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The Role of Enterprise Risk Management as a Mediator of the Influence of Profitability and Risk Management Committees on the Value of Banking Companies Listed on the Indonesia Stock Exchange in 2019-2023

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Abstract

This study aims to examine the effects of profitability and the Risk Management Committee on firm value, with Enterprise Risk Management (ERM) serving as a mediating variable, in banking companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Profitability is proxied by Return on Assets (ROA), while firm value is measured using Tobin's Q. The Risk Management Committee and ERM are measured based on the extent of disclosure in the companies' annual reports. This study employs a quantitative approach using secondary data obtained from financial statements and annual reports. The sample was selected through purposive sampling, resulting in 33 banking companies and a total of 165 observations. The relationships among variables were analyzed using panel data regression with EViews 12, while the mediating role of ERM was examined using the Sobel test. The results indicate that profitability has a negative and significant effect on firm value. Similarly, ERM also exerts a negative and significant effect on firm value. In contrast, profitability has a positive and significant effect on ERM. The Risk Management Committee, however, does not have a significant effect on either firm value or ERM. Furthermore, the mediation analysis reveals that ERM mediates the relationship between profitability and firm value but does not mediate the relationship between the Risk Management Committee and firm value. These findings highlight the complex role of ERM in influencing firm value within the Indonesian banking sector.

1. Introduction

Companies are required to continuously strengthen their internal capabilities in response to intensifying competition and the dynamic nature of national economic conditions. The ability to adapt to these ongoing changes is a critical factor in maintaining operational sustainability and preserving a company's competitive advantage within an increasingly complex business

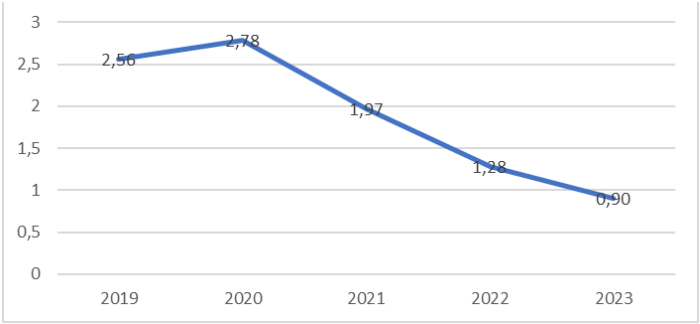
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environment (Suharti et al., 2022). In this context, firm value plays a strategic role as it reflects market expectations regarding a company's ability to generate profits and sustain future growth. Such assessments are generally manifested through stock price movements in the capital market. An increase in market valuation not only enhances shareholder wealth but also signals investor confidence in the company's performance quality and long-term strategic direction (Lana & Oktorina, 2024).

Furthermore, firm value can be regarded as a representation of a company's success in creating economic value for its stakeholders. A high firm value indicates that the company has effectively managed its resources, implemented efficient business operations, and formulated strategies that support long-term sustainability. Therefore, maximizing firm value is a fundamental objective for companies, as it reflects both current performance and future prospects while contributing to the achievement of sustainable competitive advantage.

A high firm value not only reflects strong financial performance but also demonstrates a company's ability to respond effectively to competitive pressures, manage risks, and achieve its long-term objectives sustainably. Such a condition signals positive expectations regarding the company's future performance, thereby increasing investor interest and strengthening market confidence. In the banking industry, firm value is a particularly important consideration because it is closely associated with the institution's ability to maintain operational continuity, preserve its reputation, and sustain consistent performance over time. Consequently, firm value can be regarded as a key indicator of a company's success in effectively managing and executing its business activities (Sari & Gantino, 2024).

The stability and growth of the national economy are closely linked to the performance of the banking sector, which plays a pivotal role in the financial system. Through its intermediary function, the banking industry mobilizes funds from the public and reallocates them to productive sectors in the form of credit. This process not only expands access to financing for businesses and households but also stimulates investment activities and supports economic growth. Given its strategic importance, fluctuations in the value of banking firms constitute a significant issue, as they may influence investor confidence and, ultimately, affect the stability of the financial system. Data from the Indonesia Stock Exchange indicate that the value of banking firms increased between 2019 and 2020. However, when assessed using the Price-to-Book Value (PBV) ratio, the trend reversed, showing a decline from 2020 to 2023. The development of the average PBV of banking companies during the 2019–2023 period is presented graphically to provide a clearer understanding of changes in firm value within the sector.

