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Determinant Analysis of Business Risk with Institutional Ownership as a Moderating Variable

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Abstract: The purpose of this study was to determine the effect of the level of institutional ownership on the relationship between asset quality, leverage, efficiency, BI rate and business risk. The method used in this study is explanatory research. Data analysis in this study is the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. From the results of the research that has been done, several conclusions are obtained as follows: Asset quality has no significant negative effect on business risk. Leverage has a significant negative effect on business risk. Efficiency has a significant positive effect on business risk. BI rate has no significant negative effect on business risk. Institutional ownership has no effect on the relationship between asset quality, leverage, efficiency and business risk.

Keyword: Business Risk, Asset Quality, Institutional Ownership.

INTRODUCTION

Risk is something that is definitely experienced by a company in running its business. Companies that want high profits, must also be prepared to take high risks as well. Therefore, in addition to calculating the expected profit, the management must also calculate the risks that will be borne by the company. Management must be able to find alternatives that offer the highest rate of return with a certain level of risk, or those that offer a certain level of return with the lowest level of risk.

One business entity that has a fairly high level of risk is a banking company. Bank is a company that provides financial services to all levels of society. Banks collect funds from the public and channel them back to people who lack funds, besides that banks also provide other financial services.

The existence of a bank is very important in the economy. If a bank experiences a problem, it will impact many other areas of the economy. Therefore, regulations are needed that specifically regulate banking. This is intended to protect the banking industry from

various existing risks, bearing in mind that this industry is never without risks. In addition, banks also need supervision from supervisory institutions or supervisors with a risk-based system. In Indonesia, the institution appointed as bank supervisor or supervisor is the Financial Services Authority (OJK).

In the case of a bank's inability to fulfill the withdrawal of public funds, it can impact on liquidity difficulties from other banks as well. This is known as the domino effect. This incident occurred because one bank and other banks had a lending-borrowing relationship. This occurred either through loans on the interbank money market, or as direct loan facilities. It was this connection that led to the widespread banking crisis in the case of the monetary crisis experienced by banks in Indonesia in 1997. At the same time, this incident also showed how the insolvency of a bank had triggered other, broader problems. This bitter experience also had an impact on bank customers, shareholders, and bank employees, as well as employees of bank customer companies. This is also a great burden of responsibility for decision makers in the economy as a whole (Darmawi, 2010).

Various risks faced by banks can affect the company's profit. One of the risks that directly affects a company's profit is business risk. In carrying out its company operations, banks are always filled with high risks. Business risk is indicated by variations in changes in the company's profit before interest and taxes.

Information about the condition of the company is very important for management to know to be able to anticipate bad things that will happen, but this also needs to be known by the owner of the company. The owner of the company needs to know the actual condition of the company because it relates to the capital that has been invested. In this case, in order to avoid conflicts between management and company owners, good corporate governance is needed in the company. One of the implementation of good corporate governance is institutional ownership. Institutional ownership has more power than individual ownership so it is expected to be able to supervise managers in terms of decision making in the company.

The existence of institutional investors as supervisors of management performance can indirectly prevent companies from facing risks. This is because every decision within the company is not only decided by management, but also supervised by institutional investors. In this case institutional investors play a role in avoiding the risks that will be faced by the company.

Analysis of financial statements can be used to determine the level of risk and the level of profitability of a company. In the financial statements there are numbers that describe the actual state of a company. These figures are obtained from the activities and results obtained by the company during a period. The analysis commonly used in financial analysis is to use financial ratios. The health of a company can be seen from the value of the ratio obtained based on the company's financial statements.

In addition, institutional ownership as an owner who has more ability can oversee every decision taken by management, especially in terms of granting credit, taking debt and also the efficiency of company performance. This is useful for reducing the business risk borne by the company because every company decision has passed strict supervision by the owner.

