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The Effect of Enterprise Risk Management and Intellectual Capital Disclosure on Firm Value

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Abstract: The establishment of a company has a clear purpose. In carrying out business activities to achieve company goals, of course the company will face various risks. Risk can be said as the possible outcome of a process that does not meet expectations. ERM began to be recognized by the public after the Committee of Sponsoring Organization of The Treadway Commission (COSO) published it in 2004. ERM can be said to be a comprehensive and useful approach for managing overall corporate risk, reducing threat levels, and maximizing opportunities. Apart from enterprise risk management, intellectual capital is also an important non-financial information to be disclosed in a company's financial statements. Intellectual Capital is information and knowledge that can be applied to a job to create value in the company. The purpose of this study was to determine the effect of disclosure of enterprise risk management and intellectual capital on company value in LQ45 companies listed on the Indonesia Stock Exchange in the 2018-2020 period. The research method used in this research is hypothesis testing, namely to analyze the effect of enterprise risk management disclosures and company value intellectual capital. Based on the research conducted, it was found that enterprise risk management affects firm value in a negative direction, while intellectual capital has no effect on firm value.

Keywords: ERM, Intellectual Capital, Firm Value.

INTRODUCTION

Every company in conducting business activities generally has a desire to grow and develop and seek competitive advantage in the business world. The purpose of the company is carried out to realize the welfare of the owner or shareholder by maximizing the value of the company. Firm value is the actual value per share that will be received if the company's assets are sold according to the share price (Gitman, 2006). The value of a company is reflected in the price of its shares traded on the Indonesian Stock Exchange (IDX). If the

company's stock price increases, the value of the company also increases, so does the wealth of its shareholders (Febrianti, 2012). Firm value can be interpreted as the expected investment value of shareholders as a reaction to the information provided.

In carrying out business activities to achieve company goals, of course the company will face various risks. Risk can be said to be the possible outcome of a process that does not meet expectations (Ping and Muthuveloo, 2015). These conditions can result in an unfavorable element and result in the company failing to achieve its future expectations. There are examples of several company profiles that have failed in managing business risk and corporate governance. One of these failures was the largest accounting scandal in US business history, namely Enron in 2001. According to Wijananti (2015) Enron was known to have committed fraud against investors regarding its financial condition. Enron used off-balance sheet accounting to hide some of its debt balances. Enron subsequently transferred significant financial transactions on the records of unaffiliated partnership organizations. As a result of this, in the end Enron was forced to declare bankruptcy in 2002 leaving nearly US$ 31.2 billion in debt. This condition has a profound impact on stakeholders. Apart from Enron, in Indonesia itself there were cases of manipulation of financial statements that were carried out by Bank Lippo Tbk and PT United Capital Indonesia Tbk. From these various cases, there has been a lot of discussion about the importance of a company to implement Enterprise Risk Management (ERM).

ERM began to be recognized by the public after the Committee of Sponsoring Organization of The Treadway Commission (COSO) published it in 2004. ERM can be said to be a comprehensive and useful approach for managing overall corporate risk, reducing threat levels, and maximizing opportunities. ERM was formed with the aim that a potential event that could affect the continuity of the entity can be identified, as well as enabling companies to manage various risks holistically within the company (Hoyt et al., 2008). For companies to be successful in implementing ERM, it is very important for all parts of the organization to understand how successful ERM can create value for the company (Nocco and Stulz, 2006).

In recent years the ERM approach is being implemented by most of the companies. This is done with the aim of improving the existing risk profile within the company (Pagach and Warr, 2011). Signal theory explains that the implementation and disclosure of ERM is one of the signals given by the company to investors and shareholders in the implementation of good corporate governance. Another aspect of having ERM in a company is to increase shareholder value. Based on research conducted by McShane et al. (2011) on 82 insurance companies showed that company value is positively affected when companies implement ERM.

Apart from enterprise risk management, intellectual capital is also an important non-financial information to be disclosed in a company's financial statements (Devi, Budiasih, & Badera, 2017). Intellectual Capital is information and knowledge that can be applied to a job to be able to create value in the company (Lestari & Sapitri, 2016). The company's mastery of knowledge and technology is generally not followed by an adequate report on the science assignment because intellectual capital is an intangible asset that makes it difficult to measure, assess and manifest it in the form of numbers.

Disclosure of intangible assets through disclosure of intellectual capital is one of the alternatives proposed to overcome this problem (Pamungkas & Sri, 2017). Intellectual capital information is needed by investors because this information reflects the company's capabilities in the future. Disclosure of intellectual capital in the company's annual report has no regulations that require it so it is still voluntary.

