The Effect of Enterprise Risk Management Disclosure, Capital Structure, and Dividend Policy on the Firm Value

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Abstract. Business developments in the era of globalization caused by the modernization of information technology have a significant impact on the business world. Financial statements become the key or value of the company that can be sold to external parties such as potential investors or shareholders to assess the effectiveness and efficiency of a company's performance in the future. There are several components that will influence decision-making on the part of shareholders, investors and company management regarding the importance of enterprise risk management disclosure, capital structure, and dividend policy on firm value. This study aims to examine the effect of corporate risk management, capital structure, and dividend policy on firm value. The object of this research uses manufacturing companies listed on the Indonesia Stock Exchange during the 2018–2020 period. The data used in this study is secondary data in the form of annual reports and company financial statements. The current research sample was selected based on the purposive sampling technique and the data analysis technique used was multiple linear regressions. The results of this study indicate that Enterprise risk management disclosure has a positive effect on firm value, while the capital structure and dividend policy does not affect firm value.

Keywords: Firm Value · Enterprise Risk Management Disclosure · Capital Structure · Dividend Policy

1 Introduction

Business developments in the era of globalization caused by the modernization of information technology have a significant impact on the business world. This can be seen in the development of digital technology that makes us easier to obtain information. Business competition has become fierce and many companies are continuously innovating in order to provide the latest information in the business sector, including in terms of products, technology and company performance in the form of financial reports so that investors can understand the image of the company's value. Financial statements are a selling point for a company to external parties such as investors to assess the effectiveness and efficiency of a company's performance in the future. Apart from presenting information in financial statements, investors also need non-financial information, namely the value of a company and the disclosure of risks made by the company [1].

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Firm value is defined as the condition of a company that has achieved its goals so that it can convince or gain the trust of external parties because a company has gone through a process of activity for several years, both since it started running. One of the determinants or an indicator of the public firm value is found in the price of shares traded in the capital market. The high share price will of course be followed by an increase in the value of the company and will increase investor confidence when they want to invest [2]. Stock market prices are generated from the policies or considerations of the company's management and make the information that can be accessed by investors as material in the decision-making process when making investments.

Some phenomenon that occurs can affect the value of the company, namely the occurrence of sales and revenues from the company has decreased as a result of the trade war between the United States and China. The trade war between the two countries has slowed the world economy and has the potential to reduce demand for world crude oil [3]. The decline in world coal and crude oil prices can have an impact on the company's sales decline and can make many investors sell their ownership of companies in those industries. This proves that the decline in the level of investor confidence in a company and the decrease in the level of trust will affect the decline in the value of the company in the mining sector.

The first factor that affects the value of the company is the Enterprise Risk Management (ERM) disclosure. ERM disclosure is a way of disclosing or presenting the risks of a company and being able to manage and control these risks [4]. [5] explain that ERM disclosures that have high quality will be able to reflect the effectiveness of a company when implementing corporate governance wisely and well and can determine how well risk control can be maintained. High disclosure of ERM will give a good signal to investors who want to invest. Research conducted by [5] shows that ERM disclosure has a positive effect on firm value. However, research conducted by Rivandi [4] states that ERM disclosure does not affect firm value.

In practice, the value of the company is also influenced by the company's capital structure. This relates to the capital structure and funding made by the company which is a very important indicator for investors to be able to analyze the finances of a company and the capital structure can increase the stock price of a company if the price is optimal [5]. The high performance of the company indicates that the company has implemented the right strategy so it is a positive signal for investors to want to invest in the company. With the high interest of investors to invest in the company, it will have an impact on the high stock price and the high stock price will certainly affect the increase in the value of the company. A study conducted by [6] shows that capital structure has a positive effect on firm value. However, research conducted by [5] shows that capital structure has no effect on firm value.

In terms of company value, one of the important factors, in order to be able to assess the good or bad value of a company, is to consider the dividend policy of a company [5]. The distribution of dividends is strongly influenced by the company's performance in obtaining profits from the economic and business activities of a company. Companies that can provide a high rate of return will be a positive signal for investors so that they want to invest [7]. [7] stated that the amount of dividends that can be allocated by the company will affect stock prices and change the views of investors who prefer that the rate of return comes from dividends distribution rather than only depending on capital company gains. [5] show that dividend policy has a positive effect on firm value. However, research conducted by [7, 8] states that dividend policy has no effect on firm value.Based on inconsistent research results, this research is motivated to analyze and examine the effect of ERM disclosure, Capital Structure, and Dividend Policy on firm value in companies listed on the Indonesia Stock Exchange in 2018–2020. The manufacturing company was chosen because it has comprehensive financial reports, more complex operations, and is a significant issuer on the Indonesia Stock Exchange. The results of this study are expected to contribute academically to further researchers, namely as literature and study references. Practically, this research is expected to be able to contribute to the company as a reference, especially factors that affect firm value.

