PROFJES : Profetik Jurnal Ekonomi Syariah
Vol. 03 No. 02 Juli-Desember 2024
https://jurnal.uinsyahada.ac.id/index.php/Profetik/index

HEDGING DECISIONS: LEVERAGE, GROWTH OPPORTUNITY, LIQUIDITY AND FIRM SIZE

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ABSTRAK

Ekspansi dan perkembangan perusahaan-perusahaan di Indonesia, khususnya BUMN, menunjukkan fakta bahwa akan ada risiko yang dihadapi, mengingat transaksi perusahaan-perusahaan BUMN tidak hanya bersifat lokal tetapi juga mencakup transaksi luar negeri. Dengan demikian, diharapkan perusahaan-perusahaan tersebut mampu mempersiapkan diri untuk mengatasi potensi masalah yang mungkin terjadi, salah satu masalah yang sering terjadi adalah masalah terkait perubahan nilai tukar mata uang yang tidak menentu. Fenomena perubahan nilai mata uang asing akan berdampak pada penjualan, laba dan harga pada perusahaan. Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh Leverage, Kesempatan bertumbuh, Likuiditas dan Ukuran Perusahaan terhadap Keputusan Lindung Nilai pada perusahaan yang terdaftar di Badan Usaha Milik Negara (BUMN) selama periode 2017-2021. Teknik pengambilan sampel yang digunakan adalah Purposive Sampling dengan kriteria tertentu, sehingga diperoleh sebanyak 40 data dari 8 perusahaan yang sesuai dengan kriteria penelitian. Penelitian ini menggunakan teknik analisis data regresi data panel dengan bantuan software Eviews 10. Hasil dari penelitian ini menunjukkan bahwa secara parsial variabel Debt to Equity Ratio tidak berpengaruh terhadap Keputusan Hedging. Selanjutnya, variabel Growth opportunity memiliki berpengaruh negatif dan signifikan terhadap Keputusan Hedging. Sementara itu, variabel rasio likuiditas dan ukuran perusahaan berpengaruh positif dan signifikan terhadap keputusan hedging. Secara simultan, variabel DER, Growth opportunity, Likuiditas dan Ukuran perusahaan memiliki pengaruh yang signifikan terhadap keputusan hedging.

Kata Kunci: Ukuran Perusahaan, Peluang Pertumbuhan, Lindung Nilai, Leverage, Likuiditas.

ABSTRACT

The expansion and development of companies in Indonesia, especially SOEs, shows the fact that there will be risks faced, considering that the transactions of SOE companies are not only local but also include foreign transactions. Thus, it is expected that these companies are able to prepare themselves to overcome potential problems that may occur, one of the problems that often occurs is problems related to erratic changes in currency exchange rates. The phenomenon of changes in foreign currency values will have an impact on sales, profits and prices in the company. This study aims to test and analyze the effect of Leverage, Growth Opportunities, Liquidity and Company Size on Hedging Decisions in companies listed in State-Owned Enterprises (BUMN) during the 2017-2021 period. The sampling technique used is Purposive Sampling with certain criteria, so that 40 data from 8 companies that match the research criteria are obtained. This study uses panel data regression data analysis techniques with the help of Eviews 10 software. The results of this study indicate that partially the Debt to Equity Ratio variable has no effect on Hedging Decisions. Furthermore, the Growth opportunity variable has a negative and significant effect on Hedging Decisions. Meanwhile, the liquidity ratio variable and company size have a positive and significant effect on hedging decisions. Simultaneously, the DER, Growth opportunity, Liquidity and Company size variables have a significant influence on hedging decisions.

Keywords: Firm Size Growth Opportunity, Hedging, Leverage, Liquidity.

