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Sharia Firm Value: The Role of Enterprise Risk Management Disclosure, Intellectual Capital Disclosure, and Intellectual Capital

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Abstract

This present study aims to determine the effect of enterprise risk management disclosure, intellectual capital disclosure, and intellectual capital towards firm value. The population in this study is sharia commercial banks in Indonesia from 2010 through 2018. This research employs the purposive sampling technique to obtain a sample of 106 companies that met the criteria. Multiple regression analysis using the SPSS program was employed as the data analysis technique. The results of this study revealed that enterprise risk management disclosure has a positive effect on firm value. Moreover, the intellectual capital disclosure variable has negatively related to firm value. The intellectual capital variable, however, does not affect the firm value. The results of this study imply that sharia commercial banks are encouraged to optimize their risk management through the application of enterprise risk management. Moreover, the results further suggest that the sharia banks should also improve their intellectual capital performances to create a competitive advantage for the banks, and therefore it brings higher values for the banks.

Keywords: Enterprise Risk Management Disclosure, Intellectual Capital Disclosure, Intellectual Capital, Firm Value

Introduction

The bankruptcy of Enron and Worldcom companies has provided evidence that companies' excellent financial report does not guarantee the sustainability of the company's business (Devi, 2017). Financial information only is not sufficient to be used as a basis for valuing a company (Holland, 2006). Therefore, the company needs to disclose more information for stakeholders. The disclosure of non-financial information is significant in consideration of investment decisions (Anisa, 2012). Weston and Copeland (1992) defined company value as an investor's perception of a company that is often associated with stock prices. A company is said to have good value if the company exhibits excellent performance. The performance of the company could be seen from its revenue returns. The excellent performance of companies is often led to the high price of its shares. Consequently, this can reflect the company value. If the shares price is high, likewise, the value of the company is good (Lestari & Sapitri, 2016). High stock prices derive the high value of the company (Hermuningsih, 2013).

Risk management information is beneficial for stakeholders. It is also beneficial for investors since the information is used to carry out risk analysis for the returns expected. Enterprise Risk Management Disclosure (ERM) is a disclosure of risks overseen by the company or the disclosure of the company's efforts to control risks that may threaten the company that is used as a consideration in decision making (Ardianto & Rivandi, 2018). Enterprise risk management disclosure consists of 108 items covering eight dimensions based on the enterprise risk management framework issued by COSO ERM framework (2004): (1) internal environment, (2) objective setting, (3) event identification, (4) risk assessment, (5) risk response, (6) control activities, (7) information and communication, and (8) monitoring (Desender & Lafuente, 2009).

Investor welfare will be achieved by investing in companies that can achieve high performance as they can provide high dividends to investors; high performance will increase the value of a company (Hoyt & Liebenberg, 2011).

The information on the disclosure of intangible assets is essential non-financial information for investors. Intellectual Capital (IC) is part of intangible assets consisting of three main components, namely human capital, organizational capital (structural capital or organizational capital), and customer capital (relational capital or customer capital). These three components are essential aspects needed by the company to maximize company performance (Sawarjuwono & Kadir, 2003). Disclosure of IC that contains positive values will encourage changes in the trading volume since market participants tend to pay higher shares of companies with more IC increasing the value of the company (Chen, Cheng, & Hwang, 2005).

As indicated by Stewart (1997), intellectual capital contains information related to intellectual property, intellectual material, knowledge, core techniques, customer relations, and experience to get the company prosperous. Meanwhile, referring to Roos, Roos, Edvinsson, and Dragonetti (1997), IC is a collection of hidden assets owned by a company, such as brands, trademarks, patents, and all those that include assets that are not listed in the financial statements. In general, IC is the overall dimension of the company, such as the relationships with customers, the company's workforce, and supporting procedures created with innovation, modification of current knowledge, transfer of knowledge, and continuous learning, which can eventually increase company value (Gozali & Hatane, 2014). According to Appuhami (2007), the higher the value of corporate IC, the more efficient the use of corporate IC. Thus, it can add value to the company. The value-added generated from IC is believed to provide a significant role in increasing company value.

As it is known that the companies goal endeavour to not only get maximum profit but also to improve the welfare of shareholders and to maximize the value of the company (Pramelasari, 2010).

