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THE INFLUENCE OF RISK ON THE VALUE OF COMPANIES IN THE TEXTILE/GARMENT INDUSTRY LISTED ON THE INDONESIA STOCK EXCHANGE 2020-2021

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Abstract

High company risk can lead to wrong investor decisions, as it can reflect a high likelihood of company failure. Risk management becomes important to minimize the adverse impact of risks on company operations and increase company value for shareholder wealth. This research aims to examine the effect of risk on company value in the Textile/Garment industry on the Indonesia Stock Exchange. The study used secondary data with a quantitative descriptive analysis method using STATA17 software. The sample size in this study was 18 companies. The results of the study proved that business risk has a significant negative effect on the value of Textile/garment industry companies listed on the Indonesia Stock Exchange. The higher the business risk faced by a company, the lower its value.

Keywords*: Risk, Company Value, Textile/Garment Industry, Indonesia Stock Exchange.*

INTRODUCTION

Background of the Study

In the past few decades, Asian companies have significantly increased their international investment. Emerging markets in Asia have evolved and become more integrated into the global economy, and investment barriers have significantly decreased, increasing systemic risk exposure along with increasing volatility over time (Chee-Wooi & Brooks, 2015). This volatility means that the business world continues to face risks that can lead to failure (Evans & Thakorlal, 2004). Risks can threaten business sustainability. Therefore, all companies should implement appropriate risk management to minimize risks that have a negative impact on business operations. The global financial crisis is one of the major issues related to risks, as many countries lost income due to the collapse of global markets and

limited trade, and poor liquidity (Cruz, 2002). Thus, risk management is an essential part of corporate governance, a global concern, and is seen by many organizations as a critically important strategy (Kommunuri et al., 2014).

Risk management is an important part of corporate governance. Risk management is a systematic process for identifying, evaluating, controlling, and monitoring the risks faced by an organization. The goal of risk management is to minimize the risks that can affect the achievement of organizational goals, as well as to ensure the long-term survival and growth of the company (COSO, 2017). Risk management has become a global concern because companies today operate in a highly complex and rapidly changing environment. Companies must face various risks, such as operational risk, market risk, credit risk, liquidity risk, and reputational risk. These risks can impact the business sustainability and the credibility of the company in the eyes of the public and investors (Fraser & Simkins, 2016).

Different companies have different decisions when it comes to risk assessment, and the success or failure of a company depends on its risk acceptance. Companies strive to manage risks effectively so that they can have a positive impact on returns and opportunities that reflect wealth enhancement for shareholders (Alshubiri, 2015). Risk means the difference between actual events and expected events, so companies try to minimize risks by making predictions and finding strategies for risk acceptance.

There are several definitions of risk, but generally, the risk is defined as the possibility of loss or uncertainty in achieving expected goals. Risks can arise from various factors, such as market changes, operational failures, inability to pay debts, or even reputational risks due to damaging actions (Hull, 2017). In facing risks, companies strive to minimize risks by making predictions and finding strategies for risk acceptance. This strategy can include the use of derivative financial instruments, insurance, investment diversification, or other risk management (Brealey et al, 2017). However, it is also important to remember that reducing risk is not always the best solution, especially if the risk is part of normal business activities. Some risks can even provide benefits if managed well. Therefore, companies need to consider risks carefully and make wise decisions in managing them (Power, 2004).

Investors invest in companies to increase their wealth, which is reflected in a high company value. Increasing the company's value can also increase shareholder wealth. Shareholder wealth, represented by stock prices, reflects the company's investment in assets, financing, and management decisions. However, the company's goal of creating shareholder wealth by increasing the company's value is not always fully achieved. This is due to internal problems, where the goals

of the board and shareholders of the company often do not align. To increase the company's value, internal problems must be minimized so that management can act in line with the company's goal of increasing shareholder value.

In order to increase the value of a company, management must pay attention to internal issues that can affect the company's performance and reputation. Internal issues such as non-compliance with regulations, corrupt practices, conflicts of interest, and lack of transparency can cause financial losses and a poor reputation for the company (Gompers et al., 2003). When facing these internal issues, management must act quickly and effectively to minimize their impact. One way to do this is to strengthen good corporate governance, including applying principles of transparency, accountability, independence, and effective oversight (Jensen, 2001).

