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Analysis of the Influence of Enterprise Risk Management, Profitability, and Liabilities on the Value of Banking Companies Listed on the Indonesia Stock Exchange

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Abstract
This study aims to determine the effect of Enterprise Risk Management (ERM), Profitability and Liability on the value of banking companies. The variables used in this study are Enterprise Risk Management (ERM), Profitability as measured by Return On Asset (ROA) and liabilities as measured by Loan To Deposite Ratio (LDR). The sample in this study used banking sector companies listed on the Indonesia Stock Exchange in 2019-2023 with a total sample of 23 banking companies that have been determined based on certain criteria. The data used in this study are secondary data. The analysis technique used to test the hypothesis is the panel data analysis method. The results showed that the Enterprise Risk Management (ERM) variable had a positive and insignificant effect on the value of banking companies, the Profitability variable had a significant positive effect on the value of banking companies, and the Liability variable had a negative and insignificant effect on the value of banking companies.

Keywords: Enterprise Risk Management (ERM); Profitability; Liability; and Firm Value.

1. Introduction

Company value is a key indicator that represents the success and financial health of a company, especially in the highly dynamic banking industry, which is fraught with economic uncertainty. This value not only reflects the size of the company's assets and equity but also reflects investors' perceptions of the company's future profit and growth prospects. Company value is closely related to investors' decisions to invest in a company. According to the [1] corporate value is fundamental to a company because optimizing corporate value is equivalent to optimizing the company's primary objectives. This attracts investors to invest in value above the company's asset value. As a result, companies engage in competitive rivalry to achieve their respective competitive advantages.

According to the [2] shows that the variable that influences company value is the Enterprise Risk Management (ERM) variable. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise Risk Management is a process influenced by management, the board of directors, and other personnel that is carried out in strategic decision-making and encompasses the entire company. It is designed to identify events that have the potential to affect the entity and manage risks within risk tolerance limits. COSO introduced the ERM framework as a preventive measure to eliminate accounting manipulation and address risk exposure faced by companies. This emphasizes that ERM is a comprehensive framework that integrates risk management into every aspect of the company. According to the [3] companies that use ERM typically receive positive feedback from the capital market. This is because ERM provides greater transparency regarding the risks faced by the company and how the company manages them, which in turn enhances stakeholders' confidence in the company's risk management capabilities. In terms of regulation, financial authorities around the world are increasingly encouraging the implementation of ERM. Indonesia's Financial Services Authority (OJK) has established regulations requiring financial institutions to fully implement ERM (POJK No. 18/POJK.03/2016), with the aim of protecting consumers and other stakeholders from the adverse effects of poorly managed risks, thereby stabilizing the financial sector.

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Profitability is a ratio that measures a company's ability to generate profits from its normal business activities [4]. Profitability is related to the value of a company because the greater the profits generated from the assets owned by the company, the more interested investors will be because the company's opportunities to generate profits are greater. Return on Assets (ROA) is one of the measures often used to assess a company's profitability, which describes the company's ability to generate profits from each asset owned by the company [4]. This ratio shows how well the company uses its resources. Conversely, shows that companies with high profitability are more likely to survive in the long term[5]. According to the [6], LDR and bank profitability are interrelated because a well-managed increase in LDR can increase interest income, which in turn can increase bank profits.

Liabilities in this study are measured by the loan to deposit ratio (LDR), which shows the percentage of loans granted by banks against total deposits. Liquidity and the effectiveness of using deposit funds to support credit activities are measured by this indicator [7]. To maintain a balance between cash availability and liquidity, optimal LDR management is crucial. A higher LDR makes a bank less liquid, which can lead to a decline in the bank's corporate value. Banking regulations increasingly encourage banks to monitor LDR to remain within healthy and safe limits as per regulations. According to Bank Indonesia Circular Letter No. 15/41/DKMP, the lower limit of the LDR Target is set at 78%–92%, and the LDR tolerance limit is 85%–110%. However, the maximum LDR limit may be relaxed to 94% if certain conditions are met[8].