There are several studies showing several factors that influence bank business risk as proxied by the standard deviation of ROA (SDROA), one of which is research conducted by Muhammad Ichsan Prasetyo (2013) who examined the relationship between CAR, NPL, LDR, and NIM on SDROA in banks. public private national foreign exchange. Meanwhile, Sukmi Amelianty Sembiring (2012) examines the effect of industry classification and company size on business risk. However, there are still many studies that have not examined other variables that can affect a company's business risk. Therefore, in this study, researchers wanted to examine other variables that might affect business risk, including asset quality, leverage, efficiency and the BI rate. These variables were chosen because they were suspected of affecting the profits of banking companies. Based on the explanation above, the

researcher is interested in conducting research with the title "Determinant Analysis of Business Risk with Institutional Ownership as a Moderating Variable".

LITERATURE REVIEWS

Bank

According to Kasmir (2013), a bank is defined as a financial institution whose business activities are collecting funds from the community and channeling these funds back to the community and providing other bank services. Then according to Law Number 10 of 1998 what is meant by a bank is a business entity that collects funds from the public in the form of savings and distributes them to the community in the form of credit and or other forms in the context of improving the standard of living of the common people.

Banks are also financial intermediary institutions between people who have excess funds and people who lack funds. People who have excess funds mean people who have funds stored in banks or people who have funds and will use them for investment in banks. By the bank, these public savings funds are channeled back to people who lack funds.

Asset Quality

Rivai, et al (2007) stated that assets are used to ensure the quality of assets owned by banks and the real value of these assets. The decline in the quality and value of assets is the biggest source of erosion for banks.

Leverage

According to Keown et al. (2002), leverage means that the financing of some of the company's assets is carried out with securities containing a fixed rate of return with the aim of increasing returns to shareholders. The decision to use debt or preferred stock in a company's funding structure means that the company's shareholders are exposed to financial risk. Any degree of EBIT variability will be amplified by the use of financial leverage, and any increase in variability will create variability in the returns available to shareholders as well as earnings per share.

BI Rate

The BI Rate is a policy interest rate that reflects the attitude or monetary policy *stance* set by Bank Indonesia and announced to the public. The BI Rate is announced by the Board of Governors of Bank Indonesia at each monthly Board of Governors' Meeting and is implemented in monetary operations conducted by Bank Indonesia through liquidity management in the money market to achieve monetary policy operational targets. The operational target of monetary policy is reflected in the development of the Overnight Interbank Money Market (PUAB O/N) interest rate. It is hoped that this movement in the PUAB interest rate will be followed by developments in deposit rates, and in turn bank lending rates. Taking into account other factors in the economy, Bank Indonesia will generally increase the BI Rate if future inflation is expected to exceed the predetermined target, on the other hand Bank Indonesia will reduce the BI Rate if future inflation is expected to be below the predetermined target.

Business Risk

According to Keown et al. (2008), risk is the prospect of an unfavorable outcome. This concept is measured operationally as a standard deviation or beta. The standard deviation is a measure of the spread or dispersion around *the mean* (average) of a probability distribution. The standard deviation is calculated by squaring the difference between each outcome and the expected value, by weighting each squared difference with the probability associated with

it, and then all possible outcomes are summed up, and finally the sum is taken by the square root.

Business risk refers to the relative dispersion (variability) in expected corporate earnings before interest and taxes (EBIT). Business risk is an important thing to pay attention to because this risk arises from investment decisions taken by companies. In other words, the composition of the company's assets determines the risks it faces. In this case business risk is a direct function of what is presented on the left side of the balance sheet (Keown et al., 2002).

Ali (2006) states that business risk is a risk related to the competitive position and prospects of a bank in facing a constantly changing market. Business risk relates to policy issues and short and long term prospects for ongoing banking products and services. Any mistakes in setting policies regarding the marketing of banking products and services can be fatal.

It has become a law of nature that applies in the business world that a business that promises high returns is always overshadowed by great risks. In banking, for example, this often occurs in housing finance (property loans) or the credit card business.