In this context, management must act in line with the company's goal to increase shareholder value. Management must be aware that the company's value is closely related to its financial performance and reputation. Thus, management must take appropriate actions to minimize risks and maximize the company's value (Shleifer & Vishny, 1997). John et al. (2008) state a positive correlation between risk-taking and company growth. This is because some believe that high risks result in high returns. On the other hand, high company risk can also lead to wrong investor decisions, as it reflects the likelihood of high company failure. Jajuga et al. (2009) suggest that there are two different concepts of risk, namely the negative concept where risk is related to threats and losses, and the neutral approach which views risk as a threat and an opportunity.

Vu Chai and Do (2015) tested the effect of liquidity risk on stock returns and found that liquidity risk is caused by (1) common movements between individual stock liquidity and market liquidity, (ii) stock-specific factors, and (iii) synchronicity of equity liquidity and market returns; considering individually or collectively. The results highlight the importance of liquidity risk, especially when market conditions deteriorate. Recent empirical evidence shows that effective risk management can increase equity returns and shareholder value, but reduce cash flow returns and volatility (Krause and Tse, 2016).

Garment companies are used as the research object because garment companies are one of the most important industries in Indonesia. With many job opportunities, the Indonesian garment industry has grown rapidly over the past few decades. Therefore, the aim of this study is to test the effect of risk on the value of companies in the Textile/Garment Industry in the Indonesia Stock Exchange in 2020-2021.

Problem Identification

The problem identified in the background is the increasing international investment of Asian companies and the increasing systemic risk exposure with the volatility of emerging markets in Asia. This can pose risks that could endanger the company's sustainability. The global financial crisis is also a major issue related to risk and can result in loss of revenue for many countries. Therefore, risk management is important to minimize risks that have a negative impact on the company's operations and increase the company's value for shareholders' wealth. However, internal issues can hinder the company's goal of increasing its value, and high risk can also lead to wrong investor decisions. In addition, liquidity risk is also important in the garment industry in Indonesia and can affect the company's value.

LITERATURE REVIEW AND HYPOTHESIS

Literature Review

Corporate Risk

According to COSO ERM (2004), the risk is the possibility of an event that affects the achievement of a company's objectives. Risk involves uncertainty, unexpected possibilities, and missed opportunities. From a financial perspective, the risk is defined as the risk that a company will not achieve its growth objectives (Harris-Jones and Bergin, 1998). Corporate risk is the possibility or probability of loss, disruption, or threat to a company's objectives, processes, products, and resources (Mangkunegara, 2014).

Corporate risk is the possibility or probability of financial loss or uncertainty in the operational activities of a company (Hillson & Murray-Webster, 2012). Risks can originate from various factors such as market uncertainty, regulatory changes, operational risks, financial risks, and others. Corporate risk must be effectively managed to ensure the survival and growth of the company (Jorion, 2007). Corporate risk management involves identifying, assessing, and controlling potential risks. The aim is to reduce the possibility of risks or the negative impact that may occur if such risks materialize (Pinto et al, 2010).

Here are some types of corporate risk:

- Market risk: Risks that arise from market fluctuations such as changes in interest rates, exchange rates, stock prices, and commodities (Hull, 2017).
- Credit risk: Risks that arise from the inability of others to meet financial obligations, such as loans or bill payments (Saunders & Cornett, 2014).
- Operational risk: Risks that arise from operational failures or violations of company procedures and policies (Bodnar et al, 2010).
- Liquidity risk: Risks that arise from a company's inability to meet financial obligations or obtain the necessary financial resources (Brealey et al, 2017).

- Reputation risk: Risks that arise from reputational damage to the company due to actions or events that are detrimental (Fombrun, 1996).

The concept of risk can be divided into two different approaches, namely the negative approach and the neutral approach. The negative approach regards risk as a threat and potential loss that may occur. In this approach, the risk is considered something that should be avoided and minimized. Risk is seen as something negative and potentially harmful to the company. In this context, management tries to identify and reduce risks, as well as create contingency plans to address possible risks (Hillson, 2014). The neutral approach regards risk as something that can be a threat or an opportunity. In this approach, the risk is seen as an uncertain event with unpredictable outcomes.

Risk is seen as something that can be beneficial if managed properly. In this context, management tries to manage risks in a proper way to produce profits (Institute of Risk Management, 2002). Both approaches have their own advantages and disadvantages. The negative approach allows companies to focus on identifying and reducing risks but may hinder the company's ability to exploit new business opportunities. The neutral approach allows companies to manage risks properly and exploit new business opportunities but may overlook potential losses that may occur (Lupton, 2013). As part of risk management, it is important to understand both of these risk approaches and choose the appropriate approach for the company. This can help the company increase its value and minimize the risks associated with business activities.

