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INFLUENCE DEBT EQUITY RATIO, MARKET RISKS, AND GOOD CORPORATE GOVERNANCE ON SHARE PRICES IN COMPANIES LISTED ON THE JAKARTA STOCK EXCHANGE AND PARTICIPATING IN CGPI

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Abstract

This study aims to determine the effect of Debt Equity Ratio, Market Risk, and Good Corporate Governance on Stock Prices. This is useful for potential investors who will invest in a company. Samples taken are companies listed on the Jakarta Stock Exchange and participants in CGPI 2007-2010. Data processing and analysis were carried out using the SmartPLS program. The results of this study indicate that the Debt Equity Ratio variable has no effect on stock prices, market risk has no effect on stock prices, and good corporate governance has an effect on stock prices. Taken together, Debt Equity Ratio, Market Risk, and Good Corporate Governance have an effect of 25.7%.

Keywords: *Debt Equity Ratio, Market Risk, Good Corporate Governance, Stock Prices.*

1. Introduction

Investing in the investment capital market which is full of uncertainty, one of the factor analyzes mentioned above is one of the risks placed, so that investors are not faced with high risks. There are two types of risk in every security, namely risks that can be eliminated or minimized and risks that cannot be eliminated through diversification (R Agus Satono, 2010). Risk that cannot be eliminated is also called systematic risk or systematic risk or market risk. One way to minimize it is to assess the company's performance, one of which is by analyzing the ratio. One of them is the leverage ratio, which is a ratio that measures debt insurance, using total assets and equity. One example of a leverage ratio is the Debt Equity Ratio (DER), where this ratio measures the ability of equity to guarantee debt. The greater the ratio, the greater the opportunity that is owned and investors will ask for higher profits (R. Agus Sartono, 2010).

Companies in Indonesia have a line that is no different from companies in Asia in general. Family-owned or controlled companies. Even though these companies grow and develop into public companies, control is still held by the family which is still very significant. Even though the company has become a public company, family ownership is still very large compared to the number of shares released to the public. Ownership of such a company often results in disputes of interest between shareholders and minority shareholders. Shareholders who are authorized to use their power in public companies for their interests are detrimental to minority shareholders. The lack of protection for minority shareholders of the trust of investors, especially foreign investors, to keep holding shares in Indonesian public companies.

The implementation of good corporate governance in Indonesia is currently only discourse and far from its essence, although several public companies have implemented Good Corporate Governance. For example, PT. Astra International, Tbk is a company that applies GCG principles. The peak of PT. ASII was declared the first winner of the 2003 GGPI event held by the Indonesia Institute for Corporate Governance (IICG). On the other hand, partners and shareholders feel the implementation of Good Corporate Governance by PT. ASII. With openness, at least they feel calmer because the company has been managed in an orderly, trustworthy, and transparent system. The result of this incident was a spike in share prices, which to some extent occurred as a result of the serious implementation of Good Corporate Governance.

In the future, the application of the principles of Good Corporate Governance is not only related to the interests of existing shareholders in a company but also includes the interests of

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potential investors. In other words, the implementation of the principles of Good Corporate Governance will pay attention to the interests of potential investors by providing access to sufficiently good material information from a company before deciding to invest in that company. This is supported by the results McKinsey's research shows that when conducting a joint venture, foreign companies that will conduct business in Indonesia, always evaluate their partners through the qualifications of implementing Good Corporate Governance by the company, apart from financial reports and company performance itself (Indra Surya and Ivan Yustiavandana, 2008).

2. Literature Review

Debt Equity Ratio

One of the financial ratios that need attention is the Debt Equity Ratio (DER). This Debt Equity Ratio illustrates the ability of own capital to guarantee a debt. Or in other words, it is part of the debt that can be guaranteed using your capital (Napa J. Awat: 390). The debt used in calculating the Debt Equity Ratio is all debt, both short and long term. The Debt Equity Ratio is formulated as follows:

$$DER = \frac{\text{Total Amount of debt}}{\text{Own Capital Totak}}$$

The higher this ratio, the greater the risk faced, and investors will ask for a higher level of profit. A high ratio also shows a low proportion of own capital to finance assets (Agus Hartono: 121). The higher the DER, the higher the level of dependence of the company's capital on outsiders so that the company's burden is heavier. Of course, this will reduce the rights of shareholders (in the form of dividends). High investors will certainly affect investor interest in certain companies. Because investors will be more interested in stocks that do not bear too much debt burden. However, in the matter of Debt Equity Ratio, it is necessary to understand that, there is no limit to the amount of Debt Equity Ratio that is safe for the company.www.esamuel.com, 2004) in the book Financial Statement Analysis by Irham Fahmi (2010).

