# The Relationship between Risk Management on Problematic Asset Purchase Decisions in Indonesia

Devy M. Puspitasari
Sotarduga Napitupulu
Djoko Roespinoedji
Eristy M. Utami
Farida Nursyanti

**DOI:** https://doi.org/10.37178/ca-c.23.1.067

---

***Devy M. Puspitasari,*** *Lecturer, Faculty of Business and Management, Widyatama University Bandung- Indonesia*
*Email: devy.mawarnie@widyatama.ac.id*

***Sotarduga Napitupulu,*** *Financial Authorities in Indonesia*

***Djoko Roespinoedji,*** *Lecturer, Faculty of Business and Management, Widyatama University Bandung- Indonesia*

***Eristy M. Utami,*** *Lecturer, Faculty of Business and Management, Widyatama University Bandung- Indonesia*

***Farida Nursyanti,*** *Lecturer, Faculty of Business and Management, Widyatama University Bandung- Indonesia*

---

***Abstract***

***Purpose:*** *This study aims to know the relationship between risk management on problematic asset purchase decisions in Indonesia.*

***Design/methodology/approach:*** *Partial Least Square (PLS). The unit of analysis used in this research is the executive decision makers in purchasing problem assets during period 2016-2019. The sampling method of this unit of analysis is based on the purposive sampling method. Respondents taken in this study include executives who buy troubled assets in Indonesia with a wide variety of information, which are expected to be more varied and detailed, so that in the end the research results will be obtained as expected. Executives at the level of company owners and top management of the company.*

***Findings:*** *The results showed that risk management has a direct effect on the purchase decision of problematic assets. Efforts to develop decision-making in purchasing assets from non-performing loans need to pay attention to the utilization of risk understanding in order to obtain the right purchasing decisions.*

***Originality/value:*** *This research will be useful in knowing that the implementation of good risk management can ensure business sustainability, especially in assets that are relatively high risk.*

***Keywords:*** *risk management, purchase decisions, problematic asset*

### *Introduction*

Many research at the control of actual and economic belongings associated with the economic intermediation enterprise were carried out. One of the derivations of this problem is the asset control of a collapsed commercial enterprise entity. The selection to take over belongings from entities laid low with the inner economic disaster is inspired via way of means of many elements which have been studied via way of means of numerous preceding researchers. Research conducted by Puspitasari *et al.,* (2021a) shows that the ability to manage assets has an effect on purchasing decisions for problematic assets.

Based on previous research, it shows that the risk preference of investors who are managed through risk management will generally have an impact on the decision-making process. [1] says that investment decisions will depend on the behavior of investors themselves and are subjective and sometimes irrational, this difference in conditions often causes investors to be too optimistic so they are not careful in anticipating future risks. Investor psychological factors will affect investment decision making.

[2] also state that risk management is important in project management, risks must be identified from the start of risk assessment to evaluation of the final stage of a project. In making investment decisions, it must include the calculation of resource risk, technical risk, business risk, economic risk and priority risk, financial risk, country risk, and environmental risk. The calculation and analysis of these risks goes through a risk assessment process, but it should be noted that each of these risks is not treated the same between companies and industries. Purchasing non-performing assets of ex-banking can be regarded as a special project that also requires special handling of the uncertainties that will occur. So this can also apply in relation to the decision to purchase the problematic asset. However, the studies above have not revealed the relationship between risk management and takeover decisions from the buyer/investor perspective. Therefore, this study examines the relationship between risk management on problematic asset purchase decisions after non-performing loans.

### *Literature Review*

#### *Relationship between Asset Purchase Decision Variables and Risk Management*

In analyzing investment decisions, an understanding of risk is one that must be included in the calculation, besides an understanding of risk management in the real sense is managing risk to anticipate uncertainty so that it can anticipate the level of losses that will occur in the future. The higher the uncertainty, the higher the probability that the risk will occur. In making investment decisions, the investor side can be a risk taker and can also be a risk averse person. This difference in behavior also causes differences in treatment in the analysis of investment decision making. Therefore, the perception of whether the risk is high or low will depend on how investors view a condition whether it is high or low. [3]explains that in financial science the term investor behavior is known, there are differences in investor perceptions in assessing risk. [1]says that investment decisions will depend on the behavior of investors themselves and are subjective and sometimes irrational, this difference in conditions often causes investors to be too optimistic so they are not careful in anticipating future risks. Investor psychological factors will affect investment decision making.

