

Strategic Considerations in Designing a Revenue Hedging Policy for Nonfinancial Companies Using the Example of the Oil Tanker Industry¹

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Abstract

Over the last twenty years, the explosion of commodity and currency derivatives traded on exchanges and over the counter has tremendously increased the opportunities for non-financial companies to hedge portions of their revenues. At the same time, the academic literature is still searching for consistent and exhaustive explanations for why companies decide to hedge or not to hedge. The inconclusiveness of many studies shows that the theoretical and prescriptive framework for developing a hedging strategy is still incomplete. This paper expands the considerations for deciding on a revenue hedging strategy at non-financial companies. In addition to the traditional reasons for or against revenue hedging, it identifies four additional areas of practical consideration: 1) market environment; 2) technical capabilities to execute a hedging strategy; 3) ability to achieve value creation based on the theoretical reasons for hedging; and 4) industry-specific strategic considerations outside the general hedging framework. This paper uses the oil tanker industry to illustrate the last area, examples of industry-specific strategic considerations. For management, the paper provides practical guidance on incorporating general and industry-specific factors in designing a hedging strategy. For management theory and empirical research, it provides a broader framework that may improve the conclusiveness of empirical studies by segmenting the data according to important additional categories.