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Research Article

Risk Impact on Corporate Values and Its Effect on Profit (Study on Textile Group Company in Indonesia Stock Exchange)

Ella Siti Chaeriah[1] and Akhmad Sodikin[1]

[1]Lecturer Faculty of Economics Universitas Krisnadwipayana Jakarta, PO BOX 774 / Jat CM Jakarta 13077 Indonesia

*Corresponding Author
Ella Siti Chaeriah

Abstract: *This study intends to examine the effect of risk on the value of the company, the effect of the value of the company on corporate earnings and the effect of risk on corporate earnings through the company's value. The company's risk is measured by the Degree of Financial Leverage (DFL), Degree of Operating Leverage and beta stocks. The company's value is measured by PBV and the level of debt to equity ratio (DER) and corporate profits are measured by ROA and NPM. The data used is the group of financial ratios of the textile industry in Indonesia Stock Exchange in 2016. The number of companies included in the analysis was 18 companies. Data were analyzed using part analysis. Based on the data analysis showed that the risk does not significantly affect the value of the company. Critical value on the risk ratio is 0.012 with a probability value above 5%. It is indicated that the risk did not significantly affect the value of the company. The influence of risk to earnings is 0.231. And the effect on earnings value was 0.200. The indirect effect is 0.231 x 0.2 = 0.046. While the influence of direct risk to earnings is 0.376. This means that the direct effect is greater than the indirect effect and the variable value is not an intervening variable.*

Keywords: *risk, the value of the company, the company earnings.*

INTRODUCTION

Understanding of risk management enables management to effectively engage systematically or beta is a measure of return volatility of a security or portfolio returns to the market return. Where securities beta-that measure return volatility of securities with the market return and beta portfolio with the portfolio return volatility measures the market return. Therefore, beta is a measure of systematic risk of a security or portfolio relative to the market (Jogiyanto: 2000:193).

The concept of risk is then developed originally by Sharpe (1964), Lintner (1965) and Mossin (1966) in Husnan (2010) following the advice from the mean-variance optimization Markowitz. This theory has provided a simple theory for more than 20 years. In its simplest form, this theory predicts that the expected return on a risk-free asset is proportional to the risk that can not be eliminated by diversification (non-diversifiable risk) as measured by the covariance of asset returns with a portfolio composed of all assets available in the market. To be able to choose a safe investment, required careful analysis, meticulous and supported by accurate data. The correct techniques in the analysis will reduce the risk for investors in investing.

In an analysis in the capital markets can use fundamental analysis and tactical. The fundamental analysis by Husnan (2010: 345) tries to predict stock prices in the future with (i) estimate value fundamental factors that affect stock prices in the future, and (ii) applying the relationship of these variables in order to obtain an estimated price stock.

Fundamental analysis is generally conducted in stages, the economic analysis first, followed by an analysis of the industry and finally an analysis of the company issuing the shares. The use of this approach is based on the premise that the condition of the company not only influenced by internal factors, but external factors (ie the economy/market and industry) also affects the condition of the company.

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This analysis is an attempt to predict stock prices by observing changes in the stock price time ago. The thinking underlying the analysis are (i) that the share price reflects the relevant information (ii) that the information is indicated by changes in prices at a time when the then (iii) changes in the stock price will, therefore, have a certain pattern, and the pattern will be repeated.

Technical analysis can be performed for individual stocks or the overall market conditions. Technical analysis uses charts and various technical indicators. Information on prices and trading volume are the main tool of analysis.

Technical analysis is essentially an attempt to determine when to buy (into the market) or sell shares (out of the market), by making use of technical indicators or using graphical analysis. By using the techniques above can be used as an illustration for shareholders to assess the price of shares in making an investment.

In fundamental analysis, which is used as the basis of the estimated price is of fundamental factors such as financial reports, other critical information at any time to be declared a public company and macroeconomic developments, and even news in other areas such as political, social, weather, etc. , deemed necessary, all for at least the last two years. Certainly, the work involved is colossal, if you want to review in depth and thorough.