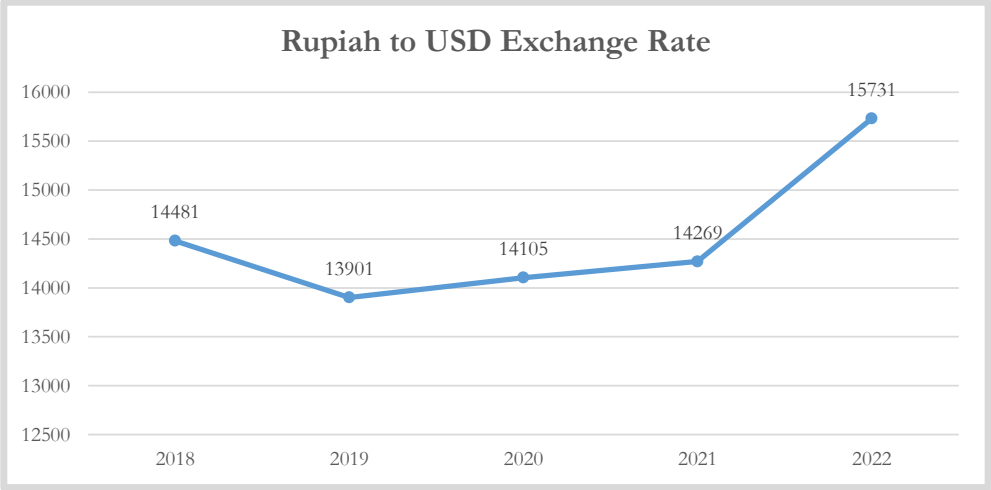
INTRODUCTION

Companies when carrying out their business activities will face various challenges such as financial risk, market risk, credit risk and liquidity risk (Nuzul & Lautania, 2015). Companies involved in international trade will have an impact on changes in market prices and levels of competition, which can increase business risks for the organization (Nanda *et al.*, 2022). Therefore, companies need risk management to manage the risks they face effectively (Nuzul & Lautania, 2015). Risk management has an important role for companies to minimize the risks faced by a company.

The expansion and development of companies in Indonesia, especially SOEs, points to the fact that there will be risks involved, considering that transactions of state-owned companies are not only local but also include foreign transactions (Kim, 2019). Thus, it is expected that these companies are able to prepare themselves to overcome potential problems that may occur, One of the problems that often occurs is problems related to erratic changes in currency exchange rates. The phenomenon of changes in foreign currency values will have an impact on sales, profits and prices on the company (Nanda *et al.*, 2022).

The USD currency that dominates in international trade creates a high economic dependence on the currency, which can increase the risk of external vulnerability to shock, which will then have an impact on macroeconomic stability, especially through rupiah exchange rate stability (Indonesia, 2020). In recent years we can see fluctuations in the rupiah exchange rate against the US dollar (Setiawan & Mahardika, 2019). Fluctuations in the rupiah exchange rate that occur tend to lead to a weakening rupiah. We can see this from the average rupiah exchange rate against the US Dollar from 2018-2022. The following is data from the rupiah exchange rate against the US Dollar as of Desember 2018-2022.

Figure 1. Rupiah to USD Exchange Rate



Source: Ministry of Commerce, 2023.

Based on Chart 1 above, we can see the fluctuating rupiah exchange rate. From 2019 to 2022, the rupiah exchange rate against the USD depreciated. Then 2021 to 2022 shows a very far difference where the rupiah exchange rate against the USD is getting weaker. The fluctuating and weakening rupiah exchange rate will increase the risk of companies carrying out international trade activities. One way the company minimizes risk is by hedging (Nuzul & Lautania, 2015). Hedging is a way that companies do to

protect companies from exchange rate exposure (Rahayu *et al*., 2020). This means that the company's policy in minimizing the risk of foreign exchange fluctuations that can harm the company. Hedging is carried out using derivative instruments (Aditya & Haryono, 2019).

