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The Impact of the Implementation of Enterprise Risk Management Dimensions on Increasing Company Value

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ABSTRACT

The purpose of this study is to evaluate how enterprise risk management affects the value of the company. Secondary data were employed in this investigation. Using a sample of 308 manufacturing firms listed between 2020 and 2023 on the Indonesian Stock Exchange, the sampling technique employed is Purposive Sampling. Multiple linear regression analysis is the strategy utilized for data analysis. As demonstrated by the findings, the firm value was positively impacted by the Risk Assessment dimension, but not by the Internal Environment, Objective Setting, Risk Recognition, Risk Respons, Control Operations, Information, and Communication, or Monitoring dimensions.

1. Introduction

Technological change and globalization challenge companies in managing risk (Beasley et al., 2008). Financial statements provide important information for investors to make investment decisions, including financial and non-financial aspects. Firm value, as described Ross and Westerfield (2018), reflects shareholder welfare with a stable and increasing stock price. An increase in stock price indicates an increase in company value Munawwaroh et al (2021), Yoshi et al. (2020) which describes current performance and future prospects, bringing a positive impact on shareholder welfare.

One of the factors that affect firm value is Enterprise Risk Management (ERM), which is an effort to improve the quality of risk management by integrating various risks in the company (Handayani, 2017). ERM helps companies identify and assess risks and minimize risks in decision making, which is important for investors because it helps reduce uncertainty (Handayani, 2017). The phenomenon of ups and downs in stock prices, as occurs in manufacturing companies in Indonesia, is a major concern because it has an impact on company stability and value (Fauziah & Sudiyatno, 2020). The decline in share prices in the manufacturing sector affects investor interest and shareholder welfare (Nia, 2022). In the context of Signaling Theory, the disclosure of relevant information by companies to investors can affect their perception of firm value (Handayani, 2017). Thus, companies should pay attention to how they manage risks and convey information to the public to maintain company value and investor interest.

Signaling is an action that provides direction to investors regarding the company's future prospects (Ko & McKelvie, 2018). Signaling theory, as outlined (Stephen A. Ross The, 1997), emphasizes the importance of information in making investment decisions. Companies are expected to provide signals to investors through relevant and accurate information (Giannarakis et al., 2018). Information provided by companies is considered important because it can influence investment decisions. Signaling theory highlights that information containing good news can increase the value of the company by stimulating positive market reactions (Meng-tao et al., 2023). In conclusion, Signalling theory emphasizes the importance of information provided by companies in influencing investment decisions and market reactions to good news (Wong & Zhang, 2022).

A number of previous studies highlight the benefits of implementing Enterprise Risk

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Management (ERM) in dealing with problems in the company. ERM implementation provides a positive signal to stakeholders about the company's commitment to risk management (Hoyt & Liebenberg, 2011). Research also shows a positive relationship between firm performance and firm value in the implementation of ERM (Hoyt & Liebenberg, 2001). Iswajuni et al (2018) confirmed that ERM has a significant influence on firm value. Mcshane (2010) shows a positive but insignificant influence between ERM and firm value, while research Norti (2019) shows that ERM has a positive but insignificant effect on firm value. Nonetheless, in general, the implementation of ERM can have a positive impact on companies by increasing commitment to risk management and providing positive signals to stakeholders. Although a number of previous studies have shown positive results regarding the implementation of Enterprise Risk Management (ERM), research by Agustina & Baroroh (2016) found that ERM has no significant effect on firm value. They stated that some companies only implement ERM to fulfill Bank Indonesia obligations, without having a significant impact on firm value. This creates a gap in the literature highlighting the effectiveness of ERM in increasing firm value. Therefore, further research is needed to clarify the factors that influence firm value.

