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Increasing Corporate Value Through Managerial and Enterprise Risk Management (ERM) Disclosure

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A B S T R A C. T

This study aim to explain managerial ownership and enterprise risk management disclosure for corporate value added. Population of this study are manufacture industry which state on Indonesia Stock Exchange were published annual report between 2016 to 2018. Sample of this study are 57 corporates by purposive sampling technique . The analytical method used Moderated Regression Analysis with panel data regression model. The result show that (1) managerial ownership does not affect corporate value. (2) Enterprise risk management disclosure moderation manajerial ownership on corporate value. The result of this study give some implication for corporate managed by owner and disclouse their enterprise risk management has higher value than other by investor.

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1. Introduction

The purpose of a company in the long run is how the company can maintain and increase its value in the future. The value of the company is the ultimate goal of the company because this value also reflects the level of profit gained by the shareholders. For investors, the company's value is related to the company's stock price. Companies with high stock prices are considered to have good prospects in the future because the stock prices indicate the value of a company. Dewi & Abundanti (2019) also explained that all activities undertaken by management in the management of the company are for the sake of an ultimate goal which is to increase the value of the company. Efforts must always be made to ensure that all activities including every decision taken can drive the value of the company through rising stock prices (Pamungkas, 2017). Good management of all resources owned by the company, will produce maximum performance so that the company's value in the eyes of investors will increase.

The importance of safeguarding the value of the company is further strengthened when the value of the property drops which influences the stock price, thereby affecting investors. This condition will greatly affect investors who will invest, previous risk experience will make investors very careful to invest in the same company. However, to achieve these objectives requires interrelated efforts, processes and systems. The first step that can be done is through giving authority to shareholders to simultaneously act as manager or manager of the company.

In general, the company whose owner and manager, will try to do the best in managing the company because they feel they own the company. According to Nurwahidah et al., (2019) that the value of a company is influenced by the high managerial ownership of a company. But in some cases the role of managerial ownership in a company turns out that there are still some that have not been clearly seen and even have no effect at all so that efforts to increase the value of the company are not achieved. In line with this condition, managerial ownership is positive but not significant to the value of the textile and garment industry on the Indonesia Stock Exchange (Yuslirizal, 2017). One year later, a study of companies in the consumer goods industry sector, explained that shareholders who were both managers, were not able to increase the value of the company (Tambalean et al., 2018).

The development of the business world today needs to be followed by decision making that considers all information, which is related to the company, not only looking at its financial performance, but also includes information on possible risks and management that has been carried out by the company. The level of accountability of the company to the public becomes an important point for investors in determining their investment. This then encourages the company, in addition to managing the company through increased managerial ownership, it also requires an integrated system of (1) managing the company's internal environmental conditions, (2) setting company goals, (3) how the company identifies events, (4) efforts in risk assessment, (5) response to risk, (6) surveillance activities carried out, (7) information and communication systems in the company, including customers and suppliers, and (8) detailed monitoring activities carried out by the company. The system that is able to answer these needs is the application of quality Enterprise Risk Management (ERM) in the company and then informed to the public through ERM Disclosure. The implementation of ERM will provide integrated and comprehensive control over various risks that may face the company in the future (Sanjaya et al., 2015). Through the implementation of ERM, managers who as well as owners are considered to be able to maximize their performance to maintain the company's value and even continue to drive for the achievement of higher values. Risk management is not limited to how the assessment and response to risk, this system also includes the company's internal environment, objectives, supervision, information and communication and monitoring. Iswajuni et al., (2018) explained that investor confidence increased when the company implemented Enterprise Risk Management (ERM), because the company was able to better manage its risks.

The importance of the implementation of ERM was then increasingly realized and felt to have a very positive impact when previously in November 2018 the automotive world was shaken by news of Nissan's internal investigation which was considered as a huge fraud and very detrimental to investors. The investigation carried out turned out to find Carlos Goshn who is the former CEO of the 'giant alliance' of the three automotive brands, apparently did not misuse assets and his huge salary was not reported for years. Furthermore, this condition was further strengthened by the discovery of a case of fraud in a company committed by its own management, which was discovered through the application of the company's wistel blowing system. General Electric (GE) is suspected of committing fraud or fraud by falsifying the company's financial statements. This suspicion was revealed by renowned accounting expert Harry Markopolo who had been a mega whistleblower of Barnie Madoff's cheating scandal. Markopolo insisted that his report was the result of research on GE at the request of an investment manager whose name he did not disclose. GE's shares plummeted as much as 11% after Markopolo revealed the report to the public. The wistel blowing system is included in the dimensions of ERM implementation, namely information and communication, this is increasingly convincing that the application of ERM can strengthen the influence of company management by managers who are also as shareholders to realize high company value. Trisnawati et al., (2019) also explained that information users, especially investors, give a higher trust to companies that conduct ERM disclosure so that it impacts on the high value of the company. As stated by Tambalean et al., (2018) the value of the company will be increased if, the company is able to implement a quality ERM and is informed through disclosure to the public. Companies that implement quality ERM and disclosed to the public will certainly increase the company's value.

