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The Effect of Enterprise Risk Management, Return on Assets, and Firm Size on Firm Value in Indonesian Automotive Companies

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ABSTRACT

Firm value remains an important concern for Indonesian automotive companies because the sector faced post-pandemic recovery pressures, market uncertainty, and increasing investment demands during the 2020–2024 period. This study aims to examine the effects of Enterprise Risk Management (ERM), Return on Assets (ROA), and firm size on firm value in automotive companies listed on the Indonesia Stock Exchange (IDX). A quantitative approach was applied using panel data from 11 companies, resulting in 55 firm-year observations selected through purposive sampling. Firm value was measured by Price-to-Book Value (PBV), ERM by a COSO-based disclosure index, ROA by net income divided by total assets, and firm size by the natural logarithm of total assets. The data were analyzed using panel regression with the Random Effect Model (REM). The results show that ERM, ROA, and firm size simultaneously affect firm value ($F = 3.3949$; $p = 0.0247$). Partially, only ROA has a significant positive effect on firm value ($b = 14.8417$; $p = 0.0034$), while ERM and firm size have no significant effects. These findings imply that managers should prioritize profitability enhancement while strengthening the strategic integration of risk management and resource utilization to support long-term firm value creation.

Keywords: Automotive Industry; Enterprise Risk Management; Firm Size; Firm Value; Price-to-Book Value; Return on Assets

JEL Classification: G32; L62; M41; G34

INTRODUCTION

The Indonesian automotive industry is one of the country's strategic manufacturing sectors, contributing substantially to economic growth through employment creation, industrial linkages, and export activities. However, the industry has experienced significant challenges in recent years. According to the Association of Indonesian Automotive Industries (Gaikindo, 2021), automotive companies faced considerable pressure during the 2020–2024 period due to the COVID-19 pandemic, semiconductor shortages, global supply chain disruptions, fluctuations in raw material prices, and the accelerating transition toward electric vehicles (EVs). These developments increased operational uncertainty and intensified competitive pressures, requiring firms to continuously adapt their business strategies while maintaining financial performance and market competitiveness.

The transition toward EV technology has further transformed the competitive landscape of the automotive industry. Firms are increasingly required to invest in technological innovation, production adjustment, and supply chain restructuring while responding to evolving consumer preferences and regulatory changes. Such conditions create additional strategic and financial challenges that may influence how investors assess a company's future prospects and market value. Consequently, understanding the factors that influence firm value has become increasingly important, particularly during periods characterized by economic recovery and industrial transformation.

Firm value represents investors' overall assessment of a company's current performance, future growth prospects, and ability to generate sustainable returns. In capital markets, higher firm value generally reflects stronger investor confidence and greater expectations regarding future business performance. While profitability remains one of the most frequently examined determinants of firm value, contemporary business environments suggest that investor valuation may also depend on broader organizational capabilities, including risk management effectiveness and the availability of strategic resources. Therefore, firm value may be influenced not only by financial outcomes but also by how effectively firms manage uncertainty and utilize their resources to create competitive advantage.

This study focuses on Enterprise Risk Management (ERM), Return on Assets (ROA), and firm size as potential determinants of firm value. From the Resource-Based View (RBV) perspective, these variables represent different dimensions of organizational resources and capabilities. ERM reflects a firm's capability to manage uncertainty and support strategic resilience; ROA represents realized capability through efficient asset utilization and profit generation; while firm size reflects the availability of strategic resources, operational capacity, and market reach (Kero & Bogale, 2023). Together, these factors may influence investors' perceptions regarding a firm's ability to sustain performance and create long-term value.

Despite extensive research on firm value, empirical findings concerning the roles of ERM, profitability, and firm size remain inconclusive. Several studies reported that ERM positively influences firm value because effective risk management strengthens governance quality, improves decision-making processes, and enhances investor confidence (Faisal et al., 2021; Iswajuni et al., 2018; Kurniawanto & Rahayu, 2022). However, other studies found that ERM has an insignificant effect on firm value, suggesting that disclosure-based measures may not adequately capture implementation quality and that investors may perceive ERM primarily as a compliance mechanism rather than a strategic capability (Syafitri et al., 2023; Tahir & Razali, 2011).