2. Literature Review

2.1 Positive Accounting Theory (PAT)

Positive accounting theory is a theory that explains a process using accounting understanding, capabilities, and knowledge in accordance with accounting practices to deal with certain conditions in the future. According to TAP, a company's accounting policies will be chosen as part of the problem of minimizing contract costs. According to the [9] predict that it will be more efficient to monitor manager performance using consolidated financial statements, so that it is not too expensive to prepare consolidated statements for external reporting. The accounting policies used by management greatly influence the information in financial reporting. One of the most interesting pieces of information in financial reporting is profit information. Profit information attracts the attention of financial statement readers because profit measures the level of performance that a company can achieve and evaluates management's performance in managing the company. Therefore, management often implements profit management mechanisms through profit management.

2.2 Stakeholder Theory

Stakeholder Theory stating that companies are responsible to all parties involved, including investors, employees, regulators, and shareholders. According to stakeholder theory, businesses must not only function to achieve their goals, but also to benefit their stakeholders. In other words, a company's ability to succeed is highly dependent on the support of its stakeholders. Stakeholders are individuals or organizations that have a direct or indirect interest in the existence or operations of a company; as a result, they influence and are influenced by the company. These stakeholder groups are a key factor that companies consider when deciding whether to disclose information in their annual reports.

3. Research Method

The type of research used in this study is quantitative research, which uses numerical data. The scope of this study is to analyze the influence of enterprise risk management, profitability, and liabilities on the value of banking companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. In this study, the dependent variable is the value of banking companies listed on the Indonesia Stock Exchange (IDX), and the independent variables are enterprise risk management, profitability, and liabilities. This study uses panel data with cross-sectional data from 23 banking companies and time series data for 5 years from 2019 to 2023, with a total of 115 observations for this study. The panel data regression equation model formed is as follows:

Hypothesis Model:

The relationship between variables in this study can be formulated in a panel data regression model:

$$NP_{it} = \beta_0 + \beta_1 ERM_{it} + \beta_2 PROB_{it} + \beta_3 LIAB_{it} + u_{it}$$

NP_{it} : Company Value
ERM : Enterprise Risk Management
PROB :Probability
LIAB : Liabilities
β_0 : intercept in regression models
$\beta_1, \beta_2, \ldots \beta_3$: Slope coefficient
i : Cross Section
t : Time series

In this study, the panel data regression analysis model was conducted using two alternative processing methods, namely the Fixed Effect Model (FEM) and the Random Effect Model (REM).1. Fixed Effect Model (FEM)

According to the[10], this approach assumes that the slope is constant but the intercept varies between individuals. The approach used in the Fixed Effect model assumes that the intercept of each cross-sectional unit is different, while the slope between cross-sectional units is constant.

2. Random Effect model (REM)

The Random Effect model is an estimation technique that adds a disturbance variable (error term) that may appear in the relationship between time and individuals. In the Random Effect model, the cross-sectional units used are not predetermined but are randomly selected from a population. The approach used in the Random Effect model assumes that each cross- sectional unit has a different intercept.

In this study, three types of hypothesis testing were conducted, namely:

a. T-Statistic Test

Hypothesis testing using the T-statistic test is used to describe the magnitude of the partial effect of an independent variable in interpreting the variation of the dependent variable. This test is conducted by making decisions based on the comparison of significance levels where:

1) If the significance of T > 0.05, then Ho is rejected and Ha is accepted, meaning that variable X has a significant effect on variable Y.

2) If the significance of T < 0.05, then Ho is accepted and Ha is rejected, meaning that variable X does not have a significant effect on variable Y.

b. F-Statistic Test

The F-test is conducted to determine whether the parameter coefficients are simultaneously different or equal to zero. This simultaneous testing is performed by comparing the significance level of the F-test results with the significance level used in this study.

1) If the calculated F value is greater than the table F value, then H0 is rejected or Ha is accepted

2) If the calculated F value is less than the table F value, then H0 is accepted or Ha is rejected.

c. Coefficient of Determination Test (R2)

The coefficient of determination (R2) test aims to measure the extent to which the model can explain the variation in the dependent variable. The coefficient of determination value ranges from 0 to 1. The adjusted R2 value is considered 0 if the adjusted R2 value is negative. If the R2 value is small, it means that the ability of the independent variables to explain the variation in the dependent variable is very limited. If the value is close to one, it means that the independent variables provide almost all the information needed to predict the variation in the dependent variable.

