ANALYSIS OF THE EFFECT OF FIRM SIZE, FINANCIAL LEVERAGE, PROFITABILITY, DIVERSIFICATION ON MARKET RISK AND STOCK RETURN

(Case Study of Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange in 2007-2016)

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ABSTRACT

The purpose of this study is to analyze the effect of firm size, financial leverage, profitability, diversification of market risk and stock returns. This research uses quantitative research methods. The population in this study is the consumption sector of manufacturing companies that are listed on the Indonesia Stock Exchange (IDX) during the observation period from 2007-2016. The sample technique using non probability sampling technique with purposive sampling method. The analysis method used Partial Least Square (PLS) analysis, with smartPLS as an analysis tools. The results showed that the size of the firm had a negative and insignificant effect, while financial leverage, profitability, and diversification had a positive but insignificant effect too on stock returns. And firm size had a negative and significant effect on market risk while financial leverage and profitability had a positive and had significant effect too on market risk, but for diversification, has a positive and insignificant effect on market risk. Last, market risk has a positive and significant effect on stock returns.

Keywords: fundamental, diversification, risk, stock returns

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INTRODUCTION

In this study, researchers want to examine the market risk because market risk (systematic risk or general risk) is risk associated with changes that occur in the market as a whole. These market change will affect the variability of an investment. If market risk (systematic risk) occurs, all type of shares will be affected. Research conducted by (Absari, 2012) and (Theriou, Aggelidis, & Maditinos, 2010) shows that systematics risk has an influence on stock return, however research conducted by (Rahmatullah, 2013) shows a different opinion that beta (systematic risk or market risk) does not have a positive and significant effect on stock returns. These results indicate that investors consider information about systematic risk to be not to be affect beta stocks (systematic risk) on stock returns can also be caused by psychological factors investors who want to always get a maximum return. In addition, this result also shows that the theory of high risk high return is not always suitable for all investors, because there are investors who do not like risk.

Because high return will be accompanied by beta or high risk (high risk high return) so before investing, investor should think and understand the risk and return of investment first by assessing the capabilities and performance of the company. Assessing the capability and performance of a company can be seen from the financial statements of the company itself, because financial statements are a fundamental information that has a relationship with the condition of a company (Absari, 2012). In addition to describing the capabilities and performance of a company, financial statements also show the size of a company (firm size).

Large-scale companies will find it easier to obtain loans compared to small companies, so the rate of return of large-sized company shares is greater than stock returns in small-scale companies (Absari, 2012). This is demonstrated by research conducted by (Sudarsono & Sudiyanto, 2014) who fund a significant positive effect between stock size and return, but different opinion are shown by research conducted by (Maringka, 2015) directly firm size has no significant effect on stock returns.
returns, which means the size of a company with a high total asset does not affect the increase in stock return company. Large or small a company size cannot disrobe the condition of the company that should give a signal of how strong the company’s finance or as an opportunity to gain profits (return).

In addition to large-scale company securities can provide a greater return on company shares because it is easier to obtain loans, securities of large companies are also considered as valuable assets that can be converted quickly into cash, resulting in less risky large companies and large companies are more able to reduce the effect of economic, social and politic changes on their management, thereby keeping their business less risky (Sullivan, 2006). (Ben-Zion & Shalit, 2019) adopted the size of company in determining the influence of financial variables with risk, showing the extent to which economies of scale allow companies to maintain lower unit costs so large companies are more likely to benefit an reduce the possibility of bankruptcy, thereby reducing risk, however different opinions are shown by research conducted by (Iqbal, Iqbal, & Khan, 2015) if firm has a negative relationship with systematic risk, market risk (beta) in (Iqbal, Iqbal, & Khan, 2015) research measure firm size using the natural log of the company’s net sales.

Debt or leverage as explained earlier is an assessment of company performance that can be done by investors before investing, where leverage also shows the ability of a company. According to (Keown, Martin, Pretty, William, & Scott, 2011) leverage or debt is funding part of the assets of companies with securities that bear a fixed (limited) rate of return in the hope of increasing returns for shareholders. Decision making on the use of debt requires companies to balance higher levels of expected return with increase risk (Bringham & Houston, 2009). In addition, based on the signaling theory, the use of debt (debt) is a signal delivered by manager to the market. Signal that indicate if manager has confidence that the company is in good condition and with the prospects of the company in the future, because this belief is what makes the company dare to use greater debt in the hope that investor will catch the signal (Tiningrum, 2011). Research conduct by (Ahmad, Fida, & Zakaria, 2013) shows a strong influence between leverage returns.
and stock return, and research conduct by (Sugiarti, Surachman, & Aisjah, 2015) conveys a different matter if the leverage represented by debt to equity has a negative and significant effect on stock returns of manufacturing companies.

