

## EFFECT OF LEVERAGE, INTERNAL FACTORS AND EXTERNAL FACTORS ON FINANCIAL RISK AND FINANCIAL PERFORMANCE COMPANY

Jordan Tiblola<sup>1\*</sup>, Budiyanto Akhmad Riduwan<sup>2</sup>

<sup>\*1</sup> Universitas Victory, Sorong Indonesia

<sup>2</sup> Sekolah Tinggi Ilmu Ekonomi Indonesia, (STIESIA) Surabaya, Indonesia

**\*Corresponding Author:-**

Email: [jordantiblola@gmail.com](mailto:jordantiblola@gmail.com)

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### **Abstract:-**

*The research objective was to verify and analyze: (1) effect of leverage, internal factors and external factors towards financial risk Local Water Company (LCW) at Papua Province and West Papua Province; (2) effect of leverage, internal factors and external factors towards financial performance Local Water Company (LCW) at Papua Province and West Papua Province; (3) effect of financial risk towards financial performance Local Water Company (LCW) at Papua Province and West Papua Province.*

*This study took the data of financial statements from Local Water Company (LCW) which in at Papua Province and West Papua Province. In the reporting period December 31, 2011, December 31, 2012, December 31, 2013 and December 31, 2014 (time series). The analysis tool used is SEM (Structural Equation Medelling) using methods PLS (Partial Least Square), the use of this method due to data used for further processing in small quantities that is data for 4 years (2011 – 2014) with the number some Local Water Company (LCW) which in at Papua Province and West Papua Province.*

*The results of this study can be generalized that leverage and internal factors affect towards financial risk, therefore Hipotesis 1 ( $H_1$ ) and Hipotesis 2 ( $H_2$ ) can be accepted as true. While external factors not affect towards financial risk, therefore Hipotesis 3 ( $H_3$ ) cannot be accepted as true. Leverage, internal factors and external factors affect significant towards financial performance, therefore Hipotesis 4 ( $H_4$ ), Hipotesis 5 ( $H_5$ ) and Hipotesis 6 ( $H_6$ ) can be accepted as true. Financial risk affect significant towards financial performance, therefore Hipotesis 7 ( $H_7$ ) can be accepted as true. Financial risk can act as partial meatation, between leverage and internal factors with financial performance, while financial risk cannot act as partial meatation, between external factors with financial performance.*

**Keyword:-***Leverage, Internal Factors, External Factors, Financial Risk and Financial Performance*

## I. INTRODUCTION CHAPTER

The company's performance cannot be separated from some of the factors that influence them is financial risk. There are two aspects that need to be considered by the management company in financial decision making, particularly related to financial risk, ie the rate of return (return) and risk (risk) of the financial decisions. The rate of return is the reward that is expected to be obtained in the future, while the risk is defined as the uncertainty of the expected reward. Risk is the possibility of deviation from the average of the expected returns that can be measured by the standard deviation by using statistics.

Financial risks occur due to the use of debt in the financial structure of the company, which resulted in the company must bear the burden of fixed periodically in the form of interest expense. This will reduce the amount of remuneration certainty for shareholders, since the company must pay interest before deciding the distribution of profits to shareholders. Thus, the financial risk of causing variability in net profit (net income) is greater.

There are several variables that affect the risk of financial and corporate performance of which is variable leverage, internal factors and external factors. According to Brigham (2006: 164) how far the company uses debt (financial leverage) will have three (3) important implications, namely: (1) By obtaining funds through debt, shareholders can maintain their control over these companies with the same time limiting investment they provide, (2) creditors look at equity, or funds obtained its own, as a security restrictions, so the higher the proportion of the amount of capital that the shareholders, the smaller the risk faced by creditors and (3) If the company gets results of investments funded with proceeds from the loan is greater than the interest paid, then the return of capital owners will be enlarged, it would be great (leverage).

Internal factors relating to all the human and physical resources that affect the organization or company, the Party concerned with the internal factors are the organization itself. Internal factors according to Muhammad (2002) covers all functional management namely, marketing, finance, operations, human resources, research and development, information systems management. From the mastery of internal factors can identify strengths (strengths) and weaknesses (weaknesses) owned.