This study focuses on Sharia Commercial Banks registered in Bank Indonesia in 2010-2018. The growth of the Islamic Bank in Indonesia experienced a huge increment. Financing provided every year is progressively appearing, showing that financing provided by Islamic commercial banks and Islamic business units is increasingly drawing the public's interest in using Islamic financial services. This study contributes to the literature by examining the effect of enterprise risk management disclosure, intellectual capital disclosure, and intellectual capital on firm value.

Review of Literature

Agency Theory

According to Eisenhardt (1989), agency theory uses three underlying assumptions of human nature that humans are generally self-interest, always avoid risk (risk-averse), and have limited power of thought regarding the perception of the future (bounded rationality). Based on the three assumptions of human nature, both the agent and the principal try to optimize their interests. Jensen and Meckling (1976) proffer that the contractual relationship between the parties delegating individual policy decisions (principal) with the party receiving the delegation (agent).

In agency theory, the separation of roles that occurs between agent and principal has the potential in creating agency conflict. Agency conflict is due to the opportunistic nature of managers to optimize their interests. The conflict results in decreasing value of the company making the level of supreme confidence towards the company's management decreases. Nonetheless, the agency conflict can be minimized by a monitoring mechanism (Siallagan &

Machfoedz, 2006). The monitoring mechanism used is the management structure mechanism. The management structure mechanism as a system that regulates and controls the company is expected to provide oversight of the agent in managing the company. It ensures and convinces the principal that the agents are doing under the principal's interests which may reduce information asymmetry (Ardianto and Rivandi, 2018). Implementation of enterprise risk management is a solution to help control management activities, reduce information asymmetry, and minimize the impact of conflicts of interest.

Signalling Theory

Signalling theory is related to information asymmetry, where the information received by each party is imbalanced. Information asymmetry occurs between company management and parties with interest in company information. Hartono (2006) states that signalling theory indicates that good quality companies will intentionally give the market signals in the form of positive information through the disclosures of financial statements; thus the market is expected to be able to distinguish good and bad quality companies (Shella and Wedari, 2016).

Signalling theory suggests how a company should signal to its stakeholders, in this case, emphasizing the importance of information published by the company that will influence the external parties' investment decisions (Ross, 1997). Complete, relevant, accurate, and timely information is also very much needed by investors and stakeholders as an analytical tool in investment decision making (Tandelilin, 2010). Intellectual capital disclosure is one of the voluntary disclosures that can be a positive signal for companies to users of financial information (Puspitasari, 2017). Also, enterprise risk management disclosure as non-financial information can be a signal to investors regarding the safety of

invested funds. The higher the information conveyed by the company, the more convinced the investor will be.

Resource-Based Theory

Resources Based Theory (RBT) discusses how companies can obtain competitive advantage and optimal performance by acquiring, combining, and using the company's vital assets to obtain competitive advantage and optimal performance. Cheng, Lin, and Hsiao (2010) explained that in RBT theory, to develop a competitive advantage, companies must have superior resources and capabilities or exceed their competitors.

In light of RBT, it can be concluded that the resources owned by the company will affect the company's performance which will increase the value of the company. Intellectual capital is one of the resources owned by the company from intangible assets that could give a competitive advantage for the firms. Thus, intellectual capital influences company performance which will ultimately increase the value of the company (Shella & Wedari, 2016).

The Effect of ERM Disclosure on Company Value

Hoyt and Liebenberg (2011) define ERM disclosure as information on risk management carried out by the company and reveals its impact on the company's future. ERM in a company has a crucial role in maintaining the company's stability. High ERM illustrates the existence of good corporate risk management, also ensures that the company's internal control is still maintained (Ardianto & Rivandi, 2018). Hoyt and Liebenberg (2011) found that information on the application of ERM through the disclosure of ERM increased the company value. They also found that there was a positive and significant correlation between information on the application of ERM with firm value.

The results of this study are also in line with what Handayani (2017) and Devi (2017), which demonstrated that enterprise risk management disclosure has a positive effect on firm value. In this manner, the hypothesis is formulated as follows:

H₁: ERM disclosure has a positive effect on firm value.