In addition to the high debt as indicated by the higher level of leverage resulting in high expected rates of return, this also causes interest costs to increase which will reduce company profits. Reduced Corporate profits will reduces investor interest in holding the company’s shares, besides that risk of unpaid company debt increases (Absari, 2012), and high debt incurs fixed cost such as interest expenses that can increase risk (Kartikasari, 2007). Research conducted by (Lee & Jang, 2007) states that leverage has a positive relationship with beta but research conducted by (Borde, 2000) shows if leverage has no influence with systematic risk (market risk or beta), where leverage is defined as the ratio equity to total assets.

Furthermore, an assessment of company performance that can be done by investors before investing, which is also an attraction for the owner of the company or shareholders is profitability. The owner is interested in the distribution of profit to which he is entitled, how much is reinvested and how much is paid as dividend to them. (Absari, 2012) states that the higher the profitability value, the better the company is and the impact on the company’s stock price increase. As the stock price rises, stock return will also increase, and (Rachmatika, 2006) also states the same thing. The greater the value of profitability shows the company’s performance is getting better because the rate of return is greater, so it can be said if this measurement has increased which has an impact on increasing profits that can be enjoy by shareholders that is return (Rachmatika, 2006). (Halim, 2010) shows that profitability has positive and significant effect on stock, but different opinion is show by (Setianingrum, 2009) saying if profitability has no influence significant to stock return.

In addition to assessing company performance and attractiveness to investors, profitability also measure the effectiveness of company’s overall management. This is shown from the profits obtained from sales and investment. The higher the profitability the smaller risk of the company (Kartikasari, 2007)
because companies with good profitability can reduce the possibility of bankruptcy of the company (Shin, 2009). Research conducted by (Borde, 2000) shows that companies with good performance measured by high profitability may face the possibility of low losses that indicate low risk.

A company that is getting bigger in size and has good performance and ability shows that the company has grown into an adult. Diversification is a company-level strategy used to diversify company operations from a single business competing in a single market into several market products and mostly into a number of businesses (Hit & Ireland, 2007). (Lubatkin & Rogers, 2009) specifically disclosed that diversified companies show a significant lower systematic risk and higher shareholder return. Research conduct by (Dwi, Wiagustini, & Sedana, 2017) show that diversification has a positive and significant effect on stock returns. And research conduct by (Montgomery & Singh, 2016) reveals if diversification has a significant effect on systematic risk or market risk, but (Barton, 2018) shows a different matter, where companies that diversify have much higher systematic risk and low market power, low capital intensity, and high debt.

**Problem formulation**

From above introduction, it can be seen the formulation of the problem to be examined in this study include:

1. Does firm size have a significant effect on stock return?
2. Does firm size have a significant effect on market risk?
3. Does financial leverage have a significant effect on stock return?
4. Does financial leverage have a significant effect on market risk?
5. Does profitability have as significant effect on stock return?
6. Does profitability have a significant effect on market risk?
7. Does diversification have a significant effect on stock return?
8. Does diversification have a significant effect on market risk?
9. Does market risk have a significant effect on stock return?
Hypotheses Development

(Absari, 2012) revealed that the size of the company describes the size of a company as indicated by total assets, number of sales, average level of sales and average total assets. Large-scale companies will find it easier to obtain loans compared to small companies, so the rate of return of large-sized company shares is greater than the stock return on small-scale companies. The larger the size of the company or the scale of the company, the easier it will be for companies to obtain funding sources both internally and externally (Yuliana, 2015).

H1: Firm Size has significant effect on Stock Return.

Firm size in determining the effect of financial variables on risk shows the extent to which economies of scale allow companies to maintain lower unit costs, then large companies are more likely to benefit and reduce the possibility of bankruptcy thereby reducing risk (Ben-Zion & Shalit, 2019). Increasingly large company profits increase profits gained by investors, making investors more interested in buying company shares and less uncertainty resulting in smaller beta (risk) (Kartikasari, 2007). Securities of large companies are also regarded as valuable assets that can be converted quickly into cash, resulting in less risk of large companies (Kartikasari, 2007) besides that large-sized companies are better able to reduce the influence of economic, social and political changes on their management, therefore can keep their business less risky (Sullivan, 2006).

H2: Firm Size has significant effect on Market Risk.