While external factors are all elements outside of the organization that are relevant to operations. Elements outside the organization is difficult to control, but has direct influence with the organization. Organizations cannot be independent or self-sufficient, because the organization takes inputs such as raw materials, money, labor and energy from external factors that turn it into a product or service as an output.

In Papua Province there are only 29 districts / cities, but the number of Regional Water Company are and have been in operation only four (4) companies consisting of PDAM Jayapura regency, Yapped Islands district taps, taps and taps Nabire regency Jayawijaya. While in the West Papua Province there are 13 District / City, but the Regional Water Company that exists and while operating only two (2) companies namely: PDAM PDAM Manokwari and Fak-Fak regency. Local Company is a company that is expected by the local government to meet the needs of customers in the provision of drinking water, in addition to meeting the drinking water in the structure of people's needs, but the regional companies is also expected to contribute to or benefit for the region so as to increase revenue (PAD)

From the observations of researchers note that most companies (PDAM) in the province of Papua and province of West Papua has not reached the target in the acquisition gain (profit) because it is influenced by various factors such as leverage, internal factors and external factors. This is in line with the evaluation report Performance Regional Water Company (PDAM) issued by the Development Support Agency of Water Supply System (BPP SPAM) In 2014, it was mentioned that the taps that are performing well, less healthy and sick, specifically in the province of Papua and Papua west is as follows: (1) performance healthy taps: taps Yapen Islands Regency, Regency PDAM Jayapura and PDAM Fak-Fak and (2) performance sick taps: taps Nabire district, Jayawijaya and PDAM PDAM Manokwari District. Based on the above evaluation results, indicating that the financial performance of some companies (PDAM) is not maximized and needs to be improved. With conditions and expectations, then this local company (PDAM) should be managed in a professional manner in order to provide an optimal contribution and if possible give a maximum income level to the Regional Original Revenue (PAD).

The formulation of the problem posed in this study are as follows: (1) What leverage, internal factors and external factors affect the Company's financial risk ?; (2) What leverage, internal factors and external factors affect the Company's performance ?; (3) Is the financial risks affect the Company's financial performance ?. In connection with the formulation of the problem have been disclosed, it can be determined the purpose of research is to prove and analyze: (1)

Effect of leverage, internal factors and external factors on the financial risk of the Regional Water Company (PDAM) in the province of Papua and province of West Papua; (2) The effect of leverage, internal factors and external factors on the performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua; (3) The impact of financial risk to the performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua. The benefits to be achieved in this study are as follows: (1) This research is also expected to contribute to science in general and financial management in particular, especially issues related to leverage, internal factors, external factors, financial risk and performance taps; (2) This research is expected to provide benefits for the

Regional Water Company (PDAM) in the framework of decision making to improve the performance of taps, so that organizational goals can be achieved as programmed; (3) The results of this study can serve as the basis of thinking by subsequent researchers, especially researchers who use the same variables.

## **II. LITERATURE REVIEW, CONCEPTUAL FRAMEWORK AND HYPOTHESES CHAPTER**

### **2.1. Effect of Leverage on the Risk and Financial Performance**

Leverage is the company's ability to meet long-term liabilities, thus the leverage to be used as a tool to measure how much a company relies to creditors in finance assets. The company's policy to use debt or fund the creditors in order to finance the company's activities, so that the development policy loan could increase leverage, with the increase in leverage means increasing the amount of use of funds from creditors, this resulted in the rise in the risk of bankruptcy if the use of debt funds is not done correctly and be careful because the debt will be charged a flat fee. There are two aspects that need to be considered by the company management in decision making for the financial rate of return and risk". Financial decisions related to leverage, as has been mentioned previously will have consequences on the increased risk of common stockholders. Risks faced by the company or the holders of ordinary shares divided into two kinds, namely business risk associated with the uncertainty of the return on the assets of a company in the future, and financial risk occurs because of the use of debt in the capital structure of companies which resulted in the company must bear the burden of fixed periodically in the form of interest charges in addition there is an obligation to settle the debt substantially.

Measures taken by the company in determining the leverage factor would impact on the financial performance of a company. Measurement of financial performance is a qualifying activity and efficiency in the operation of the business during the accounting period. Thus the performance is a formal business conducted efficiently and the company to evaluate the effectiveness of the company's activities that have been implemented in a specific time period (Hanafi, 2009). Thus the leverage is one of the factors that could affect the risk of financial and corporate financial performance.