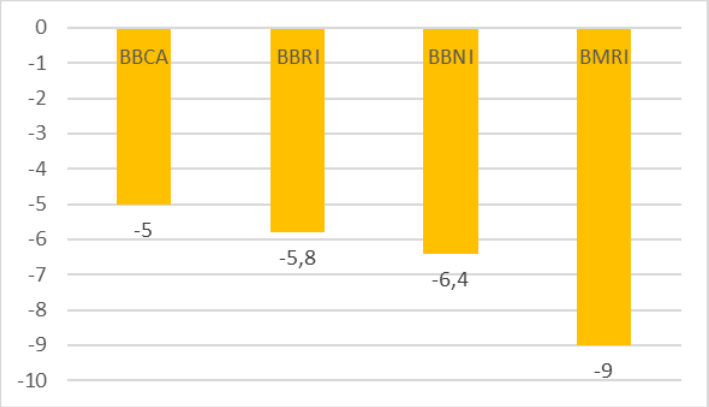


Source: Indonesia Stock Exchange, 2024

Figure 1. Banking Company Value 2019-2023

Based on Figure 1., the average value of companies in the banking sector exhibits a fluctuating movement pattern with significant changes. However, the PBV indicator shows a consistent downward trend throughout the period from 2020 to 2023. The largest decline occurred in 2023, marked by the lowest PBV value compared to the previous five years. Judging

by the development of banking company stock prices from 2024 to early 2025, the situation does not appear to show significant improvement. Based on stock movement data, several large banks remain the main drivers of the Jakarta Composite Index (JCI) movement during this period. An overview of the condition of banking sector stocks in 2024 is presented in graphical form.



Source:CNBC Indonesia, 2024

Figure 2. Indonesian Banking Stock Market Conditions in 2024

Based on a publication by CNBC Indonesia, the banking sector was the largest contributor to the decline of the Jakarta Composite Index (JCI) at the end of 2024. This downward pressure was primarily driven by several banking issuers with large market capitalizations. PT Bank Mandiri (Persero) Tbk (BMRI) contributed the most to the decline, reducing the index by 9 points. Similar declines were recorded by PT Bank Negara Indonesia (Persero) Tbk (BBNI), which reduced the index by 6.4 points, while PT Bank Rakyat Indonesia (Persero) Tbk (BBRI) and PT Bank Central Asia Tbk (BBCA) contributed declines of 5.8 and 4.96 points, respectively (CNBC Indonesia, 2024). The weakening performance of these major banking stocks significantly affected overall market performance. Given the strategic role of the banking industry in supporting the national economy, this trend may reflect growing negative sentiment among investors toward the financial sector.

The downward trend continued into early 2025, when BMRI shares declined by 7.69% and BBRI shares fell by 4.11%. Similarly, BBCA and BBNI also contributed to the continued decline of the JCI (Natalia, 2025). This deterioration in market value may be associated with weaknesses in corporate governance practices. According to Swa Media (Rahayu, 2018), the quality of good corporate governance implementation within the banking industry has declined, as evidenced by the increasing incidence of fund misappropriation and fraudulent activities. This concern is reinforced by reports published by the Association of Certified Fraud Examiners (ACFE), which consistently identify the banking sector as the industry with the highest number of fraud cases. Although the number of reported fraud cases declined from 364 cases in 2020 to 351 cases in 2022 and 305 cases in 2024, the banking industry remained the most fraud-prone sector throughout the period. This finding suggests that fraud continues to represent a major challenge for the banking industry. Moreover, the declining number of reported cases may not necessarily indicate reduced fraud incidence, as increasingly sophisticated fraud schemes and changes in reporting mechanisms may complicate detection and reporting processes.

These conditions require serious attention from banking institutions to restore investment attractiveness and strengthen investor confidence. One important strategy for achieving this

objective is enhancing firm value. In the banking industry, firm value is a critical indicator because it reflects the institution's ability to maintain performance, sustain operational stability, and preserve market trust. Consequently, understanding the factors that influence firm value is essential, particularly those related to the implementation of sound corporate governance practices.

The formation of firm value is influenced not only by market perceptions of future business prospects but also by a company's ability to achieve strong financial performance and effectively manage operational risks. One of the most widely used indicators of financial performance is Return on Assets (ROA), which serves as a proxy for profitability in this study (Sari & Gantino, 2024). ROA reflects a company's efficiency in utilizing its assets to generate net income. Higher profitability generally signals a stronger capacity to create sustainable economic value, thereby encouraging positive investor assessments and increasing market valuation.

In addition to profitability, investor confidence is also shaped by a company's ability to identify, manage, and mitigate risks that could threaten business continuity. This capability can be strengthened through effective risk governance mechanisms, including the establishment of a Risk Management Committee (RMC). Jannah et al. (2020) argued that the RMC can contribute to firm value by enhancing risk identification, monitoring, and control processes. Furthermore, the presence of an RMC sends a positive signal to stakeholders regarding the company's commitment to risk governance and transparency, thereby reducing information asymmetry and improving stakeholder confidence. Consequently, the RMC serves not only as a governance mechanism but also as a factor that may positively influence firm value.

