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THE USE OF CORPORATE DERIVATIVE INSTRUMENTS IN FACING CRISES IN INDONESIA

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Abstract
This research aims to analyze the company's use of derivative instruments in facing the crisis. The research method is qualitative research a research method used to understand social phenomena in depth. This type of research is library research which researchers carry out by collecting, studying and analyzing references or sources. obtained in writing or written form such as books, journals, articles, documents and other sources of information that are significant to the topic/title being researched. The research results show that the use of derivative instruments by companies in facing a crisis is an important strategy to protect asset value, manage risk and maintain business continuity. Derivative instruments can provide significant benefits, such as hedging against price or exchange rate fluctuations, better risk management, additional access to liquidity, and portfolio diversification.
Keywords : Derivative instruments, companies,crisis

Abstrak
Penelitian ini bertujuan untuk menganalisis penggunaan intrumen derivatif perusahaan dalam menghadapi krisis. Metode penelitian yang digunakan adalah penelitian kualitatif, penelitian kualitatif merupakan metode penelitian yang digunakan untuk digunakan untuk memahami fenomena sosial secara mendalam, Adapun jenis penelitian ini adalah penelitian studi pustaka yang peneliti lakukan dengan mengumpulkan, mempelajari, dan menganalisis referensi atau sumber-sumber yang diperoleh dengan tertulis atau berbentuk tulisan seperti buku, jurnal, artikel, dokumen, dan sumber informasi lainnya yang signifikan dengan topik/judul yang diteliti. Hasil penelitian menunjukkan bahwa Penggunaan instrumen derivatif oleh perusahaan dalam menghadapi krisis adalah strategi yang penting untuk melindungi nilai aset, mengelola risiko, dan menjaga kelangsungan bisnis. Instrumen derivatif dapat memberikan manfaat signifikan, seperti lindung nilai terhadap fluktuasi harga atau nilai tukar, manajemen risiko yang lebih baik, akses tambahan ke likuiditas, dan diversifikasi portofolio.
Kata Kunci: *Instrumen derivatif, perusahaan, krisis*

Introduction

Modern companies operate in an environment of full business uncertainty. Fluctuation in price of commodities, change in ethnic group interest, risk eye Foreign currency and other global economic factors can pose a significant challenge to a company's efforts to achieve its goals. To overcome this risk, company must use various strategies to manage risk; the only one is instrument derivatives. Instrument derivatives are an important tool in risk management for businesses, making it possible for them to thrive. To protect oneself from fluctuating detrimental pricing, optimize the use of capital, and create opportunities for profitable trade, In this study, we will investigate the deep use of instrument derivatives in the company, analyze the types of instruments and the most common derivatives used, and consider the benefits.And the risk (Izzakiah et al., 2017; Munizu & Hamid, 2018).

According (Laduni, 2022) Instrument derivatives have become an integral part of strategy management and risk management in modern companies. They enable a company to manage various risks in an efficient and effective manner. In this part, we will see how companies use instrument derivatives in various aspects of management risk. Instrument common derivatives are used in management risk for ethnic group flowers, including rate swaps and tribal futures flowers. Tribe swap flower possible company For exchange payment flower still with payment flower variable, or vice versa. Using this method, a company can manage risk ethnic group flower they in accordance with their needs.

In addition to protecting themselves from specific risks associated with their business, companies also use derivative instruments to manage the risks of their investment portfolios. Institutional investors such as pension funds and insurance companies often have diversified investment portfolios, which include stocks, bonds, and other assets (Larasati & Wijaya, 2022). Derivative instruments may be used to manage exposure to certain assets in this portfolio. For example, if a pension fund has high exposure to the technology sector, they can use options to protect themselves from declines in technology stock prices.

Larasati & Wijaya, (2022) Futures contracts are one of the most commonly used types of derivative instruments. They are used in a variety of contexts, including commodities, foreign currencies, and stock indices. A futures contract is an agreement to buy or sell a specific asset at a specific date in the future at a predetermined price. They are generally used to protect against price fluctuations or to gain exposure to a particular asset.

Options are contracts that give the holder the right, not the obligation, to buy or sell a specific asset at a predetermined price within a certain time period. Options are used for a variety of purposes, including hedging and speculation. They can be called options, which give the right to buy an asset, or put options, which give the right to sell an asset. Swaps are agreements in which two parties agree to exchange cash flows within a certain period of time. Swaps can be used to manage interest rate risk or foreign currency risk. Interest rate swaps are the most commonly used type, where two parties exchange fixed and variable interest payments.

