The Role of Risk Management in Increasing Company Value: An Analysis from the Perspective of Risk, Profitability, and Company Size

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Abstract

This research aims to analyze the role of risk management in increasing company value through three main perspectives, namely corporate risk, profitability, and company size. The research approach was conducted using a literature study of eight scientific articles relevant to the fields of risk management, corporate governance, and financial performance. The results of the study indicate that risk management plays a strategic role in shaping corporate value, but this influence is greatly affected by the quality of implementation and transparency of risk disclosure. Comprehensive risk disclosure not only helps companies identify and mitigate potential losses, but also sends positive signals to investors and stakeholders, thereby improving market perception. Furthermore, this study found that profitability is the main pathway explaining how risk management can increase company value. Companies that are able to control risk effectively tend to have better operational efficiency, which ultimately increases profitability and company value. On the other hand, company size has been shown to strengthen risk management effectiveness because large companies have more adequate resources, governance, and oversight systems. Therefore, this study confirms that risk management is not only an internal control tool but also a strategic instrument in creating sustainable corporate value.

Keywords : Risk Management, Company Value, Profitability, Company Size, Risk Disclosure

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Introduction

In facing the dynamics environment growing business complex, company sued capable maintain sustainability business as well as increase mark company. Company value is indicator important that reflects investor perception of prospects companies in the future. The more tall mark companies, increasingly the level is also large investor confidence in ability company in create profit term length and increase welfare holder shares. When the price share increase, things That reflect increasing mark company, and in a automatic give more benefits big to the holders share [1].

Company values become aspect important things to note potential investors when make decision investment, because mark the can reflect How performance company Actually [2]. Company values are also related close with investor perception of price shares. If the value company high, then price its shares tend high too. This is will increase investor confidence in invest their capital, because company considered capable give higher dividends big In other words [3], [4], the higher the company's value, the greater the company's chances of being considered to be performing well and being able to increase the prosperity of its investors [5], [6].

A company's value can be increased in various ways, one of which is by managing corporate risk and disclosing it transparently in financial reports. Risk arises from uncertainty, and if not managed properly, it can cause significant losses and even bankruptcy [7]. The higher the level of uncertainty a company faces, the greater the need for comprehensive risk management. This risk management is not only a form of regulatory compliance [8]but also a necessity for the company to continue growing and maintaining its business sustainability.

Several researchers have conducted research on the relationship between risk management and firm value, with varying results. Halimah & Fidiana (2020) showed that risk management positively impacts firm value in the food and beverage sector [9]. They explained that better operational risk management leads to more efficient business processes, thereby attracting investors and increasing firm value. These findings are supported by research by Jayanti, Wulandari, & Kompyurini (2021), who found that corporate risk management disclosure (PMRP) significantly impacts firm value in the manufacturing sector. They emphasized that transparent risk disclosure is a positive signal of a company's preparedness to face uncertainty, thereby boosting investor confidence [10].

However, the results different found in study Cristofel & Kurniawati (2021). They found that enterprise risk management (ERM) is actually influential negative to mark company [11]. Effect negative the happen Because ERM disclosure in companies more Lots focused on identification risk without give explanation about evaluation risk or step mitigation. Conditions This perceived as signal bad (bad news) by investors, therefore lower market perception of mark company. Difference findings third study the show that influence management risk to mark the company is very dependent on quality disclosure, depth information risks, as well as readiness company in demonstrate its mitigation strategies.

Various study previously give mixed results about influence management risks and internal factors against mark Some find a strong positive relationship between risk management implementation and firm value, while others show an insignificant effect. Similarly, the varying findings regarding risk, profitability, and firm size raise the need for more in-depth studies that synthesize the various empirical evidence.

Based on the differences in research results, a literature review is needed that can summarize and analyze the various findings from previous studies. This literature review aims

to provide a comprehensive overview of how risk management plays a role in increasing firm value and how firm risk, profitability, and size influence firm value. With this comprehensive review, this research is expected to provide a clearer understanding and serve as a reference for academics, practitioners, and investors in examining the relationship between risk management and firm value.