4. Results and Discussion

4.1 Selection of panel data regression models

Panel data regression analysis is conducted using two alternative approaches: the Fixed Effect Model (FEM) and the Random Effect Model (REM). The selection of the model depends on the assumptions used by the researcher and the

fulfillment of statistical data processing requirements. Selecting a model from the two available models is the first step that must be taken. The following are the results of the model selection test:

The Hausman test results are as follows: The Hausman test is a test aimed at determining whether the model to be used is the Fixed Effect Model (FEM) or the Random Effect Model (REM).Tabel

4.1 Result of Hausman Test

Test Summary	Chi-Sq Statistic	Chi-Sq.d.f	Prob.
Cross-Section Random	1.564.619	2	0.4573

Source : Researcher Processed Data

Based on the Hausman results above, it can be seen that the cross-section random value and probability value are 0.4573 (> 0.05), so the most appropriate model to use in this study is the Random Effect Model (REM).

Table 4.2 Panel Data Regression Result

Variabel	Coefficient	Std.Error	t-Statistic	Prob
C	0.859103	0.435576	1.972.337	0.0511
ERM	0.184359	0.410201	0.449437	0.6540
PROB	0.217982	0.103156	2.113.129	0.0368
LIAB	-0.003285	0.003591	-0.914872	0.3622

Source : Researcher Processed Data

Based on the panel regression result. Then te from of the estimation model obtained is as follows:

NP = 0.859102690434 + 0.184359453691*ERM + 0.217981579887*PROB -0.0032851174691*LIAB + [CX=R]

The explanation is as follows:

a) The constant value obtained is 0.859102690434, which means that if the independent variable increases by one unit on average, the dependent variable will also increase by 0.859102690434.
b) The regression coefficient value of the ERM variable is positive (+) at 0.1843, which means that if the ERM variable increases, the NP variable will also increase by 0.1843, and vice versa.
c) The regression coefficient value of the PROB variable is positive (+) at 0.2179, which means that if the PROB variable increases, the NP variable will also increase by 0.2179, and vice versa.
d) The regression coefficient value of the LIAB variable is negative (-) at -0.0032, which means that if the LIAB variable decreases, the NP variable will also decrease by -0.0032, and vice versa.

Table 4.3 Results of the t-test

Variable	Coefficient	Std.Error	t-Statistic	Prob
C	0.859103	0.435576	1.972.337	0.0511
ERM	0.184359	0.410201	0.449437	0.6540
PROB	0.217982	0.103156	2.113.129	0.0368
LIAB	-0.003285	0.003591	-0.914872	0.3622

Source : Researcher Processed Data

From table 4.3 above, it can be explained that the effect of the independent variabel on the dependent variabel partially is as follow:

1. The test results show that the ERM variable has a t-statistic value of 0.4494 with a probability value (significance) of 0.6540 (>0.05), so it can be concluded that the ERM variable has a positive but insignificant effect on the NP variable. Therefore, H1 is accepted.

2. The test results show that the PROB variable has a t-statistic value of 2.1131 with a probability value (significance) of 0.0368 (>0.05). Therefore, it can be concluded that the PROB variable has a significant positive effect on the NP variable. Thus, H2 is accepted.

3. The results of testing hypothesis H2 show that the LIAB variable has a t-statistic value of -0.9148 with a probability value (significance) of 0.3622 (>0.05). Therefore, it can be concluded that the LIAB variable has a negative but insignificant effect on the NP variable. Thus, H3 is accepted.Table

4.4 Results of the F-test

F-statistic	2.082.579	Durbin- Waston Stat	1.891.467
Prob (F- statistic)	0.106594		

Source : Researcher Processed Data

Given that the F-statistic value is 2.0825 with a Prob. (F-statistic) value of 0.1065 (> 0.05), it can be concluded that the independent variables (ERM, PROB, LIAB) have a positive but insignificant effect simultaneously (concurrently) on the dependent variable (NP).