Exotic options are variations of conventional options that have special characteristics. Examples of exotic options include binary options, barrier options, and Asian options. They are often used in situations with complex risks and require a deep understanding of asset price movements. The benefits of derivative instruments are: First Hedging: One of the main benefits of using derivative instruments is the ability to protect the value of assets or liabilities from adverse price fluctuations. This allows companies to plan their operations better and avoid losses that could disrupt their business activities. Second, optimizing capital use: derivative instruments allow companies to gain exposure to certain assets or risks without having to spend full capital. This can increase capital efficiency and investment return rates. Third Portfolio Diversification: Companies can use derivative instruments to diversify their portfolios without having to buy physical assets. This can help reduce the overall risk of a portfolio and create opportunities for greater profits (Mahendra & Firmansyah, 2019).

Besides this, the risk of using derivative instruments is Market Risk: Derivative instruments are very dependent on the price movements of the underlying asset. If price movements do not match estimates, the company can experience large losses. Contractual Risk: Mistakes in understanding or executing derivative contracts can result in losses. Derivative contracts often have complex technical terms, and errors in interpretation can have negative consequences. Liquidity Risk: Some derivative instruments may be less liquid than physical assets. This can make it difficult to sell or liquidate derivative positions under certain market conditions. Low liquidity can lead to high transaction costs. Financial Risk: Incorrect or excessive use of derivative instruments can increase a company's financial risk exposure. If companies do not manage these risks well, they can be exposed to significant losses (Mohamed & Shafiai, 2021).

Niansyah et al., (2018) Says it is important to understand that a company's use of derivative instruments is a complex and multifaceted business decision. This decision can be influenced by various factors, such as the type of business, risks faced, financial goals, and many other factors. In this context, we will explore some previous research that has been conducted to understand why some companies choose not to use derivative instruments. As a start, we need to understand what is meant by derivative instruments. Derivative instruments are financial contracts whose value is derived from an underlying asset, such as a stock, bond, currency, or commodity. The main purpose of using derivative instruments is to manage risk. However, the use of derivative instruments can also be a source of potential risk, especially if not managed properly.

Some reasons why a company may choose not to use derivative instruments include according Putro & Chabachib, (2012) is: Stable Nature of the Business: Some companies may operate in a relatively stable industry or sector. This means they are less exposed to significant asset price fluctuations. For example, companies operating in the utilities sector or food companies may have stable earnings over time. In such situations, risk management may not require extensive use of derivative instruments. Costs and Complexity: The use of derivative instruments can involve high costs, including transaction costs, monitoring costs, and administrative costs. In addition, derivative instruments can be very complex, and companies may not have sufficient resources or knowledge to properly manage these instruments. Therefore, they may choose to avoid derivative instruments in order to reduce the costs and complexity associated with them. Long-Term View: Some companies may have a strong long-term view and believe that asset price fluctuations will align themselves over a fairly long period of time. In this case, they may not see the need to use derivative instruments to protect themselves from short-term fluctuations. More Important Operational Risks: Every business has different types of risks to deal with. For example, operational risks such as reputational risks or regulatory non-compliance risks may be considered more important than market risks that can be addressed with derivative instruments. In situations like this, companies may focus on managing operational risks rather than market risks. Low Risk Tolerance: Some companies may have a low risk tolerance and prefer to avoid market risks by not using derivative instruments. They may prefer to keep their financial structure as simple as possible and do not want to engage in transactions that could increase their financial complexity or risk. Use of Alternatives: Some companies may use other alternatives to manage their risks. For example, they may adopt a fixed price strategy or long-term cooperation with suppliers or customers to reduce price uncertainty. This is another way to manage risk without having to rely on derivative instruments. Financial Regulations and Requirements: Some companies may be bound by regulatory or financial requirements that require them to minimize their use of derivative instruments. This may occur in certain sectors where the government or regulatory authorities have strict policies regarding derivative instruments. Investor Perception: The decision to use derivative instruments can also be influenced by investor perceptions. Some investors may have a negative view of the use of derivative instruments and may prefer to invest in companies that do not use derivative instruments.

Based on the research results of Mediana & Muharam, (2016), they found that liquidity, company growth opportunities, financial distress, and cash flow volatility had a significant effect on hedging decisions using derivative instruments, while other variables had no effect on hedging decisions using derivative instruments. From the results of the logistic regression, it was found that the variables leverage, liquidity, company growth opportunities, financial distress, cash flow volatility, and dummy variables for the mining sector category against the manufacturing sector can explain hedging decisions using derivative instruments by 25.8%, and the rest is explained by the variables other than the model.

