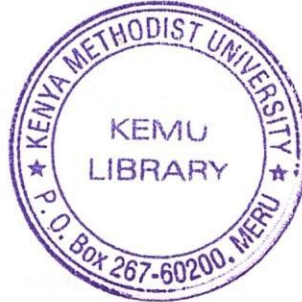


**FACTORS INFLUENCING DEVELOPMENT OF FINANCIAL DERIVATIVES  
MARKETS**

**A SURVEY OF QUOTED COMPANIES IN KENYA**



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## ABSTRACT

The Kenyan economy is becoming more and more open with international trading constantly increasing and as a result Kenyan firms become more exposed to foreign exchange rate fluctuations. The relative price changes affect the firms' competitive market position, leading to changes in cash flows and ultimately, in firms value. While it was observed that firms used a variety of instruments to manage financial risks, it was not clear whether the full potential of those instruments was being realized since not all firms use derivatives and not all firms use all types and more important, whether they are used appropriately. Hence the study sought to investigate factors influencing development of financial derivatives market.

The study sought to analyze the specific objectives item by item. It sought to establish how legal and regulatory frameworks affect development of financial derivatives market, how capacity building is crucial in the development of financial derivatives market, how operational efficiency impact on development of financial derivatives market and establish how financial market intermediaries play a role in development of financial derivatives market in Kenya.

The study used a simple stratified sampling technique to sample out 56 respondents out of the population of 186. Data was collected through questionnaire, interview and secondary data. The questions were administered through drop and pick technique. The collected data was grouped and analyzed using descriptive statistics and presented in form of pie charts, tables, and histograms.

The study found out that the use of financial derivatives instruments by quoted companies in Kenya is mainly influenced by legal and regulatory framework, capacity building, operational efficiency and the role of financial market intermediaries. Hence the study concluded that there is need of building upon existing financial derivatives instruments so as to enhance efficiency and effectiveness in their use in Kenya as modern tools for financial risk management. The study further recommended that all stakeholders should address the factors that affect efficient use and development of financial derivatives in order for Kenya to be a strong investment destination.