Previous studies have reported mixed findings regarding the relationship between profitability and risk management disclosure. Ariyanti et al. (2025) found that profitability has no significant effect on risk management disclosure, suggesting that firms may prioritize profit generation over expanding risk-related disclosures. Similarly, Istiqomah et al. (2024) reported a negative relationship between profitability and risk disclosure, indicating that highly profitable firms may limit the disclosure of risk information if such information is perceived as potentially affecting market perceptions. These findings suggest that higher profitability does not necessarily lead to stronger Enterprise Risk Management (ERM) implementation or more comprehensive risk disclosure.

As firms grow, they inevitably face increasing levels of risk arising from operational, financial, and strategic activities. Corporate risk represents potential conditions that may hinder the achievement of organizational objectives and, in extreme cases, threaten business survival (Lahfah & Rahayu, 2023). To address these challenges, many firms have adopted Enterprise Risk Management (ERM) as an integrated framework for identifying, assessing, monitoring, and controlling risks. Accordingly, this study employs ERM disclosure as a mediating variable in examining the relationship between profitability, the Risk Management Committee, and firm value.

Jannah et al. (2020) demonstrated that ERM disclosure can strengthen the influence of the Risk Management Committee on firm value. ERM transparency enables shareholders and investors to assess the risks faced by the company and evaluate the effectiveness of management's mitigation strategies. In addition to facilitating internal monitoring, ERM disclosure provides valuable information to investors when assessing corporate prospects and governance quality.

Similarly, Bustomi et al. (2024) argued that ERM serves as an important mediating mechanism linking the Risk Management Committee to firm value. Effective ERM implementation enhances transparency, reduces information asymmetry, and improves stakeholder confidence in a company's financial and operational condition. As a result, ERM disclosure contributes to more favorable market perceptions and reflects the implementation of sound corporate governance practices (Jannah et al., 2020). Based on these considerations, this study examines

the effects of profitability and the Risk Management Committee on firm value, with ERM serving as a mediating variable.

Despite extensive prior research, empirical findings remain inconclusive. Faisal et al. (2021), Hong (2023), and Oniovosa and Godsday (2023) reported that ERM implementation enhances firm value. In contrast, Suharti et al. (2022) found no significant relationship between ERM and firm value. Similar inconsistencies exist regarding the relationship between profitability and firm value. Suharti et al. (2022) and Sari and Gantino (2024) documented a positive effect of ROA on firm value, suggesting that higher profitability increases investor confidence and market valuation. However, Minora and Masdupi (2025) found a negative and significant relationship between ROA and firm value in the banking sector, indicating that profitability improvements may sometimes result from short-term strategies rather than sustainable operational performance.

In addition, previous studies have produced conflicting evidence regarding the role of the Risk Management Committee. Jannah et al. (2020) and Lahfah and Rahayu (2023) found that the committee positively influences firm value, whereas Rahmawati and Harymawan (2022) reported no significant effect. They argued that investors may perceive the audit committee as sufficiently capable of performing risk oversight functions, thereby reducing the perceived value added by a separate Risk Management Committee. Furthermore, Bustomi et al. (2024) and Jannah et al. (2020) found that ERM mediates the relationship between profitability, the Risk Management Committee, and firm value. These inconsistent findings highlight a significant research gap that warrants further investigation.

Based on the various empirical phenomena described and the continuing discrepancies in the results of previous studies, the issue of firm value remains a crucial issue in corporate finance studies. However, the limitations of studies that explicitly position ERM as an intermediary variable remain evident in the existing literature, while previous empirical findings also show inconsistent results in explaining the relationships between variables. This situation not only indicates a research gap but also opens up room for re-examination through a more comprehensive model to more fully understand the interrelationships between variables. Based on this, this study develops a model that integrates profitability and the Risk Management Committee with firm value, with ERM disclosure as a mediating variable. ERM is positioned not simply as an additional variable but as an explanatory mechanism linking financial performance and risk governance practices in the formation of firm value.

Compared to previous studies that tend to test direct effects or separate analyses between variables, this research aims to capture the mediation process within a single, integrated model structure. With this approach, this research is expected to provide an empirical contribution in explaining inconsistencies in previous findings while broadening understanding of the role of ERM in the formation of firm value. The main focus of this research is to analyze the role of ERM as a mediating variable in the relationship between profitability and RCM on firm value, while also enriching the literature in the fields of risk management and corporate valuation.

2. Methods

This research uses a quantitative approach that focuses on systematically and objectively measuring the research phenomena. Through this approach, the relationships between the variables studied are analyzed based on measurable data, allowing for more accurate empirical testing of the research objectives and hypotheses. This approach directs the research to the

collection and processing of numerical data used to explain, predict, and control the phenomena that are the focus of the study. The results of the analysis in quantitative research are obtained through statistical calculations sourced from samples considered representative of the research population (Cooper & Schindler, 2019). Furthermore, this approach prioritizes numerical-based data processing by utilizing statistical methods as the primary analytical tool. Thus, the relationships and influences between variables can be empirically measured and tested through their level of significance (Sekaran & Bougie, 2017).

