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# Effect of Enterprise Risk Management, Company Size and Leverage on Company Value

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***Abstract.*** *This study aims to determinate the effect of Enterprise Risk Management, firm size, and leverage on firm value in manufactur industry sector textile and garment in IDX period 2014-2019. The sample method used in this study is purposive sampling method and the data analysis technique used is panel data regression which includes classical assumption test and hyphothesis test. The samples of the research are 7 companies. The results showed that Enterprise Risk Management has significant positive effect, firm size has no significant effect, while leverage has significant negative effect on the firm value. Coefficient of determination (adjusted R2) is 0,789 which means 79% firm value influenced by ERM, firm size and leverage. As for the rest, 21% firm value influenced by other variables that don't explain in this study.*

***Keywords: ERM; firm size; firm value; leverage***

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## A. INTRODUCTION

One of the long-term goals that the company wants to achieve is to increase or maximize the value of the company in the hope of increasing the welfare of owners and shareholders (Fadhilah, 2020: 926). Company value is the performance of a company that affects the market view and investors of the company. If the company's performance is good, the returns obtained will be higher and have an impact on the prosperity of the owner. Every company is required to maximize the value of its company because the higher the value of the company, the more interested investors will be in investing. The value of a company as measured by Price Book Value (PBV) is the value of the company which is reflected through the market price of the stock compared to its book value. The higher the market price compared to the book value, the higher the company value (Repi et al, 2016: 182).

The value of the company is influenced by several factors. The first factor that affects the value of the company is Enterprise Risk Management (ERM). In making investment decisions, an investor does not only focus on financial information contained in financial statements because it will not guarantee that the investment decisions made are correct. Disclosure of nonfinancial information is also considered important in the consideration of investment decisions (Annisa et al, 2012: 98) Information on the company's risk management profile and management of risks is nonfinancial information needed by investors to make investment decisions. Regarding this, the complexity of risks originating from internal or external companies can interfere with the company's profitability level, so that companies that do not have good risk management will have difficulty maintaining the sustainability of their company's business (Devi et al, 2016: 2).

The second factor that affects the value of the company is the size of the company. The size of a large company certainly has its own value in the eyes of the public because large companies are considered to have the power to manage complex risks faced in the company (Hoyt & Liebenberg, 2011: 795). The size of an enterprise is the main factor in determining the profitability of an enterprise. The higher the level of profitability, the more it will make the market price of a company's shares increase, so that the value of the company also increases (Pratama & Wiksuana, 2016: 2).

The last factor that can also affect the value of the company is the policy of funding sources (leverage). The company's funding sources can be obtained from the company's internals in the form of retained earnings and depreciation and from external companies in the form of debt or issuance of new shares (Pratama & Wiksuana, 2016). Companies that have higher debt ratios will face a greater risk of loss in poor economic conditions (recessionary period), but have a higher rate of return under normal economic conditions. Conversely, companies that have low debt ratios will not face a great risk of loss during a recession, but the opportunity to increase the rate of return on equity under normal economic conditions is also low. Greater leverage indicates greater investment risk. So that the greater the leverage, the more it will reduce the value of the company (Prasetyorini, 2013:

The results of research conducted by Lestari (2019: 60) show that the size of the company and ERM affect the value of the company, while leverage does not affect the value of the company. This is supported by research by Prasetyorini (2013: 191) which concluded that the size of the company affects the value of the company while leverage does not affect the value of the company. In contrast, research by Pratama and Wiksuana (2016: 1361) concluded that leverage has a positive effect on the value of the company.

The object in the study is the textile and garment industry. This industry is one of the backbones of the manufacturing industry and is a national priority industry that is still prospective to be developed in Indonesia. The textile and garment industry contributes quite a lot to economic growth. In addition to creating considerable employment, the industry encourages increased domestic and foreign investment. Based on kemenperin.go.id (2020), the textile and garment industry is also a labor-intensive industry, absorbing at least 3.37

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million workers. In terms of labor, the development or addition of industrial capacity can be easily accommodated by the abundance of labor and competitive wages, especially compared to conditions in the industry of developed countries. However, in recent years, this industry has experienced a decline due to the implementation of free trade agreements between Indonesia and several countries that.

