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IDENTIFICATION BUSINESS RISK AND STRUCTURE FINANCIAL EVIDANCE FROM INDONESIA

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Abstract

In this study business risk is defined as the risk associated with the company's management decisions related to the financing process. 5 d variables use as model analysis in business risk including business risk variable, NPM, ROA, asset structure and capital structure. The results in this study are presented in the form of multiple regression analysis, to see the relationships among the 5 variables. These results are interpreted in section 4 of this study. Empirically and theoretically from the proposed model of analysis, business risk can be used as a support for investment and other corporate finance decisions.

Key words: Business Risk, Financial risk, financial analysis, asset structure.

I. INTRODUCTION

In the normal course of the company there are several factors that influence the decision of the company's capital structure such as Baker, H.K., and Powel G.E. (2005) [1] and Brigham E.F. and Houston J.F. (2005) [2]:

1. Business Risk - Excluding debt, business risk is a basic risk of company operations. The greater the business risk, the lower the optimal debt ratio.

2. Corporate Tax Exposures - Debt payments are tax deductible. Thus, if the corporate tax rate is high, using debt as a means to finance an attractive project because tax deductions on debt repayment protect some income from taxes.

3. Financial Flexibility - This is basically the company's ability to raise capital in difficult times. It is not surprising that companies usually have no problem in raising capital when sales grow and earnings are strong. However, given the firm's strong cash flow in good times, raising capital is not as strong. Companies should try to be cautious when raising capital in good times, not stretching its ability too far. The lower the company's debt level, the more financial flexibility the company has.

4. Management Style - Management styles range from aggressive to conservative. A more conservative approach to management, the less likely it is to use debt to increase profits. Aggressive management can try to expand the company quickly, using large amounts of debt to increase earnings growth per share (EPS) of the company.

5. Growth Rate - Companies that are in their cycle growth stage usually finance that growth through debt, borrowing money to grow faster. The conflict that arises with this method is that the company's earnings growth is usually unstable and unproven. Thus, high debt loads are usually not appropriate. A more stable and mature company usually requires less debt to finance growth because its earnings are stable and proven. These companies also generate cash flows, which can be used to finance the project as it happens.

6. Market Condition - Market conditions can have a significant impact on the condition of the company's capital structure. Suppose a company needs to borrow funds for a new plant. If the market is struggling, investors limit the company's access to capital because of market concerns, borrowed interest rates may be higher than the company wants. In that situation, it may be prudent for the company to wait until market conditions return to a more normal state before the company tries to access funds for the plant.

II. BUSINESS RISK AND FINANCIAL RISK THEORY

In Higgins R.C. (2007) [3], Fabozzi F.J. and Peterson P.P. (2003) [4] and Flejterski S., (2007) [5] explains that modern society is often described as a "risk society", which means that the social production of wealth is accompanied by social production of risk. Therefore, companies operating in those environments, are forced to take on various types of risks, to develop themselves and increase their effectiveness. Thus their risk exposure continues to grow.
There are various corporate risks that are analyzed and classified by considering different types of criteria. One of the most important types of corporate risk is the financial risk of Lumby S. (1994) [6]. In the theory there are two conceptions of the Damodaran risk definition, A. (2001) [7] .1-Negative conceptions describe risks as potential threats of harm. 2-neutral conception shows that risk is not only a threat but also an opportunity, so the risk means the possibility of getting a different result than expected. Financial analysis is a financial management tool that uses various sources of information about past and current activities and current and future financial situations. The most important sources of information used in financial analysis are the financial statements provided by the accounting system, translating various corporate activities into a series of objective numbers informing about performance, problems and prospects of company Damodaran, A. (2001). Financial data included in the financial statements can be used to identify the types of risk and its factors, to identify the reasons and consequences of the company's risk, to analyze the results of risk management tools and to estimate future risk levels.

III. USE OF COMPANY SIZE, BUSINESS RISK AND ASSET STRUCTURE

See Shapiro A.C. and Balbired S.D. (2000) [10], Thomsett, M.C. (2006) [11] and Vaughan E. and Vaughan T. (2003) [12] several funding models by companies with low growth rates. Growth is defined as the annual change in total assets. For companies, opportunities to grow or invest will increase the need for funds. There are several things in the make a guide to assess a business reiko.

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1. Company size - The size of a company is one of the important factors as a determinant of capital structure. The larger the size of the company indicates the greater the company's assets, besides the big companies tend to diversify their business. Thus, firms have the ability to survive in crisis conditions and have relatively lower bankruptcy costs.

2. Business Risks - Based on the notion of risk according to Weston, J.F. and Copeland T.F. (1991) [13], risk is defined as the probability or occurrence of some unfortunate event. Business risk is the uncertainty that companies face in running their business activities. In corporate business risk will increase if using high debt.