In Indonesia, especially SOEs, the implementation of hedging practices is still very minimal. The reason for the lack of SOEs that carry out hedging is because of SOEs' concerns about different interpretations of the implementation of hedging that can cause state costs or losses. Macro-wise, BUMN hedging activities are carried out to reduce rupiah exchange rate volatility. However, the practice that has occurred so far shows that the needs of SOE dollars are met from forex transactions in the spot market. In import payments, debt repayment and investment activities, SOEs still tend to buy them from the spot market in large quantities. The high portion of spot transactions will open the possibility of a surge in foreign exchange demand which has an impact on the fluctuating rupiah exchange rate (Keuangan, 2017).

From the phenomenon of the problem that has been described, companies in Indonesia, especially SOEs, should be able to further increase their hedging activities. One of the considerations made by companies in hedging is to look at the Leverage ratio. Leverage is a ratio that measures how much debt finances a company. The leverage ratio in this study is measured by the Debt to Equity Ratio (DER). DER is used to see the comparison of capital derived from debt with own capital (Rahayu *et al*., 2020). Penelitian yang dilakukan oleh (Rahayu *et al*., 2020) obtained the result that the Leverage ratio with the Debt to Equity Ratio indicator affects hedging decisions. While research from (Aditya & Haryono, 2019) The result is that Leverage with the DER indicator has no effect on hedging decisions.

Another factor influencing hedging decisions is Growth Opportunity. Growth Opportunity is a growth opportunity in a company in the future. Previous research related to growth opportunity with hedging has had inconsistent results. Research conducted by Widjaja & Santoso, (2018) The result is that growth opportunity has no influence on hedging decisions. While research Ratnaningsih *et al*., (2021) shows that Growth opportunity has a positive effect on hedging.

The next factor influencing hedging decisions is the Liquidity ratio. The liquidity ratio is a ratio that shows the company's ability to pay its short-term obligations. Previous studies have had inconsistent results. Research from Rosalin *et al*., (2019) indicates that the Liquidity ratio has no effect on hedging decisions. While research from Karlinda & Manunggal, (2023) get the result that Leverage negatively affects hedging decisions.

Another factor that influences hedging decisions is Firm Size. Firm Size is a benchmark for the size of the company by looking at the value of equity, sales and total assets owned by the company. Research conducted by Widjaja & Santoso, (2018) shows the results that firm size has a positive effect on hedging decisions. In contrast to the research conducted by Aditya & Haryono, (2019) which results in that Firm size has no effect on hedging decisions.

Based on the background, it can be seen the research gap or research gap from previous studies that get inconsistent results. This means that the results obtained by previous researchers are different. In addition, research on hedging in Indonesia, especially in state-owned companies, is still rarely studied.

LITERATURE REVIEW

HEDGING DECISION THEORY

Smith, dkk emphasize that hedging is the process of investing in one asset while taking a position in another to reduce the risk of loss. One important characteristic of hedging activities is the involvement in two markets: the "spot" or "cash" market for immediate delivery, and the futures market for future transactions (Fletcher, 2014). Over the past 20 years, the theoretical review of hedging has shown how large firms can utilize it to: (1) reduce costs arising from financial distress, (2) reduce other costs, such as those associated with agency problems due to debt and asymmetric information, and (3) increase expected after-tax cash flows. Hedging at the firm level (rather than by individual investors) can increase the market value of the firm by reducing costs associated with market imperfections (Shleeva, 2014).

AGENCY THEORY

Agency theory provides the main conceptual framework used by researchers and practitioners to understand the phenomenon of hedge activism. The theory emphasizes the importance of governance in situations where asset owners or principals delegate some of their authority to agents or managers, while the performance of these agents can only be monitored indirectly by the principals (Ross, 2009). Shareholder-oriented agency theory emphasizes that ultimate control of the company should be in the hands of shareholders. In addition, this theory states that company managers have a responsibility to manage the company in the interests of shareholders (Sbarba & Marelli, 2018).