Stakeholder Theory

Stakeholder theory says that a company is not just an entity that operates for its own sake. However, it must also provide benefits to related stakeholders, namely shareholders, creditors, consumers, suppliers, government, community, and other parties. The existence of stakeholder groups is a consideration for company management to disclose or not disclose information in the company's report (Ulum et al., 2008). This theory aims to assist company management in creating corporate value as a result of operational activities that may cause harm to stakeholders. Therefore, the company will always manage activities that are good and optimal for the economic resources it has in accordance with what is expected of stakeholders.

Signaling Theory

Signaling theory is a theory that emphasizes that when a company issues information to parties outside the company it is considered important to assist investment decisions to be taken. Moreover, the information contains good news (good news). The market will certainly give a reaction when it receives good news information and encourages increased company value (Devi et al., 2017). Of course, investors' responses regarding positive and negative signals greatly affect market conditions. Investors will react in various ways, such as waiting and seeing developments and then taking action (Spence, 1973). One type of information that serves as a signal for investors and other stakeholders is through the implementation of ERM and disclosure in annual reports.

Firm Value

The establishment of a company has a clear purpose. There are several things that suggest the purpose of establishing a company. The company's first goal is to achieve maximum profit or maximum profit. The second goal of the company is to prosper the company owner or shareholder. While the third goal of the company is to maximize the value of the company which is reflected in its share price. The objectives of the three companies are actually not substantially different. It's just that the emphasis to be achieved by each company is different (Harjito and Agus, 2005). Firm value formed through stock market value indicators is strongly influenced by investment opportunities. The existence of investment opportunities can provide a positive signal about the company's growth in the future so as to increase the value of the company. In this study, firm value is measured using Tobin's Q. Tobin's Q is calculated using the following formula (Darmawati, 2004):

$$Tobin's\ Q = \frac{Equity\ Market\ Value + D}{Equity\ Book\ Value + D}$$

Enterprise Risk Management

Enterprise Risk Management (ERM) can be said as a form of corporate strategy in maintaining its business in the midst of competitive business conditions, such as performance and profitability levels. ERM is a form of corporate awareness to deal with an unexpected disaster and business failure. The Committee of Sponsoring Organizations (2004) published enterprise risk management as a company risk management process that is designed and implemented into every company strategy to achieve company goals. Enterprise risk management disclosure consists of 108 items covering eight dimensions based on the enterprise risk management framework issued by COSO, namely (1) internal environment, (2) goal setting, (3) event identification, (4) risk assessment, (5) response to risk, (6) monitoring activities, (7) information and communication, and (8) monitoring (Desender, 2007). The data collection method used to analyze ERM disclosures is content analysis. An unweighted dichotomous scale is used in scoring each item of disclosure made by the company in the annual report. Each disclosure of an item will be given a value of 1 and 0 if

the item is not disclosed, and then the score of each item will be added up to obtain the total disclosure score for each company.

$$ERMDI = \frac{Total\ Disclosed\ ERM\ Item\ Score}{Total\ ERM\ Items\ that\ Should\ Be\ Disclosed}$$

Intellectual Capital

Intellectual Capital Disclosure is the amount of disclosure of information about intellectual capital presented in the company's annual report (Ulum, 2015). The intellectual capital component adopted in this study is a modification of the scheme built by Guthrie and Petty. (2000), which is a development of the definition of intellectual capital. Intellectual capital can be defined as the sum of those produced by the three main organizational components of Ulum (2015), namely, (1) human capital, (2) structural capital, and (3) relational capital. Ulum (2015) uses an intellectual capital disclosure index consisting of 3 components consisting of 36 items, namely human capital 8 items, structural capital 15 items and relational capital 13 items. The data collection method used to analyze IC disclosures is content analysis. An unweighted dichotomous scale is used in scoring each item of disclosure made by the company in the annual report. Each disclosure of an item will be given a value of 1 and 0 if the item is not disclosed, and then the score of each item will be added up to obtain the total disclosure score for each company.

$$ICDI = \frac{Total\ Disclosed\ IC\ Item\ Score}{Total\ IC\ Items\ that\ Should\ Be\ Disclosed}$$
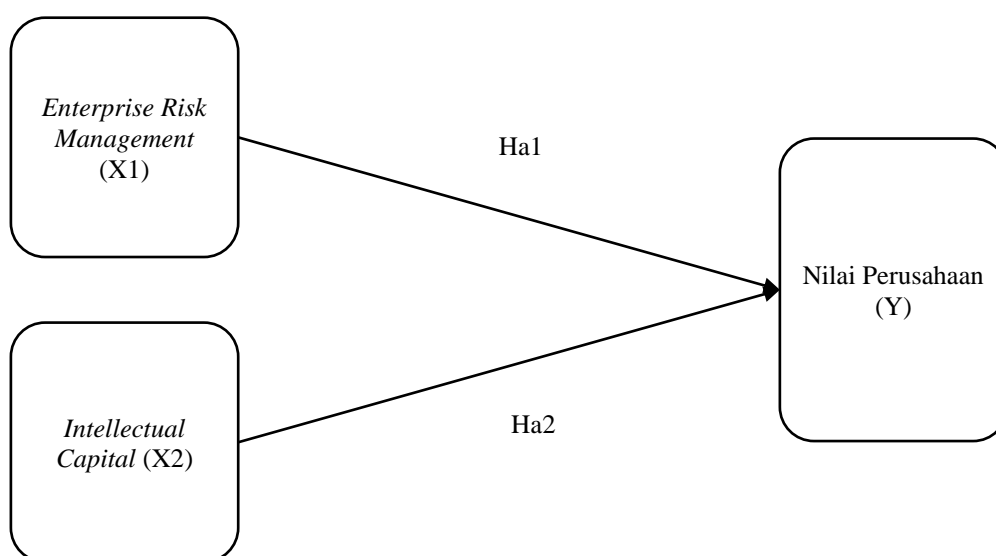
Pictures 1. Research Design