Literature Review

2.1 Stakeholder Theory

According to Ulum (2009), organizational management ideally plays an active role in increasing company value, as company value is an important indicator for stakeholders [12]. Management is not only required to create added value, but is also responsible for minimizing the risk of loss and transparently communicating its activities and performance to stakeholders. In line with this, Deegan (2004) explains through stakeholder theory that the relationship between companies and stakeholders should be mutually beneficial [13]. This theory emphasizes that companies are not sufficient to simply fulfill minimum obligations, but also need to disclose broader information regarding their environmental, social, and intellectual performance. Disclosure that goes beyond regulatory requirements is necessary to meet stakeholder expectations and maintain their trust in the company. Thus, stakeholder theory places transparency, accountability, and sustainability as essential elements in maintaining a harmonious relationship between management and stakeholders.

2.2 Signal Theory

This research is based on Signaling Theory, first introduced by Michael Spence (1973). This theory explains how companies send signals to external parties, especially investors, to indicate the company's condition, quality, and prospects. This theory is crucial because investors generally do not have as much information as company management, resulting in information asymmetry.

According to Signaling Theory, companies can reduce this information imbalance by providing clear and credible signals through various forms of disclosure. In the context of this research, the implementation of risk management is one important signal a company can provide. When a company systematically manages risks and discloses them in its annual report or sustainability report, it sends a message to investors that the company is capable of facing uncertainty and maintaining operational stability [14]. This positive signal can increase investor confidence, thereby increasing the company's value. In addition to risk management, factors such as company risk, profitability, and company size also serve as signals to investors.

2.3 Risk Management

Risk is an integral part of business activities and inherent in every company activity [15]. Both public and private organizations cannot avoid risk, as it is inherent in every process and decision they make [16]. Generally, risk refers to the uncertainty surrounding a future event or outcome. Risk is understood as a factor that has the potential to hinder the achievement of organizational goals [17].

Risk management is an approach that uses a structured and consistent system to manage the various risks a company may face [18]. Risk management is a crucial part of the managerial process and decision-making at all levels of an organization. Through effective risk management, an organization can make more informed decisions that align with its vision, mission, and stated goals. Thus, a culture of risk management within the organization further strengthens support for the successful achievement of these goals [19].

The primary goal of implementing risk management is to minimize the likelihood of losses or reduced revenue for an organization [20], [21]. Through risk management, management can identify, assess, and control risks that may arise as the company develops. This capability plays a crucial role in maintaining the company's stability and sustainability [22].

Effective risk management is believed to reduce the potential for corporate failure and improve operational efficiency. Therefore, risk management serves not only as a protective mechanism but also as a strategy that can enhance the company's overall value.

2.4 Company Values

Company value essentially reflects the market value of a company as an operating business entity, as explained by Sartono (2010). This concept relates to how the market assesses a company's performance and prospects. Fama (1978) asserted that company value is reflected in its stock price. When stock prices rise, it indicates a high level of public and investor confidence in the company's performance and future. Investors will also willing pay price more shares tall with hope get level higher returns large in the future. Therefore, companies need to strive to maximize their corporate value. Brigham and Daves (2010) emphasized that increasing corporate value ultimately also means increasing shareholder prosperity. In other words, efforts to maximize corporate value are a strategic step that not only reflects operational success but also fulfills the company's primary goal of improving stakeholder welfare, particularly shareholders.

2.5 Corporate Risk

Corporate risks can generally be categorized into four main types: financial risk, operational risk, strategic risk, and external risk [7]. Financial risk is a form of speculative risk related to potential changes in a company's financial condition. This risk can impact revenue, cash flow, and financial stability, requiring careful management to maintain business sustainability.

Furthermore, operational risk refers to the potential for deviations from expected results due to imperfections or failures in systems, human resources, technology, or other operational factors. This risk can arise at both the technical and organizational levels. At the technical level, operational risk can occur if information systems experience disruptions, data recording is inaccurate, available information is inadequate, or risk measurement is inaccurate. At the organizational level, risk arises from ineffective procedures, lack of oversight, or weak coordination between departments.

Strategic risk is the risk that arises from strategic decisions that are not aligned with the company's internal and external conditions. This risk can impact corporate exposure, particularly financial exposure, if the strategy adopted is not aligned with market dynamics, industry changes, or the company's internal capabilities. Therefore, understanding the business environment and adaptive strategic planning are crucial.

external risks are risks stemming from factors external to the company that have the potential to cause deviations in business results, even threatening business continuity. the can covers aspect reputation, environment, social, and legal. Because of its nature be outside control company, risk externalities often need response through policy adaptive, management crisis, as well as ability company in build resilience face pressure environment outside.