SHAREHOLDER VALUE MAXIMIZATION THEORY

Shareholder wealth maximization theory reflects the primary objective of financial managers. Within the framework of shareholder value theory, managers should be able to choose between optimal asset and capital structures and make decisions that support long-term wealth creation. This wealth is usually measured through stock prices. An in-depth understanding of stock prices, risk and return, market efficiency, and corporate cash flows is essential for long-term investment. In addition, the implementation of effective risk management is necessary for the company to avoid financial difficulties (Bartlett, 2015).

MANAGERIAL UTILITY MAXIMIZATION THEORY

Manager complacency theory, developed by O.E. Williamson, is based on a model of corporate behavior that highlights the "self-interested behavior of corporate managers." This theory asserts that shareholders and managers are two separate entities. The gap between the two allows managers to act independently in setting corporate goals. Instead of maximizing profits for shareholders, managers tend to prioritize their personal interests in the company (Sbarba & Marelli, 2018).

HEDGING

Hedging comes from the English word "hedge," which means fence. In financial management, hedging relates to efforts to limit and control financial risks. The risk of fluctuations in foreign exchange rates (forex) can cause losses, but can be minimized through risk management, one of which is by implementing hedging. Hedging is usually carried out by companies involved in debt and credit activities or payment transactions using foreign currencies (Meyer, 2021). In other words hedging is a way to protect a company from stock market value risk associated with changes in fair value, assets or liabilities that are expected to affect the income statement with the use of derivative instruments or other financial instruments (Setiawan & Mahardika, 2019).

LEVERAGE

Leverage is a ratio used to see a company's ability to fund a company with debt (Aditya & Haryono, 2019). The leverage ratio shows how much debt the company has, so it can be claimed that this ratio can determine how the company uses the money borrowed. This ratio shows the company's ability to meet the entire debt using its own capital. In the sense that when the company liquidates, the company will be able to fulfill its obligations, both short-term and long-term. The Debt to Equity ratio (DER) indicator is one of the indicators used in measuring the leverage ratio (Nanda et al., 2022). The higher the DER describes the composition of total debt will be greater than the total own capital, resulting in a greater burden on the company to external parties (Kinasih & Mahardika, 2019).

GROWTH OPPORTUNITY

According Myers, (1977) Growth opportunity is a condition where the company has the opportunity to grow and develop in carrying out its activities. The more opportunities the company has to grow and develop, the company will not only expand domestic operational and investment activities but include activities related to the international world. The wider the company's activities, the larger the company will hedge (Yudha et al., 2022).

LIQUIDITY

Liquidity is a ratio that describes how quickly an asset can be converted into cash (Kinasih & Mahardika, 2019). Company liquidity shows the company's ability to pay short-term liabilities on time which is indicated by the amount of current assets, namely assets that are easily converted into cash. Includes cash, marketable securities, receivables and inventories. One indicator that can measure liquidity ratios is the Current ratio (CR). The current ratio is a ratio to measure the company's ability to pay short-term debt or debt that matures immediately after being collected as a whole (Rahayu et al., 2020).

FIRM SIZE

Firm size is a benchmark for the size of the company by looking at the amount of capital value, sales value or total value of assets that have the company. In general, companies have 3 categories, namely large, medium and small companies. The larger the size of the company, the greater the risk faced by the company. Large companies do more business activities compared to small companies. Increased operational activity is likely to pose a greater risk (Mahasari & Rahyuda, 2020). This will encourage large companies to hedge. Companies with large sizes tend to be careful in managing the company and carry out more hedging activities (Guniarti, 2014).