This study utilizes quantitative data with a design that integrates time series and cross-sectional approaches into a single analysis. The combination of these two approaches allows for observations not only of changes occurring over time but also of comparisons between research objects within the same period. This allows for a more comprehensive analysis of data dynamics, patterns, and variations within the context of banking sector companies (Sekaran & Bougie, 2017). The time series dimension is implemented through the use of secondary data derived from company financial reports for the 2019–2023 period, while the cross-sectional dimension is represented by the banking companies used as observation units in this study. All data is sourced from the financial reports of banks listed on the Indonesia Stock Exchange (IDX) during the same observation period, which is then collected through document searches on the official IDX website and the official pages of each banking company as the research object.

The population in this research is understood as the entire unit of analysis that has certain characteristics that are relevant to the research objectives, which are then determined through criteria compiled by the researcher as a basis for the analysis process until drawing conclusions. (Creswell & Creswell, 2018). In line with that, Sugiyono (2018) defines population as all elements within the scope of the research and possessing specific characteristics and qualities to be studied, thus providing a basis for drawing research conclusions. Based on these two perspectives, the population used includes all banking sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period.

This research was conducted using a quantitative approach aimed at examining the causal relationship between profitability, the Risk Management Committee, Enterprise Risk Management (ERM), and firm value in the banking sector listed on the Indonesia Stock Exchange (IDX). This approach was chosen based on the need to test hypotheses based on numerical data, which were then analyzed using statistical procedures. This allows each variable to be measured objectively and the relationships between variables to be empirically verified through structured analysis. (Sugiyono, 2018) This orientation also supports the research objective which does not only focus on direct influences, but also explores the possibility of indirect relationships within the model being constructed.

3. Results and Discussion

The Influence of Profitability on Company Value

Empirical estimation results in the banking sector show that the relationship between profitability and firm value is not always positive linear. Profitability, measured by ROA, yields a coefficient of $\beta = -0.177$ with a p-value of 0.003, which is smaller than α (0.05), thus statistically indicating a significant negative effect on firm value. This finding confirms that increasing a company's ability to generate profits is accompanied by a tendency for a decline in the company's value in the market. This phenomenon indicates that in the assessment process, investors in the banking sector not only focus on the amount of profit generated but also more comprehensively consider the risks inherent in those profit-making activities. Thus, market perception of company performance is formed through a broader evaluation of the balance between profitability and its associated risk exposure.

The empirical findings in this study strengthen the results of the study. Minora & Masdupi (2025)which revealed that ROA had a negative and significant impact on company value in the banking sector listed on the Indonesia Stock Exchange during the 2019-2023 period. The study explained that profit growth does not always originate from core operational activities capable of creating long-term sustainability, but can be influenced by temporary efficiencies and short-term managerial strategies. This situation encourages investors to be more selective and cautious when responding to increased profitability, especially if the profit increase is not supported by stable, consistent, and sustainable business growth prospects.

In the banking industry, increased profitability can also be achieved under certain conditions through more aggressive credit expansion or reduced provisioning for losses. While these strategies have the potential to increase profits in a relatively short timeframe, the potential consequences include increased exposure to credit risk and uncertainty about the company's performance in the following period. Investors' assessments focus not only on the company's profit potential but also on the quality of its productive assets, its financial health, and its ability to manage risk effectively, adaptively, and sustainably.

From the perspective of signaling theory, which is used to explain investment decision-making behavior, the findings of this study can be interpreted more deeply. Conceptually, a high level of profitability is essentially viewed as a positive signal to the market, as it reflects a company's ability to efficiently manage resources to generate optimal profits. However, the results of this study indicate that increased profitability does not necessarily generate a favorable market response. Investors tend to conduct a more in-depth evaluation to assess whether reported earnings truly represent a company's health, resilience, and long-term sustainability. If the profit increase is perceived as stemming from a high-risk strategy or is only temporary for a specific period, the market may respond less favorably to the company.

Based on the overall test results, it is clear that increased profitability does not necessarily directly drive increased company value in the banking sector. Companies' efforts should not be solely focused on achieving high profits; they should also be directed at maintaining operational stability, strengthening risk management quality, and ensuring long-term business performance sustainability. These steps are crucial for maintaining investor confidence, strengthening market perception, and maintaining company value more sustainably in the future.

The Influence of the Risk Management Committee on Company Value

Based on the empirical test results, the Risk Management Committee variable obtained a coefficient value of $\beta = 0.510$ with a p-value of $0.440 > \alpha$ (0.05). This finding indicates that in banking companies listed on the Indonesia Stock Exchange during the 2019-2023 period, the existence of the Risk Management Committee did not have a significant influence on company value. This finding indicates that the second hypothesis (H2), which states that there is a significant influence of the Risk Management Committee on company value, is not supported based on the statistical evidence generated in this study. This finding indicates that the existence of the Risk Management Committee has not played a direct role in driving increased company value as expected by shareholders and other stakeholders.