In many cases, the decision to use or not use derivative instruments is the result of a careful evaluation of a company's risk management and a deep understanding of its business environment.

It's important to note that there is no one-size-fits-all approach to this, and each company must make decisions based on its needs, goals, and business context. However, although some companies choose not to use derivative instruments, it is also important to realize that these instruments can be a useful tool in managing market risk, especially in situations of economic uncertainty and significant price fluctuations. Therefore, companies that decide not to use derivative instruments should still understand the potential risks and have effective alternative strategies to manage market risks that may arise in their business operations. In conclusion, a company's decision to use or not use derivative instruments is part of a complex risk management strategy and must be based on a deep understanding of the business environment, company objectives, and risk tolerance. In the face of ever-changing market uncertainty, companies must constantly evaluate their decisions and ensure that they have effective strategies to protect company value and achieve their financial goals (Reinaldo, 2007). Based on the explanation above, researchers are interested in conducting research with the title The Use of Corporate Derivative Instruments in Facing Crises in Indonesia.

Method

The research method used in this research is qualitative research. Qualitative research is a research method used to understand social phenomena in depth (A. Muri, 2016). Qualitative research does not just describe phenomena but also seeks to understand the meaning and context of these phenomena. This type of research is library research, which researchers carry out by collecting, studying, and analyzing references or sources obtained in written form, such as books, journals, articles, documents, and other significant sources of information with the topic or title researched. And then the researcher analyzes and draws conclusions to find answers to what the researcher is studying.

Results and Discussion

Rifa'i & Sina, (2019) Explane that based on Law Number 8 of 1995, which regulates the capital market in Indonesia, derivative instruments are several types of securities offered by issuers to the public as follow-on effects of previously marketed securities. Derivative instruments are not a claim on an income stream like shares and bonds but are a contractual agreement between two parties to sell or buy a number of goods (be they financial assets or commodities) on a certain date in the future at a currently agreed price.

Statement of Financial Accounting Standards (PSAK) 55 also regulates that a financial instrument or other contract is called a derivative if it meets three characteristics, namely that its value changes as a result of changes in predetermined variables (qualifying assets), does not require investment or only requires an investment of less value if compared to the amount required by another similar contract that is expected to produce the same effect as a result of changes in market factors, and is settled at a specific date in the future. These three characteristics are cumulative. In other words, if these three characteristics are not met, then a financial instrument cannot be said to be a derivative instrument. As part of financial instruments, derivative instruments globally are subject to International Accounting Standard (IAS) 39, which has subsequently been updated and replaced with International Financial Reporting Standard (IFRS) 9, which came into effect on January 1, 2018. In Indonesia itself, the accounting treatment of derivative instruments is guided by the Statement of Financial Accounting Standards (PSAK) 55 issued by the Standards Board of the Indonesian Accountants Association (DSAK IAI). In PSAK 55, it is stated that derivative instruments are treated as trading securities that are valued based on their fair value, and profits or losses from this assessment will be recorded in the current year's profit and loss statement. However, if derivatives are specifically used to protect a risk and are designed as an effective hedge, then the derivatives must be subject to separately regulated hedge accounting rules (Sianturi & Pangestuti, 2015).

In practice, derivative instruments have three main uses, namely to minimize risks such as the rise and fall of interest rates, currency rates, stock prices, and commodity prices through a mechanism called hedging as a means of speculation in order to seek profits from differences. prices that utilize market timing as well as an arbitrage step, namely the activity of buying and selling products in two different markets, or you can also buy two different products and then sell them in the same market with the aim of making a profit without risk. So when viewed from these uses, derivative instruments can be classified into two large groups, namely derivatives for hedging purposes and derivatives for other purposes (non-hedging). Derivatives for hedging purposes are contracts that are specifically intended to protect a risk (interest rates, foreign exchange rates, market prices, or credit) and are designed as effective hedges. The derivatives included in this definition only include derivatives designed for hedging purposes and embedded derivatives. Unlike derivatives for other purposes, this type of derivative is a contract whose value is derived from the value of other assets or certain economic items, such as stocks, bonds, commodity prices, interest rates, or currency exchange rates, whose use is directed for purposes other than hedging, for example, speculation or arbitrage (Suriawinata, 2004).