The Effect of Intellectual Capital Disclosure on Company Value

As reported by Reditha and Mayangsari (2016), other crucial non-financial information disclosures are disclosure of ownership and utilization of IC. IC is a group of knowledge assets that can help improve competitive positions (Solikhah et al. 2010). Intellectual capital disclosure is a factor driving corporate value creation (Orens et al. 2009).

Jacob (2012), Pamungkas and Maryati (2017), and Ardianto and Rivandi (2018) have also proven empirically that intellectual capital disclosure has a positive effect on firm value and market capitalization. Thus, the hypothesis of this study is drawn up as follows:

H₂: Intellectual capital disclosure has a positive effect on firm value.

The Effect of Intellectual Capital on Company Value

According to Roos (1997), IC is a collection of hidden assets owned by a company, such as brands, trademarks, patents, and all those that include assets that are not listed in the financial statements. IC is information and knowledge that can be applied to work to create value in the company (Firer & Williams, 2001). Companies that have high IC will be responded positively by investors, which affects the rising value of the company (Indrajaya, 2015).

Randa and Solon (2012), Pratama and Wibowo (2017), and Pratama, Wibowo and Innayah (2019) examined the effect of IC on

firm value. The result revealed that IC has a positive effect on firm value in the context of the manufacturing company of the Indonesia Stock Exchange. Therefore, this study proposes the third hypothesis as follow:

H₃: Intellectual capital has a positive effect on firm value.

Research Method

Sample Selection and Data Sources

The population and sample of this study were sharia commercial banks in Indonesia from 2010 through 2018. The year 2018 is the most recent data available for sharia commercial bank annual reports. The data was taken from the bank's annual report that is published in each bank's website. The sampling technique used in this study was purposive sampling (see table 1). Based on the selected sample criteria in this study, a total of 14 companies were taken as samples. The data were collected from 2010-2018. Thus, the overall sample was 106.

Table 1. Sample Selection Criteria

No	Criteria	Amount
1	Sharia Commercial Bank registered with Bank Indonesia (BI) / Financial Services Authority (OJK) for 2010-2018 = 14 x 9 years	126
2	Companies/years of Islamic banking that did not publish financial statements for 2010-2018	(20)
Total Number of the Sample		106

Operational Definition and Variable Measurement

Enterprise Risk Management Disclosure

Enterprise risk management (ERM) disclosure is the level of disclosure in the management of company risks and is proxied using the ERM disclosure index. Enterprise risk management disclosure consists of 108 items covering eight dimensions based on the enterprise risk management framework issued by the COSO ERM framework (2004). They are the internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring (Desender & Lafuente, 2009). The ERM disclosure index can be calculated with the following formula:

$$ERMD = \frac{\sum ijDitem}{\sum ijADitem}$$

in which,

ERMD : ERM Disclosure Index

$\sum ijDitem$: Total Score Item ERM disclosed

$\sum ijADitem$: Total Items ERM should be disclosed

Intellectual Capital Disclosure

IC disclosure is the level of disclosure of the intellectual capital of a company that drives organizational performance and encourages value creation (Bontis, 1998). In this study, one of the most popular frameworks for understanding intellectual capital, the classification pattern made by Sveiby (1997), is used. Modifications were made by adding several items regulated in the Decree of the Chairman of Bapepam-LK Decision: Kep-431 / BL / 2012, concerning Submission of Annual Reports of Issuers or Public Companies. In this scheme, IC are grouped into 3 categories consisting of 36 items as follows: human capital category of 8 items; structural capital of 15 items; and relational capital of 13 items (see

table 2). The 15 of which were modified items, coded (M). ERM disclosure index or IC disclosure index is calculated by the following formula.

$$ICDI = \frac{\sum Ditemij}{\sum ADitemij}$$

where,

ICDI : IC Disclosure Index

$\sum ij$ Ditem : Total score item IC disclosed

$\sum ij$ Aditem : Total items IC that should be disclosed

Table 2. IC Disclosure Framework

Human Capital	Structural Capital	Relational Capital
a. Number of employees (M)	a. Vision and mission (M)	a. Brand
b. Education level	b. Code of conduct (M)	b. Customer
c. Employee Qualifications	c. Patent	c. Customer loyalty
d. Employee knowledge	d. Copyright	d. Company name
e. Employee competence	e. Trademarks	e. Distribution network
f. Education & training (M)	f. Management philosophy	f. Business collaboration
g. A related type of training (M)	g. Organizational culture	g. License Agreement
h. Employee turnover	h. The management process	h. Favorable contracts
	i. Information Systems	i. Franchise Agreement
	j. Network system	j. Award (M)
	g. Corporate governance (M)	k. Certification (M)
	h. Violation reporting system (M)	l. Marketing Strategy (M)
	i. Comprehensive financial performance analysis (M)	m. Market Share (M)
	k. Debt repayment ability (M)	
	l. Capital structure (M)	