Market Risk

Market risk is a condition experienced by a company caused by changes in market conditions and situations outside and the company's control (Fahmi, 2014: 69). One measure of market risk is the interest rate, which is measured by the difference between the funding interest rate and the lending rate or in absolute form, which is the difference between the total cost of funding interest and the total cost of borrowing interest, which in terms of banking is called the Net Interest Margin (NIM). The higher the NIM, the higher the ROA. NIM is measured from the ratio between net interest income and earning assets.

In general, there are two forms of market risk (Irham Fahmi, 2010). First, general market risk (general market risk), this risk is experienced by all companies due to a policy carried out by a related institution where the policy can affect all business sectors. For example, the policy of a country through the central bank to raise interest rates. Second, namely specific market risk (specific market risk) is a form of risk that is only experienced specifically in one sector or part of a business without being comprehensive. For example, an announcement issued by an appraisal institution where the assessment agency has a good reputation and is recognized by the public. That they announced a company that has a low performance and has a large debt and the reports that have been published to the public are not under the truth. So that on the news, the shares and bonds of the company in question immediately fell.

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Good Corporate Governance

The first time to institutionalize corporate governance was carried out by the Bank of England and the London Stock Exchange in 1992 by forming the Cadbury Committee, which was tasked with compiling the Corporate Governance Code which became the main reference (benchmark) in many countries. The Cadbury Committee defines corporate governance as a system that directs and controls the company to achieve a balance between the power of authority required by the company, to ensure its continued existence and accountability to stakeholders. First, internal balance, GCG regulates the relationship between the internal organs of the company, such as the General Meeting of Shareholders (GMS), commissioners, directors, which includes matters related to the institutional structure and operational mechanisms of the three organs and their instruments. The second is external balance, which relates to the responsibility of the company as a business entity in society to all stakeholders, which includes matters relating to the arrangement of relations between them.

The relationship between the various organs of the company and its stakeholders to the implementation of rights, obligations, authorities, and responsibilities in managing the company's operations is manifested in various forms of game rules and systems that will regulate the balance in corporate management. The various kinds of rules and systems are contained in the form of principles that must be adhered to incorporate management to obtain a degree of Good Corporate Governance. There are several principles put forward by various parties, including transparency, accountability, fairness, responsibility, integrity, participation, and independence.

In the future, the application of the principles of Good Corporate Governance is not only related to the interests of existing shareholders in a company but also includes the interests of potential investors. In other words, the implementation of the principles of Good Corporate Governance will pay attention to the interests of potential investors by providing access to sufficiently good material information from a company before deciding to invest in that company.

Share and Share Price

Shares (stocks) can be defined as a sign of ownership or ownership of a person or entity in a company or limited liability company. Shares are in the form of a sheet of paper that states that the owner of the paper is the owner of the company that issued the securities. The benefits enjoyed by stockholders come from shares in two forms, namely in the form of dividend payments and an increase in share prices (capital gain) (Suad Husnan, 2001, 36). A share has a value or price, namely: nominal price, initial price, and market price. The stock price used in this study is the closing price at the close of the year because the closing price is considered to represent financial performance in a period. Add more Quotation.

Framework

In identifying the factors that affect stock prices, two groups must be distinguished, namely external factors and external factors (Erni Ekawati, 2010). One of the internal factors of the company is the company's performance. There are several analyzes used to assess financial performance, one of which is to perform ratio analysis. Leverage ratio is a ratio that measures debt insurance, using both total assets and equity. One of the leverage ratios is DER (Debt Equity Ratio) where this ratio measures the ability of own capital to guarantee a debt. The greater this ratio, the greater the risk faced and investors will ask for a higher level of profit (R. Agus Hartono, 2010).

This is also by the results of the theory put forward by Bhandari (1988) in a journal written by Lusia Astra Sari & Yanthi Hutagaol (2009) which states that: A natural proxy for the risk of common equity of a firm is that firm's debt to equity ratio (DER). An increase in a debt Equity Ratio of a firm increases the risk of its common equity. The other company risk associated with business operation is measured by the degree of operating leverage (DOL). Another risk that

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investors need to be concerned about is the market risk. The market risk has a strong correlation with a movement of a share price of a company or group of companies because of investor expectation of change in expected gain that will be received from such shares.

