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Research Paper

The Effect of Enterprise Risk Management and Financial Performance on Firm Value With Good Corporate Governance As A Moderation Variable

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ABSTRACT: *This study aims to determine the moderating role of good corporate governance on the relationship between enterprise risk management and financial performance on firm value. The object of this research is a company listed on the Indonesia Stock Exchange (IDX). The data analysis technique used in this research is Moderated Regression Analysis (MRA). The results are: (1) enterprise risk management has a positive and significant effect on firm value, (2) financial performance has a positive and significant effect on firm value, (3) good corporate governance is unable to moderate the relationship between enterprise risk management and firm value, and (4) good corporate governance is able to strengthen the relationship between financial performance and firm value.*

Keywords: *Stocks, Financial Performance, Firm Value, Risk Management, Good Corporate Governance*

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I. INTRODUCTION

Corporate value can be built and maintained through good corporate governance. To get good management, the company must implement good corporate governance (GCG). Good company management can increase profits and can reduce the level of risk of company losses in the future. Furthermore, it will have an impact on increasing the value of the company.

Companies must always face risks, so companies are required to be able to control and provide solutions related to risk management. Improved corporate governance is one way that can be used to reduce company risk. The quality of the company's financial reporting will increase because the information submitted is not only financial-related information but also disclosure of information related to company risk. Improved corporate governance can be done by implementing risk management to calculate and manage the risks that exist within the company.

Supervision of good corporate governance applied to the company is expected to improve the company's performance both financially and operationally. Companies that implement good corporate governance will have a positive impact on the company, one of which will be able to improve the welfare of the owners or shareholders by increasing the value of the company in the eyes of investors. Good corporate governance also encourages all internal and external factors within the company to be better in carrying out its management. Good corporate governance is also the key to the company's success to generate profits.

Enterprise Risk Management(ERM) is a process that includes an organizational entity that is influenced by individuals at all managerial levels in the organization and is used for the purposes of strategy formulation. The goal is to integrate all types of risks and deal with them using integrated tools and techniques to reduce risks throughout the business in a directed manner, the implementation of ERM is better than Traditional Risk Management which is not fully integrated and not transparent. Meulbroek (2002) suggests that integration refers to both a combination of modifying a firm's operations, adjusting its capital structure and describing financial instruments.

Research on the effect of corporate governance mechanisms on firm value has been carried out, among others, by Suyanti et al (2010) where the results show that corporate governance mechanisms have an effect on firm value. Rupilu's research (2011) examines the effect of corporate governance mechanisms on earnings quality and firm value. The results of his research show a significant influence between corporate governance mechanisms and firm value.

The application of corporate risk management does not appear to have a significant effect on firm value. This is in line with research conducted by Sanjaya and Linawati (2015) that the application of ERM in the banking sector does not have a significant impact on firm value. Likewise, the research conducted by Saptiti (2013) with a sample of construction and property companies listed on the IDX but the dependent variable is earnings quality, nor does it find a significant effect on ERM. This is in contrast to the research conducted by Hoyt et al. (2008) and Bertinetti et al. (2013) who said that the implementation of ERM had a significant impact on firm value.

Sensarma et al. (2009) in his research using a model, which uses the decomposition of the Return On Equity (ROE) ratio based on Du Pont Identity to measure the application of risk management. ROE is a ratio that describes how efficiently a company can generate income from its capital. In other words, the study uses financial statements from a risk management point of view. The results of his research show that ERM has a positive effect on firm value. While the research conducted by Rosyidah (2018) using the ROE ratio has no effect on firm value.

Hernawaty (2008) in his research said that good corporate governance is able to affect the value of the company, the greater the institutional ownership so as to encourage management to improve the company. On the other hand, Rosyidah Ulfa (2018) said that in her research, good corporate governance has no effect on firm value. The implementation and disclosure of good corporate governance plays an important role in increasing the value of the company which is an investor's perception of the company which is often associated with stock prices. The high share price in the company shows that the company has good value.

II. STATEMENT OF THE PROBLEM

Based on the background above, the problem can be formulated as follows.

1. Does Enterprise Risk Management affect the value of the company?
2. Does Financial Performance affect the value of the company?
3. Can Good Corporate Governance moderate Enterprise Risk Management on company value?
4. Can Good Corporate Governance moderate financial performance on firm value?