Company Value

The primary goal of a company is to maximize the value of the company's capital, which is the present value of the expected future profits of the shareholders. According to this definition, the value of the company is maximized only if the expected utility is maximized over time (Dolenc et al., 2014). Pfarrer (2010) states that when a company creates value for its stakeholders, it can also create value for its shareholders.

Company value is a concept that refers to the estimation or prediction of the market price or economic value of a company. Company value reflects the level of confidence and belief of investors and the market in the performance and future potential of the company (Damodaran, 2012). Company value can be calculated using various methods, such as valuation ratios, fundamental analysis, or discounted cash flow (DCF) methods. The method used will depend on the

characteristics and conditions of the company, as well as the purpose of calculating the company's value (McKinsey & Company, 2020).

A high company value indicates that the market and investors have strong confidence in the performance and future potential of the company, making the company an attractive investment. Conversely, a low company value indicates that the market and investors have low confidence in the performance and future potential of the company, making it a less attractive investment (Penman, 2013).

Company value is a quantitative measure of the market value or price of a company, reflecting the overall health and performance of the company. The concept of company value is based on the financial economics approach, which views the company as an entity that can be valued and traded in the market. Generally, company value consists of two components: equity value and debt value, which each reflect the value of the shares held by shareholders and the value of the debt held by creditors (Fernandez, 2021).

The types of company value commonly known include (Pratt et al, 2019):

1. Market value - is the value of the company calculated based on the stock price of the company in the stock market. Market value reflects the market's perception of the company's performance and future prospects.
2. Book value - is the value of the company calculated based on the total value of assets minus the total value of liabilities of the company. Book value reflects the intrinsic value of the company.
3. Liquidation value - is the value of the company if all its assets are sold separately at market prices and all its debts are paid. Liquidation value is usually lower than market value and book value, because company assets are often not sellable at market prices like on the balance sheet.
4. Replacement value - is the value of the company if all its assets are revalued based on the cost of replacing the assets with new ones. Replacement value is usually higher than book value because the cost of replacing assets with new ones is usually higher than the price of old assets.

The determination of the type of company value used depends on the purpose of its use.

Hypothesis

The Impact of Business Risk on Firm Value

In finance theory, the value of a firm depends on its performance and the risk it faces (Chang et al., 2014). Rayan (2008) showed that leverage is negatively related to firm value, and an increase in leverage can decrease firm value. This is

because high levels of debt reflect the possibility that a firm may not be able to pay it, increasing risk and leading to lower market valuations for the firm. Wet (2006) showed that significant value is unlocked when the optimal gearing level is approached. Modigliani and Miller (1961) concluded that increased equity costs have a negative impact on economic value added (EVA) because they result from increased firm debt. This means that firms with high levels of debt may have higher equity costs, such as higher interest payments, which can reduce firm value.

Kommunuri et al (2014) found that firms that manage risk well can increase shareholder value. Risk management can provide a solid foundation for firms to improve their corporate governance quality and create greater shareholder value. Risk management can also enhance organizational function efficiency and enable the capital market to respond to the risks faced by firms. Stakeholder value is threatened when organizational risk portfolios continue to change without appropriate governance mechanisms to manage them. Based on the explanations above, the following hypotheses can be developed:

Ha: Business risk has a significant negative effect on company value.
Ho: Business risk does not have a significant negative effect on company value.

Research Methodology

Research design

Research design is a plan or strategy used to collect and analyze data in order to answer research questions that have been formulated. This research is a quantitative descriptive study that examines the relationship between two variables, namely the influence of the Risk variable on the Company Value in the Textile/Garment Industry Companies on the Indonesia Stock Exchange in 2020-2021. Data will be processed using STATA17 software.

Population and Sample

Population refers to the complete group or entirety of objects or individuals that share the same characteristics or attributes and are the focus of statistical research. The population in this study is all companies in the Textile/Garment Industry listed on the Indonesia Stock Exchange. A sample is a subset of the population selected for testing in a research study. The sample is chosen to represent the population in a systematic and objective manner so that the results of the study can be applied back to the population in general. The sampling criteria for this study are based on the availability of data, resulting in a sample size of 18 companies. The study period is 1 year, from 2020 to 2021.

Data collection techniques

Data collection techniques refer to the methods or approaches used to gather the necessary information or data for a research study. In this study, the data collection technique used is secondary data collection. The secondary data used in this study are the business risk, price book value (PBV), and Degree of Operating Leverage (DOL) data. These data are obtained from the financial statements and annual reports of the selected companies in the textile/garment industry listed in the Indonesia Stock Exchange**.** The Price-to-Book Value (PBV) ratio is a financial metric that compares a company's market price per share to its book value per share. The formula for PBV is:

PBV = Market Price per Share / Book Value per Share

Where:

- Market Price per Share is the current price of a single share of the company's stock on the stock market.
- Book Value per Share is the total value of the company's assets minus its liabilities, divided by the total number of outstanding shares.

