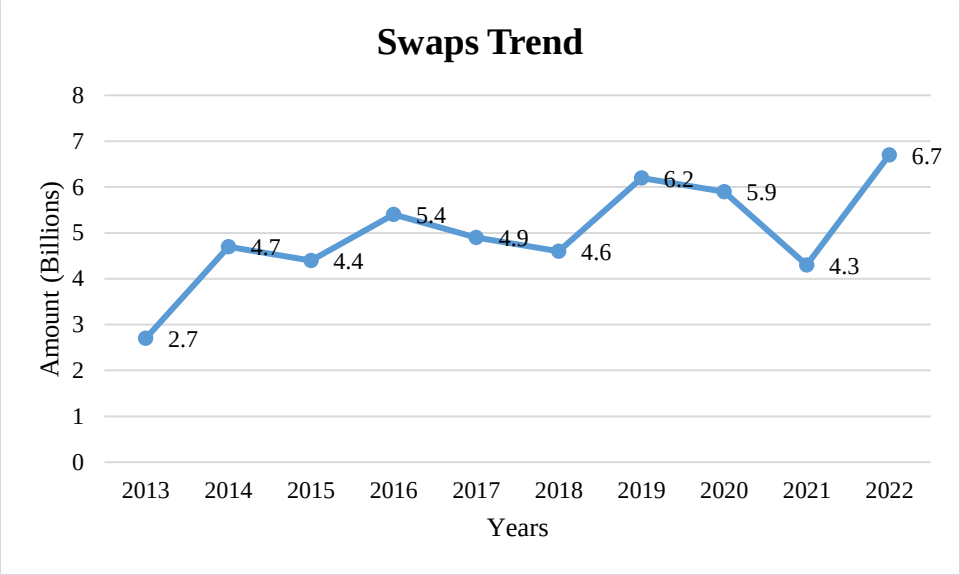

Figure 2 Trend Analysis for Swaps

Descriptive Results for Swaps

The mean value of swaps usage among the 15 firms was 0.3488 million, indicating moderate adoption of swap contracts across the 10 years. The range in swap values, spanning from a minimum of 0.044 million to a maximum of 0.869 million, showed considerable diversity in the level of engagement. The standard deviation of 0.2116 million reinforced this variability, suggesting that while some firms extensively used swaps for hedging interest rate or currency risks, others relied on them only minimally. Since there was a substantial difference between the mean and minimum values, the data had a right-skewed distribution. These results pointed to significant differences in financial sophistication, risk exposure, or capital structure across the firms, supporting the tenets of risk management theory which emphasized that firms tailor their hedging strategies based on their unique financial environments (Bernoulli, 1738).

Table 1 Descriptive Results for Swaps

Variable (mil)	Obs	Mean	Std. Dev	Minimum	Maximum
Swaps	150	0.348845	0.211626	0.0440	0.86900

Correlation Analysis of Swaps and the Financial Performance of Non-financial Firms Listed at NSE

The association between the research variables was ascertained by correlational analysis. The degree and direction of the linear link between variables were measured using Pearson R correlation. If $\pm 0.1 < r < \pm 0.29$, the link was deemed minor; if $\pm 0.3 < r < \pm 0.49$, it was deemed medium; and if $r > \pm 0.5$, it was deemed strong. Table 2 below shows the outcomes.

Table 2: Correlation Matrix

		Swaps	Financial Performance
Swaps	Pearson Correlation	1	.707**
	Sig. (2-tailed)		.000
	Sig. (2-tailed)	.000	.000
Financial performance	Pearson Correlation	.707**	1
	Sig. (2-tailed)	.000	

The findings in Table 2 revealed that swaps had a positive and significant relationship with performance of non-financial firms listed at NSE (r=0.707, p=0.000). This study finding was in agreement with Ito et al. (2018) study which indicated that effective application of swaps and performance were highly correlated. Guo et al. (2019) study also revealed that swaps utilization in debts and organizational performance were positively and significantly correlated. In addition, IBRD (2019) study concluded that allocating assets effectively minimizes instances of losses. These findings also resonated with modern portfolio theory, which emphasizes risk-return optimization through diversification. Therefore, derivatives such as swaps provide tools for hedging different sources of risk; interest rates, commodity prices, and currency fluctuations thus smoothing earnings and enhancing return consistency (Markowitz, 1952; Bodie et al., 2018). However, these results stood in partial contrast to Guay and Kothari (2003), who argued that the impact of derivatives might be marginal in firms with already strong risk management systems. Berk and DeMarzo (2020) cautioned that while derivatives may enhance performance, their benefits depend heavily on execution quality, counterparty risk, and market timing.