Institutional Ownership

According to Suharsono and Rahmasari (2013), institutional ownership is company shares owned by institutions or institutions (insurance companies, banks, investment companies and other institutional ownership). The main agency problem in the company is the conflict between controlling shareholders and minority shareholders. If there is no adequate legal protection, controlling shareholders can carry out activities that benefit themselves and harm minority shareholders. Institutional ownership plays an important role in making strategic decisions, such as decisions to carry out responsibilities that can increase the value of the company in the long term. However, the impact of institutional ownership is not always neutral, when institutional investors make critical short-term decisions due to limited knowledge about the company or industry.

Institutional ownership has the ability to control management through an effective monitoring process so as to reduce earnings management. The act of monitoring the company by institutional investors can encourage managers to focus more attention on company performance so that it will reduce opportunistic or self-serving behavior.

METHODS

The method used in this study is *explanatory research,* namely research that defines causal relationships between variables through hypothesis testing. According to Sekaran (2006), studies included in hypothesis testing usually explain the nature of certain relationships, or determine differences between groups or freedom (independence) of two or more factor in a situation. Data analysis in this study is the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

RESULTS AND DISCUSSION

Effect of Asset Quality on Business Risk

The results of the study show that the asset quality coefficient is -0.011 and the significance value is 0.580. The coefficient value of -0.011 indicates a negative correlation between asset quality and business risk. The significant value of asset quality is greater than α (0.05) which indicates that asset quality has no significant negative effect on business risk. Based on this explanation, it can be concluded that Ha1 is rejected.

Based on the results of this study, if asset quality increases, business risk will decrease, and vice versa. This can be seen from the value of bank Danamon's lowest NPL ratio in 2010 which was 0, but the business risk was relatively high at 0.004. Then the value of the NPL

ratio of bank Jabar Banten Tbk which was quite high in 2014 was 0.0128, but the business risk ratio was only 0.0009.

Asset quality in this study is calculated using the ratio of NPL (*Non-Performing Loans)* , namely comparing non-performing loans with total loans provided by banks. Prasetyo's research (2013) showed different results, in his research showing a significant positive relationship between NPL and business risk. This means that the smaller the NPL, the smaller the risk borne by the bank, and vice versa.

A high NPL ratio indicates the sluggish condition of the business world, which reduces the debtor's ability to pay off his debts to the bank. This will certainly affect the continuity of the banking business because the funds channeled by the bank through these loans have a high probability of default. Funds in banking are important assets owned by banks in carrying out their business operations and to earn profits. So that if banking funds cannot be channeled properly, it means that the quality of banking assets is poor, so that it can affect the risk of banking companies.

However, this study showed different results from the explanation above. In this case, it is suspected that the percentage of NPL ratios or non-performing loans in Indonesia in the year of study tends to be still on a small scale so that it does not really affect banking business risk.

Effect of Leverage on Business Risk

It can be seen that the significance value of leverage is 0.000 and the coefficient value is -0.025. The coefficient value of -0.025 indicates that there is a negative relationship between leverage and business risk. The significance value of leverage is 0.000 which is less than α (0.005), which means that leverage has a significant negative effect on business risk. From this explanation, it can be concluded that Ha2 is rejected.

This means that if *leverage* increases, business risk will decrease. Vice versa, when *leverage* decreases, business risk will increase. This is evident from the sample in this study, Bank Artha Graha International Tbk, which has the highest leverage value, namely in 2011, but the company has a fairly small level of business risk, which is equal to 0.0021.

In this study, *leverage* is calculated by comparing a company's total debt with its capital. Debt is used by companies to increase their operational capital so that they can increase the profits received by the company. But behind that the company also has to bear a fairly high risk.

In this study the results shown were different, this was allegedly because during the research period the bank's operations ran smoothly and the bank was able to pay its debts according to the provisions. So that from the high level of leverage that is owned, the company can use it appropriately and in the end it tends to increase company profits.

Effect of Efficiency on Business Risk

It is known that the significance value of efficiency is 0.000 and the coefficient value is 0.013. A coefficient value of 0.013 indicates a positive relationship between efficiency and business risk. The significance value of efficiency is less than α (0.05) which is 0.000 which indicates that there is a significant positive relationship between efficiency and business risk. This means that Ha3 is accepted, that is, there is a positive relationship between efficiency and business risk.