From a theoretical perspective, the establishment of a Risk Management Committee should be perceived as a positive signal reflecting the quality of corporate governance and the organization's readiness to systematically manage various business risks. Signaling theory posits that companies attempt to convey information to the market through various mechanisms that

reflect the company's internal condition and quality, including the existence of governance instruments such as the Risk Management Committee. However, empirical findings indicate that this signal is not yet sufficiently influential to directly shape investor perceptions of banking companies. In the investment decision-making process, investors tend to focus more on measurable and concrete financial indicators, such as profitability, asset quality, earnings stability, and the company's performance consistency over time. Consequently, the existence of the committee has not yet become a primary factor used by the market in its investment evaluation process.

The results of this study are in line with the findings Rahmawati & Harymawan (2022) which states that the Risk Management Committee has no significant effect on company value in the research objects they observed. The study explains that the risk oversight function is still considered to be carried out effectively by the audit committee, so the existence of the Risk Management Committee is not yet seen as capable of creating significant added value for the company. The possibility of overlapping authority between the Risk Management Committee and the audit committee in implementing the risk control function can reduce the role differentiation perceived by the market. Under these conditions, the formation of the Risk Management Committee does not elicit a specific response from investors. Consequently, information regarding the committee's existence has not become a primary variable in investors' assessment of the company's prospects or future growth projections.

The results of this study are also in line with the findings Lestari et al. (2020) A different research context identified that the Risk Management Committee has a significant negative impact on company value. The study suggests that excessively frequent Risk Management Committee meetings can be perceived as an indication of the company's increasing risk levels or as a reflection of suboptimal risk management processes. This situation suggests that the existence of a Risk Management Committee is not always interpreted positively by investors unless accompanied by concrete evidence of the effectiveness of risk management implementation. Nevertheless, the results of this study indicate that the committee's existence has not significantly impacted company value and, therefore, has not become a key consideration in investment decision-making by market participants.

During the 2019–2023 study period, the banking industry also faced various complex external challenges, including the impact of the COVID-19 pandemic, increased credit risk, changes in financial services sector regulations, and ongoing global economic uncertainty. In this situation, investor attention tended to be more focused on companies' ability to maintain financial resilience, maintain performance quality, and manage operational stability sustainably. Banking companies cannot simply establish a Risk Management Committee to fulfill formal aspects of corporate governance. Optimizing the risk oversight function through effective, consistent, and substance-oriented task implementation is a more crucial factor in increasing investor confidence and maintaining long-term company value.

The Influence of Enterprise Risk Management on Company Value

Based on the empirical test results, ERM, with a coefficient of $\beta = -1.224$ with a p-value of $0.038 < \alpha$ (0.05), was proven to have a negative and significant impact on company value in the banking sector during the research observation period. These empirical findings indicate that the implementation and level of ERM disclosure are strategic information that investors consider more carefully when evaluating a company's prospects. This condition shows that the market does not only assess the existence of a risk management system as a positive governance practice, but also associates it with the possibility of increasing risk exposure faced by the company. Therefore, information regarding risk management published by the company helps shape investor perceptions in determining the company's overall market value.

The findings in this study are in accordance with the results of previous studies. Cristofel & Kurniawati (2021) identified that increasing levels of ERM disclosure correlate with a decline in company value. This condition is explained by investors' tendency to interpret risk information incompletely, particularly when companies have not provided adequate explanations regarding the risk assessment process, risk response, or implemented risk mitigation strategies. This situation can be interpreted as an indication that the company does not yet have effective solutions to the various risks it faces in its operational activities. Consequently, the wider risk information provided without a clear description of the steps to address it has the potential to create negative perceptions among investors. These perceptions can ultimately reduce market confidence in the company's ability to manage risk optimally, adaptively, and sustainably.

The results of this study also support the findings Putri & Makaryanawati (2023) which explains that the primary objective of ERM reporting is to increase corporate transparency regarding the various risks inherent in business activities. However, higher levels of ERM disclosure can be perceived as reflecting the increasing complexity of business risks faced by the company. Based on the Signaling Theory perspective, the negative relationship between ERM and Tobin's Q can occur because excessive risk disclosure is interpreted by the market as a signal of internal problems, increased investor concern, or the disclosure of strategic information to competitors. The relatively high cost of ERM implementation can also be seen as an additional burden on the company that has the potential to depress short-term financial performance. At the same time, the existence of information asymmetry causes external investors to assume that a high ERM disclosure index reflects the magnitude of operational uncertainty and threats faced by the company. The market's inability to distinguish between the existence of risks and the quality of risk management triggers a negative response that ultimately depresses stock prices and lowers the value of Tobin's Q.

Investors' preference for short-term profits also explains why ERM information has not received consistent recognition in the domestic capital market. Investors generally respond more quickly to information that directly impacts stock price movements than to risk management information, the economic benefits of which are only apparent over a longer period. This situation often leads to high levels of ERM implementation being perceived as an unfavorable signal for a company's future prospects. In certain situations, increased risk disclosure can even be interpreted as an indication of pressure or problems facing the company.

