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Optimization of Financial Risk Management as an Effort For Economic Stability

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Abstrak

Persaingan di dunia bisnis menjadi salah satu fenomena yang tidak dapat dihindarkan dalam lingkup perekonomian. Kekuatan dan ketahanan dalam persaingan di pasar perdagangan yang kuat dapat berdampak positif untuk perekonomian sehingga ekonomi tumbuh secara positif. Pendekatan pada kajian artikel ini adalah studi literatur review dengan metode systematic literature review (SLR). Metode pengumpulan data menggunakan studi pustaka. Teknik analisis data menggunakan metode deskriptif kualitataif. Hasil dan pembahasan dari kajian artikel ini adalah bahwa adanya manajemen risiko keuangan menjadi salah satu upaya untuk pencapaian stabilitas perekonomian dimana melalui baiknya pengelolaan risiko keuangan dapat berdampak positif untuk perekonomian sehingga ekonomi dapat tumbuh secara stabil serta dapat memberikan peluang untuk tetap bersaing di pasar global.

Kata Kunci: Manajemen Risiko Keuangan; Pertumbuhan Perekonomian; Stabilitas Ekonomi.

Abstract

Competition in the business world is one phenomenon that cannot be avoided in the economic sphere. Strength and resilience in competition in a strong trade market can have a positive impact on the economy so that the economy grows positively. The approach to the study of this article is a literature review study using the systematic literature review (SLR) method. Data collection method using literature study. The data analysis technique uses a qualitative descriptive method. The results and discussion of the review of this article is that financial risk management is an of efforts to achieve economic stability where through good financial risks management it can have a positive impact on the economy so that the economy can grow stably and can provide opportunities to remain competitive in the global market.

***Keywords**: Financial Risk Management; Economic Growth; Economic Stability.*

Introduction

Today's business world continues to develop, resulting in increasingly competitive business competition. There are two important things that business people do in business development, namely the ability to produce products and the ability to face business competition. Companies that are strong in competition will survive, but companies that cannot compete will likely experience setbacks or bankruptcy (Faizah & Suib, 2019). Increasing the production capacity of the economy in the long term to generate higher income is the meaning of economic growth (Putri, Wibawa, & Sumiyati, 2023). Economic growth that grows positively every year reflects the progress of a country and also illustrates success in competition which has an impact on economic growth. Economic growth that is experiencing a decline must be paid attention to because it can cause fluctuations in economic growth (Affandi & Risma, 2021).

Fluctuations in economic growth are influenced by several factors, one of which is the COVID-19 pandemic in 2020. The COVID-19 pandemic has had a negative impact felt by many countries, one of which is in the economic growth sector (Krisvian & Rokhim, 2022). The hope is that in the future fluctuations in economic growth will not occur again and will move towards economic stability. Economic stability can also be assessed from a decrease in the inflation rate which will increase economic growth and conversely, an increase in the inflation rate will reduce economic growth (Novalina et al, 2021). Economic growth is also influenced by economic activity, namely company business activities (A, Ramdani, & Atmaja, 2022). One of the activities in the company's business is risk management, where well-managed risk management is an indicator to support the achievement of economic stability.

Risk management is a structured approach to dealing with threat uncertainty, a series of human activities including risk assessment, development of risk management strategies, and risk reduction through resource management. Possible strategies include risks being transferred to other parties, risks being avoided, negative impacts of risks being reduced, and some or all of the consequences of certain risks being pooled. The main objective of risk management is so that potential losses related to unexpected changes in currency, credit, commodities, and equity can reach a minimum (Saripudin, 2019).

Financial risk includes the risk of price volatility called market risk. Considering other risks needs to be carried out by a management accountant, although the emphasis is on price volatility risk. Some of these other risks, including liquidity risk, arise because not all financial risk management products can be traded freely. Market discontinuity is a risk that refers to a market that does not always produce price changes little by little or gradually. Credit risk arises as a result of one party being unable to fulfill its obligations. Regulatory risks arise due to prohibitions by public authorities on the use of financial products for exclusive purposes. Tax risk is the risk that exclusive hedging transactions will not be subject to appropriate taxation. Accounting risk is an opportunity where a hedging transaction is not recorded in the transaction to be hedged (Rusmawan, 2016).

