ABSTRACT

In minimalizing the risk, banking needs to do hedging strategy to fulfill their risk management aspect. The benefit for companies is to find out the most influencing variables on the use of derivative instruments to make decision on hedging to take strategic steps to protect their investment value. The research aims to study and analyze the significant influences of internal variables, such as debt equity ratio, financial distress, growth opportunity, liquidity, firm size, and external variables such as interest rate and rupiah exchange rate on the use of derivative instruments to make decision on hedging.

The population of the research are conventional banks registered in BEI in the period 2008-2012. The research employs logistic regression analysis. There are two variables in the research. First, the internal variable variable consists of debt equity ratio, financial distress, growth opportunity, liquidity, size firm. Second, the external variable consists of interest rate and rupiah exchange rate.

By using logistic regression analysis, the result shows that there are four out of seven variables that influence the company in the use of derivative instruments to make decision on hedging. They are debt equity ratio (DER), financial distress, liquidity, and firm size for the their risks have great impact on the companies. The variables of growth opportunity, interest rate and rupiah exchange rate on dollar has no significant influence on hedging activity. It is due to the companies which use more risk retention with their reserve funds in dealing with profit growth, whereas the interest rate and rupiah exchange rate on dollar are not significant for being below the conservative limit.