Financial leverage or also known as leverage or debt provides an opportunity for companies to carry out their investments, besides debt can also show a signal of 'good news' according to signaling theory, which considers that the use of debt is a signal if the company has a good performance. Old shareholders (existing shareholders) consistently assume increased debt as 'good news' and debt retardation events as 'bad news' (Hadi, 2015). Companies that have large leverage will make investors demand a greater stock return on their shares because of the high risk of bankruptcy, which indicates that leverage has a strong influence on stock returns (Ahmad et al., 2013).

H3: Leverage has significant effect on Stock Return.
The high debt is indicated by the higher level of leverage but the expected rate of return is also high when the company gets a large profit, so the interest costs will increase which will reduce the company's profits. Decreasing corporate profits will reduce investor interest in holding the company's shares, besides that the risk of unpaid corporate debt increases (Absari, 2012), besides high debt raises fixed costs such as interest expenses that can increase risk (Kartikasari, 2007).

H4: Leverage has significant effect on Market Risk

The assessment of company performance seen from greater profitability illustrates the company's performance that is getting better and the shareholders will benefit from the dividends received increasing, because increased profitability eats stock returns will also increase. (Absari, 2012) said that the higher the value of profitability, the better the company and the increase in the company's stock price. Increasing stock prices, stock returns will also increase.

H5: Profitability has an influence on stock returns

Profitability, in addition to the performance of the company in order to determine the effectiveness of management of a company as a whole that is shown from the profits obtained from sales and investment. Profitability is very important for a company, because to live a company must be in a favorable condition. Higher profitability is not followed by risk, because greater profitability has a smaller risk (Kartikasari, 2007) because companies with good profitability can reduce the possibility of corporate bankruptcy (Shin, 2009).

H6: Profitability has significant effect on Market Risk

Companies begin to think of diversification when their growth has been high and opportunities for growth in their original businesses have run out, this often happens when an industry grows and most of the surviving companies have reached the limit of growth. (Lubatkin & Rogers, 2009) say specifically diversified companies show systematic risk that is significantly lower and the rate of return higher shareholders. Low systematic risk is very valuable for shareholders except without a low return, besides diversification if planned well together can produce low and high risk.

H7: Diversification has significant effect on stock returns
Companies can use a diversification strategy to strengthen the market that will have an impact on improving the performance of companies due to the development of their business segments can reduce the risks faced by the company (Dwi et al., 2017). (Titman & Wessels, 2007) revealed that large companies have a tendency diversify their businesses more efficiently and make companies less vulnerable to bankruptcy which can allow the risk to be lower.

H8: Diversification has significant effect on Market Risk

CAPM theory says high systematic risk can be compensated for with high returns, but systematic risk is not necessarily compensated to investors because investors can reduce it with their strategies. (Absari, 2012) that systematic risk has an influence on stock returns. Because the stock beta is directly proportional to the stock return so that if the stock beta used as a systematic risk gauge shows an increase, the stock return will also increase, besides (Theriou et al., 2010) show the same thing.

H9: Market risk has significant effect on Stock Return

METHOD, DATA AND ANALYSIS

This study use quantitative research methods and is a type of explanatory research. The population in this study are manufacturing companies of consumer goods industry sectors that are listed on the Indonesia Stock Exchange (IDX) during the observation period from 2007 to 2016 means 10 years. And the sample in this study uses non-probability sampling techniques with purposive sampling methods. Where purposive sampling in this study have four criteria, among other: first, the company reports its financial position in annual financial statements in a row during the observation period starting from 2007 to 2016. Secondly, the company was still listed on the Indonesian Stock Exchange during the observation period start from 2007 to 2016. Third, the company does not have a negative balance in the annual report. Fourt, the company diversified into business segments during the observation period starting from 2007 to 2016. Of the four criteria, the samples in this study were eight (8) companies.
Sources of data in this study were obtained from multiple references to books, scientific papers, previous studies, the internet, and websites related to research objects such as financial statements of manufacturing companies in the consumer goods industry sector published on the Indonesia Stock Exchange (IDX) and closing price taken from yahoofinance.com. The independent variables in this study are company size, financial leverage, profitability, and diversification. The intervening variable in this study is market risk. The dependent variable in this study is the stock return. The data analysis in this study used Partial Least Square (PLS) analysis, with smartPLS as an analysis tool.