[2]state that risk management is important in project management, risks must be identified from the start of risk assessment to evaluation of the final stage of a project. In making investment decisions, it must include the calculation of resource risk, technical risk, business risk, programming risk, economic risk and priority risk, enterprise risk, financial risk, country risk, and environmental risk. The calculation and

analysis of these risks goes through a risk assessment process, but it should be noted that each of these risks is not treated the same between companies and industries. Differences can of course occur when risk assessments in different industries and different companies have different characteristics. Therefore, the determination of the assessed risk will depend on the characteristics of the company or industry to be assessed and is not standard. Table 1 shows the definition of risk management from experts.

*Table1*

Definition of Risk Management

| No | Researchers | Definitions |
|---|---|---|
| 1 | [3] | High or low perception of risk will depend on how investors view a condition whether it is high or low. |
| 2 | [1] | Investment decisions will depend on the behavior of investors themselves and are subjective and sometimes irrational, these differences in conditions often cause investors to be too optimistic so they are not careful in anticipating future risks. |
| 3 | [2] | Understanding of risk is important in project management, risks must be identified from the start of the risk assessment to the evaluation of the final stage of a project. In making investment decisions, it must include the calculation of resource risk, technical risk, business risk, programming risk, economic risk, priority risk, enterprise risk, financial risk, country risk, and environmental risk. |
| 4 | [4] | Risk management is an understanding of risk which is very dependent on the investor's perspective on the uncertainty of a condition. This perception can be subjective which must be managed properly through a comprehensive risk calculation from beginning to end. Starting from the risk assessment to the evaluation of the final stage of investment. |

Meanwhile, the comparison of indicators of ability to manage assets is based on the literature as shown in Table 2.

*Table2*

Comparison of Risk Management Ability Indicators

| No | Researchers | Indicators |
|---|---|---|
| 1 | [3] | Investor perception<br>Investor assessment |
| 2 | [1] | Investor optimism |
| 3 | [2] | Resource risk<br>Technical risk<br>Business risk<br>Economic risk and priority risk<br>Financial risk<br>Country risk<br>Environmental risk |
| 4 | [4] | Investor's perception and assessment<br>Risk identification<br>Investor optimism through risk mitigation |

### 2.2 Asset Purchase Decision

In the economic world, there also are numerous techniques for making funding choices, [5] point out that there are numerous strategies and strategies such as equipment that may be used for attention in making funding choices, strategies may be economic techniques and non-economic techniques. Consideration of economic approach is primarily based totally on economic evaluation such as capital, coins float and earnings projections withinside the future, at the same time as non-economic approach is an evaluation that discusses the blessings and projections of funding. [6] integrate funding selection making among fee chain, fee drivers and aggressive benefit, they nation that organizations which are a success in making funding choices commonly attention on aggressive benefit in forty four British organizations and German. Based at the effects of the 2 research above, it is able to be concluded that the funding selection-making approach does now no longer best depend upon the economic evaluation side, however it appears that evidently non-economic evaluation is something this is important and ought to be considered. In practice, [6] additionally provide an explanation for that funding selection-making techniques have to additionally adapt to dynamic financial and commercial enterprise situations, which means that there have to be changes whilst undertaking economic and non-economic evaluation. In the actual world, an adjustment thing is sincerely essential given the converting commercial enterprise cycle situations because of adjustments in macroeconomic situations and authorities rules which actually have a position in encouraging adjustments in funding selection-making techniques.