Similarly, prior studies generally support a positive relationship between profitability and firm value. Research conducted by Aryani et al. (2024), Nugraha & Artini (2022), Nugroho & Haritanto (2022), Septyanto & Nugraha (2021), and Shiyammurti & Ningsih (2024) indicates that firms with stronger profitability tend to receive higher market valuations because profitability reflects operational efficiency and the effective utilization of organizational resources. Nevertheless, some studies suggest that profitability may become less dominant during periods of economic uncertainty and industrial transformation, when investors increasingly consider long-term strategic capabilities and future growth potential.

The relationship between firm size and firm value is equally inconclusive. Several studies found that larger firms tend to achieve higher market valuation because they possess broader resource bases, stronger financing capability, and greater market power (Halimah & Maharani, 2024; Sari & Agustiningsih, 2025). In contrast, Rahmasari and Kartika (2025) reported a negative relationship between firm size and firm value, while Putri and Maryanti (2023) argued that organizational scale does not necessarily translate into higher market valuation, particularly in industries characterized by intense competition and rapid technological change. These mixed findings indicate that the value-creating role of organizational resources may depend on how effectively those resources are utilized rather than on their quantity alone.

The inconsistencies in prior empirical findings reveal an important research gap. Although numerous studies have examined ERM, profitability, and firm size individually, limited attention has been given to understanding their combined role in explaining firm value within the context of the Indonesian automotive industry during the post-pandemic recovery period and the early stage of EV industry transformation. Moreover, while the RBV has been widely applied in strategic management research, its application in explaining how risk management capability, realized profitability, and organizational resource capacity jointly influence firm value remains relatively underexplored.

Therefore, this study aims to examine the effect of ERM, ROA, and firm size on firm value among automotive companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. By focusing on a period marked by substantial economic recovery and technological transition, this study seeks to provide a more comprehensive understanding of the determinants of firm value in a rapidly changing industrial environment. Unlike prior studies that predominantly examine these variables independently, this study evaluates their simultaneous and partial effects within a single RBV-based framework during the post-pandemic recovery and EV-transition period. The study contributes to the literature by extending the application of the RBV in corporate finance research and by providing empirical evidence regarding the relative importance of risk management capability, profitability, and organizational resource capacity in shaping firm value. Practically, the findings are expected to provide useful insights for managers, investors, and policymakers in developing strategies that support sustainable value creation amid industrial transformation and market uncertainty.

LITERATURE REVIEW

Resource-Based View (RBV) Theory

The RBV explains that firms achieve sustainable competitive advantage through resources and capabilities that are valuable, rare, inimitable, and effectively organized (Kero & Bogale, 2023). According to this perspective, firm value is not determined solely by external market conditions but also by a firm's ability to acquire, develop, and utilize

strategic resources to generate superior performance and long-term economic benefits. Therefore, differences in firm value may arise from variations in how firms manage and deploy their resources rather than from resource ownership alone.

RBV emphasizes that organizational resources create value when they are transformed into capabilities that support operational effectiveness, strategic flexibility, and competitive advantage. Consequently, both tangible and intangible resources can contribute to firm value when managed efficiently and aligned with organizational objectives. In industries characterized by high capital intensity, technological disruption, and operational uncertainty, the effective utilization of strategic resources becomes increasingly important for sustaining competitiveness and maintaining investor confidence.

The automotive industry provides a relevant context for applying RBV because firms operate in a dynamic environment shaped by post-pandemic recovery, supply chain challenges, and the transition toward EV technology. These conditions require firms to strengthen organizational capabilities, improve operational efficiency, and effectively manage strategic risks.

Within this study, ERM, ROA, and firm size are positioned as organizational resources and capabilities that may influence firm value. ERM reflects the firm's capability to manage uncertainty and support strategic resilience, ROA represents realized organizational capability through the efficient utilization of assets to generate profits, and firm size reflects the availability of strategic resources, operational capacity, and market reach. Therefore, RBV provides an integrated theoretical foundation for explaining how risk management capability, profitability, and organizational resources may contribute to firm value.