Table 1 Research Variable, Indicator, Formula and Source

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Variable</th>
<th>Indicator</th>
<th>Formula</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>Firm Size</td>
<td>Total Asset</td>
<td><em>Firm size</em> = Ln (Total Asset)</td>
<td>(Yuliani, 2013)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Sales</td>
<td><em>Firm size</em> = Ln (Total Sales)</td>
<td></td>
</tr>
<tr>
<td>X2</td>
<td>Leverage</td>
<td>Debt to asset</td>
<td><em>debt to asset</em> = \frac{total Debt}{total asset} x100%</td>
<td>(Kasmir, 2016)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debt to equity</td>
<td><em>debt to equity ratio</em> = \frac{total Debt}{equity} x100</td>
<td></td>
</tr>
<tr>
<td>X3</td>
<td>Profitability</td>
<td>Profit margin</td>
<td><em>profit margin</em> = \frac{Total Profit after tax}{Total Sales} x100%</td>
<td></td>
</tr>
</tbody>
</table>
### RESULTS AND DISCUSSION

Data processing techniques using the Patrial Least Square (PLS) require two stage to assess Fit Model from a research model. First, assessing the outer model or measurement model and secondly, structural model testing or inner model.

<table>
<thead>
<tr>
<th>Source: research concept development, 2018</th>
</tr>
</thead>
</table>

\[ return \ on \ equity = \frac{\text{total profit after tax \ x \ 100\%}}{\text{equity}} \]

\[ H = \frac{\sum_{i=1}^{n} S_i^2}{(\sum_{i=1}^{n} S_i)^2} \]

\[ \gamma = \beta_0 + \beta_1 X \]

\[ stock \ return \ R_{it} = \frac{(P_t - P_{t-1})}{P_{t-1}} \]
There are three criteria using data analysis technique with SmartPLS to assess the outer model, namely convergent validity, discriminant validity and composite reliability, but because this is financial research using formative direction analysis so the composite reliability is zero.

Table 2 Convergent Validity (Outer Loadings)

|                          | Original Sample (O) | Standard Deviation (STDEV) | T Value (|O/STERR|) | results |
|--------------------------|---------------------|----------------------------|----------------|---------|
| LN Total assets (X1.1) à Firm Size | 0.985               | 0.165                      | 5.957           | Valid   |
| LN Total sale (X1.2) à Firm Size | 1.000               | 0.160                      | 6.269           | Valid   |
| DR (X2.1) à Leverage      | 0.734               | 0.187                      | 3.928           | Valid   |
| DER (X2.2) à Leverage     | 0.991               | 0.152                      | 6.537           | Valid   |
| PM (X3.1) à Profitability | 0.264               | 0.289                      | 0.914           | Not valid |
The table in this output (convergent validity) illustrates of each indicator to construct, and seeing convergent validity with 2 option, first with the provisions that the loading factor value > 0.7 can be said to be valid, but the rule of thumb interpreting the loading factor value > 0.5 can be said to be valid or secondly, has a statistical T value > 1.96.

**Table 3 Discriminant Validity (Cross Loading)**

<table>
<thead>
<tr>
<th></th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
<th>Y1</th>
<th>Y2</th>
</tr>
</thead>
<tbody>
<tr>
<td>LN Total asset (X1.1)</td>
<td>0.985</td>
<td>0.194</td>
<td>0.098</td>
<td>0.027</td>
<td>0.221</td>
<td>0.223</td>
</tr>
<tr>
<td>LN Total sale (X1.2)</td>
<td>1.000</td>
<td>0.244</td>
<td>0.056</td>
<td>0.005</td>
<td>0.227</td>
<td>0.224</td>
</tr>
<tr>
<td>DR (X2.1)</td>
<td>0.345</td>
<td>0.734</td>
<td>0.147</td>
<td>0.201</td>
<td>0.267</td>
<td>0.271</td>
</tr>
<tr>
<td>DER (X2.2)</td>
<td>0.283</td>
<td>0.991</td>
<td>0.109</td>
<td>0.099</td>
<td>0.359</td>
<td>0.366</td>
</tr>
<tr>
<td>PM (X3.1)</td>
<td>0.105</td>
<td>0.113</td>
<td>0.264</td>
<td>0.015</td>
<td>0.123</td>
<td>0.101</td>
</tr>
<tr>
<td>ROA (X3.2)</td>
<td>0.101</td>
<td>0.127</td>
<td>0.150</td>
<td>0.044</td>
<td>0.076</td>
<td>0.052</td>
</tr>
<tr>
<td>ROE (X3.3)</td>
<td>0.098</td>
<td>0.125</td>
<td>0.036</td>
<td>0.007</td>
<td>0.031</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Discriminant validity of the measurement model is assessed based on the measurement of cross loading with the construct. The model has good discriminant validity if each loading value of each indicator of a latent variable has the greatest loading or largest cross loading value for the variables they form and not on the other variable. In this study, ROE (return on equity) indicator that represent profitability variable have different results. The indicator is not discriminant, because the largest outer loading value for the variable it form in other variable, namely leverage.