3. Structure of assets - In Weston, J.F. and Copeland TF (1991) [13] Assets are all resources and assets owned by a company to be used in its operations. A company generally has two types of assets: current assets include cash, short-term investments, accounts payable, accounts receivable, inventories, accounts receivable and fixed assets include: long-term investments, fixed assets, intangible fixed assets. Both elements of this asset will form the asset structure. The asset structure represents a portion of the total assets that can be collateral value of assets. The company's asset structure plays an important role in determining corporate finance. Companies whose asset structure has larger long-term fixed asset ratios will use more long-term debt because existing fixed assets can be used as debt guarantees. Thus, the asset structure can be used to determine how much long-term debt can be taken and this will also affect the determination of the size of the capital structure. However, most industrial companies 19 most of the capital is embedded in fixed assets will prioritize the capital fulfillment of its permanent capital that is its own capital while the debt is only as a complement.

IV. CASE STUDY BUSINESS RISK AND STRUCTUR ASSET

In Sierpinska A, M. and Jachnat T. (2007) explain how to complete a research study in the form of an analysis with a focus on financial ratios and changes that are contained in the elements of corporate financial statements and how to determine changes in exposure that will occur related to financial risk. Companies in this research represent the list of companies listed on the BEI to do research related to business risk companies in Indonesia. In analyzing the business and financial risks of the company, there are 2 concepts that can be used. 1, The use of fixed assets should be supported by available capital, 2) fixed assets contained in the company can be financed with equity capital and equity capital or long-term debt capital.

The main role of the company's capital structure can be recording the reserves through existing liquidity values, but the most important aspect of the company's strength is where it can assess business risks and keep the assets held. The following analysis results for the model in the intent presented in table 1:

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Table 1: Result for regression business risk

Dependent Variable: BUS_RISK				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.116758	0.034954	3.340301	0.0015
CAP_STRUC	-0.017719	0.008428	-2.102475	0.0401
NPM	-0.372473	0.090429	-4.118963	0.0001
ROA	1.145678	0.125562	9.124373	0
STRUC_ASET	-0.141483	0.04998	-2.830799	0.0065

Source: Proceed author by software

Seen significant results for all probabilities generated, it can be explained that the variables of capital structure, NPM, ROA and asset structure have a significant effect on business risk on 30 companies in detail, this is strengthened by the wald test to see significant influence the.

Table 2 : Result for walt test in regression business risk

Wald Test:			
Test Statistic	Value	df	Probability
F-statistic	56.99061	(2, 55)	0.0000
Chi-square	113.9812	2	0.0000
Null Hypothesis: C(1)=0,C(3)=2*C(4)			
Null Hypothesis Summary:			
Normalized Restriction (= 0)		Value	Std. Err.
C(1)		0.116758	0.034954
C(3) - 2*C(4)		-2.66383	0.324489
Restrictions are linear in coefficients.			

Source: Proceed author by software

The Wald test is a test with a variety of uses. Each time a relationship in or between data items can be expressed as a statistical model with an estimated parameter of a sample, the Wald test can be used to test the true value of the parameter based on the sample estimate. Wald test or partial test is a test of self-coefficient significance. Wald test is the same as T test, according to M. Jainuri T test is one of the statistical tests used to test the truth or falsity of the null hypothesis (H 0) between two mean samples taken randomly from the same population there was no significant difference. Meanwhile, according to Hosmer and Lemeshow (1989) variable testing performed one by one

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using Wald test statistics. This test is done by comparing the best model, generated by the simultaneous test (G test) on the model without the free variable in the best model. The wald test also shows significant results for the proposed model, so the proposed regression yields the same result as the wald test. The following explanation continued by using the confidance interval test as presented in table 3:

Table 3 : Result for coefficient confidance interval test in regression business risk

Coefficient Confidence Intervals								
			90% CI		95% CI		99% CI	
Variable	Coefficient		Low	High	Low	High	Low	High
C	0.116758		0.058278	0.175237	0.046708	0.186807	0.023492	0.210023
CAP_STRUC	-0.017719		-0.031819	-0.003619	-0.034609	-0.00083	-0.040207	0.004768
NPM	-0.372473		-0.523763	-0.221182	-0.553696	-0.191249	-0.613756	-0.131189
ROA	1.145678		0.935608	1.355749	0.894046	1.397311	0.810651	1.480706
STRUC_ASET	-0.141483		-0.225102	-0.057865	-0.241646	-0.041321	-0.274841	-0.008126

Source: Proceed author by software

In statistics, the confidence interval (CI) is the type of estimated interval (population parameter) calculated from the observed data. The level of trust is the frequency (that is, the proportion) of the confidence interval that may contain the true value of the corresponding parameter. In other words, if the confidence interval is made by using a certain degree of confidence in an infinite number of independent experiments, the proportion of intervals containing the true value of the parameter will correspond to the degree of trust.

V. CONCLUSION

The analysis presented illustrates the potential to identify corporate financial risk using balance sheet information. Surely this analysis should be treated as a more detailed introduction to analysis, but the main problems and threats can be identified. Accepted conclusions can be used as a basis for financial planning and financial risk forecasting. However, to get the overall picture of the company's health, other parts of the financial statements and additional information from the accounting system and outside the company along with more complex risk assessment methods should be used.

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