Techniques in funding selection-making techniques extrude over time, [7]mentions a shift within side the strategies utilized in figuring out funding choices in phrases of structural traits decided through the dimensions and geographic aspect of the fee of an funding. Adler explains what number of criticisms underlie conventional funding selection making including payback, accounting charge of go back, go back on funding (ROI), residual earnings and bargain coins flow, in which the conventional method is greater to evaluate the company's productiveness degree however does now no longer check and examine how productiveness produced through comparable industries. The weak point of different conventional tactics is that it does now no longer examine the blessings from the non-economic aspect in order that it does now no longer do not forget the introduced fee that ought to be protected within side the calculation. The subsequent weak point is that the funding selection-making approach best takes under consideration the fast time period, in this kind of calculation situation it best takes under consideration the month-to-month length and if the once a year length is best the medium time period. If the calculations and evaluation are best brief time period, then adjustments and projections for the long time aren't informed. The new funding selection-making method evaluation method suggests a broader and greater in-intensity economic evaluation, which includes the addition of non-economic evaluation, amongst others, contemplating long-time period blessings and lengthening the existence of the funding in order that longer coins flows may be projected. In addition, the brand new funding selection-making evaluation approach additionally takes under consideration the fee control of including analyst attributes which includes qualitative evaluation of presidency policies, ratings, product studies improvement and so on [8]. The outcomes of the identical studies additionally display that there's a want for qualitative and quantitative evaluation in figuring out funding selection-making techniques [9]. In the evaluation of funding selection-making techniques, of course, it's miles important to calculate the fee of each tangible and intangible belongings. The calculation of the fee of intangible belongings is absolutely greater tough than tangible belongings. The method to calculating intangible belongings calls for a better degree of accuracy and precision, essentially the calculation of intangible belongings is an evaluation that attempts to switch qualitative facts into quantitative calculations in order that it calls for foresight and more potent assumptions in order that the expected fee acquired is near accuracy [10]. Table 3 suggests the information of asset buy choices from experts.

*Table3*

Definition of Asset Purchase Decision

| Researchers | Definition |
|---|---|
| [5] | Asset buy choices are a part of the strategy, extra especially the techniques and gear which may be monetary or non-monetary strategies. |
| [6] | In making funding selections among the fee chain, price drivers and aggressive advantage, they locate that businesses which might be a hit in making funding selections usually consciousness on aggressive advantage. |
| [6] | The funding decision-making approach need to additionally adapt to dynamic financial and enterprise conditions, that means that there need to be changes while accomplishing economic and non-economic analysis. |
| [7] | In selection making, there was a shift within side the approach utilized in figuring out funding choices in phrases of structural traits decided through the size and geographical aspect of the fee of an funding. |
| [9] | The new funding decision-making evaluation technique additionally takes under consideration the price control of including analyst attributes together with qualitative evaluation of presidency policies, ratings, product studies improvement and so on. |
| [4] | The asset buy selection is an funding selection procedure that entails the choice of techniques and equipment through thinking about more than one factors, each economic and non-economic. |

Meanwhile, the comparison of asset purchase decision indicators based on the literature is described in Table 4 below.

*Table4*

Comparison of Asset Purchase Decision Indicators

| Researchers | Indicators |
|---|---|
| [5] | Methods, Tools, Financial Aspects, Non-monetary Aspects |
| [6] | *Cost driver*, Competitive advantage ,Value chain, |
| [11] | Business financial conditions , Financial analysis, Non-economic analysis |
| [7] | Characteristics of the dimensions shape and geographical side |
| [9] | Qualitative evaluation of presidency policies, Ratings, Product studies development |
| [4] | Selection of methods, Consideration of economic aspects, Consideration of non-economic aspects |

### 3. *Methodology*

This observe is a quantitative observe, wherein the speculation checking out became finished thru the empirical facts checking out. The speculation became primarily based totally at the literature evaluate defined within side the preceding section. The analytical approach used became the Partial Least Square (PLS). The unit of statement of this observe are numerous elements which primarily based totally on preceding research are the determinants of chance control and asset buy decisions. Figure 1 depicts the SEM framework used on this observe.

Circles in Figure 1 incorporates latent variables, specifically chance control and asset buy decisions. Risk management (credit risk perception, interest rate risk perception, market risk assessment, credit risk assessment, exchange rate risk assessment, interest rate risk assessment, and political risk mitigation) and asset purchase decisions (method selection, consideration of financial aspects, consideration of non-financial aspects finance).