In the context of this research, the formation of company value is not solely determined by the quality of the implemented risk management system, but is also strongly influenced by financial factors and external dynamics that are of primary concern to investors in the decision-making process. Variables such as economic conditions, market sentiment, profitability levels, and the cost consequences of internal company policies also play a role in shaping investor perceptions and responses to company performance. Under these conditions, ERM implementation is no longer understood as a neutral mechanism but can be perceived by the market as a signal that has the potential to directly depress company value. Investor preferences tend to be more oriented towards short-term financial efficiency and actual market developments. Increasingly extensive ERM disclosures in this situation can be interpreted as bad news, as they are associated with increased uncertainty and additional operational burdens borne by the company. The accumulation of these perceptions ultimately gives rise to unfavorable market sentiment, thus empirically contributing to the decline in company value, as measured by Tobin's Q, during the research period.

The Influence of Profitability on Enterprise Risk Management.

The empirical estimation results show that profitability, as proxied by ROA (β = 0.019; p-value = 0.003 < α 0.05), has a positive and significant effect on ERM. This finding can be understood as an indication that increasing a company's ability to generate profits is one of the main drivers of strengthening risk management practices and disclosure more optimally. In an operational context, companies with relatively high levels of profitability tend to pay greater attention to efforts to maintain profit stability, maintain financial performance, and expand the implementation of risk management across their various business activities. This relationship indicates a directional relationship between profitability and ERM quality, where increasing profit performance runs parallel to the strengthening of a more comprehensive and sustainable risk management system. Thus, the results of this study confirm that the level of profitability can reflect the company's seriousness in implementing risk management practices in a comprehensive, integrated, and consistent manner across all operational aspects.

This finding is in line with the research result sIsynuwardhana (2025) which proves the positive influence of ROA on ERM. Within this framework, companies with higher levels of profitability generally have stronger financial capacity to build a comprehensive, integrated, and sustainable risk management system. In addition to resource aspects, high profitability also reflects the efficiency of management and the resilience of the company's operations, which in turn strengthens investor confidence in the effectiveness of ERM implementation as part of a long-term value creation strategy. From a signaling theory perspective, good profitability conditions encourage companies to maintain a positive reputation in the market by strengthening a more transparent, effective, and structured risk management system. In this context, expanded disclosure of information regarding ERM is understood as a signal given to investors and stakeholders that the company has a well-organized risk mitigation mechanism and is capable of responding effectively to various uncertainties. Therefore, ROA is proven to influence ERM, because the company's ability to generate profits directly contributes to the strengthening of more effective, stable, and sustainable risk management practices.

The Influence of the Risk Management Committee on Enterprise Risk Management

The results of the hypothesis testing indicate that the Risk Management Committee variable, with a coefficient value of β = 0.037 and a p-value = 0.616 which is greater than α 0.05, does not have a significant influence on ERM in banking sector companies listed on the Indonesia Stock Exchange during the 2019-2023 period. Empirically, this finding indicates that the hypothesis stating a significant influence of the Risk Management Committee on ERM cannot be accepted. Thus, the existence of the Risk Management Committee in the corporate governance structure has not been proven to be able to encourage a significant and consistent increase in the implementation and disclosure of ERM in the banking companies that are the objects of the study.

The Risk Management Committee is conceptually positioned as an organizational tool that supports the company in identifying, monitoring, and controlling various types of risks comprehensively, so that risk management can be implemented more focused, effectively, and optimally. From a signaling theory perspective, the existence of such a committee should be a positive indicator that informs investors and stakeholders that the company has a structured and adequately operated risk management system. However, empirical findings in this study indicate that the existence of a Risk Management Committee does not always correlate with the actual effectiveness of ERM implementation on an ongoing basis. This indicates that investor and stakeholder assessments go beyond the formal aspect of establishing the committee within the organizational structure, but also focus on the quality of the implementation of the risk oversight function, including its effectiveness, consistency, and accountability in the company's operational practices.

The findings of this study are consistent with the results of studies Masri & Muslih (2022) which indicates that the Risk Management Committee does not have a significant influence on ERM. The study indicates that the existence of a Risk Management Committee does not always contribute to improved ERM implementation or disclosure if its functions are not optimally carried out. Furthermore, the study also highlights that the formation of a Risk Management Committee in a number of companies still tends to be a formality, not fully based on the substantive needs for effective risk management. This condition has an impact on the suboptimal implementation of the committee's duties and functions, so that its existence is unable to make a real contribution to ERM implementation within the company.