Enterprise Risk Management (ERM)

ERM is a comprehensive and integrated approach to identifying, assessing, and managing risks that may affect the achievement of organizational objectives. The framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2017) emphasizes the integration of risk management into strategy formulation and organizational decision-making processes. ERM encompasses several key components, including internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring.

From the RBV perspective, ERM can be viewed as an organizational capability that enables firms to manage uncertainty, improve decision quality, and strengthen business resilience. Effective risk management allows firms to anticipate potential disruptions, allocate resources more efficiently, and respond proactively to changing business conditions. Consequently, ERM may contribute to the creation of competitive advantage and long-term value.

In this study, ERM is measured using a disclosure index based on the COSO ERM framework. Prior studies have reported that ERM implementation contributes positively to firm value through improved governance quality, enhanced investment decision-making, and stronger stakeholder confidence (Faisal et al., 2021; Kurniawanto & Rahayu, 2022). However, evidence regarding the effectiveness of ERM remains mixed, particularly in emerging markets where disclosure practices may not fully reflect the quality of implementation.

Return on Assets (ROA)

ROA describes the company's efficiency in using assets to generate profits (Isynuwardhana, 2023). ROA is a profitability ratio that measures a company's ability to generate profits from its total assets. As one of the most widely used indicators of financial performance, ROA reflects the efficiency with which management utilizes available resources to create earnings. Profitability ratios play an important role in evaluating a company's financial condition and operational effectiveness because they provide information regarding the firm's ability to generate returns from its resource base (Putra et al., 2024; Toni et al., 2022).

Within the RBV framework, profitability represents a realized organizational capability because it reflects the firm's success in converting strategic resources into economic returns. A higher ROA indicates that a company is utilizing its assets more efficiently, suggesting stronger managerial capability and operational performance. Consequently, profitability is often considered an important indicator of a firm's ability to sustain competitive advantage and create shareholder value.

Previous studies have shown that profitability positively influences firm value. Aryani et al. (2024) found that ROA positively affects firm value in automotive companies listed on the IDX. Similarly, Shiyammurti and Ningsih (2024) reported that profitability significantly increases Price-to-Book Value (PBV), indicating that investors tend to assign higher valuations to firms with stronger earnings performance. Additional evidence from Nugraha & Artini (2022), Nugroho & Haritanto (2022), and Septyanto & Nugraha (2021) further suggests that profitability remains an important determinant of firm value and stock market performance.

Firm Size

Firm size reflects the scale of a company's operations and resources and is commonly measured using the natural logarithm of total assets. Larger firms generally possess broader resource bases, greater operational capacity, stronger market presence, and better access to financing sources. These advantages may enable firms to improve operational efficiency, diversify business risks, and pursue strategic growth opportunities.

From the RBV perspective, firm size represents the availability of strategic resources that may support competitive advantage and long-term value creation. Firms with larger asset bases often have greater flexibility in allocating resources, investing in innovation, and adapting to changing market conditions. However, resource abundance alone does not guarantee superior performance because organizational effectiveness depends on how resources are managed and deployed.

Empirical evidence regarding the relationship between firm size and firm value remains inconclusive. Sari and Agustiningsih (2025) found that firm size positively affects firm value because larger firms are perceived as more stable and capable of sustaining long-term growth. Similarly, Halimah and Maharani (2024) reported that firm size influences firm value. In contrast, Rahmasari and Kartika (2025) found a negative relationship between firm size and firm value among companies included in the LQ-45 Index, while Putri and Maryanti (2023) argued that company size is not always a primary determinant of firm value, particularly in industries characterized by intense competition and rapid change.

Firm Value

Firm value reflects investors' overall assessment of a company's performance, future prospects, and ability to generate sustainable returns (Salim & Firdaus, 2020). It represents the extent to which the market appreciates a firm's strategic resources, operational performance, and growth potential. Higher firm value is generally associated with stronger investor confidence and greater shareholder wealth.