The purpose of this study is to analyze the influence of Enterprise Risk Management (ERM), company size and leverage on company value. Meanwhile, the object of research is a manufacturing company in the textile and garment industry sector listed on the Indonesia Stock Exchange for the 2014-2019 period

## B. LITERATURE REVIEW

This research uses signaling theory as a grand theory and agency theory as well as trade-off theory as a supporting theory. The opportunity for high investment opportunities will be perceived as a positive signal that will affect the investor's assessment of the company. The high level of the company's The International Organization for Standardization (IOS) indicates that the company can improve its financial performance and company value in the future (Owolabi and Inyang, 2013: 43). Furthermore, the trade-off model explains that the use of debt in the capital structure can minimize tax expenditures due to interest costs incurred (Hermuningsih, 2012: 35). If management can optimize the company's debt ratio, then the company can maximize the value of the company by covering the entire cost burden arising from the benefits obtained (Uyar and Guzelyurt, 2015:44).

Then, the agency theory states that the high level of managerial ownership will affect the low capital structure. Management who also has the right to the company's shares will be responsible for all risks that occur, both in the form of profits and losses, so that management minimizes the use of debt by applying minimize costs and maximize value (Maftukhah, 2013: 64). The large number of shares by management triggers managers to maximize the company's performance in order to increase the value of the company.

The value of the company reflects the company in the eyes of investors, the value of the company as measured by price book value (PBV) is the value of the company which is reflected through the market price of the stock compared to its book value. The higher the market price compared to the book value, the higher the company value (Repi et al, 2016: 182).

Enterprise Risk Management (ERM) is a new concept in the world of business and industry. ERM has a different meaning from traditional risk management. According to a holistic approach, erm identifies and assesses diverse risks, integrates all types of existing risks with the use of integrated tools and techniques, and then coordinates activities from risk management to all operating units in an organization. This is contrary to traditional practice because certain risks are assessed separately by each business unit and decide for themselves how to overcome them (Pamungkas & Maryati, 2017: 40).

The size of the company (firm size) is the size of the company can be measured by the total assets / size of the company's assets using the calculation of the logarithm value of the total assets (Hartono, 2012: 14). Then the size of the company determines the number of members related to the selection of ways of controlling activities in an effort to achieve goals (Torang, 2012: 93). Leverage is one of the financial ratios that describes the relationship between a company's debt to capital, as well as the company's assets (Riyanto, 2012: 45). Leverage is a tool to measure how much a company depends on creditors in financing the company's assets. The leverage level is obtained from the comparison of total debt with total assets. A company that has a high level of leverage means that it relies heavily on outside loans to finance its assets. Meanwhile, companies that have a low level of leverage finance more of their assets with their own capital. Thus, the level of leverage of the company.

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## C. RESEARCH METHODOLOGY

The independent variables in this study are Enterprise Risk Management (ERM), company size and leverage, while the dependent variables are company value.

The population, in this study, which was used as a population, was a textile and garment company listed on the IDX from 2014 to 2019.

Sample Technique, sampling carried out using the purposive sampling method. The criteria for textile and garment sector manufacturing companies used as samples in this study are: Companies including textile and garment sector manufacturing companies listed on the Indonesia Stock Exchange in 2014-2019. This is because the research was carried out in early 2021 and in 2020 there are still many companies that have not published financial statements. Companies that published financial statements during the research period in 2014-2019. Companies that have complete data related to research, for example, such as having risk disclosure which includes 8 erm components, namely, internal environment, goal setting, event identification, risk assessment, control activities, communication information and supervision. As well as financial statements that reveal total assets, total debt, total capital and total issued capital as well as share prices for the current year during the research period in 2014-2019.Data Processing and Analysis, enis data is secondary data obtained from the IDX (www.idx.co.id) and the web of each company. The data used in this study is panel data. In this case using the panel data regression method. Then followed by the testing stage including descriptive analysis, classical assumption testing and hypothesis testing. In the calculation of hypothesis analysis and testing using tools, namely Microsoft Excel 2013 and EViews 10.