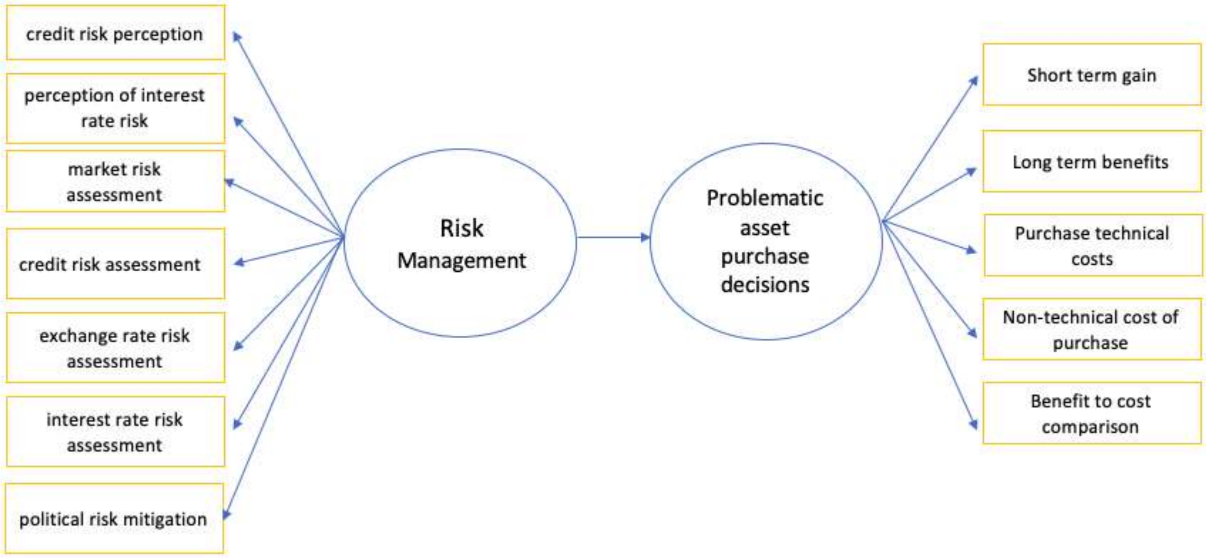


**Figure 1. Framework**

The unit of evaluation used on this have a look at is the government choice makers in the acquisition of afflicted property. The sampling approach from this unit of evaluation is primarily based totally at the purposive sampling approach, that means that the pattern is taken primarily based totally on sure situations decided through the researcher. Respondents taken on this have a look at consist of executives shopping for afflicted property in Indonesia with a extensive diversity, it's miles was hoping that greater numerous and targeted statistics might be acquired, in order that ultimately the studies consequences might be acquired as expected. Executives at the extent of agency proprietors and pinnacle control of the agency. In addition, the goal respondents on this have a look at our customers of non-appearing property at state-owned banks in Indonesia. There are hypotheses examined is that danger control influences the choice to buy complicated property on the bank. Hypothesis trying out turned into achieved via the empirical data.

### *4. Result and Discussion*

From the Table 4.1, it may be visible that the Risk Management variable which includes 7 signs used has an outer loading component among 0.666 to 0.780, wherein the Credit Risk Perception indicator is the bottom and the Political Risk Mitigation indicator is the highest. From those outcomes it may be defined that within side the found sample, within side the Risk Understanding variable, the political hazard mitigation indicator is the maximum essential detail contributing to the hazard know-how variable.

*Table4.1*

Loading Factor Variable Risk Management

| No | Risk Management Variable Indicator | Outer Loading Factor |
|---|---|---|
| 1 | Perceptions of credit risk | 0.666 |
| 2 | Perception of interest rate risk | 0.720 |
| 3 | Market risk assessment | 0.668 |
| 4 | Credit risk assessment | 0.733 |
| 5 | Exchange rate risk assessment | 0.721 |
| 6 | Interest rate risk assessment | 0.741 |
| 7 | Political risk mitigation | 0.780 |

Overall the Outer Loading Factor is above 0.7 so it can be concluded that the Risk Management variable model is valid and reliable or in other words all indicators forming the Risk Management variable are valid.