Operational risk is the risk of loss due to internal deficiencies or failures of processes, people, and systems or external events (Pakhchanyan, 2016).

A company that is said to be good certainly has an exclusive goal for the survival of the company and its human resources. Generally, a company aims to obtain the maximum profit with the lowest possible costs, so that the company can survive in the long term. In the era of increasingly tight business competition, companies are increasingly thinking creatively in developing their business. The quality of a good company is determined through two assessments which are used as the basis for seeing the company operating its activities by good management principles. This assessment can be seen from two sides, namely financial performance and non-financial performance (Pri, 2019). The performance of a company, both financial and non-financial performance, which is monitored responsibly and carried out well, will play an important role in the company itself (Ruwanti, 2019). The discussion in this article study is quite attention-grabbing because the current economic condition is increasingly unstable and tends to fluctuate, with this study it is hoped that it can provide insight to economic actors that financial risk management is important in a business to keep the economy in a stable condition. This article study aims to provide an overview and explanation regarding financial risk management that can stabilize the economy and provide opportunities for competition in the international arena.

Literature Review and Hypothesis Development

Risk

Risk is the origin of the word risk from English which means the possibility of loss. Risk is defined as something that refers to the uncertainty of an event occurring which can cause a loss, including small losses that are not very significant to large losses that can affect survival. Risk is considered as something that has a negative value, where the losses incurred are a form of uncertainty that must be understood and managed effectively, which is one of the strategies to add value in encouraging the goals to be achieved (Lokobal, Sumajouw & Sompie, 2014).

Sources that cause risk include internal risk, external risk, financial risk, and operational risk (Lokobal, Sumajouw & Sompie, 2014). The sources of risk are explained as follows:

1. Internal risk is a risk that originates from within the company's environment.
2. External risk is a risk that originates from outside the company's environment.
3. Financial risk is a risk that originates from economic and financial factors including changes in prices, interest rates, and currencies.
4. Operational risk is a risk that originates from human, natural, and technological factors. This risk includes all forms of risk that are not included in financial risk.

Financial Risk Management

Financial risk is a fluctuation or instability of financial targets or monetary measures caused by fluctuations in various macro variables. Financial risk occurs due to the inability to cover financial costs (Yanda, 2022). Financial risk includes several forms including market risk (risk due to movements in market factors), liquidity risk (risk due to risk management products not all being able to be traded freely), market discontinuity (the market does not always cause price changes), credit risk (risk due to unable to fulfill its obligations), regulatory risk (risk due to prohibitions from the authorities), tax risk (risk due to tax treatment), and accounting risk (risk due to recording transactions) (Muhyiddin, 2020).

Risk management aims to minimize potential losses caused by unexpected changes in currency, credit, commodity, and equity prices. Financial risk management focuses on managing risk using financial instruments (Sahara, 2019).

Economic Stability

Economic stability is the basis for achieving increased social welfare, which is illustrated by increased economic growth. Achieving economic stability is characterized by balance and continuity in economic activities. Maintaining economic stability can be achieved through steps aimed at strengthening the economy's resilience from various shocks or upheavals generated from within or outside the country. Economic stability is important because it is one of the measures to maintain economic activity. Strengthening the financial sector encourages faster economic growth which can be an effort to achieve economic stability. If the performance of the financial sector improves, economic stability will also improve (Legesang, Tampi & Tampongangoy, 2021).