Investment in the capital market is an investment that is full of uncertainty. One of the above-mentioned factors analyzes is to minimize the risks faced so that investors are not faced with high risks. There are two types of risk in every security, namely risks that can be eliminated or minimized and risks that cannot be eliminated through diversification (R Agus Satono, 2010). The Risk that cannot be eliminated is also called systematic risk or market risk. Systematic risk is the risk that occurs due to changes in the market as a whole.

Bambang Sudiyatno and Cahyani Nuswandhari (2009) Systematic risk (systematic risk) or market risk, is related to risk factors that affect the market as a whole. Systematic risk comes from factors that systematically affect most companies, such as; war, inflation, recession, exchange rate changes, and high interest rates (Brigham, et al, 1998). These risks affect the securities as a whole, and most stocks tend to be negatively affected by this risk so that the consequences cannot be diversified (Birgham, et al, 1998).

If we look at the explanation above, macroeconomic factors with indicators of inflation, interest rates, exchange rates, and economic growth are fundamental macroeconomic factors that have the potential to increase and decrease systematic risk or market risk. The index for measuring systematic risk is Beta (β), this beta coefficient which describes the tendency for stocks to move up or down in the market.

Other things also need to be considered, namely corporate governance. One of the benefits of implementing Good Corporate Governance is increasing share value. The implementation of Good Corporate Governance is an indicator that the company has been well managed and transparent, so it is important for investor / public confidence in the company. The increasing trust will make the value of shares in great demand on the stock exchange so that it will have a positive impact on the increase in stock value (M. Chatim Baidaie, 2005).

Based on the description above, the description of the theoretical framework is as follows:

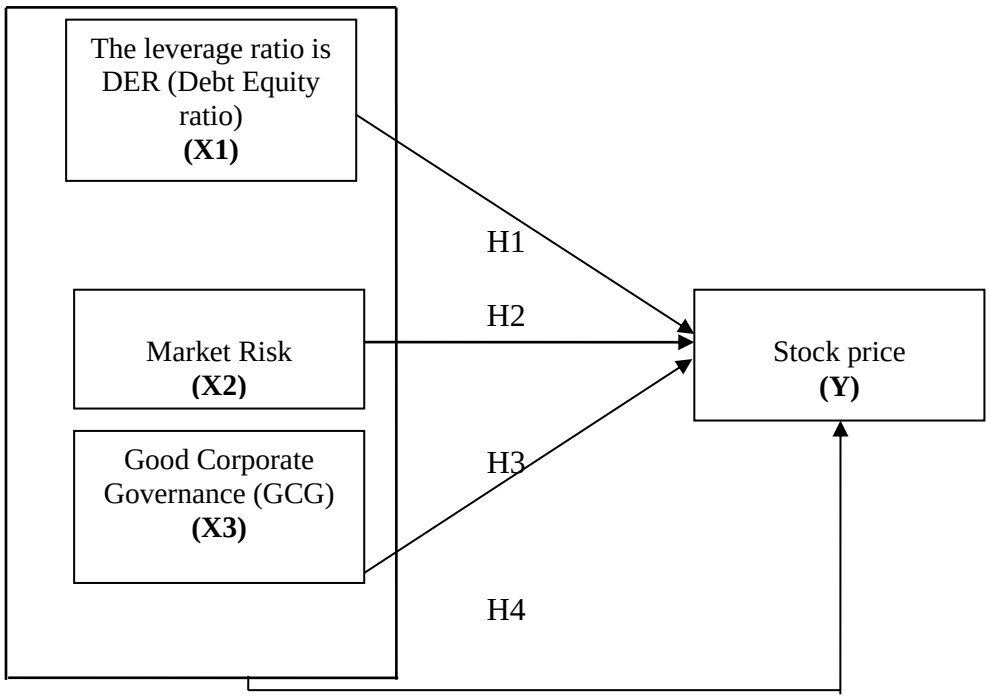

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Figure 1. Research Framework

Hypothesis

Starting from the framework and problem identification, the hypothesis in this study are as follows:
Debt Equity Ratio affects the stock price.
Market racism affects stock prices.
Good Corporate Governance affects the stock price.
Debt to Equity Ratio, Market risk, and Good Corporate Governance together affect stock prices.