### **2.2. Effect of Internal factors on the Risk and Financial Performance**

Internal factors are all factors which include human and physical resources that affect the organization. The internal interested parties, namely the organization itself. Internal factors in a company's financial condition consists of several financial ratios namely liquidity, profitability and growth activity.

The liquidity ratio relates to the company's ability to meet its short term obligations, errors in corporate governance can be easily recognized when the company experienced technical insolvency or of the condition of liquid, a condition in which the company experienced difficulties in completing the short-term debt means financial risk the company is threatened, because it is not inability of the company completed the short-term debt would result in delays in the company's daily business activities because it must immediately resolve short-term liabilities. Things can be done to overcome this is to respond in the form of financial action, such as looking for new sources of funding, selling assets that are not productive and even rescheduling on various obligations (rescheduling).

Profitability shows the extent to which companies manage their own capital effectively, measure the rate of profit from the investments made by the owners or shareholders' equity (Sawir, 2005). Low profitability will have an impact on the level of profits is limited so would affect the viability of a company. The financial performance of a company of which is the level of profits, if the development of corporate profits decrease will lead to even threaten the sustainability of the company.

The ratio of activity by Harahap (2002), is the ratio that describes akitivitas by the company in running its operations both in the activities of sales, purchases and other activities. Activity ratio used in this study is the inventory turnover (Inventory Turnover). Company (sales) with the assets required to support its company operations. Activity ratio can also be used for predicting the needed capital companies (both for operating activities and long-term).

Growth by Machfoedz (1996) is how far the company put ourselves in the overall economic system or economic system for the same industry. In general, companies that grow quickly obtain positive results in terms of strengthening the position in the competitive world of business, enjoying sales increased significantly and is accompanied by an increase in market share. Good growth will give you an idea that the better financial performance and provide optimistic future expectations better.

### **2.3. Effect of External factors on the Risk and Financial performance**

External factors are all elements outside the organization relevant to the activities of an organization. The external factor is a factor that is difficult to control by the company. External factors of the financial side consists of the development of the SBI interest rate, foreign exchange rate and the inflation rate.

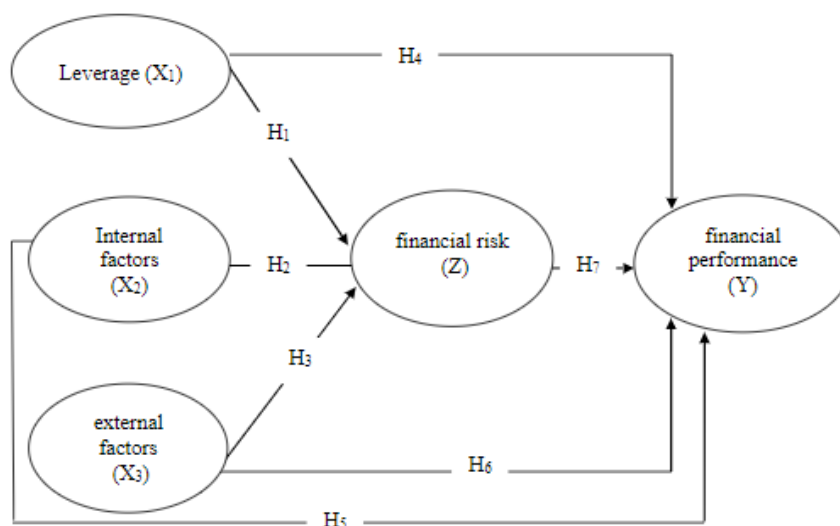
External factors will also provide colour in the course of business of a company, the survival of a company cannot be separated from the influence of outside companies, both regarding the development of interest rates, coordinated by Bank Indonesia in the form of Bank Indonesia Certificates (SBI), foreign exchange rates, and the rate of inflation. Under these conditions, the company is required to be able to adjust to the situation, so that the wisdom kebijaksanaan issued by the company should give a better hope by mempertinbangan external factors that are relatively more difficult to control when compared to internal factors, and therefore companies should seek the road to the discretionary productive by

considering external factors. In other words, external factors will impact on both the financial risk and the financial performance of a company.