Framework

A thinking framework is a framework that aims to explain the concept of research based on thought, including phenomena, facts, and literature studies that are appropriate and closely related to the problem in the research. The rationale for this study is as follows:

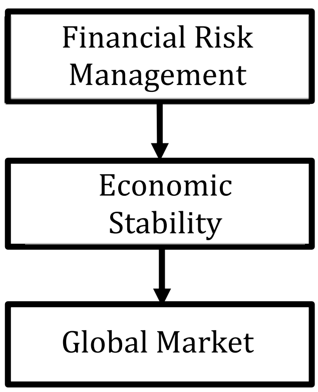

Figure 1. Framework of Thought

Research Method

The approach to this study uses a literature review study method using the systematic literature review (SLR) method. A literature review study is an analysis that provides reviews, summaries, and thoughts from several library sources including books, scientific journals, scientific articles, and other literature sources that are closely related to the problems discussed in the research (Hazibuan, 2007). The systematic literature review (SLR) method is a literature review approach for reviewing, assessing, and interpreting articles through a systematic review with three stages, namely planning, implementation, and reporting (Wiliana, et al, 2024). The data collection method in this study uses library research by understanding and learning through the use of secondary data originating from trusted sources related to the problem (Fadli, 2021). The data analysis technique used is a qualitative descriptive method. The qualitative descriptive method is a method of collecting, compiling, and interpreting the results of the discussion to provide confirmation and description of the problem topic (Sukmadinata, 2011).

Result and Discussion

Actualization of Economic Development

Economic growth is necessary and must be paid attention to because the economy is one of the main factors in the wheel of life. The development of economic growth in Indonesia itself, until 2022, is still likely to experience fluctuations. Fluctuations can arise because several factors can influence them, one of which is the COVID-19 pandemic (Annuar, 2022). Economic growth is expected to achieve economic stability, where the economy grows stably so that it will strengthen the national and international economy.

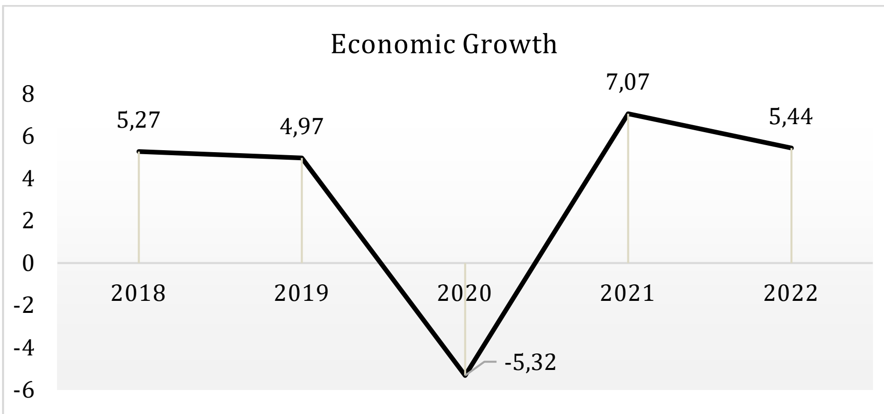

Figure 2. Economic Growth Trends 2018-2022
Source: Central Agency for Statistics & Trading Economics, 2023

The graph above depicts the development of the Indonesian economy from 2018-2022, where it can be seen that economic growth still tends to fluctuate. The graph results above show that economic growth from 2018 to 2022 grew fluctuatingly, from 2018 to 2019 and 2020 it decreased, then from 2020 to 2021 it increased, and from 2021 to 2022 it decreased again. Fluctuations were very visible in 2020 when the economy grew negatively by -5.32%. This fluctuation occurred due to the COVID-19 pandemic, which caused all sectors, one of which was the economic sector, to feel the impact.

The economic growth graph above shows that the transition from 2020 during the COVID-19 pandemic to 2021 saw a significant increase in economic growth. It can be seen that in 2020 economic growth was -5.32%, increasing by 7.07% in 2021. In the post-pandemic year, economic growth is still improving and is expected to reach a point of stability. In 2022, economic growth will experience indications of stable growth. The following is data on economic growth trends in 2022.