**Table 4 R-Square Value**

<table>
<thead>
<tr>
<th>Construct</th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Risk</td>
<td>0.9321</td>
</tr>
<tr>
<td><em>Stock Return</em></td>
<td>0.4771</td>
</tr>
</tbody>
</table>

Testing the inner model or structural model is done by using R-square for the dependent construct of the t-test as well as the significance of the coefficient of structural path parameters and by looking at the R square value which is a goodness-fit test of the model. In the table 4, shows the R square value of two variables that are influenced by other variables. Namely market risk (Y1) which is 93.21% influenced by firm size, leverage, profitability, and diversification variable and stock return (Y2) which is 47.71% influenced by firm size, leverage, profitability, and diversification variable. In the PLS model for overall goodness of-fit assessment it is known from the value of Q2 (predictive
relevance), where the higher the Q2, the model can be said to be more fit with the data. So Q2 for this study:

Value of Q2 = 1 - (1-R2) X (1-R2)

Value of Q2 = 1 - (1-0.9321) X (1-0.4771)

= 0.9645

The calculation result above can be seen the Q2 value was 0.9645 meaning that the magnitude of diversity of research data that can be explained by the structural model is 96.45%, while remaining 3.55% is explained by other factor outside the model. Based of these results, the structural model in the study can be said to have goodness of fit.

In the PLS analysis that test every statistic that is hypothesized is done using a simulation, in the case the bootstrap method is performed on the sample. Bootstrap testing also help to overcome the problem of research data abnormalities. Bootstrapping test results from PLS analysis are:

**Figure 2 Inner Model**

Source: Processed Data with PLS, 2019
**Tabel 4.1 Path Coefficient (Mean, STDEV, T-Values)**

<table>
<thead>
<tr>
<th>Path</th>
<th>Original Sample (O)</th>
<th>Standard Deviasi (STDEV)</th>
<th>T-Statistic (O/STERR)</th>
<th>P-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1 -&gt; Y2</td>
<td>0.038</td>
<td>0.061</td>
<td>0.628</td>
<td>0.5318</td>
<td>Rejected</td>
</tr>
<tr>
<td>X1 -&gt; Y1</td>
<td>0.378</td>
<td>0.120</td>
<td>3.143</td>
<td>0.0024</td>
<td>Accepted</td>
</tr>
<tr>
<td>X2 -&gt; Y2</td>
<td>0.058</td>
<td>0.057</td>
<td>1.011</td>
<td>0.3154</td>
<td>Rejected</td>
</tr>
<tr>
<td>X2 -&gt; Y1</td>
<td>0.497</td>
<td>0.138</td>
<td>3.615</td>
<td>0.0005</td>
<td>Accepted</td>
</tr>
<tr>
<td>X3 -&gt; Y2</td>
<td>0.075</td>
<td>0.069</td>
<td>1.088</td>
<td>0.2803</td>
<td>Rejected</td>
</tr>
<tr>
<td>X3 -&gt; Y1</td>
<td>0.498</td>
<td>0.175</td>
<td>2.852</td>
<td>0.0056</td>
<td>Accepted</td>
</tr>
<tr>
<td>X4 -&gt; Y2</td>
<td>0.043</td>
<td>0.051</td>
<td>0.839</td>
<td>0.4042</td>
<td>Rejected</td>
</tr>
<tr>
<td>X4 -&gt; Y1</td>
<td>0.104</td>
<td>0.119</td>
<td>0.873</td>
<td>0.3856</td>
<td>Rejected</td>
</tr>
<tr>
<td>Y1 -&gt; Y2</td>
<td>0.900</td>
<td>0.275</td>
<td>3.269</td>
<td>0.0016</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Processed Data with SmartPLS, 2019

**Hypothesis Testing 1 (Firm Size has Significant Effect on Stock Return).**

The results of the fifth hypothesis testing indicate that the effect of Firm Size (X1) variable with Stock Return (Y2) shows the path coefficient value of -0.038 with a t value of 0.5318. The value of t count is smaller than t table (1.960). This result means that Firm Size has a negative and not significant effect on Stock Return, which means it is not in accordance with the first hypothesis where Firm Size has a significant effect on Stock Return. This means that Hypothesis 1 is...
rejected. Negative and insignificant influence means that the larger the size of the company (firm size) results in the company's stock returns getting smaller and the size of the company cannot be used to predict the company's stock returns in the future.