2 Literature Review and Hypothesis Development

2.1 Literature Review

Signal theory is an action that is made and taken by the company in providing guidance for investors about how the company views its business prospects. The signal is presented in the form of information, notes or pictures about past and future conditions for the survival of a company. The information announced by a company is important because it will affect the decision-making of investors when investing [9]. According to [4], signaling theory is information that is announced by a company and provides a positive or negative signal for investors in the investment process. If the company announces positive news about the distribution of dividends or company disclosure information, it will affect the increase in company value and the information becomes good news for investors. This shows that a company that has a good reputation and performance will give a good signal so that it can invite the attention of external parties, namely investors to want to invest in the company. Non-financial information related to enterprise risk management disclosure is contained in the annual report which informs that the risk management carried out by the company is a positive signal for investors because it is very helpful for investors in knowing the effectiveness of a company's performance [4]. In addition, the existence of information that can be presented financially related to the capital structure and dividend policy in the company's annual report is also a positive signal for investors because investors can know the management of debt or company capital and know that the return that can be given by a company can be in the form of cash dividends to investors.

2.2 Hypothesis Development

Based on signal theory, the presentation of good and complete information will certainly give a positive signal about a company in the future [5]. According to [10] the ERM disclosure in a company will help the company to be able to describe the existence of good corporate risk governance. The disclosure of high-quality ERM will have a positive impact on the investor's point of view. The positive response from these investors will encourage them to invest in the company so that the number of requests for company shares increases and has an impact on the high share price of the company and will ultimately affect the high value of the company. [5, 11] showed that the disclosure of enterprise risk management had a positive effect on firm value. Thus, there is underlying support in the current research to provide evidence that enterprise risk management disclosures are useful in influencing firm value. So that the research, the hypothesis can be made:

H1: Enterprise Risk Management Disclosure has a positive effect on firm value

Based on the signal theory, the company will give a signal to investors regarding the increasing use of debt. This is because the company has confidence in the company's prospects in the future and it is hoped that investors will be able to catch the signal. According to [12] if managers believe in good company prospects in the future, managers will take advantage of the use of greater debt and this is a signal so that investors can trust the decisions of company managers. For companies with debt, it can help in controlling cash funds freely by the company's management. With the increase in control by the company's management, it is expected to increase the company's stock price. The use of debt in the company's capital structure will provide motivation for company management to operate the company efficiently in trying to increase the company's share price. The increase in the stock price of a company will certainly affect the high value of a company. [6, 12] in their research show the results that capital structure has a positive effect on firm value. Therefore, there is support that can underlie current research to provide a foundation that capital structure is very important in firm value, so a hypothesis can be made:

H2: Capital structure has a positive effect on firm value

The announcement of the distribution of dividends made by the company is a good signal. The company succeeded in carrying out its activities becomes a positive view for investors to invest in the company. According to [8] the high dividend distribution by the company will attract the attention of investors to invest so that it can increase demand in the capital market. If the demand for shares in the capital market is high, it will result in an increase in the stock price of a company. With the high stock price of a company, it will certainly affect the increase in the value of a company. [6, 12] in their research also show the results that capital structure has a positive effect on firm value. This strengthens the researcher to make a hypothesis:

H3: Dividend policy has a positive effect on firm value

3 Research Methods

This research design is a quantitative research design by conducting systematic hypothesis testing accompanied by statistical testing and aims to test and analyze the effect of the independent variables, namely enterprise risk management disclosure, capital structure, and dividend policy on the dependent variable, namely firm value in manufacturing companies that have been listed on the Indonesia Stock Exchange (IDX) in 2018–2020 periods.

Sampling used the purposive sampling method with the following criteria: (1) Manufacturing companies that have been listed on the IDX in 2018–2020. (2) Manufacturing companies that publish annual reports in a row during 2018–2020. (3) Manufacturing companies that publish annual reports in rupiah during 2018–2020. (4) Manufacturing companies that have positive profits in the financial statements during 2018–2020. (5) Manufacturing companies that distribute dividends during 2018–2020. (6) Manufacturing companies that present complete financial reports for the period 2018–2020.