It is impossible for anyone to absorb all of the information on offer in total. Need to put a border in order of priority and time and resource limitations of each. Restrictions set by analysts according to their individual needs are different. In addition, access to the information available is not the same for all parties that are involved, in terms of time and amount. Differences within the restrictions of space for analysts will affect the price formation process so that there will be differences in perceptions about the price level considered reasonable.

Information is needed to determine the factors that have an impact on corporate profits. In this study, the company's profit is measured by ROA and NPM. ROA development of the textile industry group company can be seen in the following figure.

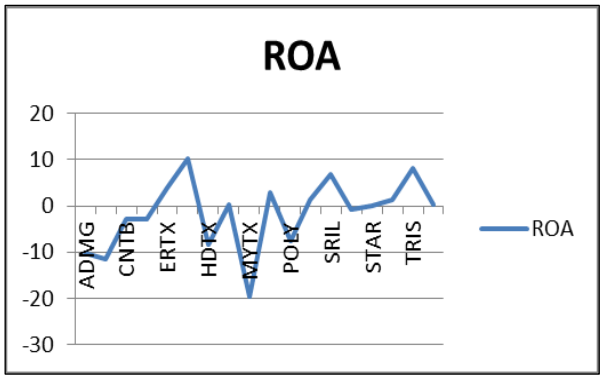

Figure1. The development of the textile group company ROA 2016

Based on these data differ from the company's ROA value of the group. There are 6 companies in the period which had a negative ROA means a loss while others had a pretty good profit. Judging from the value of NPM also has significant differences. The amount of NPM can be seen in the following figure.

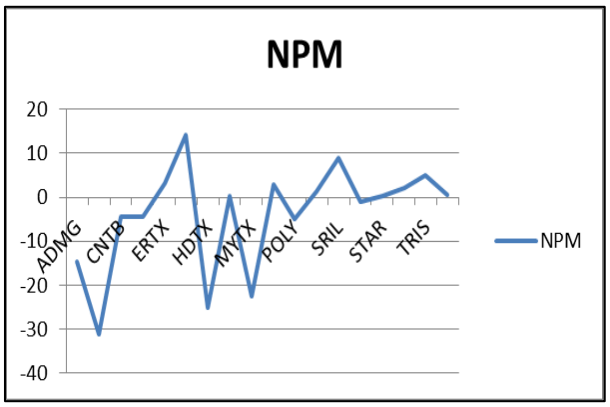

Figure 2. Value NPM companies

Based on these data we can see that the value of NPM too much negative meaning that the company suffered losses. This has an impact on financial performance is also not good. Factors that indicated an impact on earnings is the risk of the company and the value of the company. The company's risk will affect the company's profit through the value of the company being acquired.

In this study, the company's risk indicated by the level of financial leverage, operating leverage and the level of risk. This risk will affect the achievement of the earnings through the company's value. Indicated enterprise value with, The company's value is measured by PBV and the level of debt to equity ratio (DER) and corporate profits are measured by ROA and NPM.

Literature Review

Degree Operating Leverage

Financial leverage, companies that use debt is a company that has financial leverage. The greater the proportion of debt used, the greater the financial leverage it. The greater the proportion of debt used by

the company, the owners of capital alone will bear greater risk. Due to the higher financial leverage, the higher the equity beta.

Leverage is defined as the use of assets or funds, and as a result of the use of these funds, the company must pay a fixed fee or a fixed load. Horne (2012: 474) states that leverage demonstrates the use of fixed costs in an effort to increase profits.

Degree of Financial Leverage

Bernstein (1998: 477) states that financial leverage is the amount of debt financing used to pay returns that remain in the company's capital structure. Companies with financial leverage are said to make transactions in equity. Financial leverage is the use of the funds, along with a constant load. Financial leverage is determined by the relationship between EBIT and earnings per share that benefit shareholders.

Stock Price

Stock is one of the popular financial market instruments. Issuing shares is one option the company wants to raise a capital company. On the other hand, the stock is an investment instrument that has been chosen investors as the stock is able to provide an attractive level of profits. While the definition of shares pursuant to Husnan (2010) is a certificate that shows proof of ownership of a company, and shareholders have the right to claim on the income and assets of the company. From these definitions, it can be concluded that the stock is a certificate or plaque that has a function as evidence of ownership of a company with a variety of important aspects of the company.