## 2.4. Conceptual Framework Research

The conceptual framework is a general description of the mechanism of theoretical research and empirical concepts associated with the object to be doing research. The aim of this dissertation was about to do a research to conduct studies and analysis of effects of leverage, internal factors and external factors on the financial risks and the performance of taps. Conceptual Framework is a conceptual frame of the problems examined, describes the relationship between concepts or variables to be studied (Adi, 2004). Presentation researchers thought this was illustrated with a flow chart of thinking in terms of researchers between variables.

In connection with these two descriptions of theory and previous research is the main foundation to develop a conceptual framework that is ultimately used in formulating hypotheses. The conceptual framework of this study are presented in Figure 1 below:



**Figure 1. Conceptual Framework Research**

Based on Figure 1, the concept considered in this study there are five variables, namely the effect of leverage, internal factors and external factors on the financial risk and performance taps in Papua and West Papua. The involvement of these five variables, as already mentioned, is based on the indications of a phenomenon in which the leverage, internal factors and external factors on the financial risk and performance taps in Papua and West Papua.

## 2.5. Hypothesis Research

Based on the conceptual framework that has been presented in the foregoing, the research hypothesis proposed are as follows:

- H1: Leverage effect on the financial risk of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H2: Internal factors affect the financial risk of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H3: The external factors affect the financial risk of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H4: Leverage effect on the financial performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H5: Internal factors affect the financial performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H6: The external factors affect the financial performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.
- H7: Financial risks affect the financial performance of the Regional Water Company (PDAM) in the province of Papua and province of West Papua.

## III. METHODOLOGY CHAPTER

### 4.1. Research design

The research in this dissertation is to explain the causal relationship between the variables of leverage, internal factors, external factors, financial risk and performance Organization (Company). This dissertation aims to study the explanation for the problems that arise in these variables and what the cause of the problem. The study will also reveal how large the influence of the variable leverage, internal factors and external factors on the risk of financial and performance Organization / Company (PDAM) using PLS (Partial Least Square).

#### 4.2. Population and Sample

The population in this study is the Regional Water Company (PDAM) located in the Province of Papua and province of West Papua as many as five (5) companies. Samples were Regional Water Company (PDAM) located in the Province of Papua and province of West Papua. Mechanical determination of the sample using census or sampling methods saturated, because relatively few so that researchers were able to access all the data from five (5) of the company.

#### 4.3. Variable Operational Definition of Research

##### 1. Leverage ( $X_1$ )

This ratio is used to measure the company's ability to meet long-term liabilities.

##### 2. Internal factors ( $X_2$ )

Is a grouping of variables that can be controlled by the company?

##### 3. External factors ( $X_3$ )

A grouping of variables that cannot be controlled by the company.

##### 4. Financial risk ( $Z$ )

Financial risks are all sorts of risks related to finance, usually compared with non-financial risks, such as operational risks.

##### 5. Financial performance ( $Y$ )

The company's performance is a formal business conducted efficiently and the company to evaluate the effectiveness of the company's activities that have been implemented in a specific time period.

#### 4.4. Data Collection Method

This study took a financial statement data Regional Water Company (PDAM) located in the Province of Papua and province of West Papua. On December 31, 2011 reporting period, December 31, 2012, December 31, 2013 and December 31, 2014 (time series).

#### 4.5. Data Analysis Method

The analysis tool used is SEM (Structural Equation Medelling) using PLS (Partial Least Square), the use of this method due to data used for further processing in small quantities that is data for 4 years (2011-2014) with the amount of some water company (PDAM) in Papua and West Papua.

### IV. ANALYSIS OF RESULTS CHAPTER

Research in this dissertation studies conducted using secondary data from the five Regional Water Company (PDAM) located in the Province of Papua and province of West Papua during the period 2011 to 2014. This section will describe the data supporting research and analysis of the research results.