III. LITERATURE REVIEW

A. Stakeholder Theory

Stakeholder theory was first proposed by R. Edward Freeman in 1984 and states that every organization, group or individual can influence or be influenced by the achievement of the organization's goals. According to Friedman (2006) the organization itself should be considered as a grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints.

Stakeholder theory is a theory that explains that company activities are not only concerned with achieving goals but also must pay attention to stakeholders. The stakeholders in question are suppliers, consumers, creditors, government, shareholders, and parties involved and providing support in various forms in order to achieve company goals. Clarkson (1994) says that there are two groups of stakeholders, namely voluntary stakeholders and non-voluntary stakeholders. It can be concluded that stakeholders are parties that influence or are influenced by company activities.

The essence of stakeholder theory is based on the general belief that stakeholders are considered an organizational asset and managers must satisfy them (Zahid and Ghazali, 2017). The satisfaction of multiple stakeholders increases the goodwill of the organization. The organization can maintain its status and reputation in society, which in turn increases its value. Companies that focus on sustainability need to ensure that businesses are able to manage business risks while meeting stakeholder expectations. In the context of stakeholder theory, it is determined that effective corporate risk management practices and sustainability reporting increase economic value (Shad et al., 2019). This theory focuses on several major influences on the company, namely those who have direct or indirect influence.

B. Signaling Theory

Signal theory originated from the writings of George Akerlof in his 1970 work "The Market for Lemons", which introduced the term information asymmetry (information asymmetry). Akerlof (1970) examined the phenomenon of the imbalance of information about product quality between buyers and sellers, by testing the used car market.

From his research, Akerlof (1970) found that when buyers do not have information related to product specifications and only have a general perception of the product, the buyer will judge all products at the same price, both high-quality and low-quality products, to the detriment of the seller. high quality product. The condition in which one party (the seller) who carries out a business transaction has more information than the other party (the buyer) is called adverse selection (Scott, 2009). According to Akerlof (1970), adverse selection

can be reduced if sellers communicate their products by giving signals in the form of information about the quality of the products they have.

In the circumstances experienced by the company, whether the company is experiencing an increase in profits or experiencing a decrease in profit, the manager is expected to provide the same information about the state of the company to all parties, this is called signaling theory. The manager's action in providing the same information to all parties aims so that investors who have invested or will invest their shares in a company can see the company's prospects and can be used to consider them in making decisions regarding their investment capital (Rachmawaty and Pinem, 2015).

C. Enterprise Risk Management

*Enterprise Risk Management*defined as a logical and systematic method of identifying, quantifying, determining attitudes, determining solutions, and monitoring the risk reporting that takes place in each activity or process. Each company has its own goal of implementing risk management. However, the goal of risk management is how to maximize shareholder wealth.

ERM disclosure is information related to a company's commitment to managing risk. COSO in September 2004 published ERM as an enterprise risk management process that is designed and implemented into every corporate strategy to achieve corporate goals. ERM disclosure consists of 108 items that include eight dimensions based on the ERM framework issued by COSO, namely: internal environment, goal setting, incident identification, risk assessment, risk response, monitoring activities, information and communication, and monitoring (Devi et al. 2017) .

The Indonesian government has begun to build infrastructure for banking management in order to control the risks faced in the future by issuing regulations by Bank Indonesia. In 2003, BI issued Bank Indonesia Regulation No. 5/8/PBI/2003 dated 19 May 2003 regarding the implementation of risk management for commercial banks. Furthermore, Bank Indonesia reaffirmed what commercial banks must fulfill in implementing risk management, particularly regarding bank capital requirements, through Bank Indonesia Regulation Number 5/12/PBI/2003 dated 17 July 2003.

D. Financial performance

Financial performance is a formal effort carried out to evaluate the efficiency and effectiveness of the company's activities that have been carried out in a certain period of time. According to Pertiwi and Ferry (2012) financial performance is one of the factors that shows the effectiveness and efficiency of an organization in order to achieve its goals. Effectiveness if management has the ability to choose the right goals or an appropriate tool to achieve the goals that have been set. Efficiency is defined as the ratio (comparison) between input and output, namely with certain inputs obtaining optimal output. Meanwhile, according to IAI (2007) financial performance is the company's ability to manage and control its resources. From the above understanding it can be concluded that financial performance is a formal business that has been carried out by a company that can measure the company's success in generating profits, so that it can see the prospects, growth, and potential for good development of the company by relying on existing resources. A company can be said to be successful if it has achieved the standards and objectives that have been set.