From the criteria that have been determined, the number of final samples that meet these criteria is 43 companies with 115 observations. The data used is secondary data, namely the annual report of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2018–2020 with the data collection method using the documentation method.

Measuring ERM disclosure is calculated using indicators in the Committee of Sponsoring Organizations (COSO) [13], which consists of 108 items and includes five dimensions, namely: (1) governance and culture, (2) setting goals and strategies, (3) performance, (4) review and revision, and (5) information, communication, and reporting. Each item is given a value of 1 if it is disclosed in the annual report and is given a value of 0 if it is not disclosed [5].

$$\mathrm{ERMDI} = \frac{\sum \mathrm{ij\ Ditem}}{\sum \mathrm{ij\ ADitem}} \tag{1}$$

Information:

ERMDI	Enterprise Risk Management (ERM) Disclosure Index
$\sum$ij Ditem	Total enterprise risk management item score disclosed
$\sum$ij ADitem	Total score of enterprise risk management items that should be disclosed

The capital structure shows a comparison between foreign capital and own capital. That way, for the calculation of the capital structure, using the Debt to Equity Ratio (DER) [12].

$$\mathrm{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \tag{2}$$

Information:

DER	Debt Equity Ratio

A dividend policy is a decision about how much profit will be paid by the company in the form of dividends or else the profit is retained as an investment in the future [14]. Dividend policy can be measured by the Dividend Payout Ratio (DPR) so that the measurement can be compared with other companies [15].

$$\mathrm{DPR} = \frac{\text{Dividend per share}}{\text{Earning per share}} \tag{3}$$

Information:

DPR Dividend Payout Ratio

Company value is the selling value of a company that can be shown through the stock price in the market [16]. With a high share price, the company will attract the attention of investors to want to invest and in the end, it will increase the value of the company, and a high company value will provide prosperity for the owner or investor. Firm value can be measured using Tobin's Q ratio. Tobin's Q ratio is a measurement ratio containing the calculation of aspects of debt and share capital so that this measurement can be used [4].

$$\text{Tobin's Q} = \frac{\text{MVS} + \text{D}}{\text{TA}} \tag{4}$$

Information:

Tobin's Q	Firm value
MVS	Share Market Value obtained by multiplying the number of shares outstanding with the closing share price at the end of the year
D	Market Value of Debt obtained from proceeds (Current liabilities – current assets + long-term liabilities)
TA	Total Asset

This study analyzed data using descriptive statistical analysis and multiple linear regression analysis to determine the effect of ERM disclosure, Capital structure, Dividend policy on the firm value of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period 2018–2020. The statistical equation in this study is as follows:

$$\text{NP} = \alpha + \beta 1\text{ERMDI} + \beta 2\text{SM} + \beta 3\text{KD} + \varepsilon \tag{5}$$

Information:

NP	Firm Value
ERMDI	Enterprise Risk Management (ERM) Disclosure Index
SM	Capital Structure
KD	Dividend Policy

4 Result and Discussion

4.1 Results

Based on the descriptive statistics in Table 1, it can be concluded that the Firm Value variable (NP) has a minimum value of −1,75, while the largest value of earnings quality

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Average	Standard Deviation
NP	115	−1.75	0.94	−0.0643	0.4883
ERMDI	115	0.3981	0.6204	0.5155	0.0504
SM	115	0.0941	1.9466	0.6468	0.4446
KD	115	0.0154	2.5291	0.5255	0.4388

Table 2. Regression Analysis

Model	B	T	Sig.	Test Result	Conclusion
Constant	−1.920	−4.238	0.000	-	-
ERMDI	3.673	4.066	0.000	Positive Effect	H1 not reject
SM	−0.199	−1.937	0.055	No Effect	H2 rejected
KD	0.173	1.770	0.080	No Effect	H3 rejected
$R = 0{,}392$					
$R^2 = 0{,}131$					
F change = 6,724					
Sig. = 0,000					

is 0.94. Manufacturing companies that are used as samples have an average value of earnings quality of −0.00643 and a standard deviation of 0.4883. The results of the model feasibility test are in Table 2 with a coefficient of determination (R2) of 0.131. This shows that the independent variables, namely enterprise risk management disclosure, capital structure, and dividend policy can explain variations in changes in the dependent variable, namely firm value, by 13.1%, while the rest is 86.9% is explained by other variables that are not used in this study, and the significance value of the model feasibility test is 0.000. The significance value of $0.000 < 0.05$ means that the independent variables simultaneously have a significant effect on the dependent variable, so it can be concluded that the regression model in this study is fit or feasible.