#### 4.1. Direct Effect and Indirect Effect

Here are the results of testing the direct effect and indirect effect with coefficient PLS on each variable:

**Table 1. Values Between Variables Influence Coefficients PLS**

Effect of Antar Variable		Nilai Original Sample (O)	
		Direct effect	Indirect effect
Leverage ( $X_1$ )	→ Financial risk ( $Z$ )	0,539	-
Internal factors ( $X_2$ )	→ Financial risk ( $Z$ )	0,471	-
External factors ( $X_3$ )	→ Financial risk ( $Z$ )	0,001	-
Leverage ( $X_1$ )	→ Financial performance ( $Y$ )	-0,249	0,308
Internal factors ( $X_2$ )	→ Financial performance ( $Y$ )	0,140	0,627
External factors ( $X_3$ )	→ Financial performance ( $Y$ )	-0,071	-0,069
Financial risk ( $Z$ )	→ Financial performance ( $Y$ )	1,034	-

Explanation of analysis of direct influence and indirect influence between the latent variables in this study are as follows:

1. Directly there are Effect of significant variable *leverage* on the financial risk, with coefficient path 0,539.
2. Directly there are Effect of significant variable internal factors on the financial risk, with coefficient path 0,471.
3. Directly there are not Effect of significant variable external factors on the financial risk, with coefficient path hanya sebesar 0,001.
4. Directly there are Effect of significant variable *leverage* on the financial performance, with coefficient path -0,249, while Effect of indirect through mediation financial risk Amounted to 0,303 And through two lines significant, with the result that financial risk concluded mediate partial mediation Effect of *leverage* on the financial performance, does it mean *leverage* can affect of directly on the financial performance, or indirect through mediation financial risk.
5. Directly there are Effect of significant variable internal factors on the financial performance, with coefficient path 0,140, while Effect of indirect through mediation financial risk Amounted to 0,627 and through two lines significant, with the result that financial risk concluded mediate partial mediation Effect of internal factors on the financial

performance, does it mean internal factors can affect of directly on the financial performance, or indirect through mediation financial risk.

6. Directly there are Effect of significant variable external factors on the financial performance, with coefficient path - 0,071, while Effect of indirect through mediation financial risk Amounted to 0,069, with the result that financial risk concluded not mediate Effect of external factors on the financial performance, does it mean external factors can affect of directly on the financial performance.
7. Directly there are Effect of significant variable financial risk on the financial performance, with coefficient path 1,034.

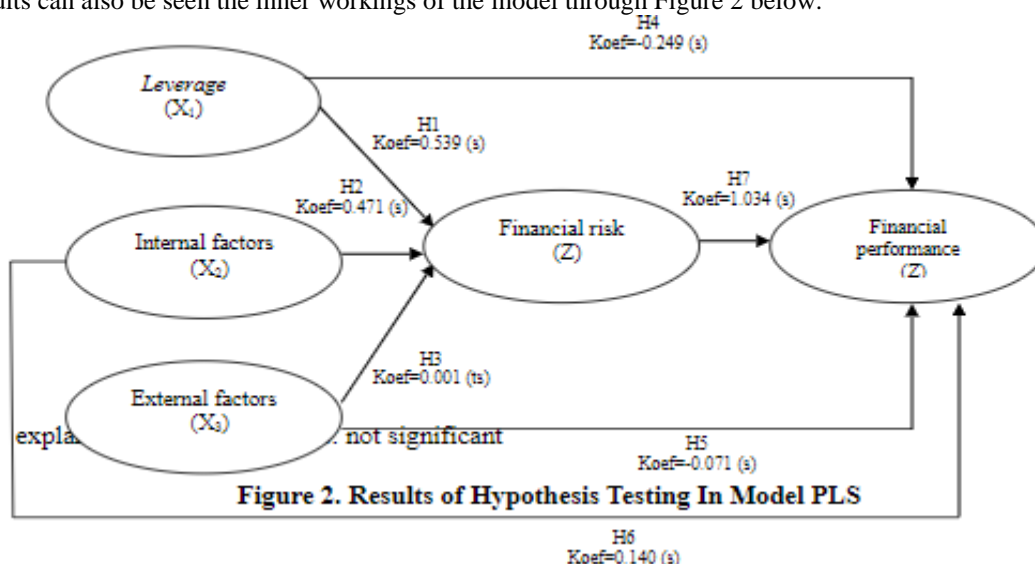
#### 4.2. Hypothesis Testing

After testing the direct effect and indirect effects, the next step is to test the hypothesis by using t-statistics. Parameter whether there is a partial effect can be determined based on the value of t-statistics, provided through the comparison of the t-statistics > 1.96 then there is the influence of exogenous variables on endogenous variables or endogenous variables to endogenous variables. Conversely, if the t-statistics < 1.96 then there is no influence of exogenous variables on endogenous variables or endogenous variables to endogenous variables.