METHODS

This research is a quantitative research using a descriptive approach. The data source used is secondary data in the form of annual reports on companies registered in SOEs for the 2017-2021 period, Data obtained from the official website of each company. The data collection method is carried out by collecting and identifying the data obtained, then processed and analyzed using Eviews software version 10. The population in this study is all SOE companies, while the sampling technique used is purposive sampling, with criteria for companies that include SOEs, publishing consecutive annual reports during the 2017-2021 period, and having complete financial and non-financial data needed in the study. Based on these criteria, Islamic banks that have met the criteria of 8 companies, PT. Aneka Tambang, PT. Pelabuhan Indonesia II, PT. Pelabuhan Indonesia III, Mint of the Republic of Indonesia, PT. Pertamina Gas Negara, PT. Pupuk Indonesia and PT. Semen Batu Raja. Here are the samples and data sources in this study:

Table 1. Samples and Data sources

No	Code	Company Name	Source
1	ANTAM	Aneka Tambang	https://www.antam.com/id/reports/annual-reports
2	PELINDO	Pelabuhan Indonesia II	https://pelindo.co.id/investor/laporan-tahunan
3	PELINDO	Pelabuhan Indonesia III	https://pelindo.co.id/investor/laporan-tahunan
4	PERURI	Percetakan Uang RI	https://www.peruri.co.id/hubungan-investor/laporan-tahunan
5	BULOG	Badan Urusan Logistik	https://www.bulog.co.id/pojok-media/laporan-tahunan/
6	PGN	Pertamina Gas Negara	https://ir.pgn.co.id/financial-information
7	PUPUK	Pupuk Indonesia	https://www.pupuk-indonesia.com/investor/annual-report
8	SBR	Semen Batu Raja	https://semenbaturaja.co.id/laporan-tahunan/

Table 2. Variable Operational Definition

Y	*Hedging*	*Hedging = Point 1, If hedging, point 0, if not hedging.*
X1	*Leverage*	DER = Total Debt / Total Equity X 100%
X2	*Growth Opportunity*	GO = Total Assets Now-Total Assets previously
X3	*Current Ratio*	CR = Current Assets/Current Debt
X4	*Firm Size*	FS = LN Total Assets

The technical data analysis used in the study is Partial Least Square (PLS) analysis using the help of Eviews 10 software. This research is a panel data study in which there are three estimated model selection, namely Fixed Effect Model (FEM), Common Effect Model (CEM) and Random Effect Model (REM). To determine the best model, it is necessary to test the selection of models consisting of the Chow Test, Hausman Test and LM Test. The Chow test is performed to determine the best model between FEM and CEM. The decision-making provision is that if the probability value of the chi-square cross section > 0.05, then the selected model is CEM. But if the probability value of the chi-square cross-section < 0.05, then the selected model is FEM.

The Hausman test is performed to determine the best model between FEM and REM. With the provision of decision making, if the probability value of cross-section > 0.05, then the selected model is REM. However, if the probability value of cross-section < 0.05, then the selected model is FEM. Next, test the lagrange multiplier. LM tests are conducted to determine the best model between REM and CEM. One of the methods commonly used in LM testing is the Bruesch-Pagan Test. The decision taken in this test is that if the probability value is > 0.05, then the selected model is CEM. However, if the probability value < 0.05, then the selected model is REM. After the selected model selection test, then the researcher will conduct a Normality and Multicollinearity test. After that, researchers will conduct regression testing data on the panel, namely t test, F test and R-Square.

The panel data regression analysis model in this study is as follows:

$$HG_{it} = \alpha + \beta 1DER_{it} + \beta 2GO_{it} + \beta 3CR_{it} + \beta 4FS_{itt} + e \quad \text{.....1}$$

Information:

HG : *Hedging*

DER : *Debt to Equity Ratio*

GO : *Growth Oppoturnity*

CR : *Current Ratio*

FS : *Firm Size*

E : Error

RESULT AND DISCUSSION

SELECTION OF THE BEST REGRESSION MODEL

1. Chow Test

Table 3. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.979321	(7,28)	0.4656
Cross-section Chi-square	8.759968	7	0.2704

Source: Data processed Eviews 10, 2023.