Source: Ulum (2015)

Intellectual Capital

Intellectual capital is the overall dimension of the company, such as relationships with customers, the company's workforce, and supporting procedures created with innovation, modification of current knowledge, transfer of knowledge, and continuous learning that can ultimately increase company value (Gozali & Hatane, 2014). In his research (Ulum, 2013) formulated an IC performance evaluation model for Islamic banking called the IB-VAIC (Islamic banking value-added intellectual coefficient). He used financial statement data, reporting standards, and related regulations on Islamic banking, and identifying accounts in Islamic bank financial statements to develop the iB-VAIC model. Based on the results of the focus group discussions (FGD) conducted, the steps to calculate iB-VAIC are as follows.

1. iB-Value Added (VA)

The first step is to calculate the iB-Value Added (iB-VA). The first relationship iBVA is between VA and OP (operating profit), EC (employee expense), D (depreciation) and A (amortization) which is used to create value in the company. The relationship is formulated as follows:

$$iB-VA = OP + EC + D + A$$

2. iB-Value Added Capital Employed (iB-VACA)

The second step is to calculate the Value Added Capital Employed (iB-VACA). The second relationship between VA is with physical capital (CE), known as Capital Employed Efficiency (CEE). CEE is an indicator for VA made by physical capital units. CEE is formulated as follows:

$$iB - VACA = \frac{VA}{CE}$$

3. iB-Value Added Human Capital (iB-VAHU)

iB-VAHU shows how much iB-VA can be generated with funds spent on labour. Ulum (2013) argues that the total cost of salaries and wages can be an indicator of HC because the market determines salaries and wages as a result or impact of company performance, it would be logical if the success of HC is stated with the same criteria. The relationship between VA and HC is formulated as follows:

$$IB - VAHU = \frac{VA}{HC}$$

4. Structural Capital Value Added (iB-STVA)

This ratio measures the amount of SC needed to produce one rupiah from iB-VA and is an indication of how successful the SC is in value creation. In the VAIC model, SC is calculated by subtracting VA from HC. The smaller the contribution of HC in value creation, the greater the contribution of SC. Thus, the relationship between VA and SC is calculated by the following equation:

$$IB - STVA = \frac{SC}{VA}$$

5. Value Added Intellectual Coefficient (iB-VAIC™)

IB-VAIC™ indicates an organization's intellectual abilities that can also be considered as BPI (Business Performance Indicators). The final step is to calculate the company's overall intellectual ability. This calculation is the sum of the coefficients mentioned earlier with the formula:

$$IB - VAIC^{\text{TM}} = IB - VACA + IB - VAHU + IB - STVA$$

Firm Value

Referring to Hartono (2014), company value can be defined as the book value of the market since the company's value is reflected

in the market value (share price) and the book value of the company. Further, Hartono (2014) added that values could be measured through book values per sheet with the following formula:

$$\text{Book value per share} = \frac{\text{total equity}}{\text{number of outstanding shares}}$$

Data Analysis

To test the hypotheses in this study, the multiple regression model was used as the data analysis methods. However, before multiple regression testing was carried out, test the classical assumption test was done to test and ascertain the feasibility of the regression model used in this study. The regression equation in this study is:

$$NP_{it} = \alpha + \beta_1 ERMD_{it} + \beta_2 ICD_{it} + \beta_3 IC + \varepsilon$$

in which,

NP : Company value

α : Constants

β_1 - β_3 : Regression coefficient of each independent variable

ERMD: ERM Disclosure

ICD : IC Disclosure

IC : Intellectual Capital

ε : Error term

Results

Descriptive Statistics

Descriptive statistics are used to analyze quantitative data to provide a description that is seen from the average value (mean), standard deviation, variance, maximum, minimum in describing the research variables. Thus, they are easily understood contextually by the reader. The results of descriptive statistical analysis are presented in table 3.