**Table 2. Hypothesis Testing with Inner Weight**

Hypothesis	Effect of Antar Variable		Koefisien Path	T stat.
H <sub>1</sub>	Leverage (X <sub>1</sub> )	→ Financial risk (Z)	0,539	4,782
H <sub>2</sub>	Internal factors (X <sub>2</sub> )	→ Financial risk (Z)	0,471	4,997
H <sub>3</sub>	External factors (X <sub>3</sub> )	→ Financial risk (Z)	0,001	0,019
H <sub>4</sub>	Leverage (X <sub>1</sub> )	→ Financial performance (Y)	-0,249	1,973
H <sub>5</sub>	Internal factors (X <sub>2</sub> )	→ Financial performance (Y)	0,140	2,126
H <sub>6</sub>	External factors (X <sub>3</sub> )	→ Financial performance (Y)	-0,071	1,990
H <sub>7</sub>	Financial risk (Z)	→ Financial performance (Y)	1,034	7,679

The test results can also be seen the inner workings of the model through Figure 2 below:



**Figure 2. Results of Hypothesis Testing In Model PLS**

#### 4.3. Hypothesis Testing Results

Based on Table 2 and Figure 2 can be explained results of hypothesis testing as follows:

1. Hypothesis **testing 1**, leverage affect of on the financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of leverage on the financial risk Amounted to 0,539 with value *T-statistics* amounted to 4,782, where the value *T-statistics* is greater than 1,96. It can be concluded that leverage affect of significant on the

financial risk, the higher *leverage* would increase financial risk for companies. Therefore, first hypothesis suggesting leverage effect of on the financial risk is valid.

2. Hypothesis **testing 2**, internal factors effect of on the financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of internal factors on the financial risk Amounted to 0,471 with value *T-statistics* amounted to 4,997, where the value *T-statistics* is greater than 1,96. It can be concluded that internal factors effect of significant on the financial risk, the higher rasio internal factors then financial risk juga the higher. Therefore, second hypothesis suggesting internal factors effect of on the financial risk is valid.

3. Hypothesis **testing 3**, external factors effect of on the financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of external factors on the financial risk Amounted to 0,001 with value *T-statistics* amounted to 0,019, where the value *T-statistics* tersebut smaller than 1, 96. It can be concluded that external factors not effect of significant on the financial risk. Therefore, third hypothesis suggesting external factors effect of on the financial risk not valid.

4. Hypothesis **testing 4**, *leverage* effect of on the financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of leverage on the financial performance Amounted to -0,249 with value *T-statistics* amounted to 1,973, where the value *T-statistics* is greater than 1, 96. It can be concluded that *leverage* effect of significant on the financial performance negative direction, so the higher *leverage* then financial performance will decrease. Therefore, fourth hypothesis suggesting leverage effect of significant on the financial performance is valid.

5. Hypothesis **testing 5**, internal factors effect of on the financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of internal factors on the financial performance Amounted to 0,140 with value *T-statistics* amounted to 2,126, where the value *T-statistics* is greater than 1, 96. It can be concluded that internal factors affect of significant on the financial performance, the higher rasio internal factors will increase financial performance companies. Therefore, fifth hypothesis suggesting internal factors effect of on the financial performance is valid.

6. Hypothesis **testing 6**, external factors effect of on the financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of external factors on the financial performance Amounted to 0,071 with value *T-statistics* amounted to 1,990, where the value *T-statistics* is greater than 1, 96. It can be concluded that external factors affect of significant on the financial performance negative direction, the higher rasio external factors will decrease financial performance companies.

Therefore, sixth hypothesis suggesting external factors affect of on the financial performance is valid.