METHODS

The research design used in this study is associative research with a causal relationship. This is because this study uses an associative problem formulation with a causal relationship. According to Sugiyono (2010) the formulation of an associative problem is a research question that asks the relationship between two or more variables. While the causal relationship is a relationship that is cause and effect. Based on the description above, it can be interpreted that the associative research method with a causal relationship through a quantitative approach is a research procedure carried out by collecting and analyzing data systematically in order to determine the causal relationship between two or more variables.

The type of data used in this study is secondary data, namely data obtained indirectly from the source. The secondary data in this study are the financial reports and annual reports of LQ45 companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020.

RESULT AND DISCUSSION

The research objects used in this research are LQ45 companies listed on the Indonesia Stock Exchange (IDX) in 2018-2020. Based on the sample selection criteria, the number of company data used is 62 data. All data in this study have passed the classical assumption test.

Table 1. Multiple Regression Test Result

	β	SE	t	Sig.
Constant	4.714	.925	5.096	.000
ERM	-3.877	1.259	-3.080	.003
IC	-.008	.004	-1.806	.076
R Square				0,134
F-Statistics				0,005

Based on the table 2 the regression equation in this study is:

$$Y = 4{,}714 - 3{,}877 \ ERM - 0{,}008 \ IC + e$$

The above equation can be explained as follows:

a. Constant (α)

The constant value obtained is 4.714. This means that if the independent variables (enterprise risk management and intellectual capital) are zero, then the value of the company is a constant of 4.714.

b. Regression Coefficient (X1)

The regression coefficient value of the enterprise risk management variable (X1) is -3.877. This indicates that every increase in one enterprise risk management unit will result in a decrease in firm value by 3.877 assuming the other variables are constant or constant.

c. Regression Coefficient (X2)

The regression coefficient value of the intellectual capital variable (X2) is -0.008. This indicates that every increase of one unit of intellectual capital will result in a decrease in the value of the company by 0.008 assuming the other variables are constant or constant.

Determination Coefficient Test (R2)

As shown in table 1, the adjusted R-square value is 0.134, which means that the variation in the dependent variable of firm value can be explained by the variation in the independent variables enterprise risk management and intellectual capital, which is 13.4%, while the remaining 86.6% is explained by variables which were not included in this research model.

F Test

The results of the F test which can be seen in table show a sig value of 0.005. The sig value is less than 0.05, which means the model is fit. This shows the data is feasible to use in the research model.

T Test

Based on the results of the t test in table 1. it can be concluded:

The results of the Enterprise Risk Management variable with a significance level of 0.003, which is less than 0.05 with a regression coefficient of -3.877 so that the results of this study state that firm value is influenced by enterprise risk management variables in a negative direction. This is because the increasing number of Enterprise Risk Management

(ERM) disclosures by companies has created a bad perception from investors. Investors will assume that the number of company risk disclosures also means that there are also many risks that will be faced by the company in the future. So that it will raise concerns for investors to invest in the company which causes a decrease in the value of the company. This research is in line with research conducted by (Arifah & Wirajaya, 2018) which states that there is a negative effect of ERM disclosure on firm value by controlling for company size, leverage and profitability variables.

The results of the intellectual capital variable with a significance level of 0.076 which is greater than 0.05 so that the results of this study state that firm value is not affected by the intellectual capital variable so that it can be concluded that Ha2 is rejected. This is because there is no definite measurement related to the disclosure and reporting of intellectual capital, so that information about intellectual capital does not get special attention from investors which results in intellectual capital having no effect on company value.

CONCLUSION

Based on the previous discussion, it can be concluded that enterprise risk management has a negative effect on firm value while intellectual capital has no effect on firm value. This indicates that companies must be careful in disclosing the company's risk management because this can trigger a negative response from investors because they think that the company has a big risk. This research also implies that the disclosure of intellectual capital has not received the attention of investors, this is due to the absence of a clear measurement of intellectual capital. Suggestions for further research are to add other variables such as earnings quality and earnings persistence because the coefficient of determination is only 13.4%.

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