In general, a PBV ratio of less than 1.0 indicates that the stock is undervalued, while a ratio greater than 1.0 indicates that the stock is overvalued.

The Degree of Operating Leverage (DOL) is a financial metric that measures the sensitivity of a company's operating income to changes in its sales revenue. The formula for DOL is:

DOL = % change in Operating Income / % change in Sales Revenue

Where:

- % change in Operating Income is the percentage change in a company's operating income resulting from a percentage change in sales revenue.
- % change in Sales Revenue is the percentage change in a company's sales revenue.

The DOL shows how a change in sales revenue affects a company's operating income. A high DOL indicates that the company's operating income is more sensitive to changes in sales revenue, which means that the company has a higher fixed cost level than variable costs. Conversely, a low DOL indicates that the company's operating income is less sensitive to changes in sales revenue, which means that the company has a higher level of variable costs compared to fixed costs.

Hypothesis Testing

Hypothesis testing is the statistical decision-making process used to determine whether the hypothesis proposed in the research can be accepted or

rejected based on the collected data. This study uses Simple Linear Regression to analyze the data with STATA software version 17 as the analysis tool. The use of regression aims to test the direct effect of risk on firm value. To test the hypothesis, this study uses the following model:

$$DOLit = \beta 0 + \beta 1\ PBVit + e$$

Explanation:
DOL = Company Value
PBV = Company Risk
β0 = Constant
β1 = Coefficient of PBV
e = Error term

RESULT AND DISCUSSION

Results

The research sample was selected based on the researcher's criteria for data availability, which consisted of 18 textile/garment companies listed on the Indonesia Stock Exchange.

Table 1
Research Sample Data

Company Code	Company Name
UCID	PT. Uni-Charm Indonesia Tbk
TFCO	PT. Tifico Fiber Indonesia Tbk
PBRX	PT. Pan Brothers Tbk
ZONE	PT. Mega Perintis Tbk
BELL	PT. Trisula Textile Manufacturer Tbk
SSTM	PT. Sunson Textile Manufacturer Tbk
TRIS	PT. Trisula International Tbk
STAR	PT. Buana Artha Anugerah Tbk
MYTX	PT. Asia Pacific Investama Tbk
ERTX	PT. Eratex Djaja Tbk
ARGO	PT. Argo Pantes Tbk
POLU	PT. Golden Flower Tbk
SBAT	PT. Sejahtera Bintang Abadi Textile Tbk
POLY	PT. Asia Pasific Fibers Tbk
ESTI	PT. Ever Shine Textile Tbk
CNTX	PT. Century Textile Industry Tbk

HDTX	PT. Panasia Indo Resources Tbk
UNIT	PT. Nusantara Inti Corpora Tbk

Descriptive Statistics

This study presents descriptive statistics which are intended to provide an overview of the research variables used. Descriptive statistics is a statistical analysis method used to describe or summarize data in a simpler and more understandable form. Below are the descriptive statistics for this study.

Table 2
Descriptive Statistics

Variabel	Mean	Std. Dev	Min	Max
DOL	-8.53	34.73	-137.48	20.17
PBV	-142.50	3120.27	-10048.59	7881.30

Source: STATA17

Table 2 shows the distribution of data for each variable. The companies in the sample are considered to be high-risk. The high standard deviation indicates that the data has high variability or is widely spread from the mean value. This can be seen from the standard deviation value of 34.73 with a mean of -8.53. The sample companies have a wide range of values, with a minimum value of -137.48 and a maximum value of 20.17. The wide range of values indicates a large variation in data between the minimum and maximum values.

Direct Effect Test Result

Table 3
Linear Regression Result

Variable	Coef	Sig.	Desc.
Constant	-8.634702	-0.0066092	Significance
PBV	-0.0007231	-26.50311	Significance

Source: STATA17

Based on the data in the table above, the regression model can be formulated as follows:

$$\mathbf{DOL = -8.634702 - 0.0007231\ PBV + e}$$

Based on the analysis results, it can be concluded that business risk has a significant negative effect on company value with a significant value of -26.503 (-26.503 <

0.05). The negative coefficient indicates that a decrease in business risk leads to an increase in company value.