Negative effect based on the coefficient value indicates the company size (firm size), and negative effect mean that the bigger size of company will make company get smaller stock return and smaller companies will have big stock return. These result indicate the anomaly of the “size effect” where small-size companies provide greater return compared to large size companies. And insignificant effect can occur because there is data that negative from stock return or there are companies from sample that have negative stock return during this research or study period and insignificant effect can occur because some of investor view that the growth of a company is not the only seen based on the size or small size of the company, because if assets are not properly by the companies it will not generate large profit where profit that are not optimal will make a company’s stock decline. Therefore, the big or small assets that is owned by the company will not able to predict the amount of profit, that will be gain by a company and the return that will be obtained by investors. This result contrasts with previous research conducted by Sugiarto (2011), Halim (2010) and Sudarsono and Sudiyanto (2016) which show that company size has a positive and significant influence on stock returns.

Hypothesis Testing 2 (Firm Size Has a Significant Effect on Market Risk).

The results of the first hypothesis testing show that the effect of Firm Size (X1) variable with Market Risk (Y1) shows the path coefficient value of -0.378 with a t value of 3.143. The value of t count is greater than t table (1.960). This result means that Firm Size has a negative and significant effect on Market Risk which means it is in accordance with the second hypothesis where Firm Size has a significant effect on Market Risk. This means that Hypothesis 2 is accepted. A negative and significant relationship means that the greater the size of a company (firm size), the systematic risk (market risk) is lower and the size and size of the
company can be used to predict the systematic risk (market risk) of the company in the future.

This can be happen because investors believe that large companies have more experience than the small one and more able to control the impact of economic changes more efficiently so that large companies tend to be more actively trade because investors do not need to hold stock for long time which mean cost and risks that will be reduced. In addition, companies that have a large size indicate that the companies have reached the maturity stage. At this stage is not much need for investment, so the greater the profit (dividends) that will be distributed to shareholders, which then makes investors able to maintain investor desires for the company. This result is in line with that expressed by Titman and Wessels (1988) and Kim and Gu (2002). This result contrasts with previous research conducted by Lee dan Jang (2007).

**Hypothesis Testing 3 (Financial Leverage Has a Significant Effect on Stock Return).**

The results of the sixth hypothesis test indicate that the effect of Financial Leverage variable (X2) with Stock Return (Y2) shows the path coefficient value of 0.058 with a t value of 0.315. The value of t count is smaller than t table (1.960). This result means that Financial Leverage has a positive and not significant effect on Stock Returns which means it is not in accordance with the third hypothesis where Financial Leverage has a significant effect on Stock Return. This means that Hypothesis 3 is rejected.

This result show leverage has a positive effect on stock returns, meaning the greater the leverage value of a eating company the greater the stock return but have insignificant to so it show the high or low value of financial leverage will not affect the value of stock return or cannot be used to predict future stock even the greater the leverage value of a eating company the greater the stock return. Financial leverage or debt is used as a corporate investment interest to support the company’s growth in the long run so that it will generate high profits but the high and low debt is not used as benchmark by investors, but the activities carried out by other companies.
investors in conducting stock trading activities. This because the increase that affects the rising stock price depends on how many are buying shares at the time (long term), and vice versa so that debt is irrelevant in determining the value of stock return in the short term. In addition to getting the maximum return, investors must have more mature knowledge of technical analysis used to maximize profits so that so that insignificance occurs due to the consideration of some investors in viewing leverage as not important. Finally, the use of debt and the return of interest and principal debt in the end cannot affect investor’s opinions of the future profits. The ratio used shows the high level of debt usage in its capital structure so that it can be exceed the ability to pay obligations and lead to bankruptcy. Utilization of debt by a company does aim to get a high rate of return or profit, but if the debt management is not right it can result in losses so that it cannot increase or affect change in stock returns. The results of this study support previous research conducted by Absari (2012), Sugiarti (2014), Subalno (2009) and Ahmad, Fida & Zakaria (2013) which show that leverage does not have a significant effect on stock returns and research conducted by Budiharjo (2018), Halim (2010) and Suharli (2005) which show a positive and insignificant influence between leverage and stock returns.