7. Hypothesis **testing 7**, financial risk affect of on the financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Table 2 Indicate the Effect of financial risk on the financial performance Amounted to 1,034 with value *T-statistics* amounted to 7,679, where the value *T-statistics* is greater than 1,96. It can be concluded that financial risk effect of significant on the financial performance, the higher financial risk so financial performance too the higher. Therefore, seventh hypothesis suggesting financial risk effect of on the financial performance is valid.

## VI. DISCUSSION CHAPTER

### 5.1. Effect of *Leverage* On the Financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Result of Hypothesis testing Effect of between variables with Software Smart PLS 2.0 shows that Effect of significant leverage on the financial risk at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path *leverage* on the financial risk at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling 0,539 with T-statistic 4,782 greater than t-table 1,96, is mean leverage effect of significant on the financial risk. Financial risk which includes exchange rate risk, interest rate risk and liquidity risk, will increase with increased *leverage* measured include *Total Debt to Total Asset Ratio* (TDTAR), *Long Term Debt to Equity Ratio* (LTDER), and *Long Term Debt to Total Asset Ratio* (LTDAR).

The results of this research direction of the Sawir (2009: 10) who argued that "there are two aspects that need to be considered by the company management in decision making for the financial rate of return (return) and risk (risk)". Financial decisions related to leverage, will have consequences on the increased risk of common stockholders. Risks faced by the company or the holders of ordinary shares divided into two kinds, namely business risk (business risk) associated with the uncertainty of the return on the assets of a company in the future, and financial risk (financial risk) occurs because of the use of debt in the capital structure of companies which resulted in the company must bear the burden of fixed periodically in the form of interest charges in addition there is an obligation to settle the debt principal.

### 5.2. Effect of Internal factors On the Financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.

Result of Hypothesis testing Effect of between variables with Software Smart PLS 2.0 shows that Effect of significant internal factors on the financial risk at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path internal factors on the financial risk at Regional Water

Company (PDAM) at Province of Papua and province of West Papua is totaling 0,471 with T-statistic 4,997 greater than t-table 1,96, is mean internal factors effect of significant on the financial risk. Financial risk which includes exchange rate risk, interest rate risk and liquidity risk, will increase with can increase rasio internal factors companies measured include rasio *profitability* dan rasio *activity*.

The results are consistent with Harahap (2002) which describes the internal factors one of which is reflected in the company's ability to meet its short term obligations, errors in corporate governance can be easily recognized when the company experienced technical insolvency or of the condition of liquid, a condition in which the company experienced difficulties in resolve the short-term debt means the company's financial risk is threatened, because the inability of the company completed the short-term debt would result in delays in the company's daily business activities because it must immediately resolve short-term liabilities.

### **5.3. Effect of External factors On the Financial risk Regional Water Company (PDAM) at Province of Papua and province of West Papua.**

Result of Hypothesis testing Effect of between variables with *Software Smart PLS 2.0* shows that Effect of yang significant external factors on the financial risk at Regional Water Company (PDAM) at Province of Papua and province of West Papua tidak is valid. After testing, the coefficient of the variable path external factors on the financial risk at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling 0,001 with Tstatistic 0,019 lebih kecil dibandingkan t-table 1, 96, is mean external factors tidak effect of significant on the financial risk. Financial risk measured include exchange rate risk, interest rate risk and liquidity risk, will not be increased with increase rasio external factors measured include interest rates, exchange rates and inflation.

External factors are factors which are difficult controlled by the company and will provide color in the course of business of a company, the survival of a company cannot be separated from the influence of outside companies. Under these conditions, the company is required to be able to adjust to the situation, so that the policies issued by the company should give a better hope by mempertinbangan external factors that are relatively more difficult to control when compared to internal factors, and therefore companies should find a way to make wisdom produktis taking into account external factors. In other words, external factors will have an impact on financial risks.

### **5.4. Effect of Leverage on the financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.**

Result of Hypothesis testing Effect of between variables with *Software Smart PLS 2.0* shows that Effect of yang significant *leverage* on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path leverage on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling -0,249 with T-statistic 1,973 greater than t-table 1, 96, is mean *leverage* effect of significant on the financial performance. Financial performance measured include NPM dan ROE, increased with decrease *leverage* measured with *Total Debt to Total Asset Ratio (TDTAR)*, *Long Term Debt to Equity Ratio (LTDER)*, dan *Long Term Debt to Total Asset Ratio (LTDAR)*.