E. Good Corporate Governance

Good Corporate Governance(GCG) is a healthy corporate governance procedure that has been introduced by the Indonesian government and the International Monetary Fund (IMF). This concept is expected to protect shareholders and creditors in order to get their investment back. Indonesia has started to apply the principles of GCG by signing a Letter of Intent (LOI) with the IMF, one of the important parts of which is the inclusion of a schedule for improving the management of companies in Indonesia. In line with this, the National Committee for Corporate Governance (KNKCG) is of the opinion that companies in Indonesia have a responsibility to implement GCG standards that have been implemented by international standards.
The principles of GCG compiled by the National Committee on Governance Policy (KNKG) (2006) include:

1. Transparency

Disclosure is carried out so that shareholders and other people know the condition of the company so that shareholder value can be increased. Banking companies disclose information which includes but is not limited to the vision, mission, business objectives, bank strategy, financial and non-financial conditions of the bank, composition of the board of directors and commissioners, share ownership, and other facilities for the Board of Directors and Board of Commissioners, controlling shareholders, risk management, monitoring and internal control system, implementation of compliance function, GCG system and implementation as well as material information and facts that can influence investors' decisions. The principle of openness still pays attention to the provisions of bank secrecy, job secrecy and personal rights in accordance with applicable regulations.

2. Independence

The company is managed professionally without conflicts of interest and influence/pressure from parties or those that are not in accordance with the prevailing laws and regulations and sound corporate principles. The Bank avoids unreasonable domination by any stakeholder and is not affected by unilateral interests and is free from conflicts of interest.

3. Accountability

The Bank establishes clear duties and responsibilities for each member of the Board of Commissioners and Board of Directors as well as all levels under them that are in line with the vision, mission, corporate values, corporate goals, business goals and strategies of the bank. Banks must believe that each member of the Board of Commissioners and Board of Directors as well as all levels below them have competence in accordance with their responsibilities and understand their role in the implementation of GCG. The bank has performance measures from all levels of the bank based on agreed measures that are consistent with corporate culture values, business goals and bank strategies and have rewards and punishments.

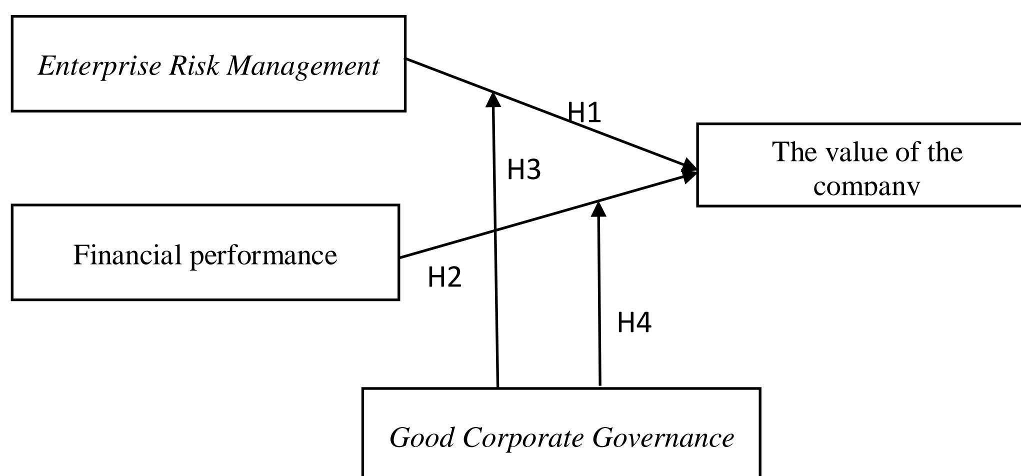
4. Responsibility (Responsibility)

Managers are required to provide accountability for all actions in managing the company to stakeholders as a form of trust given to them. The banking sector adheres to prudential banking practices and ensures compliance with applicable regulations. The Bank as a good corporate citizen cares about the environment and carries out social responsibility fairly.

5. Fairness (Fairness)

The company must always pay attention to the interests of shareholders, other stakeholders and all people involved in it based on the principles of stakeholder equity and fairness. The banking sector pays attention to the interests of all stakeholders based on the principles of equality and fairness (equal treatment). The Bank provides opportunities for all stakeholders to provide input and express opinions for the benefit of the bank as well as open access to information in accordance with the principle of openness.

HYPOTHESIS FRAMEWORK



H1: the influence of enterprise risk management on firm value

H2: the effect of financial performance on firm value

H3 :*Good Corporate Governance*Moderating the Effect of Enterprise Risk Management Influencing Company Value.