Fourth type risk the important For understood Because give description comprehensive about possible challenges faced company in its operations, as well as become base for implementation management effective risk.

2.6 Profitability

Profitability is indicator important that reflects ability company in produce profit from various sources, such as sales, total assets, and equity. Santoso and Priatinah (2016) explain that profitability indicates the extent to which a company is able to generate profits through its operational activities [23]. Furthermore, Ambarsari and Hermanto (2017) state that profitability describes a company's ability to utilize capital invested in all assets to generate profits for investors [24].

According to Danang (2013), profitability is a company's ability to generate profits from its business operations [25]. Profitability assessments not only aim to assess profit size but also serve to measure the company's operational effectiveness, identify potential waste, and provide relevant information for sustainable performance improvement efforts. For long-term investors, profitability analysis is crucial because it determines the extent to which a company is able to deliver expected returns, as Simamora (2000) points out [26].

2.7 Company Size

Company size is an indicator of the size of a business entity, generally measured by the amount of capital employed, total assets owned, and total sales generated [27]. Larger companies typically have more stable growth rates and a stronger market position, including in the capital market. This makes it easier for large companies to access external funding sources because they are considered more credible and carry a lower risk in the eyes of investors and creditors. The ability to obtain additional funding provides opportunities for companies to expand operations, increase efficiency, and ultimately generate more optimal profits. Thus, company size contributes significantly to increasing company value through stronger financial and operational capabilities.

Research Methodology

The method used in this paper is a combination of qualitative approaches and library research. Library research is conducted by collecting, understanding, and analyzing various theories and relevant previous research findings. The main objective of this paper is to compare existing theories with research findings in the literature to gain a more comprehensive understanding. The study focuses on a theoretical analysis of the role of risk management in improving company performance. All discussions are based on scientific sources derived from previous research articles [28], therefore this paper is expected to provide an objective and indepth overview of the topic under study.

Results

The results of this study were obtained through an in-depth review of eight scientific articles from various fields of accounting, finance, and risk management. The literature analysis was conducted to understand how risk management plays a role in increasing company value, specifically through three main perspectives: company risk, profitability, and company size. Overall, the results show that risk management plays a strategic role in creating value, but its effectiveness is largely determined by the quality of implementation, organizational structure, and the company's ability to communicate risks transparently to investors and stakeholders.

4.1 Risk Management as a Determining Factor of Company Value

The studies analyzed indicate that effective risk management implementation is a crucial factor in increasing company value. However, the literature also shows varying results, indicating that the success of risk management is determined not only by its existence but also by the quality and depth of implementation.

According to Pratiwi et al. (2018), disclosure of operational and financial risks has been shown to have a positive impact on company value [29]. This study confirms that companies that openly identify and report their potential risks actually receive a positive response from investors, as they are perceived as having strong control mechanisms and being able to anticipate uncertainty professionally [9].

However, not all companies show the same results. According to Kusmiranti and Susanti (2021), they found that the implementation of *enterprise risk management* did not significantly impact company value [30]. One reason is the low quality of risk disclosure; some companies only disclose a small portion of ERM indicators, making the information presented insufficiently comprehensive for investors to assess the company's ability to manage risk comprehensively [31].

These findings demonstrate that effective risk management requires more than just formal disclosure. Investors want to know not only what risks a company faces, but also how it manages and mitigates them. When managed and disclosed effectively, risk management serves as a strategic tool in enhancing company value.

4.2 Profitability as a Mechanism Connecting Risk and Firm Value

Nearly all analyzed literature indicates that profitability is the primary pathway through which risk management impacts firm value. In research by Kusmiranti & Susanti (2021), profitability, as measured by ROE, was shown to significantly influence firm value (Tobin's Q) [30]. High profitability is seen as evidence of a company's ability to manage resources effectively, thus enhancing positive perceptions from investors and the market [31].

These findings are reinforced by research conducted by Halimah (2020), which states that profitability is an important signal for investors. Investors view profitability as an indicator of a company's stability and operational strength, therefore company value tends to increase as profitability levels increase [9].

Furthermore, research conducted by Supriyadi & Setyorini (2020) explains that risk management can drive increased profitability, and this profitability, in turn, increases company value. In other words, risk management not only provides direct benefits in terms of risk control but also indirect benefits through increased company efficiency and profits [20].