The Risk Management Committee is conceptually designed as a governance instrument aimed at reducing potential conflicts of interest between management and shareholders, primarily through strengthening a more structured, targeted, and procedure-based risk oversight system. Within this framework, this committee should be a crucial component in ensuring the quality of a company's risk control. However, the results of this study indicate that its actual role has not significantly impacted the comprehensive implementation of ERM in the companies studied. This situation is understandable because the risk oversight function is not solely vested in the Risk Management Committee but is also carried out by the audit committee and internal control unit, which are inherent in the organizational structure. Therefore, the committee's existence does not always generate substantial added value for ERM effectiveness. Therefore, the formal existence of the committee does not automatically guarantee optimal ERM implementation if it is not supported by consistent oversight quality, effective function implementation, and strong commitment from top management to the company's operational practices.

Furthermore, during the 2019-2023 research period, the banking sector faced a variety of complex challenges, such as the impact of the COVID-19 pandemic, regulatory changes in the financial sector, the acceleration of banking digitalization, and the widespread increase in global economic uncertainty. In these challenging conditions, companies tended to focus more on maintaining operational stability and financial performance rather than on enhancing ERM disclosure more broadly and comprehensively. Therefore, the establishment of a Risk Management Committee in the banking industry should not be understood simply as fulfilling formal aspects of good corporate governance, but rather must be accompanied by strengthening the implementation of a truly effective, consistent, and sustainable risk oversight function in operational practices. The quality of this function's implementation is a key determinant of optimal ERM implementation. Ultimately, consistency in integrated risk management will contribute to increased stakeholder confidence in the company's performance and long-term prospects.

Enterprise Risk Management in mediating the influence of Profitability on Company Value

Empirical testing indicates that ERM acts as a significant mediating variable in the relationship between profitability and firm value. This is reflected in the p-value of 0.035, which is below the significance threshold of 0.05, thus making the indirect effect statistically significant. This finding indicates that corporate profitability can be converted into increased firm value through effectively implemented ERM mechanisms. Furthermore, these results reflect that investors not only assess the level of profitability alone but also consider the quality of a company's risk management in maintaining sustainable profit performance. Within this

analytical framework, ERM is positioned as an intervening variable that strengthens the relationship between profitability and increased firm value. Thus, the relationship between these two main variables is not only direct but can also occur indirectly through the mediating role of ERM that operates in various operational conditions and company characteristics.

In the perspective of signaling theory (Spence, 1973) Consistent and effective implementation of ERM is understood as a positive signal sent by a company to investors and other stakeholders. This signal indicates that the company has a risk management system that is not only structured but also mature enough to be reliable in various business situations. Through the ability to identify, control, and respond to risks appropriately, the company shapes market perceptions regarding the stability and sustainability of its operations. This condition then contributes to increased investor confidence, which in turn strengthens the company's attractiveness as an investment destination, especially since investor preferences tend towards entities with clear, measurable, and well-planned risk mitigation strategies.

Previous research by Bustomi et al. (2024) found that companies with high profitability tend to be more capable of implementing ERM effectively and optimally. Strong profitability reflects a company's financial health, thus providing more room for the company to allocate resources to developing an integrated risk management system. Consistent and comprehensive ERM implementation contributes to reducing uncertainty, increasing operational efficiency, and strengthening the long-term sustainability of a company's business performance.

The direct relationship between negative ROA and Tobin's Q indicates that increased profitability is not always responded favourably by the market, but can be followed by a decrease in the company's valuation as reflected in Tobin's Q. This interpretation leads to the understanding that high ROA is not automatically considered a positive signal by investors, especially when the condition is suspected to originate from short-term cost efficiency or a reduction in investment intensity oriented towards future growth. From the market's perspective, high profitability without the support of a strong risk management system can be perceived as "high-risk earnings" (Mapfumo, 2021), a condition that contains the potential for performance instability to the point of risking business sustainability in the following period. On the other hand, ROA has also been shown to have a positive influence on ERM, indicating that increased corporate profits contribute to strengthening internal capacity in building risk mitigation infrastructure, developing technology-based monitoring systems, and increasing regulatory compliance. In these conditions, ERM functions as a connecting mechanism that can change the direction of profitability's influence on corporate value to be more constructive, as long as the profit increase is accompanied by the strengthening of an adequate risk management system. From a signaling theory perspective, ERM implementation represents a signal that corporate profitability is not only generated, but also managed prudently, controlled, and with a long-term orientation. The integration between profit performance and ERM strengthening ultimately creates a positive perception in the market, so that investor assessment of the company increases, reflected in an increase in Tobin's Q. This occurs because the market perceives the company's commitment to maintaining value sustainability through a more structured and effective risk management system.