This study measures firm value using the PBV ratio because PBV reflects how the market values a company relative to its book value. A higher PBV indicates that investors perceive the company as having favorable future prospects and stronger competitive positioning.

Previous studies suggest that firm value is influenced by multiple organizational factors, including financial performance, strategic capabilities, governance quality, and resource management effectiveness. Nevertheless, empirical findings remain inconsistent across industries and economic environments, indicating that the mechanisms through which organizational resources contribute to firm value may vary according to industrial characteristics, market conditions, and firm-specific circumstances.

Hypotheses Development

ERM, ROA, Firm Size, and Firm Value

According to the RBV, firm value is influenced by the firm's ability to acquire, manage, and utilize strategic resources and capabilities effectively (Kero & Bogale, 2023). Organizational capabilities such as risk management, profitability generation, and resource availability may collectively contribute to sustainable competitive advantage and long-term value creation. Within this perspective, ERM, ROA, and firm size represent complementary dimensions of organizational capability that may influence how investors evaluate a firm's future prospects and performance.

ERM reflects a firm's ability to manage uncertainty and support strategic resilience; ROA represents realized capability through efficient asset utilization and profit generation; while firm size reflects the availability of strategic resources and operational capacity. Collectively, these factors may shape market perceptions regarding a firm's competitiveness, financial strength, and growth potential. Previous studies have shown that organizational resources, profitability, governance quality, and risk management practices contribute to firm value, although the magnitude and direction of these effects may vary across industries and economic environments (Aryani et al., 2024; Faisal et al., 2021; Kurniawanto & Rahayu, 2022; Sari & Agustiningsih, 2025).

Given the strategic importance of risk management capability, profitability, and organizational resources in supporting competitive advantage, this study proposes that these variables jointly influence firm value. Therefore, the following hypothesis is formulated:

H1: ERM, ROA, and firm size simultaneously affect firm value.

ERM and Firm Value

ERM is a comprehensive and integrated framework designed to identify, assess, and manage risks systematically in order to support the achievement of organizational objectives (COSO, 2017). Within the RBV framework, ERM can be viewed as a strategic organizational capability that enhances decision-making quality, strengthens resilience, and improves the firm's ability to respond to uncertainty. By integrating risk management

into strategic planning and operational processes, firms may improve resource allocation efficiency and strengthen long-term sustainability.

Several empirical studies support the positive relationship between ERM and firm value. Faisal et al. (2021) and Kurniawanto & Rahayu (2022) found that effective ERM implementation enhances governance quality and investment decision-making, thereby increasing investor confidence and firm value. Similarly, Iswajuni et al. (2018) reported that ERM positively and significantly influences firm value because firms with stronger risk management systems are better positioned to manage uncertainty and sustain business performance. Sari and Witjaksono (2021) also documented a significant relationship between ERM and firm value, indicating that risk management practices may influence investor assessments of corporate performance.

However, empirical findings remain inconclusive. Tahir and Razali (2011) found that ERM was positively related to firm value, but the relationship was statistically insignificant. Likewise, Syafitri et al. (2023) reported that ERM disclosure did not significantly influence firm value. These inconsistencies may arise because disclosure-based measures do not always reflect the effectiveness of actual ERM implementation, and investors may perceive ERM disclosures as compliance-oriented rather than value-creating activities.

The inconsistency of previous findings suggests that the role of ERM in influencing firm value remains an open empirical question, particularly within the Indonesian automotive industry, which has experienced substantial uncertainty due to post-pandemic recovery and the transition toward EV technology. Under such conditions, effective risk management may become increasingly important in maintaining business resilience and supporting long-term value creation. Drawing upon theoretical considerations and existing empirical evidence, the following hypothesis is proposed:

H2: ERM has a positive effect on firm value.

ROA and Firm Value

ROA measures a company's ability to generate profits from its total assets and reflects managerial efficiency in utilizing organizational resources. Within the RBV perspective, profitability represents a realized organizational capability because it demonstrates the firm's success in converting strategic resources into economic returns. Firms with higher profitability are generally expected to possess stronger operational capabilities and greater capacity to create value for shareholders.