From the explanation above, it can be seen that when the level of efficiency increases, the level of business risk also increases. Conversely, if the level of bank efficiency decreases, the level of business risk also decreases. This can be seen from the efficiency ratio of bank MNC Internasional Tbk which was quite high in 2011, namely 1.15 and the level of business risk was also quite large, namely 0.007. The same thing can be seen in the efficiency ratio of

Bank Central Asia Tbk in 2012, the value of the efficiency ratio is quite small, namely 0.62 and the business risk is also small, namely only 0.002.

Efficiency is measured using the ratio of Operating Costs to Operating Income (BOPO). A high efficiency ratio reflects a company's total operational costs that are greater than the revenue earned. So this will certainly increase business risk for banks.

The Effect of the BI Rate on Business Risk

Based on the data, the significance value of the BI rate is 0.157 and the coefficient value is -0.035. The coefficient value of -0.035 indicates a negative relationship between the BI rate and business risk. The significance value is greater than α (0.05), namely 0.157 which indicates that there is a non-significant negative relationship between the BI rate and business risk. This means that Ha4 is accepted, that is, there is a negative relationship between the BI rate and business risk.

Based on the explanation above, if the BI rate increases, business risk will decrease, and vice versa. This can be seen from the value of the BI rate ratio in 2010 which was 0.650 and the business risk level of Bank Rakyat Indonesia Agro Niaga Tbk was 0.002. Then when the BI rate in 2011 rose to 0.658 it caused the bank's business risk to fall to 0.0009.

The BI rate is the interest rate issued by Bank Indonesia which is used as a reference for commercial banks. Bank Indonesia has an obligation to safeguard the national economy, one of which is by setting a reference interest rate so that the Indonesian economy remains stable. When inflation occurs, Bank Indonesia will react by increasing the BI rate so that many people save their money in banks. So that the money circulating in the market is reduced and inflation can also decrease.

In this study, the BI rate has no significant negative effect on business risk. This insignificant result is suspected because the level of increase or decrease in the BI rate during the study period was not too significant, so that it did not significantly affect banking business risk.

Effect of Institutional Ownership as a Moderating Variable

The results of the research before and after moderation did not show significant changes. It can be seen from the coefficients of each independent variable, namely asset quality, *leverage* , efficiency and BI rate that have not changed much. The asset quality coefficient only decreased by 0.004 and *leverage* increased by 0.006. Then efficiency increased by 0.004 and the BI rate also increased by 0.04

In addition, the partial significance of the dependent variable and the independent variable before and after moderation has not changed. this can be seen from the partial significance value of each variable before and after moderation. The significance of asset quality and BI rate before moderation were 0.580 and 0.157, respectively. And after moderation, the significance values of asset quality and the BI rate are 0.515 and 0.855, respectively. The significance value before and after the moderation shows a value that is above *the level of significance* (0.05), which means that this variable has no effect on business risk. Then the significance values of *leverage* and efficiency before moderation are 0.000 and 0.000 respectively. And after moderation, the significant values *of leverage* and efficiency are 0.000 and 0.000, respectively. The significance value of the *leverage* and efficiency variables before and after moderation has a value that is below *the level of significance* (0.05), which means that *the leverage* and efficiency variables affect business risk.

Based on the explanation above, this study shows that institutional ownership as a moderating variable has no effect on business risk. This is because company ownership in Indonesia is still concentrated and there is no clear separation between owners and controllers (management) of companies. This causes the function of ownership as monitoring and

supervision of the performance of company management to be not optimal and the role of ownership to prevent *agency costs from occurring* does not work properly.

CONCLUSION

There are five hypotheses proposed in this study based on a literature review. From the results of the research that has been done, several conclusions are obtained as follows: Asset quality has no significant negative effect on business risk. *Leverage* has a significant negative effect on business risk. Efficiency has a significant positive effect on business risk. BI rate has no significant negative effect on business risk. Institutional ownership has no effect on the relationship between asset quality, *leverage* , efficiency and business risk.

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