Based on these findings, it can be concluded that profitability is a key element in the relationship between risk and firm value. Companies that manage their risks effectively tend to have stronger financial performance, and this performance is the primary foundation for increasing firm value.

4.3 Company Size Strengthens Risk Management Effectiveness

Company size has also been shown to play a significant role in determining the extent to which risk management contributes to company value. Previous research has shown that large companies already have adequate infrastructure, policies, and resources to implement risk management systems more optimally.

Research conducted by Sipayung (2023) found that large companies typically have better corporate governance (GCG), more mature organizational structures, and stronger oversight systems. All of these factors support more effective ERM implementation, which ultimately has a positive impact on company value [32].

Furthermore, research by Jayanti et al. (2023) shows that ownership structure, such as the presence of foreign or institutional shareholders, is also a significant factor. Companies with complex ownership structures tend to implement more stringent risk management practices due to higher demands for transparency and accountability. This increases investor confidence, leading to higher company value [10].

Thus, company size is not merely a control variable but also a factor that strengthens the impact of risk management on company value. Larger companies are better able to utilize risk management as an investment strategy, not simply to comply with regulations.

4.4 Risk Disclosure as a Signal to Investors

Research conducted by Supriyadi & Setyorini (2020) explains that risk disclosure helps investors understand a company's risk profile and mitigation strategies. When disclosures are clear and comprehensive, investors receive a positive signal that the company has strong internal controls and is capable of dealing with uncertainty. This positive investor response is then reflected in an increase in the company's value [20].

However, the literature also shows the opposite phenomenon. Research conducted by Maychael & Pangestuti (2022) found that many companies disclose only a small portion of ERM indicators. This minimal risk disclosure actually sends a negative signal, as investors perceive the company as insufficiently transparent or lacking adequate risk planning. Consequently, risk management does not positively impact company value [31].

These findings emphasize that the key to successful risk management is not only its implementation, but also the company's ability to convey risk information in a credible and reliable manner.

Discussion

5.1 The Role of Risk Management in Increasing Company Value

The results of the literature analysis indicate that risk management plays a highly strategic role in creating corporate value. This finding aligns with the view that modern companies face various forms of uncertainty, stemming from the operational environment, market changes, and financial dynamics. Therefore, a company's ability to identify, evaluate, and control risks is a critical indicator for stakeholders.

Several reviewed studies have shown that risk disclosure, both financial and operational, can increase company value by providing investors with confidence in the company's preparedness for potential disruptions. Investors appreciate companies that pursue not only profits but also have clear and measurable risk mitigation strategies [9]. This demonstrates that risk management serves not only as an internal control system but also as a tool for building public and market trust.

However, not all studies show consistent results. Several studies conducted by Mychael & Pangestuti (2022) found that the implementation of *enterprise risk management* (ERM) does not always have a significant impact on company value. This is due to low disclosure quality and ERM implementation that is merely a formality. Companies that only disclose a small portion of risk indicators without explaining mitigation mechanisms send a weak signal to investors. This results in risk management implementation not making a significant contribution to increasing company value [31].

These differences in results confirm that the impact of risk management on company value is significantly influenced by the quality of implementation, not simply the existence of a formal system. The proportion, accuracy, and depth of risk information significantly determine how

investors and other stakeholders assess the effectiveness of a company's risk management practices.

5.2 Stakeholder Theory Risk Management

Stakeholder Theory emphasizes that company must notice interest all over stakeholders interests, including holder shares, creditors, government, employees, and society. Company value is reflection to what extent the company capable fulfil principle transparency, accountability, and sustainability that become stakeholder expectations.

Research result literature support relevance theory this. Findings study Sipayng (2023) shows that companies that have good governance company (GCG) more Good as well as structure strong organization tend more effective in apply management risk [32]. Condition the considered as form not quite enough answer company towards stakeholders, therefore increase legitimacy and trust public. Thus, increasing company value is a consequence of meeting stakeholder expectations.

Furthermore, Halimah's (2020) research shows that comprehensive risk disclosure provides stakeholders with an overview of the company's position and strategy in addressing risks [9]. Appropriate risk disclosure not only meets regulatory requirements but also communicates to stakeholders about the company's performance and managerial responsibilities.

Conversely, when a company only discloses a small portion of its risks, stakeholders tend to question the quality of management oversight and control [31]. This can negatively impact the company's value because stakeholders feel they are not receiving a complete picture of the company's operational risks.