**Hypothesis Testing 4 (Financial Leverage Has a Significant Effect on Market Risk).**

The results of testing the second hypothesis show that the influence of Financial Leverage (X2) variables with Market Risk (Y1) shows the path coefficient value of 0.497 with a t count value of 3.615. The value of t count is greater than t table (1,960). This result means that Financial Leverage has a positive and significant influence on Market Risk which means it is in accordance with the fourth hypothesis where Financial Leverage has a significant effect on Market Risk. This means that Hypothesis 4 is accepted. These results indicate that if the level of debt is high, the risk will also increase in line with the increase in debt and can be used to predict the systematic risk (market risk) of the company in the future.

The result also show that companies that have high leverage indicate that the company is still less able to finance its assets from the company’s operating
result and companies with high debt have a high risk to be taken over by creditors when the company is unable to meet its obligations. In addition, various risk arising from the use of debt by companies, have an impact on increasing the level of profit that is implied by investors and investors will also assess that companies that have high debt will have low ability to pay dividends because the return obtained is prioritized to be used to pay corporate debt along with interest. Stock that provide small dividends make the price tends to fall because of low investor interest to buy it, so it has a high risk if investing in shares of companies that have high financial leverage. Increased risks arising from the use of debt by companies, will have an impact on increasing the level of profit implied by investor in accordance with the signaling theory which states that the higher the debt shows a good signal and vice versa, if the smaller show bad news. However, if it is related to the investment concept, a high level of profit will be followed by high risk (directly proportional). And this result is in accordance with the theory of capital structure in which company financing decisions relating to the determination of the source of funds in the form of debt the company has, the fixed burden of interest and principal installments to be paid will also be even greater. This study supports previous research conducted by Shin (2005), Lee and Jang (2007), and Puspitaningtias (2006) who find leverage to have a positively significant relationship to systematic risk or market risk.

**Hypothesis Testing 5 (Profitability Has a Significant Effect on Stock Return).**

The results of testing the seventh hypothesis show that the effect of the Profitability variable (X3) with Stock Return (Y1) shows the path coefficient value of 0.075 with the value of t count of 0.2803. The value of t count is smaller than t table (1.960). This result means that Profitability has a positive and not significant effect on Stock Returns which means it is not in accordance with the fifth hypothesis where Profitability has a significant effect on Stock Return. This means that Hypothesis 5 is rejected. A positive and insignificant influence on return shares means that the relationship is the same direction so the greater the profitability, the stock return that will be received by investors also increases. The insignificant of
the result of this study occurred because there are indicators that cannot describe variables, namely ROE. Profitability variables in this study are described by ROA, ROE and profit margin but when testing ROE indicator show if it cannot describe profitability. The results of this study that support previous research conducted by Setianingrum (2009) and Budiharjo (2018) who found that profitability has a not significant positive effect on stock returns and is contrary to previous research conducted by Subalno (2009), Sugartari (2014), Rachmatika (2006), Halim (2010), Ahmad, Fida & Zakaria (2013) and Dwi, Wiagustini, and Sedana (2017) who found that profitability has a positive and significant influence on stock returns.

**Hypothesis Testing 6 (Profitability Has a Significant Effect on Market Risk).**

The results of the third hypothesis testing show that the effect of the Profitability variable (X3) with Market Risk (Y1) shows the path coefficient value of 0.498 with a calculated t value of 2.852. The value of t count is greater than t table (1.960). This result means that Profitability has a positive and significant effect on Market Risk which means it is in accordance with the sixth hypothesis where Profitability has a significant effect on Market Risk. This means that Hypothesis 6 is accepted. Positive and significant influence on market risk means that both relations are in the same direction so the greater the profitability, the market risk also increases and the increase in profitability will also affect the increase in market risk. These result indicate that the availability of earnings which is considered by investors as a future prospect rather than investors can be used to determine investment decisions in buying shares. This result contrasts with previous research conducted by Borde (1988) and Lee and Jang (2007) which shows that profitability has a significant negative effect on market risk or systematic risk while the research conducted by Iqbal, Iqbal and Khan (2015) and Puspitaningtias (2006) shows that profitability has a not significant positive effect on market risk or systematic risk.
Hypothesis Testing 7 (Diversification Has a Significant Effect on Stock Returns).