So the company's efforts to maintain the continuity of the company into a greater goal, efforts made through good risk management will encourage the creation of an increase in corporate value (Arifah & Wirajaya, 2018). A company managed by a manager who is also the owner, will use all his potential optimally. Every action taken will always try to have a positive impact and minimize the slightest risk that may occur. The high value of the company that was achieved through good performance will have a direct impact on managers because managerial ownership provides a common ground between the manager as the manager and the shareholders.

This research is increasingly urgent to do because, on 17 December 2019 in Indonesia a case of a state insurance company, the case officially entered the stage of investigation by the Attorney General's Office. The results of preliminary investigations conducted by BPK in 2018 showed that there were irregularities that indicated fraud in managing saving plans and investments. This case apparently started with the company's 2006 financial statements which were reported positive, but in fact the report has been manipulated through accounting engineering or window dressing. The investigation also suspects that there was fraud on the old management. Such conditions must immediately get a solution so that it does not happen to other companies. Explanation conducted by the investigator also explained that the case had actually occurred in previous years, all incidents that occurred due to the accumulation of previous events that had not been resolved so that resulted in a large impact at this time. Rivandi, (2018) reinforces that all management activities can also be controlled through risk management carried out by the company and disclosed to the public. This is because the better the information disclosed about the risk management that has been carried out by the company, it also gives an illustration that management has done a good activity in managing the company.

2. Methods

Data in this study were collected through content analysis with a dichotomous approach. This study uses Moderated Regression Analysis (MRA) with a panel data regression model with the following equation.

$NP=\alpha+ \beta 1KM+ \beta 2KM*ERMDI + \varepsilon$

The study population is all manufacturing companies that publish annual reports during the 2016-2018 observation period. Samples were selected using a porposive sampling technique. The sample selection criteria used were (1) manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018, (2) manufacturing companies that published the 2016-2018 annual report, and (3) manufacturing companies that listed managerial ownership data in 2016- 2018. So that the total sample in this study were 57 manufacturing companies.

3. Result And Discussion

Descriptive statistical results of this study are presented in Table 1. The results show the average, maximum and minimum values of managerial ownership are 0.08, 0.72, and 0.00, ERM disclosure is 0.35, 0.50, and 0.26, respectively. While the company value of 1.05, 6.46 and 0.10.

Table 1. Descriptive Statistics Result

	KM	*ERMDI*	*NP*
Mean	0,08	0,35	1,05
Maximum	0,72	0,50	6,46
Minimum	0,00	0,26	0,10
Std. Dev.	0,17	0,07	1,32
Observations	57	57	57

Source: Data processed with application EViews® 8 2020

Regression Analysis Results

Testing the hypothesis of this study using panel data regression. The results of the Moderated Regression Analysis (MRA) analysis using the panel data regression model are shown in Table 2 below.

Table 2. The Results Of The MRA Analysis With The FEM Model Panel Data Regression Model

Dependent Variable: NP
Method: Panel Least Squares
Periods included: 3
Cross-sections included: 19
Total panel (balanced) observations: 57

Variable	***Coefficient***	***Std. Error***	***t-Statistic***	***Prob.***
C	*0,67*	*0,48*	*1,40*	*0,17*
KM	*-9,41*	*6,69*	*-1,41*	*0,17*
*KM * ERMDI*	*34,10*	*15,11*	*2,26*	*0,03*
Effects Specification				
R-squared		*0,92*		
Adjusted R-squared		*0,87*		
F-statistic		*2,01*		
Prob(F-statistic)		*0,00*		

Source : Data processed with application EViews® 8 2020

a) **Uji Goodness Of Fit**

Goodness of fit test is used to test the accuracy of the sample regression function in estimating the actual value. Statistically this can be measured from the statistical value of F (the feasibility test of the model), the value of the coefficient of determination (R^2), and the statistical value of t (test of the significance of individual parameters).

1. Statistical Test F

The results shown in the Table show that the F value of 2.01 with a significance of 0.00. The significance value of the F test results is smaller than the level of significance set that is α = 0.05. This shows that managerial ownership variables, managerial ownership interactions and ERM disclosure together are able to predict or explain the value of manufacturing companies listed on the IDX. The significance value of the F test results (0.00) is smaller than the level of significance set (α = 0.05) also indicates that the model is declared fit so the hypothesis can be continued.

2. Coefficient of Determination (R^2)

   The value of Adjusted R Square is 0.87. Adjusted R-squared value of 0.90 indicates that the independent variable managerial ownership and moderating managerial ownership with ERM disclosure is able to explain the dependent variant of the company value of 87% while the remaining 13% is explained by other variables not included in the model.