The purpose of this study is to re-examine the importance of implementing Enterprise Risk Management (ERM) in a business context. The main focus is on the eight dimensions of ERM and their impact on firm value as measured by Tobins'Q. This study aims to find a more specific relationship between ERM implementation and firm value, by identifying the influence of each ERM dimension. The implication of this study is to provide a deeper understanding of how integrated risk management can increase firm value. It can provide practical guidance for companies in improving the effectiveness of their risk management as well as provide insights for regulators and stakeholders on the importance of integrated risk management in achieving long-term business goals.

2. Critical Riview

Firm value is a reflection of investors' views on company performance and is often related to stock prices, which have an impact on shareholder welfare. Maximizing company value is the main goal of the company to increase investor interest (Martin et al., 2009). Good company performance has an impact on higher returns and increases the welfare of its owners (Frank, 1994). The stability and growth of stock prices reflect the growth of company value, attracting investors to invest in the long term (Rivandi, 2018). Thus, firm value reflects investor perceptions and continues to be associated with stock prices as an indicator of company performance.

Risk is uncertainty about the future that affects decision making (Dow, 2019). ERM, as described by COSO, is the process of involving various parties to identify and manage risks with the aim of achieving enterprise value (Demidenko & McNutt, 2010). ERM dimensions include mandatory disclosure of information in the annual report to increase the value of the company (Meizaroh & Lucyanda, 2012). COSO formulates ERM as an integrated and comprehensive process influenced by management in organizational strategy (Wahyuni & Novita, 2021). ERM measurement uses 108 implementation elements based on eight dimensions in the COSO ERM Framework (Meizaroh & Lucyanda, 2012). Thus, ERM is a system that focuses on risk management as a whole to achieve company goals.

The internal environment is the basis of all disclosures in ERM, because the internal environment dimension prepares the basis and structure of risk management implementation in the corporate environment. This dimension plays a role in a company's objectives (Enterprise Risk Management-Integrated Framework, 2004). The internal environment sets the basis for how risk is seen and handled by the company properly, so the company must focus on improving its internal environment, so that other components such as firm value. This result is supported by previous research (Husam, 2017). The company's internal environment affects overall internal effectiveness, because this component affects the increase in company value.

Goal setting is an important component in ERM because management needs to identify in advance potential events that will have an impact on management performance. ERM ensures that management has a process for setting objectives. Winarsih et al (2024) states, goal setting represents and explains the overall impact of ERM on firm value. The clearer the company's goals, the less risk the company faces and strives to focus on its goals.

The identification of events that affect the achievement of business objectives is at the core of the implementation of Enterprise Risk Management (ERM), which enables companies to manage risks and take advantage of opportunities Enterprise Risk

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Management-Integrated Framework, 2004. Risk identification provides an advantage for companies by maintaining business operations and increasing company value (Mishra et al., 2019). Previous research shows that risk identification is an important process in controlling and utilizing opportunities to add value to the company (Perrault & MCcarthy, 2018). Thus, risk identification is a key step in strengthening corporate strategy and increasing long-term value.

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As the basis for implementing risk management, risks are analyzed by considering their likelihood and impact. The inherent risk, or "gross risk", is the risk inherent in the company's business model without adequate management measures. Residual risk, or "net risk", is the risk remaining after management action is taken. Management assesses risks that have a significant impact on the value of the company, as a corporate responsibility (Husam, 2017). A careful, sound, and accurate risk assessment is necessary to build investor confidence (Margareth, 2017). Thus, risk evaluation is key in maintaining firm value and building investor confidence.

After evaluating the relevant risks, management decides how to deal with the risks. The response may be risk avoidance, reduction, sharing or acceptance. This reflects the company's efforts to address the risks involved in investment activities, which is a key consideration for investors (Margareth, 2017). Thus, how a company responds to risk can have an effect on the level of investor confidence and decisions.

Activity controls are policies and procedures that ensure a risk management response is in place. Activities are controlled throughout the company, at all levels of the company. Control related to risk strategy, control is required when performing risk response activities. Zeina and Sari (2019) states, control activities in the company, control policies and procedures must be established and implemented to ensure that the actions identified by management are needed to deal with risks effectively to achieve goals. Controlling activities is important for investors to know non-financial information, to publish information about activities in the company, which is the main thing for investors to invest in a company.