The results of testing the fourth hypothesis indicate that the influence of the Diversification variable (X4) with Stock Return (Y1) shows the path coefficient value of 0.043 with the value of t count of 0.404. The value of t count is smaller than t table (1.960). This result means that Diversification has a positive and not significant effect on Stock Returns which means it is not in accordance with the seventh hypothesis where Diversification has a significant effect on Stock Returns. This means that Hypothesis 7 is rejected. Positive results that are not significant mean that the diversification strategy undertaken by the company is followed by an increase in stock returns but cannot be used to predict stock returns. Based on the calculation value of diversification, the Herfindahl Index during the observation period, it can be seen that the sample company has a mean value of 0.52, the number is close to 1 so that according to the Herfindahl Index, it can be said that during the observation period more and more company sales are concentrated in several segments. This has led to the positive influence of diversification on stock returns. This result also shows that diversification can increase the value of the company with new investment opportunities. The company can use a diversification strategy to strengthen the market which has an impact on improving the company’s performance resulting in return from the business segment. The results of this study are in line with those expressed by Lubatkin and Roger (1989), saying that diversified companies specifically show that systematic risk is significantly lower and the shareholder returns are higher but contrary to Dwi's previous research, Wiagustini, and Sedana (2017) which shows diversification has a significant positive effect on stock returns.

Hypothesis Testing 8 (Diversification has a significant effect on Market Risk).

The results of testing the fourth hypothesis indicate that the influence of the diversification variable (X4) with Market Risk (Y1) shows the path coefficient value of 0.104 with a t value of 0.873. The value of t count is smaller than t table (1.960). This result means that diversification has a positive and not significant
effect on Market Risk which means it is in accordance with the eighth hypothesis where Diversification has a significant effect on Market Risk. This means that Hypothesis 8 is rejected. This result means that diversification has a non-significant effect on stock returns. This positive influence shows if the diversification strategy carried out by the company will increase market risk. These results contradict previous studies conducted by Barton (1988) and Montgomery and Singh (1984) which showed a significant influence between diversification of market risk, besides that the research conducted by Montgomery and Singh (1984) also found that systematic risk has an influence towards all perspectives of diversification strategies in the form of single, dominant, related constrained and related linked diversification.

The Effect of Hypothesis 9 (Market Risk Has a Significant Effect on Stock Return).

The results of testing the fourth hypothesis indicate that the effect of Market Risk variables (Y1) with Stock Return (Y2) shows the path coefficient value of 0.900 with a value of t count of 3.269. The value of t count is greater than t table (1.960). This result means that market risk has a positive and significant effect on Stock Return, which means it is in accordance with the ninth hypothesis where market risk has a significant effect on stock return. This means that Hypothesis 9 is accepted. Positive and significant results indicate that the stock beta is directly proportional to the company's stock return so that if the stock beta is a measure of market risk or systematic risk increases, the stock return will also increase. This results also prove that disclosed by Hartono (2016) and Tandelilin (2010) which stated that systematic (non-diversifiable) risk or market risk is a risk that cannot be eliminated by using diversification, because risks associated with the market will affect all shares. From an investment perspective, high systematic risk is compensated with high returns because investors cannot implement diversification strategies to reduce risk. In addition, these results are also in line with the CAPM theory and in accordance with previous research conducted by Shin (2005), revealing the relationship between risk and return in general can be explained using
the capital asset pricing model (CAPM). Based on the CAPM theory there are two
type of risk, namely systematic risk. Systematic risk is the volatility of return
associated with market portfolio return (securities) and is indicated as beta, then
unsystenmatic risk is return volatility caused by company-specific events, while total
risk is the sum of two risks. CAPM theory says high systematic risk can be
compensated with high return but systematic risk may not be compensated to
investors because investors can reduce it with their strategies. This study supports
previous research conducted by Absari (2012) showing the same thing. The
relationship is statistically significant between beta and return, where stocks with
high beta have a high return (linear) besides that Theriou, Aggelidis and Maditins
(2010) show the same thing.

CONCLUSION, LIMITATIONS, AND SUGGESTIONS

Based on the results of the study firm size, financial leverage,
profitability, and diversification have no significant influence on stock returns even
though firm size has a negative relationship direction, financial leverage,
profitability, and diversification have a positive relationship direction to stock
returns and firm size. Financial leverage, profitability and diversification have a
significant influence on stock returns and market risk has a positive and significant
influence on stock returns.

Based on the conclusions of the study, the suggestions can be given, for
example, for further research, which wants to do similar research better in different
sectors and with a more diverse sample size so as to strengthen the results of
previous studies. Further research is also expected to be able to add several other
variables, and for diversification variable the further researcher can divide
diversification into two types, that are related and unrelated so that it is better to
know which diversification strategies are best for reducing systematic risk.
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