Empirical evidence consistently supports the positive relationship between profitability and firm value. Aryani et al. (2024) found that higher profitability increases firm value in automotive companies listed on the IDX. Similarly, Shiyammurti and Ningsih (2024) reported that profitability significantly enhances PBV because investors perceive profitable firms as having stronger growth prospects and financial stability. Additional studies by Iswajuni et al. (2018), Nugraha & Artini (2022), Nugroho & Haritanto (2022), and Septyanto & Nugraha (2021) also demonstrated that profitability positively influences firm value and market performance.

Nevertheless, some studies suggest that profitability may not always be the sole determinant of firm value, particularly during periods of economic uncertainty and industrial transformation. Investors may simultaneously consider factors such as innovation capability, strategic risk management, and long-term sustainability. In the automotive industry, profitability may fluctuate due to technological investment

requirements, production costs, and changing market conditions associated with the transition toward EV technology.

Despite these challenges, firms with stronger profitability are generally expected to generate greater investor confidence because profitability reflects realized organizational capability and efficient resource utilization. Therefore, higher ROA is expected to contribute positively to firm value. In light of the theoretical rationale and supporting empirical evidence, the following hypothesis is developed:

H3: ROA has a positive effect on firm value.

Firm Size and Firm Value

Firm size reflects the scale of organizational resources and operational capacity available to a company. Within the RBV framework, larger firms generally possess broader resource bases, greater market access, stronger financing capability, and higher operational diversification. These advantages may support innovation, improve competitiveness, and strengthen long-term value creation.

Several studies provide evidence that firm size positively influences firm value. Sari and Agustiningsih (2025) found that larger firms tend to achieve higher firm value because investors perceive them as more stable and capable of managing market uncertainty. Similarly, Halimah and Maharani (2024) reported a significant relationship between firm size and firm value, suggesting that organizational scale can contribute to investor confidence and market valuation.

However, other studies report contrasting findings. Rahmasari and Kartika (2025) found a negative relationship between firm size and firm value among companies included in the LQ-45 Index. Likewise, Putri and Maryanti (2023) argued that firm size is not always a primary determinant of firm value, particularly in industries characterized by intense competition and rapid technological change. Larger firms may face higher operational complexity, bureaucratic inefficiencies, and substantial adaptation costs that reduce the benefits associated with organizational scale.

These inconsistencies indicate that the relationship between firm size and firm value remains context-dependent. In the automotive industry, where firms must continuously invest in technological innovation and adapt to evolving market demands, larger organizational scale may create value only when resources are managed efficiently and translated into superior performance. Building on the established theoretical foundations and empirical evidence, the following hypothesis is formulated:

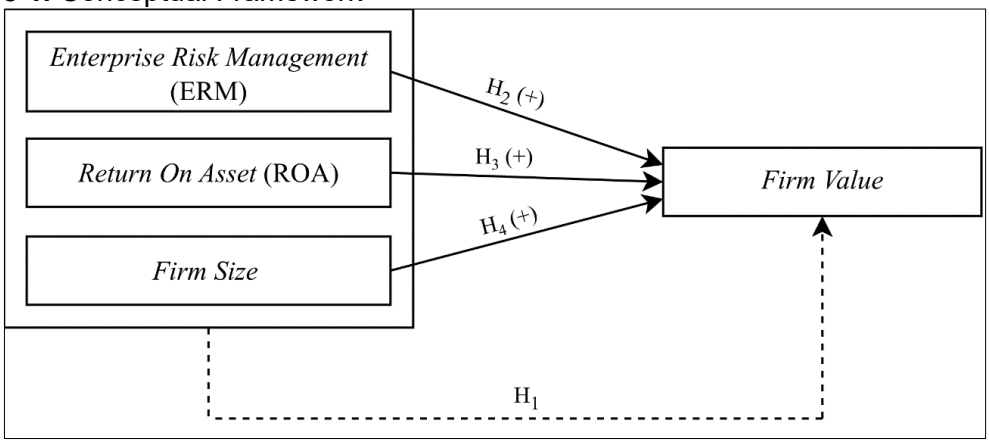
H4: Firm size has a positive effect on firm value.