3. Methods

In this study, the researcher (writer) examined companies listed on the Jakarta Stock Exchange and participated in the CGPI (Corporate Governance Perception Index) conducted by the Indonesian Institute for Corporate Governance. After selecting and observing the authors determine the 6 companies that participate in CGPI and are registered on the JSE. The company was chosen because it participated in CGPI consecutively for 4 years starting from 2007-2010

To determine the relationship between the variables in the study which consisted of independent variables (free) consisting of Debt Equity Ratio, Market Risk, Good Corporate Governance, and the dependent variable (dependent), namely stock prices using the SmartPLS approach. The PLS approach is a free distribution (it does not assume that the data has a specific distribution, it can be in the form of nominal, category, ordinal, interval, and ratio. PLS is an alternative approach that shifts from covariance-based to variant-based SEM approaches. Covariance-based SEM generally tests causality/theory while PLS more predictive model.

4. Result and Discussion.

From the results of the above research, a summary of the independent variables is presented, namely the Debt Equity Ratio, Market Risk, and Good Corporate Governance, and the dependent variable, namely the stock price in this study. The summary of these variables is as follows:

Table. 1. A summary list of research variables.

No.	Company Code	Year	DER	Market Risk	GCG	Stock price
1	ADHI	2007	7,13	1.45	82.07	1,360.0
		2008	7.75	-0.29	81.54	270.0
		2009	6.69	1.04	82.23	410.0
		2010	4.71	2.94	77.28	910.0
2	ANTM	2007	0.38	0.02	83.41	4,475.0
		2008	0.26	-0.36	85.87	1,090.0
		2009	0.21	1,1	85.99	2,200.0

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		2010	0.28	1.55	86.15	2,450.0
3	ELTY	2007	0.36	2.11	69.17	620.0
		2008	0.7	-0.08	76.93	72.0
		2009	1.25	3.52	76.96	193.0
		2010	0.82	2.83	77.36	157.0
4	PTBA	2007	0.48	1.44	81.23	12,000.0
		2008	0.51	0.11	82.87	6,900.0
		2009	0.4	-0.1	84.11	17,250.0
		2010	0.36	1.04	84.33	22,950.0
5	UNTR	2007	1.26	1.26	83.42	10,900.0
		2008	1.05	-0.8	85.44	4,400.0
		2009	0.76	1.5	86.89	15,500.0
6	WEHA	2007	0.58	0.76	60.55	465.0
		2008	2	-0.04	68.71	125.0
		2009	1.59	0.37	69.97	200.0
		2010	2.29	1.55	77.36	170.0

Source: Processed data.

From the data above, the research hypothesis is tested using the Structural Equation Model (SEM) approach using Partial Least Square (SmartPLS) software. Testing with the Structural Equation Modeling approach was carried out because the data did not meet the criteria for a regression test. One of them is the normality test. Following are the results of the normality test with the SPPS 19 Program.

Tabe. 2. Results of the normality test with SPSS

One-Sample Kolmogorov-Smirnov Test

		DER	RISK	GCG	Stock price
N		24	24	24	24
Normal Parametersa, b	Mean	1.7775	1.0413	79,8833	5369,4583
	Std. Deviation	2,30371	1,16580	6,86223	7531.14164
Most Extreme Differences	Absolute	, 297	, 122	, 203	, 276
	Positive	, 297	, 122	, 138	, 276
	Negative	-, 248	-, 095	-, 203	-, 241
Kolmogorov-Smirnov Z		1,456	, 598	, 993	1,351
Asymp. Sig. (2-tailed)		, 029	, 866	, 277	, 052

a. Test distribution is Normal.
b. Calculated from data.

From this table, it can be seen that there is a variable value that has an abnormal distribution, namely the Debt Equity Ratio (DER) variable.

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The research structural model is as follows:

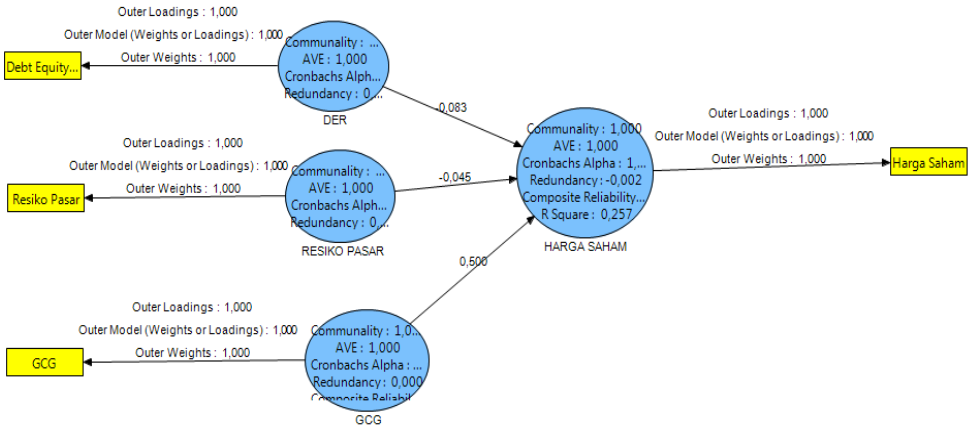

Figure 2 Research Model Structure

Then the hypothesis testing is carried out with the following results:
Table Bootstrapping Output