*Table4.2*

Loading Factor Indicators of Asset Purchase Decision Variables

| No | Indicators of Asset Purchase Decision Variables | Loading Factor |
|---|---|---|
| 1 | Short term profit | 0.704 |
| 2 | Long term profit | 0.755 |
| 3 | Purchase technical fee | 0.672 |
| 4 | Non-technical purchase costs | 0.754 |
| 5 | Benefit to cost comparison | 0.751 |

The AVE fee shows the validity and reliability of the variables. Based on statistical criteria, the variable should have a fee above 0.5. Thus, due to the fact all variables have an AVE fee above 0.5, those variables may be stated to be dependable. The consequences of the Composite Reliability Test display that everyone values are above 0.7 because of this that that the studies variables are dependable. It may be visible in Table 4.3 that the Cronbach's Alpha fee of all variables is above 0.7, because of this that that the variable forming factors are dependable or have met the reliability test.

*Table4.3*

Analysis Average Variance Extracted (AVE), Composite Reliability and Cronbach's Alpha

| | | Reliability | Alpha |
|---|---|---|---|
| Risk Management | 0.517 | 0.882 | 0.845 |

The check consequences display that risk management has an impact on modifications in shopping choices with a coefficient of 0.382 and is sizeable on the 1 percentage stage or the opportunity fee is much less than 0.01 (99%). Risk management at the projected asset fee has a coefficient of 0.243 and is sizeable at the extent of five percentage (95%). The value of the adjusted R-rectangular of 0.674 manner that the risk management component can give an explanation for 67.4% of the complex asset buy selection whilst the relaxation is defined via way of means of elements now no longer examined.

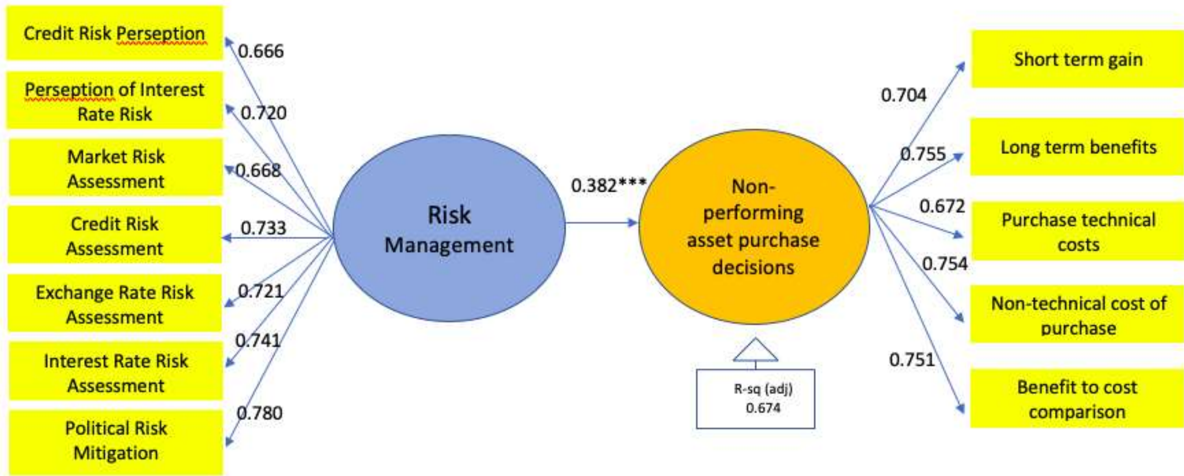


Figure 2. The Relationship between Risk Management on Problematic Asset Purchase Decisions

In the next analysis which is the elaboration of the results of the Outer Risk Management Model (Table 4.1.) it is explained that Risk Management has an immediate impact on asset purchase decisions. From the Risk Management model variables analyzed, the Mitigation indicator on political risk has the biggest contribution in comparison to different indicators (perception of credit risk, perception of interest rate risk, market risk assessment, credit risk assessment, exchange rate risk assessment, and interest rate risk assessment. the lowest indicator is the perception of credit risk.