The table above shows the probability value of cross-section chi square > α (0.05) which is 0.0000. Ha is rejected and H0 is accepted. So it can be concluded that the Common Effect Model (CEM) is a more precise model in estimating panel data compared to the Fixed effect model.

2. Hausman Test

Table 4. Hausman Test

Test Summary	Statistic	Chi-Sq. d.f	Prob.
Cross-section random	4.732344	4	0.3159

Source: Data processed Eviews 10, 2023.

The table above shows that the probability value of Chi-square > (0.05) is 0.0000. Then H0 is accepted and Ha is rejected. This means that the Random effect model (REM) is more appropriate to be used in estimating panel data compared to the Fixed effect model (FEM).

3. Lagrange Multiplier (LM) Test

Table 5. Lagrange Multiplier Test

		Test Hypothesis	
	Cross-section	Time	Both
Breusch-Pagan	0.789254	0.359472	1.148726
	(0.3743)	(0.5488)	(0.2838)

Source: Data processed Eviews 10, 2023.

The table above shows that the probability value of the Breusch-pagan cross-section is 0.3743 > 0.05. Then H0 is accepted and Ha¬ is rejected. So it can be concluded that a more appropriate model used in estimating panel data is the Common Effect Model (CEM).

PANEL DATA REGRESSION ANALYSIS

1. t- Test (Partial)

Table 6. t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.565535	0.631894	4.060072	0.0003
DER	0.000633	0.000742	0.853456	0.3992
GO	-0.082663	0.029236	-2.827413	0.0077
CR	0.000918	0.000463	1.982324	0.0543
FS	9.174513	2.934723	3.132375	0.0035

Source: Data processed Eviews, 10.

Based on the hypothesis test, the results of the Debt to equity ratio coefficient value of 0.000633 and probability value of 0.3992 > 0.05, It can be concluded that the variable Debt to equity ratio (DER) does not affect the hedging decision. Growth opportunity variable coefficient value of -0.082663 and probability value of 0.0077 < 0.05, It can be concluded that the Growth opportunity variable has a negative and significant effect on hedging decisions. Furthermore, the value of the variable coefficient Current ratio

is 0.000918 and the probability value is 0.0543 < 0.05, It can be concluded that the Current ratio has a positive effect on hedging decisions. Furthermore, the import variable coefficient value is 917 and the probability value is 0.035 < 0.05, it can be concluded that Firm size has a positive and significant influence on hedging decisions.

2. F Test (Simultaneous)

Table 7. F Test

F-statistic	2.664560
Prob (F-statistic)	0.048518

Source: data processed Eviews 10, 2023.

The simultaneous test or F test can be said to be a model feasibility test. So this test is seen from the F-statistic value of the Common effect model (CEM) test results with it knowing that the F-statistic is 2.664560 and Prob. (F-statistic) of 0.048518 < 0.05, so H0 is rejected and Ha is accepted. So it can be concluded that the independent variables, namely Debt to equity ratio, Growth opportunity, Current ratio and Firm size simultaneously have a significant influence on the dependent variable, namely the Hedging decision.

3. Test R^2

Table 8. Test R^2

R-squared	0.233435
Adjusted R-square	0.145828

Source: data processed Eviews 10, 2023.

In accordance with the results of the Common Effect Regression Model (CEM) gets an R^2 value of 0.233435 or 23%. This explains that the independent variables Growth opportunity, Current ratio and Firm size affect the Hedging decision variable by 23%. While 77% was explained by other variables outside the study model.

ANALYSIS

1. The Effect of Debt to Equity Ratio on Hedging Decisions

Based on the results of hypothesis testing, the variable Debt to equity ratio has no influence on the decision of Hedging. This means that DER does not have a significant effect on hedging decisions in state-owned companies. The higher the DER value, the stronger the company will be to carry out hedging policies. However, when companies that have a high DER will not necessarily carry out hedging policies. One of the reasons is because the company's debt is not dominated by foreign exchange rates or in the sense that the company's debt is more dominant in rupiah. Thus hedging policy is not too necessary to do. Based on the data and analysis results, it can be explained that leverage with high DER indicators cannot affect companies in taking hedging policies. This is in line with research from Mediana & Muharam, (2016)

and Aditya & Haryono, (2019), which states that the leverage ratio with the Debt to equity ratio indicator has no influence on hedging decisions.