3. Statistical Test T

   The managerial ownership independent variable entered into the model has a significance probability value of 0.17 above the established significance of α = 0.05, while the results of the interaction test analysis indicate that the significance of the regression coefficient (KM * ERMDI variable) is 0.03 and is below the established significance, α = 0.05. These results indicate that the independent variable that is managerial ownership partially has no significant effect on firm value. ERM disclosure is able to moderate the relationship of ERM disclosure to firm value.

b) Hypothesis Testing Results

Based on the results of the Moderated Regression Analysis (MRA) using the panel data regression model with the FEM model shown in the Table, the following equation is made.

$$NP = 0,67 - 9,41KM + 34,10KM * ERMDI + \varepsilon$$

The independent variable is managerial ownership has a value of -1.41 with a significance level of 0.17> 0.05. The managerial ownership regression coefficient value is negative at -9.41. The test results show that the H1 hypothesis is rejected which means that managerial ownership has no positive effect on firm value.

The results of the interaction test analysis showed that the value of the regression coefficient (KM * ERMDI variable) was positive at 34.10 with a significance lower than α = 0.05, 0.03, so H2 was accepted (0.03 <0.05), which means ERM disclosure moderates the effect of managerial ownership on firm value.

Effect Of Managerial Ownership On Firm Value

Management of companies entrusted to management by shareholders usually allows conflicts, due to different interests. Nurwahidah et al., (2019) explained that these interests can then be harmonized by providing an equal position between shareholders and managers (managers) through managerial ownership.

But the test results show managerial ownership does not affect the value of the company. These results are not in line with research conducted by Widianingsih, (2018) which explains the performance of managers who at the same time as company owners will be much better, because they also enjoy the performance results so as to increase the value of the company. The higher the percentage of shares that belong to the management will be followed by the high value of the company. This study found a very low percentage of managerial ownership, with an average managerial ownership of around 0.08. The possibility of the low percentage of ownership which then causes managerial ownership is not able to affect the value of the company so that it cannot increase the value of the company.

This study supports research conducted by Tambalean et al., (2018), which found that the small value of managerial ownership in the consumer goods industry sector relatively caused the company's value could not be increased by managers who were also owners. Managers feel that a low proportion of ownership is not able to provide a meaningful level of profit to themselves, so they still do not perform optimally.

Besides that investors may also give different assessments if the percentage level of ownership by managerial parties is greater, investors assume that the management will be more concerned with the interests of managers and will tend to ignore the interests of shareholders. Tambalean et al., (2018) also confirms that capital owners or shareholders can only obtain information from reports presented by management, while all access and real conditions of the company are known by management. Yuslirizal, (2017) also conducted a study which found that managerial ownership affects the value of the company but is not significant. Even though the managers felt that they owned the company immediately, they were unable to significantly influence the increase in the value of the company.

The Effect Of ERM Disclosure As A Moderating Variable In The Relationship Between Managerial Ownership And Firm Value

The ability of companies to manage risk will be of added value to investors, given the current condition of the business world. According to Siregar, (2019) companies must have the ability to respond quickly to various risks that may occur through efforts to prevent and correct them. Traditional risk management is considered to be irrelevant, so the choice is to implement integrated risk management and disclosure. ERM Disclosure is able to present not only risk management and control efforts, but also including the company's internal environmental conditions. There are eight dimensions of information that can be obtained by investors at the same time through ERM Disclosure conducted by the company. Several cases of fraud have made ERM disclosure information very helpful for investors to reduce their investment risk in the future.

The test results show that ERM disclosure is able to moderate the effect of managerial ownership on firm value. It turned out that it was evident that investors would have a higher value of a company managed by a manager who was also the owner and revealed the quality of risk management through ERM disclosure. The results of this study support research conducted by Iswajuni et al., (2018) the level of investor confidence increased after the company applied Enterprise Risk Management (ERM). Investors are more interested in companies that are able to manage risk and provide responses to countermeasures.

Aditya & Naomi, (2017) also explained that ERM provides comprehensive early risk management guidelines, because the entire company's risk portfolio has been integrated and integrated. Therefore the application of ERM is very important to be disclosed to the public. Disclosure of information that gives a positive signal to the public, especially related to ERM will be able to keep the company's value stable and even increased. This condition also explains that internal control carried out by the company is still well maintained besides ERM Disclosure presents only risk management information (Pamungkas, 2017)..

4. Conclussion

Based on the formulation of the problem, objectives, theoretical basis, hypotheses and results of tests conducted, it can be concluded that managerial ownership has no effect on firm value. ERM disclosure is able to moderate the relationship between managerial ownership and firm value. Companies that conduct ERM disclosure and are managed by managers who also own the company, are responded higher by investors, thereby encouraging increased company value.

The limitation in this study is that it only uses managerial ownership variables and it turns out that the ownership value is still very small. Further researchers can also use institutional ownership variables so that a comparison is found whether there is a small percentage of ownership that causes insignificant results..

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