Apart from their use, derivative instruments can also be grouped based on their nature (Utomo, 2000), namely commodity derivatives and financial derivatives. Commodity derivatives are derivative contracts that occur on commodity goods, such as agricultural products, plantations, fisheries (soft commodities), mining products, gold, etc. (hard commodities). Meanwhile, financial derivatives can be defined as derivative contracts that occur on financial instruments such as currencies, shares, composite indices, short-term interest rates, government Treasury bills, and bonds. According to the Decree of the Director, BI No. 28/119/KEP/DIR, 29 December 1995, a financial derivative is a contract or payment agreement whose value is a derivative of the value of the underlying instrument, such as interest rates, exchange rates, commodities, equity, and indices, whether followed by movement or without movement of funds or instruments (Abdu Rofiq, 2016).

In facing the crisis, companies in Indonesia use derivative instruments with various strategies to protect themselves from possible risks. These strategies can be categorized into three, namely hedging, speculation, and risk management. Hedging is a strategy used to protect oneself from the risk of changes in the price or value of an asset. For example, a company can use a forward contract to buy or sell an asset in the future at an agreed price. This can help the company avoid losses if the asset price falls. Speculation is a strategy used to take advantage of changes in the price or value of an asset. For example, companies can use futures contracts to bet that the price of an asset will rise or fall in the future. If the company's predictions are correct, then the company can profit from the transaction. Risk management is a strategy used to manage overall risk. For example, a company may use derivative instruments to diversify its portfolio or reduce liquidity risk (Sianturi & Pangestuti, 2015).

The following are several Indonesian companies' strategies for using derivative instruments in dealing with the crisis: PT Bank Mandiri (Persero) Tbk. uses derivative instruments to protect itself from the risk of fluctuations in the rupiah exchange rate. Bank Mandiri uses forward contracts to buy US dollars in the future at an agreed price. This can help Bank Mandiri avoid losses if the rupiah exchange rate falls. PT Perusahaan Gas Negara (Persero) Tbk. uses derivative instruments to protect itself from the risk of rising natural gas prices. PGN uses futures contracts to purchase natural gas in the future at an agreed price. This can help PGN avoid losses if natural gas prices rise. PT Unilever Indonesia Tbk. uses derivative instruments to protect itself from the risk of changes in commodity prices. Unilever uses forward contracts to purchase palm oil in the future at an agreed price. This can help Unilever avoid losses if palm oil prices rise (Zahra et al., 2023).

The use of derivative instruments by Indonesian companies in facing the crisis can help companies survive and even develop amidst difficult conditions. The following are some of the benefits of using derivative instruments by Indonesian companies to face the crisis accordint to (Niansyah et al., 2018): Helping companies protect themselves from the risk of loss. By using derivative instruments, companies can reduce the risk of losses that may occur due to changes in the price or value of an asset. It helps companies gain profits from changes in the price or value of an asset. By using derivative instruments, companies can take advantage of changes in the price or value of an asset to gain profits. It helps companies manage overall risk. By using derivative instruments, companies can manage overall risk, both the risk of loss and the risk of profit.

However, the use of derivative instruments also has its own risks. Companies must understand these risks and use derivative instruments wisely.

The following are some of the risks of using derivative instruments: Price volatility risk. The price of the asset underlying the derivative instrument may experience volatility, so the company may experience losses. Risk of default. The counterparty in a derivative transaction can fail to pay, so the company can experience losses. Liquidity risk. Companies may experience difficulty selling their derivative instruments, so they may experience losses.

To reduce this risk, companies must understand the derivative instruments they will use and carry out a comprehensive risk analysis.

Here are some tips for Indonesian companies to use derivative instruments wisely: Understand the derivative instruments that will be used. Companies must understand the characteristics and risks of each derivative instrument before using it. Conduct a comprehensive risk analysis. Companies must conduct a comprehensive risk analysis to understand the risks that may occur. Use derivative instruments wisely. Companies must use derivative instruments wisely to protect themselves from risks and gain profits. By using derivative instruments wisely, Indonesian companies can increase their ability to survive and develop in the face of crises.

Conclusion

Based on the results of the analysis and discussion above, it can be concluded that the use of instrument derivatives by companies in times of crisis is an important strategy to protect brand assets, manage risk, and guard continuity of business. Instrument derivatives can have significant benefits, like protecting the mark from fluctuation in price or mark exchange, managing more risk (OK), accessing liquidity, and diversifying portfolios. However, companies also need to understand associated risks associated with the use of instrument derivatives and consider them carefully before adopting them. Deep understanding of types of instrument derivatives, strong knowledge of market finance, and a reliable contractor are key factors in the success of using derivatives in a crisis. With the right strategy and effective risk management, a company can mitigate risk and maintain financial stability during a period of economic crisis.

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