The mediating role of ERM in the relationship between ROA and Tobin's Q demonstrates the dynamic that high profitability does not always translate into increased firm value, as the market may respond with caution due to the perception of increased risk that has not been optimally managed. Under these conditions, high profits have the potential to depress the company's valuation in the eyes of investors. However, this negative tendency can be reduced when the resulting profits are allocated to strengthen a more structured and comprehensive ERM system. Through the existence of ERM, financial performance efficiency does not stop at achieving profit alone, but is transformed into a guarantee of more predictable long-term operational sustainability. This situation then receives positive appreciation from the market, which is reflected in an increase in company value as measured by Tobin's Q.(Mapfumo, 2021). Thus, ERM

not only functions as a risk mitigation mechanism but also as a channel that improves investor perceptions of profitability. Overall, this mediating effect confirms that the quality of risk management plays a significant role in shaping market responses to corporate profitability, thus effectively implementing ERM can strengthen the relationship between ROA and firm value.

Enterprise Risk Management in mediating the influence of the Risk Management Committee on Company Value

The results of the hypothesis testing indicate that ERM does not act as a mediating variable in the relationship between the Risk Management Committee and company value in the banking sector listed on the Indonesia Stock Exchange during the 2019–2023 period. The insignificance of this effect is reflected in the p-value of 0.631, which exceeds the significance threshold of 0.05, so statistically there is no support for an indirect effect through ERM. Empirically, this condition indicates that the existence of the Risk Management Committee has not been able to provide a real contribution to increasing company value through the ERM implementation mechanism within the company. Based on this, the hypothesis that ERM functions as a mediating variable in the relationship between the Risk Management Committee and company value is declared statistically unacceptable.

Theoretically, ERM is positioned as a risk management system implemented comprehensively by a company, with its primary functions encompassing the identification, control, and mitigation of various forms of risk that could potentially hinder the achievement of organizational goals. From a signaling theory perspective, the existence of ERM ideally represents a positive signal to the market, as it reflects the company's readiness to systematically manage uncertainty; this condition, in turn, is expected to increase investor confidence and have an impact on strengthening the company's value. However, the empirical results of this study show that the existence of a Risk Management Committee accompanied by the implementation of ERM does not immediately result in an increase in company value directly. This situation indicates that investor assessment does not stop at the formal aspect of the existence of a risk management system, but also emphasizes the extent to which ERM is actually implemented effectively in maintaining operational stability and supporting the sustainability of the company's performance in the long term.

The findings in this study are in line with the results of previous studies. Bustomi et al. (2024) This study indicates that ERM has not yet optimally functioned as a mediating variable in the relationship between corporate governance and firm value. The study confirms that the impact of ERM on firm value does not emerge automatically, especially when its implementation is not yet effective and still tends to be positioned as a formal fulfillment of good corporate governance requirements. Under these conditions, the market tends not to use ERM as a primary indicator in the company assessment process, especially when the company has not been able to demonstrate tangible results from the risk management practices that have been implemented.

The Risk Management and ERM Committee was established to help mitigate conflicts of interest between management and shareholders through better and more effective risk oversight and control mechanisms. However, this study shows that the existence of a Risk Management Committee, supported by the ongoing implementation of ERM, has not significantly impacted company value. This may be because investors generally place more emphasis on tangible outcomes of risk management, such as financial stability, asset quality, and long-term

sustainability of the company's performance, rather than solely on the company's formal risk management structure.

Furthermore, throughout the 2019-2023 research period, the banking sector faced various complex pressures, including the impact of the COVID-19 pandemic, regulatory changes in the financial sector, accelerated banking digitalization, and increasing global economic uncertainty. In this dynamic situation, investor attention tends to be more focused on a company's ability to maintain operational stability and financial performance rather than merely on formal ERM disclosures. Therefore, the existence of a Risk Management Committee and the implementation of ERM in banking companies are not only seen as fulfilling aspects of good corporate governance but must also be accompanied by effectiveness and consistency in their implementation. This is crucial for risk management practices to truly strengthen investor confidence and support the sustainability of the company's long-term value.

4. Conclusion

Research on the influence of profitability and the Risk Management Committee on firm value with Enterprise Risk Management (ERM) as a mediating variable in the banking sector listed on the Indonesia Stock Exchange for the 2019–2023 period shows that profitability (ROA) has a significant negative effect on firm value, so that an increase in profit is not always followed by an increase in firm value because investors also consider the risk and sustainability of the company's performance. The Risk Management Committee does not have a significant effect on firm value, indicating that its existence is not yet a primary consideration for investors compared to the company's financial performance and prospects. ERM was found to have a significant negative effect on firm value, indicating that increased implementation or disclosure of risk management can be perceived as an indication of high company operational risk. On the other hand, profitability has a significant positive effect on ERM, so that more profitable companies tend to implement and disclose better risk management practices. The Risk Management Committee was also not proven to have a significant effect on ERM, indicating that its existence has not been able to increase the effectiveness of ERM implementation or disclosure. In addition, ERM was proven to be able to mediate the effect of profitability on firm value, so that this relationship can be strengthened through ERM implementation. However, ERM is not able to mediate the relationship between the Risk Management Committee and company value because the indirect influence formed is not significant, so the effectiveness of the mediation pathway is still limited in increasing company value.

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