These results are in accordance with Hanafi (2003) which describes the measures taken in determining the company's leverage factor would impact on the financial performance of a company. Measurement of financial performance is a qualifying activity and efficiency in the operation of the business during the accounting period. Thus the performance is a formal business conducted efficiently and the company to evaluate the effectiveness of the company's activities that have been implemented in a specific time period. Thus the leverage is one of the factors that could affect the risk of financial and corporate financial performance.

### **5.5. Effect of Internal factors On the Financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.**

Result of Hypothesis testing Effect of between variables with *Software Smart PLS 2.0* shows that Effect of yang significant internal factors on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path internal factors on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling 0,140 with Tstatistic 2,126 greater than t-table 1, 96, is mean rasio internal factors effect of significant on the financial performance. Financial performance measured include NPM dan ROE, increased with increase rasio internal factors companies, measured include rasio *profitability* and rasio *activity*.

The results are consistent with Wasir (2005) which describes the most important measure of profitability internal factors measure the level of profit from the investments made by the owners or shareholders' equity. Low profitability will have an impact on the level of profits is limited so would affect the viability of a company. The financial performance of a company is the level of profits, if the development of corporate profits decrease will lead to even threaten the sustainability of the company.

### **5.6. Effect of External factors On the Financial performance Regional Water Company (PDAM) at Province of Papua and province of West Papua.**

Result of Hypothesis testing Effect of between variables with *Software Smart PLS 2.0* shows that Effect of yang significant external factors on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path external factors on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling -0,071



with Tstatistic 1,990 greater than t-table 1, 96, is mean external factors effect of significant on the financial performance. Financial performance measured include NPM dan ROE, increased with decrease rasio external factors measured include interest rates, exchange rates and inflation.

External factors which consists of the development of SBI interest rate, foreign exchange rate and the inflation rate are elements outside the organization who are unruly, so the company is required to be able to adjust to the situation and the company must find a way to to make wisdom productive so it will give effect both on financial performance.

### **5.7. Effect of Financial risk On the Financial performance Regional Water Company (PDAM) at Province of Papua and Province of West Papua.**

Result of Hypothesis testing Effect of between variables with Software Smart PLS 2.0 shows that Effect of yang significant financial risk on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is valid. After testing, the coefficient of the variable path financial risk on the financial performance at Regional Water Company (PDAM) at Province of Papua and province of West Papua is totaling 1,034 with Tstatistic 7,679 greater than t-table 1,96, is mean financial risk effect of significant on the financial performance. Financial performance measured include NPM dan ROE, increased with increase financial risk measured include exchange rate risk, interest rate risk and liquidity risk.

## **VI. CLOSING CHAPTER**

### **6.1. Conclusions**

The results of this study can be generalized that leverage and internal factors affect of on the financial risk, Therefore Hypothesis 1 (H<sub>1</sub>) dan Hypothesis 2 (H<sub>2</sub>) can be accepted as true. While external factors not effect of on the financial risk, Therefore Hypothesis 3 (H<sub>3</sub>) cannot be accepted as true. Leverage, internal factors dan external factors effect of significant on the financial performance, Therefore Hypothesis 4 (H<sub>4</sub>), Hypothesis 5 (H<sub>5</sub>) and Hypothesis 6 (H<sub>6</sub>) can be accepted as true. Financial risk effect of significant on the financial performance, Therefore Hypothesis 7 (H<sub>7</sub>) can be accepted as true. Financial risk can act as partial mediation, between leverage dan internal factors with financial performance, while financial risk cannot act as partial mediation, between external factors with financial performance.

### **6.2. Suggestions**

Conclusion The research described in the previous section provides information for researchers to give the following suggestions: (1) The study of literature books of theoretical and practical, as well as the latest journals of the factors that can improve the financial performance of public companies; (2) Conduct a preliminary study in-depth and focused on the results of this research to find and uncover things or phenomena associated with the research gap; (3) It should be further research to expand the scope of research that taps throughout the province of Papua and province of West Papua and with a long research period to improve the quality of the model developed in this study.

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