H1: Internal Environment affects firm value.
H2: Objective Setting affects the value of the company.
H3: Event Identification (Risk Identification) affects company value.
H4: Risk Assessment has an effect on Company Value.
H5: Response to Risk (Risk Response) has an effect on Company Value.
H6: Control Activities affect Company Value.

3. Method Innovation

The population of manufacturing firms that are listed on the Idx, (2024) and have released annual reports between 2020 and 2023 is the source of quantitative data used in this study. Purposive sampling was used to choose samples based on predetermined standards. For a period of three years (2020–2023), 148 companies served as the population, yielding a total of 444 samples. The final observation sample, however, was 308 because 136 of the observation samples were found to be outliers. Using this approach, representative data can be produced by choosing samples that are pertinent to the study.

The variables under investigation are those that can be measured and observed. Comprehensive criteria for measurement and observation are provided by the operational description of variables. Aspects of manufacturing enterprises listed on the IDX for the years 2020–2023 are among the variables. Providing a comprehensive grasp of the methods for measuring and observing variables in research is the aim.

Tobin’s Q digunakan sebagai indikator untuk menilai nilai perusahaan, dianggap sebagai rasio yang efektif karena membandingkan nilai pasar saham dengan nilai aset. Rumus Tobin’s Q yang digunakan merujuk pada karya (Lindenberg & Ross, 1981). Rumus tersebut mengukur nilai perusahaan dengan mempertimbangkan MVS (Market Value of Equity), nilai pasar saham dari jumlah saham dan harga penutupan saham, D (Market Value of Debt), perbedaan antara kewajiban lancar dan aset lancar ditambah kewajiban jangka panjang, serta TA (Total Assets), total aset perusahaan.

The purpose of this study is to determine if each organization satisfies the eight requirements of the

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COSO 2004 Enterprise Risk Management (ERM) framework. Eight dimensions make up the framework, and each has a set of disclosure requirements that must be met. A dichotomous scale is employed in the data gathering process, whereby an item in the annual report of the business is assigned a value (1) if it is applied, and a value (0) if it is not. Information and communication, activity control, goal-setting, event proof of identity, risk evaluation, risk response, internal environment, and monitoring are some of the dimensions. An assessment of how well each of these criteria is met will reveal how well ERM is implemented in the companies under investigation.

Dalam penelitian ini, digunakan model regresi berganda dengan menggunakan perangkat lunak SPSS Ver. 20. Variabel independen terdiri dari delapan dimensi Enterprise Risk Management, sedangkan variabel dependen adalah nilai perusahaan (Achmad et al., 2022). Persamaan regresi yang digunakan untuk menguji hipotesis adalah sebagai berikut:

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Tobins'Q=α+β1X1+ β2X2+ β3X3+ β4X4+ β5X5+ β6X6+ β7X7+ β8X8+€ (1)

Description:

Tobins'Q	= Company value
α	= Constant
β1- β8	= Regression coefficient of each variable
X1-X8	= ERM dimension
€it	= Error item