## D. RESULTS AND DISCUSSION

**Table 2 Desiptif Statistif**

Date: 03/11/21
Time: 15:07
Sample: 2014 2019

| | ERM | Ukuran Perusahaan | *Leverage* | Nilai Perusahaan |
|---|---|---|---|---|
| Mean | 0.418571 | 27.27786 | 1.465000 | 0.958815 |
| Median | 0.420000 | 27.11500 | 1.000000 | 0.490000 |
| Maximum | 0.440000 | 29.22000 | 5.870000 | 6.160000 |
| Minimum | 0.390000 | 26.24000 | 0.180000 | 6.00E-05 |
| Std. Dev. | 0.015706 | 0.684720 | 1.204591 | 1.250221 |
| Skewness | -0.449365 | 1.404701 | 1.848370 | 2.261627 |
| Kurtosis | 2.271617 | 4.792956 | 6.842403 | 8.695258 |
| Jarque-Bera | 2.341951 | 19.43800 | 49.75240 | 92.56763 |
| Probability | 0.310064 | 0.000060 | 0.000000 | 0.000000 |
| Sum | 17.58000 | 1145.670 | 61.53000 | 40.27025 |
| Sum Sq. Dev. | 0.010114 | 19.22251 | 59.49265 | 64.08516 |

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| | | | | |
|---|---|---|---|---|
| Observations | 42 | 42 | 42 | 42 |

source: *Eviews output* 10 (2021)

Based on table 2, the minimum ERM value of 0.39 belongs to Trisula International Tbk at the end of 2014 to 2019. The maximum value of ERM 0.44 belongs to Ricky Putra Globalindo Tbk at the end of 2013. Then the minimum value of the company size of 26.24000 belonged to Panasia Indo Resources Tbk at the end of 2017 and the maximum value of 29.22000 was also owned by Panasia Indo Resources Tbk at the end of 2015. Furthermore, the minimum leverage value of 0.180000 belongs to Star Petrochem Tbk at the end of 2019 and the maximum value of 5.870000 owned by Panasia Indo Resources Tbk at the end of 2014. Finally, the company's value was 6.00E-05 Trisula Textile Industries Tbk at the end of 2015. The maximum value of the company's value of 6.160000 belongs to Panasia Indo Resources Tbk at the end of 2019.

Model Selection Test

The model selection test consists of the Chow, Hausman test and lagrange multiplier test. Testing is intended to determine the most appropriate regression model to use in research between common effects, fixed effects, or random effect models. After the Chow and Hausman tests, the results were obtained that the fixed effect model was the most appropriate to be used in this study, so there was no need for the Langrange Multiplier (LM) test. The following table 3 shows the output results with the fixed effect model.

**Table 3 *Fixed Effect Model***

Dependent Variable: Nilai Perusahaan
Method: Panel Least Squares
Date: 03/11/21 Time: 15:50
Sample: 2014 2019
Periods included: 6
Cross-sections included: 7
Total panel (balanced) observations: 42

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| ERM | 0.154225 | 0.053843 | 2.864341 | 0.0073 |
| Ukuran Perusahaan | 0.253340 | 0.143111 | 1.770231 | 0.0862 |
| *Leverage* | -1.113031 | 0.183736 | -6.057785 | 0.0000 |
| C | 31.14301 | 4.964339 | 6.273344 | 0.0000 |

Effects Specification

Cross-section fixed (dummy variables)

| | | | |
|---|---|---|---|
| R-squared | 0.835938 | Mean dependent var | 0.958815 |
| Adjusted R-squared | 0.789795 | S.D. dependent var | 1.250221 |
| S.E. of regression | 0.573203 | Akaike info criterion | 1.929102 |
| Sum squared resid | 10.51397 | Schwarz criterion | 2.342833 |
| Log likelihood | -30.51115 | Hannan-Quinn criter. | 2.080751 |
| F-statistic | 18.11641 | Durbin-Watson stat | 1.454848 |
| Prob(F-statistic) | 0.000000 | | |

source: Eviews output 10 (2021)

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**Panel Data Regression**

Based on table 3, then the panel data regression equation is as follows: Company Value (NP) = 31.14301 + 0.154225 ERM + 0.253340 Company Size – 1.113031 Leverage
The things that can be interpreted from the regression equation are as follows.

- The constant value of 31.14301 means that if the erm variables, company size and leverage are not included in the study, then the value of the company still increases by 31.14%.
- The value of the ERM coefficient of 0.154225 means that if the ERM has an increase of 1% it will increase the value of the company by 0.15% assuming other independent variables remain.
- The value of the company size coefficient is 0.253340 which means that if the size of the company has an increase of 1% it will increase the value of the company by 0.25% assuming other independent variables remain
- The value of the leverage coefficient of -1.113031 means that if the leverage increases by 1% it will reduce the value of the company by 1.11% assuming other independent variables remain.