Discussion

The analysis results indicate that business risk has a negative and significant effect on the value of textile/garment companies listed on the Indonesia Stock Exchange. This is in line with the trade-off theory, which states that the more debt a company has, the higher the risk of bankruptcy and the lower the company's value. The trade-off theory suggests that companies should determine the appropriate level of debt to achieve a balance between the cost of debt and the benefits of debt financing. The trade-off theory can explain the relationship between debt and the value of the company (Kim & Lee, 2009).

In the context of business risk, the more debt a company has, the greater the risk of the company having difficulty paying off the debt if it experiences financial problems or changes in business conditions. The higher the business risk of a company, the more difficult it is for the company to obtain funding through debt (Campello et al, 2004). This can lower the credibility and reputation of the company, as well as affect the stock price and value of the company. Therefore, companies need to consider business risk when determining the appropriate level of debt to minimize the risk of bankruptcy and maximize the value of the company. Companies should choose a lower level of debt to minimize the risk of bankruptcy (Froot & Stein, 1993).

The analysis results indicate that business risk has a significant negative effect on the value of textile/garment companies listed on the Indonesia Stock Exchange. This means that the higher the business risk faced by textile/garment companies, the lower their value. This can be caused by many factors, such as market risk, operational risk, financial risk, reputation risk, and environmental risk. All of these risks can reduce the value of a company if not properly addressed.

Other studies that support these results have been conducted by Yulianto & Suharli (2015), who concluded that business risk has a significant effect on the value of manufacturing companies in the Indonesia Stock Exchange. The study used data from the period of 2008-2012 and found that companies with high business risk had lower company values compared to those with low business risk.

Kusumawati & Wijayanti (2019) found that business risk has a negative effect on the value of manufacturing companies listed on the Indonesia Stock Exchange, including textile and garment companies. The study used data from the period of 2012-2017 and found that business risk had a significant negative impact on company value. Handayani & Sari (2020) researched the effect of business risk

on the value of textile and garment companies listed on the Indonesia Stock Exchange using data from the period of 2014-2018. The results showed that business risk has a significant negative effect on the value of textile and garment companies.

CONCLUSION, LIMITATION, AND RECOMMENDATION

Conclusion

Based on the analysis and research conducted, it can be concluded that business risk has a negative and significant effect on the value of Textile/garment industry companies listed on the Indonesia Stock Exchange. The higher the business risk faced by the company, the lower its value. Therefore, companies need to consider business risk when determining the appropriate level of debt to minimize the risk of bankruptcy and maximize the value of the company. Companies also need to manage business risks well to maintain the credibility and reputation of the company, as well as influence stock prices and the value of the company.

Limitation

The limitations faced by the researchers during data collection and processing are as follows:

1. Limitations in data collection: The researchers faced difficulties in obtaining complete data from textile/garment companies listed on the Indonesia Stock Exchange. Some companies did not provide complete data.
2. Limitations in interpreting results: This study only focused on the relationship between business risk and firm value in the textile/garment industry in the Indonesia Stock Exchange. Therefore, the conclusions drawn from this study may not be applicable to other industries or countries. In addition, other factors that were not considered in this study may also affect the relationship between business risk and firm value.
3. Limitations in generalizing results: This study only involved companies listed on the Indonesia Stock Exchange and did not consider non-listed companies.

Recommendation

Companies need to pay attention to business risk, which has been proven to have a significant negative impact on company value. High business risk can have a detrimental effect on the business, as the expected return rate is lower than the debt used in the business. Investors who consider investing in the garment industry companies listed on the Indonesia Stock Exchange should consider the variable of

business risk. However, it should be noted that this research only used a sample from the garment industry.

There are several recommendations for future research, including:

a) Testing the effect of other variables on the relationship between business risk and firm value in the textile/garment industry in the Indonesian Stock Exchange, such as firm size, sales growth, and leverage.
b) Expanding the scope of the study to other industries in the Indonesian Stock Exchange to see if the findings regarding the impact of business risk on firm value can be applied to different industries.
c) Examining the impact of external factors such as economic conditions and government regulations on the relationship between business risk and firm value in the textile/garment industry in the Indonesian Stock Exchange.
d) Analyzing the impact of business risk on firm financial performance, such as profitability and efficiency.
e) Using different research methods such as qualitative methods or case studies to gain a deeper understanding of how business risk affects firm value in the textile/garment industry in the Indonesian Stock Exchange.
f) Conducting longitudinal research by extending the observation period to see changes in the impact of business risk on firm value over time.

By conducting further research and expanding understanding about the relationship between business risk and company value, it can provide greater benefits for investors and decision-makers in the textile/garment industry and other industries on the Indonesia Stock Exchange.

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