2. The Effect of Growth Opportunity on Hedging Decisions

Based on the results of hypothesis testing, the Growth opportunity variable has a negative and significant influence on hedging decisions. A negative result shows that when the company's investment opportunity increases, it can cause a decrease in hedging its assets. This can also be caused by companies that prefer to use internal funding to finance their investments compared to external funding which is riskier when there are foreign currency fluctuations. The results of this study are supported by research from Nanda *et al*., (2022) which states that growth opportunity has no influence on hedging decisions.

3. The Effect of Current Ratio on Hedging Decisions

Based on the results of hypothesis testing, the current ratio variable has a positive and significant influence on hedging decisions. The results of this study are in line with research from Rahayu *et al*., (2020) which shows that the current ratio affects hedging decisions. The greater the threat of financial distress, it will have an impact on increasing hedging activities that companies can do to reduce possible risks. If the company's liquidity ratio is high, it indicates that the company is smooth in fulfilling its short-term obligations. Companies that have large funds will make spot transactions at the time of debt repayment, so they are likely to hedge.

4. The Effect of Firm Size on Hedging Decisions

Based on the results of hypothesis testing, the Firm size variable has a positive and significant influence on hedging decisions. Positive and significant research results indicate that companies that have a large size will tend to hedge their assets. Companies that have a large size certainly have more operational activities than companies that are still small. Large companies will of course also have operational activities with the international world. International transactions such as imports, exports, purchases of raw materials and so on will certainly pose a risk of fluctuations in foreign exchange rates borne by the company due to international transactions carried out by the company, so that it will make the company will improve risk management in the company, namely by hedging or hedging in order to minimize the risk that will arise as a result of fluctuations in foreign exchange rates. The results of this study are supported by portfolio theory, Bartram & Dufey, (2005) said to minimize unsystematic risk the company will add its assets and in minimizing systematic risk of adverse market movements, the company will hedge or hedge. The results of this study are in line with research from Mahasari & Rahyuda, (2020), Nanda *et al*., (2022) and Widjaja & Santoso, (2018) which states that companies that have a large size will be more likely to make hedging decisions.

CONCLUSION

The leverage ratio proxied with the debt to equity ratio has no influence on hedging decisions. One of the reasons is because the company's debt is not dominated by foreign exchange rates or in the sense that the company's debt is more dominant in rupiah. Thus hedging policy is not too necessary to do. Growth opportunity has a negative and significant influence on hedging decisions. A negative result shows that when the company's investment opportunity increases, it can cause a decrease in hedging its assets. This can also be caused by companies that prefer to use internal funding to finance their investments compared to external funding which is riskier when there are foreign currency fluctuations. Liquidity ratio with Current ratio indicator has a positive and significant effect on hedging decisions. The greater the threat of financial distress, it will have an impact on increasing hedging activities that companies can do to reduce possible risks. If the company's liquidity ratio is high, it indicates that the company is smooth in fulfilling its short-term obligations. Companies that have large funds will make spot transactions at the time of debt repayment, so they are likely to hedge. Firm Size has a positive and significant influence on hedging decisions. Companies that have a large size certainly have more operational activities than companies that are still small. Large companies will of course also have operational activities with the international world. International transactions such as imports, exports, purchases of raw materials and so on will certainly pose a risk of fluctuations in foreign exchange rates borne by the company due to international transactions carried out by the company, so that it will make the company will improve risk management in the company, namely by hedging or hedging in order to minimize the risk that will arise as a result of fluctuations in foreign exchange rates.

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