4. Innovation Result Discusion

Table 2 presents the statistical information for the factors associated with the adoption of the enterprise risk management aspects. A minimum value of 0.62 and a maximum value of 1.00 were obtained for the variable reflecting the internal setting dimension (X1), which has a mean equal 0.8800 and an average deviation of 0.10620. The goal-setting dimension (X2) has a minimum value of 0.50, a maximum value of 1.00, a mean of 0.8771, and an average deviation of 0.12891. The event identifier dimension (X3) has a minimum value of 0.40, a maximum value of 0.96, a mean of 0.7691, and a standard deviation of 0.11506. The dimensions of risk assessment (X4) are as follows: the mean is 0.7353, the standard deviation is 0.11598, the minimum value is 0.44, and the maximum value is 1.00. The risk response dimension (X5) ranges from a minimum value of 0.46 to a high value of 0.96. The mean value is 0.75791, and the standard deviation is 0.14209. The values of the activity control dimension (X6) are as follows: a mean of 0.8008, a standard deviation of 0.15856, a minimum value of 0.57, a maximum value of 1.00. The minimum and highest values for the data and communication dimension (X7) are 0.67 and 1.00, respectively, with an average of 0.9838 and a standard deviation of 0.07179. The monitoring dimension (X8) has an initial value of 0.67, a highest value of 1.00, an average of 0.9070, and an average deviation of 0.14963. The variable reflecting the company's value has an initial value of 0.29, an average value of 2.12, an average of 0.9926, & a deviation from the mean of 0.34255.

This study uses regression analysis to investigate the impact of implementing enterprise risk management (ERM) on the internal environment, goal-setting, risk assessment, risk response, control activities, information and communication, and monitoring of firm value. It is anticipated that for each unit increase or decrease in all other variables maintained constant, the coefficient of regression for the variable Y, which represents the company's value, will grow by 0.451 units. The worth of the business is expected to grow by 0.186 for every unit decrease or increase in its internal variable (X1), according to the coefficient of regression for that variable. In relation to the variable for setting goals (X2), it is expected that the company's value would improve by 0.273. However, the company's value is expected to decline by -0.506 for the event identifier variable (X3). On the other hand, the risk evaluation variable (X4) is expected to enhance the company's worth by 0.708. The risk response parameter (X5) is projected to have a negative impact on the company's value, reducing it by -0.030. Moreover, it is anticipated that the action control variable (X6) will result in a 0.096 increase in the company's worth. Conversely, the variable for information and communication (X7) is expected to have a negative impact on the company's worth, with a predicted reduction of -0.201. Finally, it is anticipated that the tracking variable (X8) will enhance the business's value by 0.165.

The degree to which the dependent variable's change can be explained by the model is indicated by the coefficient of correlation (R^2). The coefficient's value varies between zero (0) to one (1). A low R^2 value suggests that the variables that are independent have a limited capacity to account for the variability observed in the variable that is dependent. On the

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other hand, a number that is close to one indicates that the independent variables contain nearly all the necessary information to forecast the dependent variable's value (Ghozali et al., 2019). The coefficient of determination, denoted as R^2, in the R squared column has a value of 0.103. The aforementioned suggests that the independent variables, which comprise the internal climate, goal setting, risk assessment, response to risk, activity control, communication and information, monitoring, and goal setting of the Enterprise Risk Management (ERM) framework, account for 10.3% of the variance in the financial value of the company. The balance of 89.7% is determined by several factors.

The F-test, which assesses the feasibility of the model, yields an F-count of 4.278 with a value of significance of 0.000. By utilizing the F-table with the given parameters, specifically Dk: 7 & Df: 299, the value in the F-table is determined to be 2.040. This indicates that the F-count (4.278) exceeds the F-table (2.040), while the significance level value is below 0.05 (0.000 < 0.05). Therefore, it can be inferred that the varying implementation of the Enterprise Risk Management (ERM) dimension has a substantial impact on the value of the company, making it an appropriate model for this study.

The results of the t-statistic test indicate that the independent variable X1 (Internal Environment) does not have a significant influence on firm value (p = 0.500 > 0.05). Likewise, the variable X2 (Goal Setting) does not significantly affect firm value (p = 0.182 > 0.05). However, variables X3 (Event Identification), X4 (Risk Assessment), and X8 (Monitoring) exhibit significant influence on firm value, with each having p < 0.05. This suggests that Event Identification, Risk Assessment, and Monitoring individually contribute significantly to firm value. On the other hand, variables X5 (Risk Response), X6 (Activity Control), and X7 (Information and Communication) do not significantly affect firm value.