Fixed Effects Model

The study employed Fixed Effects Regression to analyse the impact of swaps on the Return on Investment (ROI) of non-financial firms trading at the Nairobi Securities Exchange (NSE)

Table 3 Fixed Effects Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.122667	0.456302	4.651890	0.0000
SWAPSS	2.686625	1.517357	1.770595	0.0411

The results indicated that swaps hedging instruments significantly influenced ROI, with positive coefficients and varying levels of statistical significance. The constant term (C = 2.1227, p = 0.0000) suggested that in the absence of swaps hedging instruments, the baseline ROI for firms stands at 2.12%. This result is significant at the 1% level, indicating that non-financial firms at NSE have a positive base return on investment even without employing hedging instruments.

Swaps had a positive and significant effect on ROI, with a coefficient of 2.6866, meaning a 1- unit increase in swaps leads to a 2.69% increase in ROI. The p-value (0.0411) confirms significance at the 5% level, indicating that swaps positively contribute to firm performance. This suggests that firms that utilize swaps effectively manage interest rate risks and currency fluctuations, leading to improved returns. These findings align with Hull (2021), who established that swaps serve as effective financial risk mitigation tools, particularly for interest rate-sensitive industries. Similarly, Ngugi and Were (2022) found that Kenyan firms using swaps to hedge against forex fluctuations experienced lower volatility in earnings and higher ROI stability. The findings however contradict with those of Berk and DeMarzo (2020) who cautioned that swaps can expose firms to counterparty risks, requiring proper contract structuring and risk assessment.

$$\mathbf{Y_{it} = 2.12267 + 2.6866_{itSW}}$$

Where.

$\mathbf{Y_{it}}$ represents the financial performance

$\mathbf{SW_{it1}}$ **represents** the Swaps

4.6 Hypothesis Testing

H_{01}: Swaps does not have significant effect on financial performance of non-financial firms in Kenya

Because the p-value (0.0411) was below the 5% significance threshold (0.05), the null hypothesis was rejected. This suggested that swaps have a statistically significant impact on Kenyan non-financial enterprises' financial performance. Additionally, the coefficient of 2.6866 indicated that there was a 2.69% rise in ROI for every unit use of swaps. The coefficient estimate was reliable since the standard error of 1.5174 was within a reasonable range. Swaps reduce risk and provide cash flow stability, which greatly improves financial performance. Foreign exchange swaps, according to Mohamud and Kimutai (2025), lessen financial instability by enabling businesses to protect themselves against interest rate and currency volatility. Jiang (2024) also highlighted the importance of swaps in risk management, especially in times of international crisis. These results are consistent with those of Bulut et al. (2024), who showed that credit default swaps increase financial resilience by protecting businesses against unforeseen market shocks. Effective use of swaps thereby strengthens their significance in company financial plans by lowering financing costs, increasing return on investment, and reducing uncertainty.

These findings align with those of Hull (2021) who established that swaps serve as effective financial risk mitigation tools, particularly in interest rate-sensitive industries, by providing firms with hedging mechanisms to stabilize returns. In addition, Ngugi and Were (2022) analyzed Kenyan firms and found that those utilizing swaps for foreign exchange hedging experienced lower earnings volatility and higher ROI stability, further supporting the study's findings. However, the findings contradict with Berk and DeMarzo (2020) who cautioned that swaps could expose firms to counterparty risks, emphasizing the need for proper contract structuring and risk assessment to avoid potential financial instability. These findings reinforced the foundations of risk management theory, implying that firms used interest rate and currency swaps to manage financing costs and protect against volatility in debt servicing (Bernstein, 1996).

Conclusion

The objective of the study was to determine the influence of swaps on the financial performance of non-financial firms listed at the NSE. The study concluded that their use significantly improves financial performance by reducing interest rate and currency fluctuation risks. Firms that actively engaged in swap contracts experienced more stable earnings and enhanced return on investment. The correlation and regression results confirmed that increased swap utilization leads to better financial outcomes. However, firms must carefully manage counterparty risks and ensure proper structuring of swap agreements to avoid potential financial distress. Therefore, swaps is an effective hedging instrument for stabilizing financial performance, especially in volatile economic conditions.

Recommendations

Based on the study findings, it was recommended that companies should implement internal control mechanisms to monitor swap transactions and ensure compliance with regulatory standards. The Capital Markets Authority (CMA) and financial institutions should also facilitate training programs on swap contracts to improve firms' understanding of their risks and benefits. By adopting these measures, firms will effectively manage financial uncertainties and enhance profitability through strategic swap utilization.

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