ABSTRACT

One of the biggest risk faced by companies that conduct international activity is a foreign exchange exposure. The impact of unexpected fluctuations in foreign exchange rates can lead to big loss for company. Hedging with foreign currency derivative instruments becomes an alternative which can be used to minimize foreign exchange exposure. This study aims to analyze the effect of financial distress, leverage, liquidity, growth opportunity, firm size and managerial ownership on hedging decision making.

The population in this research are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2014-2017 period. The sample in this research amounted to 51 companies selected using the purposive sampling method. Sample data are collected from Bloomberg database and the company's annual report. Logistic regression analysis was used in this research model because the type of data are metric and non metric. By logistic regression analysis, it can be seen how the independent variables affect the probability of the company to hedge.

The results of this research provide empirical evidence that variable liquidity (CR), growth opportunity (MBVE), and firm size (SIZE) have a significant effect on hedging decision making. While the financial distress (ZScore), leverage (DER), and managerial ownership (MO) variables have no effect on hedging decision making. From the test result of logistic regression showed that the variable of financial distress, leverage, liquidity, growth opportunity, firm size and managerial ownership in explaining the probability of using derivative hedging was 12,6% and the rest is explained by other variables outside the model.

***Keywords**: Risk Management, Hedging, Derivative, Financial Distress, Leverage, Liquidity, Growth Opportunity, Firm Size, Managerial Ownership*