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (| O / STERR |)
DER -> Stock Price	-0.0830	-0.1672	0.1608	0.1608	0.5163
Market Risk -> Stock Price	-0.0453	-0,1004	0.0869	0.0869	0.5209
GCG -> Stock Price	0.5002	0.5197	0.0939	0.0939	5,3270

Smart PLS Output August 28, 2012 23.18.37

From the table above, the following equation can be determined:
Share Price = -0.0830DER-0.0453 Market Risk + 0.5002GCG
a. If the DER increases, the share price will decrease
b. If Market Risk increases, the share price will decrease
c. If GCG has increased, the stock price will also increase

Effect of Debt Equity Ratio on Stock Prices

The first hypothesis (H1) states that the Debt Equity Ratio affects stock prices. The results of the Debt Equity Ratio test against stock prices with an at-statistical value of 0.5163, this value is below the t-table value of 1.96, thus the first hypothesis cannot be accepted (rejected). Similar research results have also been found by Erna Tiningrum (2011), who concluded that the Debt Equity Ratio does not affect stock prices.

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The Influence of Market Risk on stock prices.

The second hypothesis (H2) states that market risk affects stock prices. The results of the market risk test on stock prices with a t-statistic value of 0.5209, this value is below the t-table value of 1.96, thus the first hypothesis cannot be accepted (rejected). These results are consistent with research conducted by Annissa Yunita Uli and Lana Sularto (2009) who concluded that beta (market risk) does not significantly affect stock prices.

The influence of Good Corporate Governance (GCG) on stock prices.

The third hypothesis (H3) states that GCG affects stock prices. The test results show that there is an effect of GCG on the price with a t-statistic value of 5.3270, this value is above the t-table value of 1.96, thus the third hypothesis can be accepted. This is following the findings written in the revised edition of the book by M. Chatiim Baidaie which states that the implementation of Good Corporate Governance is an indicator that the company has been well managed and transparent, so it is important for investor / public confidence in the company, with increased confidence in the company. making stock value in great demand on the stock exchange so that it will have a positive impact on the increase in stock value.

The joint influence of Debt Equity Ratio, Market Risk, and Good Corporate Governance on stock prices.

The fourth hypothesis (H4) states that DER, market risk, and GCG together affect market prices. The test results (output boots mapping) produce an R Square value of 0.257, this means that the DER, Market Risk, and GCG variables affect the stock price by 25.7%.

5. Conclusion

This research was conducted in the period 2007-2010, with data obtained from the Jakarta Stock Exchange and IICG. Based on the results of data analysis using the Structural Equation Modeling (SEM) approach using the help of SmartPLS software, the following results were obtained:

In general, a company's DER value fluctuates due to changes in debt and equity. Companies that have a high DER are Adhi Karya, Tbk. The company's market risk decreased in 2008, some were even negative. This means that if the market return has increased, the stock return will decrease and vice versa. In this study, several companies have increased stock returns, while the market has decreased.

The application of the principles of Good Corporate Governance has been carried out by the selected companies in this study. However, there is still one principle that the implementation is less than optimal, namely fairness. Share prices in the 2007-2010 period fluctuated (fluctuated). The most significant decline in share prices occurred in 2008. Debt Equity Ratio (DER) does not affect stock prices. The results of the Debt Equity Ratio test against stock prices with an at-statistical value of 0.5163, this value is below the t-table value of 1.96, thus the first hypothesis cannot be accepted (rejected).

Market risk does not affect stock prices. The results of the market risk test on stock prices with an at-statistical value of 0.5209, this value is below the t-table, namely 1.96, thus the first hypothesis cannot be accepted (rejected). Good Corporate Governance affects stock prices. The test results show the influence of GCG on stock prices with a t-statistic value of 5.3270, this value is above the t-table value of 1.96, thus the third hypothesis can be accepted. The Debt Equity Ratio, Market Risk, and Good Corporate Governance together can influence share prices by 25.7%.

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