The results regarding the Internal Environment variable (X1) suggest that based on the t-test, the implementation of ERM's internal environmental dimension does not significantly influence firm value. This implies that fluctuations in the internal environment do not impact a company's value significantly. The internal environment reflects a company's perception of its existing risks and the controls necessary to manage them. Therefore, irrespective of changes in the internal environment, a company's value remains unaffected. Investors need not worry about the absence of influence from the internal environment on stock prices, as their investments will continue to operate as usual. These findings align with the research of (Alawattegama, 2020), which also concludes that the internal environment's application does not affect firm value. However, this contradicts Aragón-Correa et al (2007) assertion that a favorable internal environment contributes positively to performance. The internal environment's influence on overall internal effectiveness can enhance a company's value.

The results for the Goal Setting variable (X2) indicate that the significance value is greater than 0.05, hence rejecting hypothesis H2. This implies that the implementation of the Goal Setting dimension does not significantly affect firm value. Goal setting involves defining objectives aimed at identifying events that may impact the achievement of those goals, often related to expected returns on investments. The findings suggest that the extent of goal-setting implementation in ERM does not necessarily lead to an increase in firm value. Consequently, the presence of goal setting within ERM in a company may not necessarily correlate with an increase in firm value. However, the absence of goal setting in a company does not deter investors from investing, although having clearly defined goals in a company is favorable and could be considered an additional factor for investors. This aligns with Mulyasari's (2015) research, stating that the implementation of Enterprise Risk Management, specifically goal setting, does not significantly affect firm value. This insignificant relationship may be due to companies not aligning their goals with their mission and vision or potential investors not considering the risk impact on stock prices (Hoyt & Liebenberg, 2001).

The results for the Event Identification variable (X3) indicate that the significance value is less than 0.05, thus accepting hypothesis H3. This implies that the implementation of the Event Identification dimension significantly negatively affects firm value. Event identification involves identifying risks internally and externally within the company. These findings suggest that increasing the level of implementation of the event identification dimension in ERM regarding internal and external events does

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not affect the achievement of a business entity's goals in terms of firm value. This is because event identification only serves to recognize events within the company to identify threats and risks and determine the appropriate methods for achieving the company's goals. Moreover, firm value will continue to function normally, and investors can consider event identification as an assessment for the performance of other companies when investing. This finding supports the view of Simsekler et al (2018), stating that merely identifying events without thorough analysis regarding achievement within the company has a negative impact. This is because misidentification errors can lead to poor decisions made by investors, resulting in tangible risks.

The results for the Risk Assessment variable (X4) show that the significance value is less than 0.05, indicating acceptance of hypothesis H4. This implies that the implementation of the Risk Assessment dimension significantly positively influences firm value. Risk assessment involves analyzing risks to consider their impact on achieving established goals and serves as a basis for determining risk management strategies. A higher level of risk assessment implementation in ERM correlates with increased firm value. Research by Husam (2017) suggests that risk assessment is crucial for managing potential events that significantly impact firm value, emphasizing the responsibility of companies in assessing risks. According to Wüstenhagen & Menichetti (2012), investors require confidence that companies have conducted thorough and accurate risk assessments to address the increasing risks associated with larger investments.

The results for the Risk Response variable (X5) indicate a significance value of 0.888, greater than 0.05, leading to the rejection of hypothesis H5. This suggests that the implementation of the Risk Response dimension does not significantly affect Firm Value. Risk response involves considering the impact of risks on the company and taking appropriate actions, such as risk avoidance, acceptance, or reduction. However, the level of risk response implementation in ERM does not correlate with an increase in firm value. According to Shad & Lai (2019), risk response efforts by companies to address various risks do not influence investment decisions, making risk level a secondary concern for investors. This finding aligns with previous research indicating that the application of risk response dimension does not contribute to an increase in firm value.