Technical Analysis

This analysis is an attempt to predict stock prices by observing changes in the stock price time ago. The thinking underlying the analysis are (i) that the share price reflects the relevant information (ii) that the information is indicated by changes in prices at a time when the then (iii) changes in the stock price will, therefore, have a certain pattern, and the pattern will be repeated.

Technical analysis can be performed for individual stocks or the overall market conditions. Technical analysis uses charts and various technical indicators. Information on prices and trading volume are the main tool of analysis.

Systematic Risk

On the investment to get a rate of profit is not a thing. Risk is uncertainty that is expected to benefit in the future. in this case, there is a range of returns. the higher the range of uncertainty is also higher (Husnan, 2010). Systematic risk is the risk that could affect all companies or shares outstanding while the unsystematic risk is the risk that affects one or a small group of companies (Harianto and Sudomo, 2005).

Risk is the difference in expected investment with returns that occur. In this case, the risk is divided into risks that can be mitigated by diversification activities that attempt to invest not only on one source of investment and the risks of not diversifiable are not reduced by diversifying (Damodaran, 2002). In this case, the model is used to measure the risk of a capital asset pricing model and arbitrage pricing model.

Risk Management Process

Understanding of risk management enables management to effectively engage systematically or beta is a measure of return volatility of a security or portfolio returns to the market return. Where securities beta-to measure return volatility of securities with the market return and beta portfolio with the portfolio return volatility measures the market return. Therefore, beta is a measure of systematic risk of a security or portfolio relative to the market (Jogiyanto, 2000; 93).

The systematic risk or Beta is a relative measure of the systematic risk of individual stocks in relation to the overall market as measured from fluctuations in income or return. In addition, each share having different sensitivities to market changes. Where is the stock with the beta coefficient equal to one means having the same risk with the risk of the market average? whereas the beta coefficient of more than one indicates that the stock is very sensitive to changes in the market or have a risk of market risk, referred to as aggressive stocks. The shares have a beta of less than one referred to as a defensive stock which means the stock is less sensitive to changes in the market (Jones: 1996-284).

RESEARCH METHODS

The Data Used

In this study, using financial data derived from the balance sheet, income statement and statement of changes in capital. Data taken during the 10 periods is subject to the availability of data on the company.

Data Analysis

Analysis using path analysis. Path analysis is an extension of the multiple linear regression, and which enable the analysis of models of more complex "(Streiner, 2005)."Path analysis is a technique for analyzing the causal relationship that occurs in multiple regression if the independent variables affect the dependent variable not only directly but also indirectly" (Retherford 1993).

RESULTS AND DISCUSSION

1. Risk Effect Analysis to Company Value

Analysis of the effect of risk on corporate value can be measured by the degree of financial leverage, operating leverage and beta degree. Degree of financial leverage is calculated by comparing the change EAT with EBIT. More and immutability of the change, the risk is also greater (Lev, 1999). Degree

Operating leverage gained from the comparison of EBIT to sales. The higher level of operating leverage degree then the risk will increase. While the beta is obtained from the covariance between profits and gains market share and compared with market advantages (Lev, 1999). Therefore, all three are used as indicators to measure risk. The results of the analysis of these variables can be presented in the figure below.

Table1. Values loading factor risk indicator

estimate			SE	CR	P	Label	
BETA	<---	RISK	1,000				
DOL	<---	RISK	-, 046	, 254	-, 179	, 858	par_1
DFL	<---	RISK	-, 002	.011	-, 174	, 862	par_6

Beta impact on the risk of its value is 0 and the standard error is dominated by over 5%. DOL value risk is 0.254 and the value of DFL against risks is 0.011. However, this value has a probability of above 5%. The effect of the risk on the value of the company can be seen in the following table.