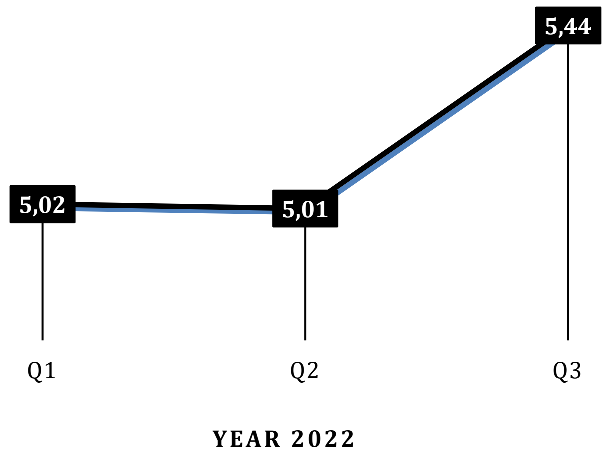

Figure 3. Economic Growth in 2022
Source: Central Agency for Statistics & Trading Economics, 2023

The graphic image above explains that the economic growth trend in 2020 is divided into quarter I, quarter II, and quarter III. The graph shows that the economic growth trend in 2022 is growing steadily, where in the first quarter it was 5.02%, in the second quarter it was 5.01% and in the third quarter it was 5.44% year on year (yoy). This economic growth trend is experiencing a steady increase and several indicators influence it globally and domestically. This stable economic growth is also influenced by the prices of several commodities on the global market. Economic stability is also influenced by financial risk management. Good financial risk management will have a positive impact on economic growth (Annuar, 2022).

Financial risk management or what is usually called financial risk management is an important thing in the economy, anticipating future risks can create healthy and strong economic flows. Good financial risk management will also provide a boost to economic growth both domestically and globally (Al-Qaisi & Al-Batayneh, 2018). Good risk management for the future is expected to provide strength and confidence to be able to compete both at home and abroad, to create a flow of economic growth nationally and internationally.

The Role of Financial Risk Management for Economic Stability

Well-managed financial risk management also plays a role in stabilizing the economy, where taking into account future risks can prevent fluctuations in economic growth. Managing financial risk management is one of the steps to achieve the expected results, namely the economy grows stably (Yanda, 2022). Well-managed financial risk management is also expected to be able to suppress fluctuations in economic growth that have occurred so far. Good financial risk management is also expected to have an impact on good financial performance so that economic growth will also have an impact in a positive and stable direction.

Figure 4. Illustration of Achieving Stable Economic Growth

The illustration above illustrates that stability in economic growth can be achieved, and one of the ways, is through maximizing financial risk management. If the financial system which is part of the economy is unstable, it will hamper economic growth. On the other hand, a stable financial system reflects that risk management conditions are functioning well so that it can support economic growth (Otoritas Jasa Keuangan, 2017). Financial risk management includes market risk/market volatility, liquidity risk, market discontinuity, credit risk, regulatory risk, tax risk, and accounting risk properly will have a good impact on financial performance, so that well-managed financial performance is expected to improve economic growth to achieve economic stability. Good company financial performance is also said to be healthy financial performance, which indicates that it can increase economic growth which has experienced a downturn (Mustika, 2015). Companies must carry out financial risk management to ensure company operations remain stable, protect financial value, and minimize potential losses and uncertainty (Dwi, 2023). The existence of good financial risk management in the company will also provide resilience and the company's strength remains stable.

Taking financial risks into account is also one of the preventive measures against economic fluctuations. Financial risk management is carried out with efforts to stabilize the economy by anticipating risks that may occur in the future (Sahara, 2020). The role of financial risk management is also expected to encourage competition in the global market by defending its existence in the global market by anticipating financial risks such as market risk/market volatility.

Strong global market defense through financial risk management can also be an indicator of achieving economic stability. Economic stability is one of the big goals so that there is balance and continuity so that prosperity will be achieved (Nurlina & Zurjani, 2018). A stable economy also provides opportunities to move forward in international market trade, so that economic recovery will be realized quickly.