Table 4.5 Coefficient of Determination Result

R-Square	0.053287	Mean dependent var	0.411910
Adjusted R-Square	0.027700	S.D. dependent var	0.840642

Source : Researcher Processed Data

Given that the adjusted R square value is 0.0277, it can be concluded that the contribution of the independent variables (ERM, PROB, LIAB) to the dependent variable (NP) simultaneously (concurrently) is 27.70%, and 72.30% is influenced by other variables outside the scope of this study.

4.2 The Effect of Enterprise Risk Management on the Value of Banking Companies Listed on the Indonesia Stock Exchange

In this study, Enterprise Risk Management has a positive effect on the value of banking companies. Based on the hypothesis testing analysis conducted, it is evident that risk management has a positive impact, with the ERM variable having a t-statistic value of 0.4494. This indicates that the disclosure of Enterprise Risk Management influences the value of banking companies, as it enhances the company's reputation, sustainability, and resilience to crises, which are highly valued by stakeholders. Positive Accounting Theory, which states that company managers act to maximize their own economic utility within contractual and regulatory constraints. The implementation of ERM is seen as a manager's response to reduce agency costs and information asymmetry.

The results of this study are consistent with previous research by [11], who stated that the Enterprise Risk Management variable sheds light on the importance of risk management in achieving corporate objectives, namely corporate value.

4.3 The Effect of Profitability on the Value of Banking Companies Listed on the Indonesia Stock Exchange

In this study, profitability has a positive effect on the value of banking companies. This indicates that the level of profitability influences the value of banking companies. The more effectively a company utilizes its assets, the better its profitability, as measured by ROA. An increase in banking company shares accompanied by high stock returns will attract investors to invest their capital in the company. High profitability, measured by ROA, directly contributes to an increase in company value. This statement aligns with Positive Accounting Theory, which emphasizes the role of profit information as a market signal, and is consistent with Stakeholder Theory, which positions profitability as one of the foundations of stakeholder expectations. Both theories collectively reinforce the positive relationship between ROA and company value.

These results are consistent with research conducted by [12] and [13], which found that profitability affects the value of banking companies. This research states that the higher the profitability, the higher the market price. If a company's profitability increases from the previous year, this indicates that the company has good prospects, prompting investors to respond positively and increasing the company's value.

4.4 The Effect of Liabilities on the Vale of Banking Companies Listed on the Indonesia Stock Exchange

In this study, liabilities measured by LDR do not affect the value of banking companies. The higher the level of company liabilities (debt), the lower the company value in the eyes of investors, where the higher the LDR ratio, the greater the funds disbursed by the banking company to finance credit. This will have a negative impact on the banking company because it is considered to reduce the company's profit, thereby reducing investor confidence.

The results of this study align with research conducted by [14], which found that LDR has a negative impact on company value. This study states that when LDR is too high, the market perceives it as a signal that the banking company is too aggressive in disbursing loans, increasing the risk of default and reducing investor confidence.

5. Conclusions

Based on the results of the analysis of the influence of enterprise risk management, profitability, and liabilities on the value of banking companies listed on the Indonesia Stock Exchange, it can be concluded that, partially, the enterprise risk management variable has a positive but insignificant effect on the value of banking companies, while the profitability variable has a positive and significant effect on the value of banking companies. that the liability variable has a partial negative effect that is not significant on the value of banking companies. Based on the simultaneous test (F-test) with a probability value of 0.1065 > 0.05, it can be concluded that the variables of enterprise risk management, profitability, and liability together have a positive effect that is not significant on the value of companies.

Suggestion

1. Add or include other variables in the study that are theoretically thought to affect company value, such as Current Asset Ratio (CAR), Market to Book Asset Ratio, Operating Expense to Income Ratio (BOPO), and Return on Equity (ROE).

2. Banking companies are expected to maintain good performance to increase value for investors and stakeholders, as well as improve Enterprise Risk Management disclosure.

3. Banking companies should pay more attention to the Loan to Deposit Ratio (LDR) to ensure it remains between 78% and 92%, in accordance with Bank Indonesia Circular Letter No. 15/41/DKMP.

4. Banking companies should maintain or increase their profit margins to enhance company value, as research indicates that ROA has a significant positive impact on banking company value.

5. For future research, it is recommended to use the 2023-2027 period, thereby enabling the analysis of the most recent data.

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