Table 3. Results of Descriptive Statistics Analysis

	Minimum	Maximum	Mean	Std. Deviation
LN_NP	4,00	13,00	7.1077	2.10745
ERMD	0,38	0,56	0.4944	0.03893
ICD	0,01	0,81	0.5466	0.24945
IC	-9.75	69.10	3.5163	8.51191

Source: data analysis

Table 3 shows that LN_NP or the bank value has a mean value of 7.1077 which indicates that the firms have fair value. The ERM Disclosure has a mean value of 0.4944. Meanwhile, IC which is the proxy of the bank's intellectual capital has a mean value of 3.1563. Furthermore, the IC Disclosure has a mean value of 0.5466.

Multiple Regression Analysis

Multiple regression analysis is used to determine the effect of independent variables on the dependent variable. The results of multiple regression analysis is depicted in table 4.

Table 4. Results of Multiple Regression Analysis

Coefficients						
Model		Unstandardized		Standardized	t	Sig.
		Coefficients				
		B	Std. Error	Beta		
1	(Constant)	4,978	2,283		2,181	0,033
	ERMD	11,078	4,540	0,205	2,440	0,018
	ICD	-6,160	0,710	-0,729	-8,679	0,000
	IC	0,005	0,021	0,022	0,260	0,796

a. Dependent Variable: LN_NP

Source: data analysis

The constant value in the regression equation is 4.978. That is,

if the Enterprise Risk Management disclosure, Intellectual Capital disclosure, and Intellectual Capital variables are 0, the bank value (Y) is 4.978. The regression coefficient of the Enterprise Risk Management disclosure (X1) variable is 11,078 indicating that every increase of ERMD variable as much as 1 unit will be followed by an increase in the bank value (Y) as much as 11,078 units. Moreover, the regression coefficient of Intellectual Capital disclosure (X2) variable is -6,160 which indicates that every increase of ICD variable as much as 1 unit will be followed by a decrease in firm value (Y) as much as 6,160 units. Lastly, the regression coefficient of Intellectual Capital (X3) is 0.005, meaning that every increase of IC variable as much as 1 will be followed by an increase in firm value (Y) of 0.005.. Therefore, based on the results of the regression coefficients above, the multiple linear regression equation models can be formulated as follows.

$$NP = 4,978 + 11,078 ERMD - 6,160 ICD + 0,005 IC + \epsilon$$

The Goodness of Fit Test

The Coefficient of Determination (Adjusted R2)

The coefficient of determination obtained Adjusted R Square value of 0.572 which means that 57.2% of the variable Company Value can be explained by the Enterprise Risk Management Disclosure (ERMD), Intellectual Capital disclosure (ICD), and Intellectual Capital (IC) variables. While the remaining 42.8% is explained by firm size, profitability, and leverage variables outside the regression model (see table 5).

Table 5. Coefficient of Determination (Adjusted R2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.756 ^a	0.572	0.551	1.41269

a. Predictors: (Constant), IC, ERMD, ICD

Model Fit Test (Statistical Test F)

As depicted in table 6, the statistical test shows the significant result at $\alpha = 0.05$ was 0.000. It showed that the significance value < 0.05 . This proffers that the independent variable Enterprise Risk Management Disclosure (ERMD), Intellectual Capital disclosure (ICD), and Intellectual Capital (IC) has a significant positive effect on the dependent variable Company Value.

Table 6. Model Fit Test (Statistical Test F)

ANOVA ^a						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	162.508	3	54.169	27.143	.000 ^b
	Residual	121.738	61	1.996		
	Total	284.246	64			

a. Dependent Variable: LN_NP

b. Predictors: (Constant), IC, ERMD, ICD

Source: data analysis

Significance Test of Individual Parameters (Statistical Test t)

The t test statistics basically shows how far the independent variable individually explains the variation of the dependent variable. The acceptance of the hypothesis is done if t value $>$ t table or probability (p value) $<$ level of significance (Sig $<$ 0.05), then H_a is accepted and H_o is rejected, or vice versa. As presented in table 7, the variables of enterprise risk management disclosure, intellectual capital disclosure, and intellectual capital have p-value of 0.018, 0.000, and 0.796 respectively. It indicates that enterprise risk management disclosure as well as intellectual capital disclosure significantly related to firm value, in while intellectual capital has no significant effect on the dependent