It can be understood that political risk, which is the risk caused by regulatory changes, has become the focus of investors' attention. Thus, investors have an interest in following applicable regulations so that they can immediately anticipate them when changes occur. This regulatory change is comprehensive in terms of banking rules, laws, and other related regulations. These findings are relatively consistent with several literatures, such as [1, 2]finding an important contribution to understanding risk in investor decisions where in this case, investment decisions will depend on the behavior of investors themselves and are subjective. and sometimes irrational, this difference in conditions often causes investors to be too optimistic so they are not careful in anticipating future risks. This finding strengthens the research of [12] which states that managing a company with prudence principles and the application of risk management can prevent risk exposure from occurring.

### *5. Conclusion*

This study shows that risk management has a significant effect on decision making on non-performing assets after bad loans. Therefore, Risk Management is the main focus of developing a strategy for purchasing non-performing assets through the development of political risk mitigation strategies, interest rate risk assessments, and credit risk assessments. Efforts to develop decision making in purchasing assets from non-performing loans need to pay attention to the utilization of risk understanding and flexibility of asset value projections in order to obtain the right purchase decisions. These research are beneficial for observers and researchers, and they could increase those research the use of distinctive methodologies, variables, data, or proxies. In addition, the implementation of good risk management can ensure the sustainability of the property asset business which is relatively high risk.

### *References*


1. Virlics, A., *Emotions in economic decision making: A multidisciplinary approach.* Procedia-Social and Behavioral Sciences, 2013. **92**: p. 1011-1015.DOI: https://doi.org/10.1016/j.sbspro.2013.08.792.
2. Junkes, M.B., A.P. Tereso, and P.S.L.P. Afonso, *The importance of risk assessment in the context of investment project management: A case study.* Procedia Computer Science, 2015. **64**: p. 902-910.DOI: https://doi.org/10.1016/j.procs.2015.08.606.
3. Jorgensen, P.J. and R.C. Anderson, *Grain-Boundary Segregation and Final-Stage Sintering of Y2O3.* Journal of the American Ceramic Society, 1967. **50**(11): p. 553-558.DOI: https://doi.org/10.1111/j.1151-2916.1967.tb14997.x.
4. Puspitasari, D.M., et al., *Determinants of default risks and risk management: evidence from rural banks in indonesia.* The Journal of Asian Finance, Economics and Business, 2021. **8**(8): p. 497-502.
5. Alkaraan, F. and D. Northcott, *Strategic capital investment decision-making: A role for emergent analysis tools?: A study of practice in large UK manufacturing companies.* The British Accounting Review, 2006. **38**(2): p. 149-173.DOI: https://doi.org/10.1016/j.bar.2005.10.003.
6. Carr, C. and C. Tomkins, *Context, culture and the role of the finance function in strategic decisions. A comparative analysis of Britain, Germany, the USA and Japan.* Management Accounting Research, 1998. **9**(2): p. 213-239.DOI: https://doi.org/10.1006/mare.1998.0075.
7. Adler, R.W., *Strategic investment decision appraisal techniques: the old and the new.* Business Horizons, 2000. **43**(6): p. 15-15.DOI: https://doi.org/10.1016/S0007-6813(00)80017-8.
8. Setiadi, N.J. and D.M. Puspitasari, *Empirical study of entrepreneurial attitudes and intentions among Indonesian business students.* DLSL Journal of Management, 2014. **1**(1): p. 2014.
9. Droj, L. and G. Droj, *Usage of location analysis software in the evaluation of commercial real estate properties.* Procedia Economics and Finance, 2015. **32**: p. 826-832.DOI: https://doi.org/10.1016/S2212-5671(15)01525-7.
10. Puspitasari, D.M., *Does Fit and Proper Able to Moderate The Relationship of Leadership and Good Corporate Governance?* Turkish Journal of Computer and Mathematics Education (TURCOMAT), 2021. **12**(8): p. 452-457.
11. Cummins, J.G., et al., *A reconsideration of investment behavior using tax reforms as natural experiments.* Brookings papers on economic activity, 1994. **1994**(2): p. 1-74.DOI: https://doi.org/10.2307/2534654.
12. Napitupulu, S., et al., *The effect of management capabilities in implementing good corporate governance: A study from indonesia banking sector.* The Journal of Asian Finance, Economics, and Business, 2020. **7**(1): p. 159-165.DOI: https://doi.org/10.13106/jafeb.2020.vol7.no1.159.