H4: Good Corporate Governance Moderates the Effect of Financial Performance on Firm Value.

IV. RESEARCH METHODOLOGY

A. Population and Sample

The population in this study are banking companies listed on the Indonesia Stock Exchange during the 2015-2019 period. The number of banking companies listed on the IDX is 32 companies. The sample used in this study are banking companies listed on the Indonesia Stock Exchange.

B. Data Types and Sources

The type of data used in this study is the type of secondary data is a research source obtained indirectly through intermediary media. The secondary data sources used in this study are in the form of financial reports and annual reports of non-financial companies listed on the IDX for the 2015-2019 period, which were first

collected and published by companies or other parties. The list of companies and the company's annual report are obtained from the IDX's official website.

C. Research variable

1. The value of the company

Tobin's Q which is a modified version of Hung and Pruitt's (1994) formula, this formulation has been carried out by previous researchers Sunitha Devi, at al (2017). Tobin's Q formula is as follows:

$$\text{Tobin's Q} = \frac{MVE + Debt}{Total\ Asset}$$

2. Enterprise Risk Management

ERM disclosure consists of 108 items that include eight dimensions based on the ERM framework issued by COSO, namely: internal environment, goal setting, incident identification, risk assessment, risk response, monitoring activities, information and communication, and monitoring. The measurement used to measure ERM disclosure is the ERM disclosure index.

$$ERMDI = \frac{\sum ij\ Ditem}{\sum ij\ ADitem}$$

3. Financial performance

Financial performance is an indicator that states the extent to which the company can take advantage of assets or equity by applying a certain model in an effort to increase the company's income. In this study, the indicators for calculating financial performance are return on assets (ROA), Return on equity (ROE).

$$\textit{Return On Assets} = \frac{Laba\ sebelum\ pajak}{Rata-rata\ Total\ aset}\ x\ 100\%$$

$$\textit{Return On Equity} = \frac{Laba\ setelah\ pajak}{Rata-rata\ Total\ Ekuitas}\ x\ 100\%$$

4. Good Corporate Governance

Corporate Governance Perception Index(CGPI) is a research program and rating of the implementation of Good Corporate Governance (GCG) in companies in Indonesia through research designs that encourage companies to improve the quality of implementing the concept of corporate governance by carrying out evaluations and benchmarking as a continuous improvement effort, which is one of the programs that is continuously implemented. Indonesian Institute for Corporate Governance.In this study, the indicators for calculating financial performance are the size of the board of commissioners, the Board of Independent Commissioners, Managerial Ownership, Institutional Ownership, and the Audit Committee.

Size of the Board of Commissioners = Number of members of the board of commissioners

$$PDKI = \frac{Jumlah\ anggota\ komisaris\ independen}{Jumlah\ total\ anggota\ dewan\ komisaris}\ x\ 100\%$$

$$KM = \frac{Jumlah\ Saham\ yang\ dimiliki\ Direksi, Manajer\ dan\ Komisaris}{Jumlah\ saham\ beredar\ akhir\ tahun}\ x\ 100\%$$

$$INST = \frac{Jumlah\ Saham\ Institusi}{Jumlah\ Saham\ Beredar}\ x\ 100\%$$

Audit Committee = Number of Audit Committee Members in the Company

V. RESEARCH RESULT

A. Hypothesis Testing Model 1

The magnitude of the relationship and influence between variables can be known by looking at the number of correlation coefficients (R). The results of the correlation coefficient test can be seen in the following table.

1. Determinant Test (R2)

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	0.640a	0.410	0.394	1.19267

From the table above, it is known that the R value is 0.640. This result can be interpreted that the relationship between enterprises risk management, financial performance and firm value is positive. Furthermore, the adjusted r square value is 0.394, this means that it is 39.4% which indicates that the firm value is influenced by the enterprise risk management and financial performance variables. The remaining 60.6% is influenced by other variables not examined in this study.

2. T Uji test

Partial testing (t-test) is used to test the effect of the independent variable and the dependent variable partially, and can also be used to see the influence of the most dominant independent variable. Technically, the test is done by comparing the tcount value with the ttable value at the significance level= 0.05. Partial test results can be seen in the following table.