Table 7. Result of Statistical Test t

Model	Coefficients			T	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
1 (Constant)	4.978	2.283		2,181	0.033
ERMD	11.078	4.540	0.205	2.440	0.018
ICD	-6.160	0.710	-0.729	-8.679	0.000
IC	0.005	0.021	0.022	0.260	0.796

a. Dependent Variable: LN_NP

Source: data analysis

Discussion

The Role of Enterprise Risk Management Disclosure on Firm Value

Based on the data analysis, the t-test results showed a regression coefficient of 11.078 with a positive direction at a significance value of 0.018 (significance < 0.05). It showed that the independent, which is the Enterprise Risk Management Disclosure (ERMD) variable has a positive effect on Company Value. This is evidenced by the results obtained that the t-value of 2.440 > 1.669. It can be concluded that the first hypothesis is accepted and the ERMD has a positive effect on Company Value. This is corroborated by previous literature that the disclosure of high-quality ERM in a company has a positive impact on the perception of market participants (Baxter, Bedard, Hoitash, & Yezegel, 2013). The positive perception held by market participants for the company will encourage market participants to give high prices making the company's value higher. This result is also in line with a study conducted by Handayani (2017) and Devi (2017), which established evidence that ERMD has a positive effect on firm value.

The Role of Intellectual Capital Disclosure on Firm Value

The t-test results further showed a regression coefficient of -6,160 with a negative direction at a significance value of $0,000 < 0.05$ (table 7). This shows that the independent variable included in the regression model, namely the Intellectual Capital Disclosure (ICD), has a negative effect on firm value. This is evidenced by the results obtained that the t-value of $-8,679 < 1,669$. Thus, the second hypothesis is rejected, and partially the ICD variable has a negative effect on Company Value. This is in line with the finding of Roos et al., (1997) regarding signalling theory that describes how a company should signal to interested parties, in this case, by emphasizing the importance of information released by the company with investment decision parties outside the company. The results of this study confirm the research conducted by Puspitasari (2017) that ICD has a negative effect on firm value.

The Role of Intellectual Capital on Firm Value

As for the variable of intellectual capital, the t-test results showed a regression coefficient of 0.05 with a positive direction at a significance value of $0.796 > 0.05$. This shows that the independent variable of Intellectual Capital (IC) does not affect Company Value. The t-value of $0.260 < 1.669$ showed the third hypothesis is rejected and partially, the IC variable has no effect on Company Value. It is suggested that the method used to measure the performance of the company's IC has not been reached optimally. Thus, it can be explained that investors do not consider intellectual capital in assessing or measuring company performance. Perhaps, investors are more involved in other factors in measuring the value of the company, such as the company's stock price. The results of this study are consistent with researches conducted by Suhendah (2012) and Lestari and Sapitri (2016) that IC does not affect firm value.

Implications

The results of the current study imply that sharia commercial banks should optimize their risk management through the application of Enterprise Risk Management. Besides, they should also improve their intellectual capital performance. Thus it can give a competitive advantage for the banks. As a result, it will bring higher values for the sharia banks. Moreover, the results of this study suggest that the management should be aware of the issues of enterprise risk management and intellectual capital to maximize the value of their banks.

Conclusion

The findings discussed have led us to draw some conclusions as follows: (1) Enterprise Risk Management Disclosure (ERMD) has a positive effect on Company Value, (2) Intellectual Capital Disclosure (ICD) has a negative effect on Company Value, and (3) Intellectual Capital (IC) does not affect Company Value. The results of this study indicate that sharia commercial banks can develop their risk management through the application of enterprise risk management and enhance their intellectual capital performance to give a competitive advantage for the banks that will provide them higher values. Based on the conclusions and implications described above, the researchers provide suggestions for further research: (1) future researchers can use two or more disclosure index in examining ERMD and ICD to make sure the robustness of the tests and avoid subjectivity, and (2) future studies are expected to use other measurements such as VAICTM in measuring intellectual capital variables in Islamic banking.

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