Hypothesis testing (t-test) was conducted in this study using the individual parameter significance test (t statistical test). A significance value < 0.05 indicates that an independent variable individually has a significant effect on the dependent variable, while a significance value > 0.05 indicates that the independent variable individually does not significantly affect the dependent variable. The results of hypothesis testing (t-test) can be seen in Table 2.

4.2 Discussion

Table 2 shows that the enterprise risk management disclosure has a positive effect on firm value, so hypothesis 1 in this study is accepted. The results of this study are in line with research conducted by [5, 11] which explains that enterprise risk management disclosure has a positive effect on firm value.

This result is in accordance with the signaling theory which states that the more complete the information that can be presented by the company, the more it will give a good signal to investors and be taken into consideration in the decision-making process when investing in a company. This statement is reinforced by research conducted by [17] that ERM disclosure as non-financial information can provide a good signal for investors regarding the safety of the funds that have been invested. The higher the information submitted by the company, the more confident investors will be about the safety of the funds that have been invested. Investors are confident in the quality and commitment to managing the risk of a company which can encourage a positive perception of investors to the company. Positive perceptions or views held by investors towards the company will ultimately affect the increase in the value of the company.

On the other hand, Table II shows that capital structure has no effect on firm value, so hypothesis 2 in this study is rejected. The results of this study are in line with research conducted by [5, 18] which state that capital structure has no effect on firm value.

The capital structure or Debt to Equity (DER) arises because of the difference between debt and equity and this becomes a problem in the decision-making process when spending on a company. The results of this study are not in line with the signal theory which states that information related to the use of company debt is a positive signal for investors. This is because the use of the company's capital is still greater than the use of debt, which the average of DER is 0.6468, so the company has not succeeded in demonstrating the ability to utilize the use of debt in the process of increasing company value. This statement is clarified by research by [19] which states that the size of the use of a company's debt is not the main focus for investors because investors will only see the performance of how a company is using their funds effectively and efficiently to be able to obtain added value for the value of the company.

Lastly, Table 2 also shows that dividend policy has no effect on firm value, so hypothesis 3 in this study is rejected. The results of this study are in line with research conducted by [7, 9] which states that dividend policy has no effect on firm value.

A dividend policy is an activity implemented by the company in ensuring the results obtained by the company to shareholders and then become information to investors in the investment decision-making process. This result is not in line with the signal theory which states that information related to dividend distribution by the company is a good signal for investors to want to invest. The size of the dividends distributed by the company is not important information for investors. The research conducted by [9] state that the increase in dividends distributed by the company is not always followed by an increase in the value of the company, so dividend policy is not an important factor that can influence investors to invest. This statement is supported by research conducted by [20] which states that investors do not see how often the dividends are distributed and have an impact on the investment decision-making process, but investors also pay attention to the short-term benefits that can be obtained from a company's capital gains.

5 Conclusion

Based on the previous discussion, several conclusions were obtained as follows: (1) Enterprise risk management disclosures that are proxies using the COSO enterprise risk management framework have a positive effect on firm value. This is because the management of the company who is successful in managing the risk of the company will get good attention or views from shareholders or investors. (2) Capital structure using debt equity ratio has no effect on firm value. This is because there is a proportion of the funding used by the company that is not a reference, but only seen from the way the company uses existing funds so that it can still create high profits. (3) Dividend policy using dividend payout ratio has no effect on firm value. This is because dividend policy is not an important factor for investors or shareholders in assessing a company.

There are several limitations in this study, namely the research sample population used is only manufacturing companies that have been listed on the Indonesia Stock Exchange for the 2018–2020 period; This study only uses enterprise risk management disclosure variables, capital structure, and dividend policy so that there are other possible variables that can affect firm value. Based on the conclusions and limitations of this study, future research is expected to use companies other than the manufacturing sector so that research results can be better and increase the research period so that it can describe a more realistic and accurate situation. In addition, future research is expected to use other independent variables that can affect firm value.

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