**Hypothesis Test**

The results of the statistical test t in table 3 can be explained that:

1. The ERM probability value of 0.0073 is less than the significance level (α=0.05).
2. This shows that ERM has a significant positive effect on the value of the company.
3. The probability value of the size of the enterprise of 0.0862 is greater than the degree of significance (α=0.05). This shows that the size of the company does not have a significant effect on the value of the company.
4. The probability value of leverage of 0.0000 is less than the significance level (α=0.05). This means that leverage has a significant negative effect on the value of the company.

**Coefficient of Determination (Adjusted R2)**

Based on the results of the coefficient of determination (adjusted R2) test shown in table 3, it can be seen that the adjusted R-squared value is 0.789795 which means that as much as 79 percent of the company value (dependent variable) can be explained by independent variables, namely ERM, company size and leverage. While the remaining 21 percent is explained by other variables that were not discussed in this study.

**Interpretation of Results**

ERM has a significant positive effect on the value of the company. This suggests that the first hypothesis (H1) is accepted. The results of the study on this variable are in line with research conducted by Lestari (2019: 62) that there is a significant influence between ERM on company value. Company value is a certain condition that the company achieves as an illustration of the trust of the community and stakeholders. Increasing the value of the company is very important to do so that the prosperity of shareholders can be maximized. With better risk management through the application of ERM to a company, it also determines the level of investor confidence. This is further strengthened by the research of Iswajuni et al (2018: 45) which states that the application of ERM in companies as risk management for the better can determine the level of investor confidence and increase company value.

The size of the company does not have a significant effect on the value of the company. This suggests that the second hypothesis (H2) is rejected. This research is supported by Suwardika & Mustanda (2017: 52) which shows that the size of the company or the size of the company is considered unable to affect the value of the company. This is

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because the size of the company is assessed from the total assets owned by the company for its operational activities. The larger the size of the company, the greater the assets owned by the company. However, the size of the assets owned by the company does not become a benchmark for investors to invest shares, investors have other things that are standard in investing, for example, such as debt owned by the company or risk management carried out by the company.

Leverage has a significant negative effect on the value of the company. This suggests that the third hypothesis (H3) is accepted. According to Sembiring (2006 : 382), leverage reflects the level of financial risk of the company. The higher the company's leverage ratio, the higher the risk of default that the company will experience. This is reinforced by the research of Sari & Abundanti (2014) which says that debt will add a fixed burden regardless of the amount of income. The larger the debt the higher the probability of bankruptcy because the company cannot pay interest and principal. The management must pay attention to the use of debt, because the amount of debt can reduce the value of the company.

## E. CONCLUSIONS AND SUGGESTIONS

This study aims to test and analyze the effect of ERM, company size, and leverage on stock prices in textile and garment companies listed on the Indonesia Stock Exchange for the period 2014 to 2019. Based on the results of the analysis, several conclusions were drawn, including that ERM has a positive significant influence, while the size of the company does not have a significant influence. In contrast, leverage has a significant negative influence on the value of textile and garment companies listed on the Indonesia Stock Exchange for the period 2014 - 2019.

This research has several limitations that need to be improved for subsequent studies, namely that this study only uses three independent variables, namely Enterprise Risk Management (ERM), company size and leverage so that the amount of influence of independent variables on dependents is still at 79 percent, the other 21 percent is still owned by other variables outside the research variables. Then the financial ratio data used as a sample is taken over an annual period. Meanwhile, the value of textile and garment companies ups and downs is no longer in the annual term. The value of the company can change in a weekly and even daily period of time. Financial ratio data can also be updated every three months (quarterly).

Referring to the limitations of research, some recommendations that can be given are for companies, they should be able to increase the value of the company so as to attract investors to invest in the company. To increase its value, the company can improve risk management, minimize the use of debt and increase profits that can be used for the composition of capital structures. For the next study, using other independent variables that are estimated to affect the value of the company such as CSR disclosure, GCG implementation and other financial ratios, such as profitability, solvency and liquidity ratios. In addition, shorten the periodization of data from annual to quarterly. The goal is to optimize the absorption of information, so that the data used can be more actual. Then, further research should extend the research period so that it can increase the number of samples.

As for the recommendations for investors, before lending funds to the company, investors should first pay attention to the ability to manage risks by management (ERM), company size, leverage, and the ratio of company value that can be seen in the company's financial statements. This is intended so that investors can obtain information about how the company is doing, such as financial condition so that investors can make the right decisions to make investments and lend their funds to the company.

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