Table2. Effect of risk on the value of

estimate			SE	CR	P	Label	
VALUE	<---	RISK	-, 003	, 012	-, 231	, 817	par_4
PROFIT	<---	VALUE	4.425	3,456	1,280	, 200	par_5

Based on the above data critical the known value of risks to value ratio is 0.012 with a probability of above 5%. It is indicated that the risk did not significantly affect the value of the company. The company's value can be measured by the extent of PBV and the amount of debt used to support business development. PBV value derives from the price divided by the value of the shares while the DER was obtained from the comparison with other modes of its own debt. The value of the indicator to value the company can in the table below.

Table3. Values loading indicator

estimate			SE	CR	P	Label	
VALUE	<---	RISK	-, 003	, 012	-, 231	, 817	par_4
PROFIT	<---	VALUE	4.425	3,456	1,280	, 200	par_5
BETA	<---	RISK	1,000				
DOL	<---	RISK	-, 046	, 254	-, 179	, 858	par_1
PBV	<---	VALUE	1,000				
DER	<---	VALUE	17.511	8.067	2,171	, 030	par_2
ROA	<---	PROFIT	1,000				
NPM	<---	PROFIT	1,720	, 533	3,225	.001	par_3
DFL	<---	RISK	-, 002	.011	-, 174	, 862	par_6

Based on the above values of the loading factor DER is 8.067 with p-value above 5% and the value of PVB is worth 2,171.

Test Model

Test models are done by using CMIN, RMS, GFI, AIC, and BCC. This test can be seen in the following table

Table4. Test Model

Model	NPAR	CMIN
default models	16	500.069

RMR, GFI

Model	RMR	GFI	AGFI	PGFI
default models	38.313	, 815		

AIC

Model	AIC	BCC	BIC	CAIC
Default models	532.069	560.513	546.315	562.315

Source: results of the analysis using AMOS

Based on that model test showed significant thing.CMIN is illustrating the difference between unrestricted and restricted the sample covariance or essence describe the likelihood ratio test statistic that is commonly expressed in chi-square (X2) statistics. According to Wheaton et.al (1977) in Ghozali (2007) value ratio of 5 (five) or fewer than five is a reasonable size. In this study less reasonable because of CMIN more than 5.0. GFI (Goodness of fit index) developed by Joreskog and Sorbon (1984) in Ghozali (2007) which is a measure of non-statistical value ranges from 0 (poor fit) to 1.0 (perfect fit). GFI higher value indicates a better fit and some value GFI can be accepted as a decent value there has been no default, but many researchers are scored above 90% as a measure of a good fit.

2. Risk Effect Analysis to Company Value

The risk of an effect or not can to firm value can be seen in the table above. The magnitude of the effect of risk on the value of the company is -0.231. The negative sign means that the greater the risk that the value of the smaller company. But the probability is 0.817 is greater than 5%. This means no risk variables affect the value of the company significantly.

3. Effect Analysis Company Value to Profit Company

Values are not influential companies on corporate earnings can be viewed base on analysis in the table above. ROA and NPM do not have a value which qualifies because of the p-value of more than 5%. The company's value has no effect on earnings.

4. Analysis of Effect Corporate Risk Variable to Value through Corporate Profit Books

That the influence of the risk to earnings is 0.231. And the effect on earnings value was 0.200. The indirect effect is 0,231 x 0,2 = 0.046. While the influence of direct risk to earnings is 0.376. This means a greater direct influence than the indirect effect and the variable value is not an intervening variable.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Risk does not significantly affect the value of the company. Critical value against the risk ratio is 0.012 with a probability value above 5%.

Critical value against the risk ratio is 0.012 with a probability value above 5%. It is indicated that the risk did not significantly affect the value of the company.

The influence of risk to earnings is 0.231. And the effect on earnings value was 0.200. The indirect effect is 0.231 x 0.2 = 0.046. While the influence of direct risk to earnings is 0.376. This means a greater direct effect compared with effect indirect and variable value is not an intervening variable.

Recommendations

Investors need to consider the effect of the factors on risk, value and profit. In this study, the risk of which is indicated by the DFL and the DOL has no impact on the value of companies that indicate with PBV and DER and its impact on corporate earnings as indicated by ROA and NPM.

In other studies need to be implicated in the enterprise data industry group or groups that have a sales value that is indicated by the Blue both LQ 45, JII (Jakarta Islamic Index) and others.

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