Relationship of Financial Risk Management with Global Markets

Good financial risk management will be able to encourage the economy to grow on the international or global stage. Economic growth is expected not only to come from domestic but also from the global market. Competition in the global market requires strategies and steps to face this competition through financial risk management (Marlinah, 2017). It is hoped that good financial risk management in the global market will provide resilience and strength in facing this competition.

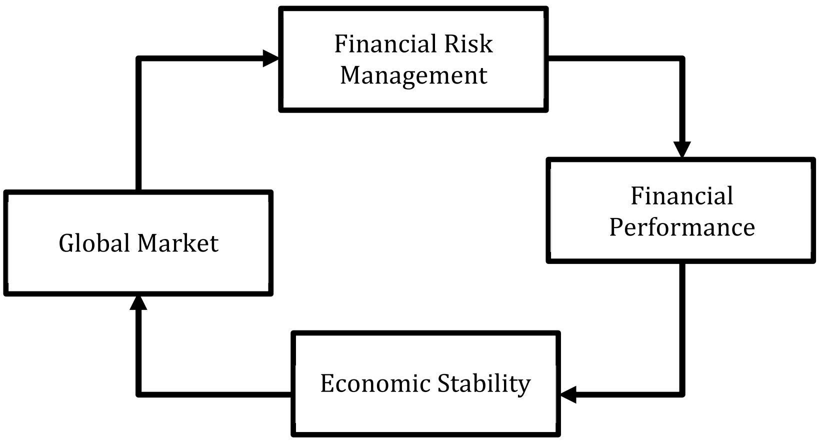

Figure 5. Illustration of the Relationship between Financial Risk Management and Global Markets

The illustration above illustrates that good financial risk management will have a positive impact on financial performance to grow positively. The existence of risk management keeps company activities under control and is expected to provide benefits and profits for the company (Azizah, Zahra, & Nurdiansyah, 2022). Financial performance that moves positively will provide opportunities for economic stability to be achieved. However, on the other hand, if the macroeconomy is in an unstable condition, it will hurt the company's financial performance (Dwipartha, 2013). The goal of achieving economic stability is to illustrate that economic conditions are growing in a surplus and positively, in this, case it can be a provision for achieving trade existence in the global market.

The global market, which is a major achievement, must be balanced with full anticipation in the process. Management of financial risks such as market risk, liquidity risk, credit risk, and accounting risk which are carefully calculated and considered will be one of the resilience factors in competition in the global market (Rusmawan, 2016). The economic stability created can help in facing competition with other countries in the global market.

The illustration above also emphasizes that all of this achievement must also be carried out in a structured manner with well-managed financial risk management, positive growth in financial performance, achieving economic stability and all of this will become strength and resilience in competition in the international arena, namely the global market. Global marketing is very beneficial for the country, because it can increase economic profits, open wider markets, and support the growth of state income (Suhairi et al, 2023). It is also hoped that this presence in the global market will be an effort to restore the economy after the COVID-19 pandemic and prove that Indonesia has the same opportunities as other countries sailing in the global market.

Conclusions

Financial risk management is an effort to stabilize economic growth in Indonesia, which still tends to fluctuate. Good financial risk management is expected to have a positive impact on the economy towards economic stability. Financial risk management plays a role in achieving economic stability, where anticipating future risks is expected to become an indicator of achieving economic stability. A thorough calculation of financial risks including market risk/market volatility, liquidity risk, market discontinuity, regulatory risk, credit risk, tax risk, and accounting risk is expected to be able to support the achievement of economic stability. Managing financial risks well will provide opportunities to compete in the global market. Well-managed risk management, positive growth in financial performance, and achieving economic stability will be a form of Indonesia's strength and resilience to survive competition in the global market.

A limitation of this article's study is the lack of research and literature studies that review the relationship between financial risk management and the economy. The author's next research recommendation is to study and research the relationship between financial risk management and the economy to provide an overview and proof and can become a topic/theme for further research.

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