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	*(Constant)*	-3.782	1.003		-3.772	,000
	Enterprise Risk Management	,068	0.018	,356	3,823	,000
	Financial performance	,631	,129	,455	4,890	,000

Source: Results By SPSS, 2021

Y= -3.782 + 0.068X1 + 0.631X2 + e

The results of the interpretation of the proposed research hypothesis can be explained as follows:

a. *Enterprise risk management*positive and significant effect on firm value

Based on Table 5.8 above, it can be seen that the enterprise risk management (X1) variable has a t-count value of 3.823 which is greater than the t-table value of 1.9935 with a significant level of 0.000 <0.05. So it can be concluded that enterprise risk management has a positive and significant effect on firm value

b. Financial performance (X2) has a positive and significant effect on firm value

Based on Table 5.8 above, it can be seen that the financial performance variable has a t-count value of 4.890 which is greater than the t-table value of 1.9935 with a significant level of 0.000 <0.05. So it can be concluded that financial performance has a positive and significant effect on firm value

This test was conducted to measure the model's ability to explain how much influence the independent variable had simultaneously on the dependent variable which could be indicated by adjusted R Squared (Ghozali, 2016). The results of the coefficient of determination test can be seen in the table below.

1. Determinant Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.773a	0.598	0.569	1.00606

From Table 5.9 above, it is known that the adjusted r square value is 0.569, this means that 56.9% which indicates that the firm value is influenced by the variableZscore: Enterprise Risk Management, Zscore: Good Corporate Governance, Zscore: Financial Performance, X1_M, and X2_M.The remaining 43.1% is influenced by other variables not examined in this study.

Testing byPartial(T-test) is used to test the effect of the independent variable and the dependent variable partially, and can also be used to see the influence of the most dominant independent variable. Technically, the test is done by comparing the tcount value with the ttable value at the significance level= 0.05. Partial test results can be seen in the following table.

2. *T Test (Partially)*

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	0.352	0.273		1,288	0.202
	Zscore: Enterprise Risk Management	0.368	0.126	0.241	2,930	0.005
	Zscore: Financial Performance	0.364	0.135	0.238	2,696	0.009
	Zscore: Good Corporate	-0.437	0.128	-0.285	-3.404	0.001

Governance					
X1_M	0.250	0.169	0.130	1,477	0.144
X2_M	0.604	0.156	0.343	3,880	0.000

Source: SPSS Results, 2021

Y= 0.352 + 0.368X1 + 0.364X2 + 0.250X1*Z + 0.604X2*M + e

The results of the interpretation of the proposed research hypothesis can be explained as follows:

a. *Good corporate governance*moderating the relationship between enterprise risk management and firm value

Based on the table above, it can be seen that the variable X1_M has a t-count value of 1.477 which is smaller than the t-table value of 1.9949 with a significant level of 0.144> 0.05. So it can be concluded that good corporate governance is not able to moderate the relationship between enterprise risk management and firm value

b. *Good corporate governance*moderating the relationship between financial performance and firm value

Based on the table above, it can be seen that the X2_M variable has a t-count value of 3.880 which is greater than the t-table value of 1.9949 with a significant level of 0.000 <0.05. So it can be concluded that good corporate governance strengthens the relationship between enterprise risk management and firm value.

DISCUSSION

This study includes independent variables, namely the application of Enterprise Risk Management (X1), Financial Performance (X2). The independent variable affects firm value (Y) as the dependent variable. Good Corporate Governance (Z) as a moderating variable is the effect of the independent variable on the dependent variable.

1. *Enterprise risk management*affect the value of the company. Adequate risk management disclosure will increase the level of investor confidence in banking companies.
2. Financial performance which is proxied by return on assets and return on equity has an effect on firm value. This shows that with the increasing financial performance of a banking company, the value of the company will also increase.
3. *Good corporate governance*unable to moderate the influence of enterprise risk management on firm value. Supervision of risk management disclosure in good corporate governance carried out by the board of commissioners has not been able to make investors interested in assessing the performance of a company. In addition, high institutional ownership does not necessarily affect the extent of enterprise risk management disclosure to increase firm value.
4. *Good corporate governance*able to moderate the effect of financial performance on firm value. Companies that have good governance and good return on assets will have more investors buying shares in banking companies. In addition, it gives an indication that before investors buy shares, investors first analyze the financial statements and consider aspects of corporate governance.

Institutional parties as shareholders in controlling and supervising company agents have been running effectively. The institution has acted as a supervisor on what the company's agents are doing and plays an active role in the decision-making process and company policy making, so that investors trust the ability of a company to generate profits that reflect the company's value.

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