The results for the Activity Control variable (X6) indicate a significance value of 0.613, greater than 0.05, leading to the rejection of hypothesis H6. This implies that the implementation of the Activity Control dimension does not significantly affect Firm Value. Activity control involves measures to effectively execute responses to each known risk in the company. However, the level of activity control implementation in ERM does not correspond with an increase in firm value. This is because activity control measures are primarily designed to address known risks through established policies, which investors do not consider a fundamental factor in their investment decisions. This contrasts with Paula Monteiro et al (2022) view that activity control within the company is crucial for investors to understand non-financial information and make informed investment decisions. Similarly, Alawattegama (2020) research findings support the conclusion that the implementation of activity control dimension does not enhance firm value.

The results for the Information and Communication (X7) variable indicate a significance value of 0.480, exceeding 0.05, leading to the rejection of hypothesis H7. This suggests that the implementation of the Information and Communication dimension does not significantly impact Firm Value. Information and communication pertain to risks originating from both internal and external sources within the company, and must be communicated to stakeholders to be accountable for risk management. However, the implementation of information and communication in ERM does not correspond with an increase in firm value, as these aspects primarily serve the risk management's internal benefit. Investors tend to focus on a company's stock price rather than considering the information and communication dimension in their investment decisions. This contradicts Paula Monteiro et al (2022) view that information and communication positively affect performance by influencing operational activities within a company. Nevertheless, quality information is crucial for supporting investor decision-making. Alawattegama (2020) research also supports the conclusion that the implementation of the information and communication dimension does not enhance firm value.

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The results for Monitoring (X8) indicate a significance value of 0.293, surpassing 0.05, leading to the rejection of hypothesis H8. This implies that the implementation of the Monitoring dimension does not significantly impact Firm Value. Monitoring of the ERM process ensures its proper execution, including overseeing audit reporting activities reported to the board of directors for accountability regarding existing information. However, the implementation of monitoring in ERM does not correspond with an increase in firm value, as its function primarily ensures the achievement of overall company objectives. Investors may invest in a company without considering the monitoring dimension as a basis for their investment decisions. This contradicts Paula Monteiro et al. (2022) view that monitoring all operational activities influences investors to assess a company's prospects, attracting them to invest. Alawattegama (2020) research also supports the conclusion that the implementation of the monitoring dimension does not enhance firm value.

5. Conclusion

There is variation in the outcomes of applying ERM (Enterprise Risk Management) components to enhance company value. The internal environment, goal-setting, event proof of identity, risk mitigation and control operations, dissemination of information, and monitoring are some of the dimensions that do not demonstrate a significant positive impact on firm value; only the risk assessment dimension has been shown to have a positive impact. Consequently, it may be inferred that only hypotheses pertaining to the risk assessment aspect are corroborated, whilst hypotheses regarding other aspects are not substantiated.

6. Table Risearch

Table 1. *Descriptive Statistics*

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
X1	308	.62	1.00	.8800	.10620
X2	308	.50	1.00	.8771	.12891
X3	308	.40	.96	.7691	.11506
X4	308	.44	1.00	.7353	.11598
X5	308	.46	.96	.7579	.14209
X6	308	.57	1.00	.8008	.15856
X7	308	.67	1.00	.9838	.07179
X8	308	.67	1.00	.9070	.14963
Y	308	.29	2.12	.9926	.34255
Valid N	308				

Source: Processed by Researchers 2023, (SPSS Data)

Table 2. *Multiple Linear Regression*

	B	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	.451	.290		1.553	.121
X1	.186	.276	.058	.676	.500
X2	.273	.204	.103	1.338	.182
X3	-.506	.224	-.170	-2.263	.024
X4	.708	.180	.240	3.943	.000
X5	-.030	.210	-.012	-.141	.888
X6	.096	.190	.045	.507	.613
X7	-.201	.284	-.042	-.707	.480
X8	.165	.156	.072	1.054	.293

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Source: Processed by Researchers 2023, (SPSS Data)

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