With Thus, the findings study strengthen that effectiveness management risk as former mark very close company relation with fulfillment obligation company towards stakeholders.

5.3 The Role of Disclosure Risk Based on Signaling Theory

From the perspective of Signaling Theory, management risk functioning as signal important things to send company to potential investors and the capital market. Investors always is at in condition imbalance information (asymmetric information), therefore that disclosure risk be one of method company reducing the information gap the information.

Research result literature give proof strong that disclosure quality risk give signal positive to investors. Research conducted by Supriyadi & Setyorini (2020) shows that disclosure the risks that present information complete about potential threats and mitigation strategies viewed as proof managerial that company capable face uncertainty in a way effective [20]. Signal positive this is the end push improvement mark company because investors have more confidence big.

However, research findings by Maychael & Pangestuti (2022) also show the opposite. When risk disclosure is minimal and does not reflect a company's readiness to manage risk, the signal received by investors is ambiguous or even negative [31]. Investors interpret this situation as a lack of management commitment to addressing uncertainty. This explains why some studies have found ERM to have no significant impact on company value.

Thus, this discussion confirms that from *a signaling theory perspective,* the quality of risk disclosure is a key element that determines the effectiveness of risk management in forming company value.

5.4 Profitability as a Mechanism Connecting Risk and Firm Value

Various literature sources analyzed indicate that profitability is the variable that most consistently influences company value. Profitability not only reflects operational effectiveness but is also a key indicator in assessing a company's ability to create value for investors.

Research findings by Maychael & Pangestuti (2022) and Halimah (2020) revealed that profitability provides a positive signal regarding a company's growth prospects. Investors respond profitability tall as sign that risk operational can managed with good, therefore mark company increase [31], [9].

Furthermore, risk management can enhance company value through increased profitability [20]. When risks are managed, companies can reduce unexpected costs, optimize operational processes, and improve cost efficiency. This reinforces the argument that profitability acts as a connecting mechanism between risk management and company value.

Thus, it can be emphasized that profitability is a key factor in ensuring that risk management has a significant impact on increasing company value.

5.5 The Role of Company Size in Strengthening the Influence of Risk Management

The literature analysis also shows that company size has a significant moderating effect on determining the effectiveness of risk management. Larger companies have broader access to resources, more mature governance structures, and stricter oversight systems.

According to research by Sipayung (2023), large companies have more structured and better supervised ERM implementations. This situation provides additional strength for large companies to maximize the benefits obtained from risk management. [32].

Research by Jayanti et al. (2021) explains that companies with broad ownership structures or involving institutional shareholders also tend to be more transparent in their risk disclosures [10]. This high level of oversight makes large companies more credible in communicating risks, leading to a positive investor response and increased company value.

Thus, company size plays an important role in strengthening the influence of risk management because the larger the company scale, the stronger the company's ability to manage and communicate risks.

Conclusion

Based on the literature review and discussion, this study concludes that risk management plays a crucial role in increasing company value. Companies that are able to effectively identify, measure, and control risks tend to have greater operational stability, thereby increasing the trust of investors and other stakeholders. However, the effectiveness of risk management depends heavily on the quality of implementation and the transparency of information provided by the company. Comprehensive and credible risk disclosures have been shown to provide a positive signal to the market, while minimal or uninformative disclosures can actually create negative perceptions about management's ability to deal with uncertainty.

Furthermore, this study shows that profitability is a crucial link between risk management and firm value. When risk is well managed, companies are able to improve operational efficiency and minimize potential losses, thereby increasing profitability. High profitability ultimately strengthens investors' perceptions of a company's ability to create sustainable value. Thus, profitability is a key mechanism explaining how risk management can contribute to increased firm value.

Company size has also been found to play a role in strengthening the effectiveness of risk management. Larger companies, which generally have more mature governance structures and

stronger resources, are better able to implement optimal risk management practices. This puts larger companies in a better position to maintain business stability and meet stakeholder expectations, thus strengthening the positive impact of risk management on company value compared to smaller companies.

Overall, this study confirms that risk management is a strategic instrument that not only serves to minimize threats but also enhances company value. Good risk management, supported by strong profitability and an adequate organizational structure, enables companies to send positive signals to investors and fulfill their responsibilities to stakeholders. Therefore, effective risk management is a crucial factor in building competitiveness and sustainable company value amidst an increasingly complex business environment.

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