Conceptual Framework

The conceptual framework of this study in Figure 1, is developed based on the RBV, which explains that strategic resources and organizational capabilities influence firm value. In this study, ERM, ROA, and firm size are positioned as independent variables that affect firm value (PBV) as the dependent variable.

The framework illustrates that effective risk management capability, efficient profitability performance, and strong organizational resource capacity are expected to enhance investor confidence and increase firm value in automotive companies listed on the IDX.

Figure 1. Conceptual Framework



RESEARCH METHOD

Research Design

This study employed a quantitative approach using a descriptive and causal research design to examine the effects of ERM, ROA, and firm size on firm value. Secondary data were collected from the annual reports and financial statements of automotive companies listed on the IDX during the 2020–2024 period. The study was developed within the RBV framework, which considers organizational resources and capabilities as important determinants of firm performance and value.

Population and Sample

The population consisted of automotive companies listed on the IDX during the observation period. The sample was selected using purposive sampling based on the following criteria: (1) companies consistently listed on the IDX during 2020–2024, (2) availability of complete annual reports and financial statements throughout the observation period, and (3) availability of sufficient ERM disclosure information in audited annual reports.

Based on these criteria, 11 automotive companies were selected, resulting in 55 firm-year observations. The relatively limited sample size reflects the characteristics of the Indonesian automotive sector, where only a small number of listed companies met all sampling requirements during the study period. Accordingly, the sample represents the accessible population of publicly listed automotive firms in Indonesia.

Variable Measurement

Firm value serves as the dependent variable and is measured using the PBV ratio. The independent variables consist of ERM, ROA, and firm size.

ERM is measured using a disclosure index developed based on the COSO ERM framework. ROA is calculated as net income divided by total assets and is used to measure the company's profitability and efficiency in utilizing assets. Firm size is measured using the natural logarithm of total assets.

Data Analysis Technique

Data analysis was conducted using descriptive statistics and panel data regression analysis with the assistance of EViews 13 software. Prior to hypothesis testing, classical assumption tests were performed to evaluate the suitability of the regression model. The most appropriate panel data model was selected through the Chow test, the Hausman test, and the Lagrange Multiplier test.

The study employed a parsimonious regression model focusing on ERM, ROA, and firm size because these variables represent organizational resources and capabilities that are conceptually aligned with the RBV framework. The regression model is specified as follows:

$$PBV = \alpha + \beta_1 ERM + \beta_2 ROA + \beta_3 SIZE + \varepsilon$$

where PBV represents firm value, α denotes the constant term, β_1–β_3 represent the regression coefficients of each independent variable, and ε represents the error term.

RESULTS

Descriptive Statistics

Table 1. Descriptive Statistics Results (N = 55)

Variable	Mean	Maximum	Minimum	Std. Dev.
ERM (X1)	0.8271	1.00	0.52	0.11824
ROA (X2)	0.0565	0.23	-0.06	0.006552
Firm Size (X3)	21.3236	29.10	15.00	4.93397
PBV (Y)	1.7420	13.68	0.27	2.35149

Descriptive statistical analysis was performed on 55 panel data observations from 11 automotive sub-sector companies listed on the BEI for the period 2020–2024. The results are presented in Table 1. The mean PBV of 1.7420 indicates that, on average, the market price of automotive shares was above book value during 2020–2024, reflecting positive investor sentiment despite pandemic pressure. The mean ERM of 0.8271 (82.71%) shows a high level of COSO-based ERM disclosure. The mean ROA of 5.65% indicates relatively modest profitability during the observation period. The mean firm size of 21.3236 (Ln total assets) reflects a large operational scale, while the standard deviation of 4.93397 signals significant heterogeneity across the 11 sample companies.

Classical Assumption Tests

Normality Test

Table 2. Normality Test Results (Jarque-Bera)

Test	Value	Conclusion
Jarque-Bera Statistic	52.3417	Prob. = 0.0000 < 0.05
Interpretation	Data not normally distributed; however, CLT applies (n = 55 > 30)	

Based on Table 2, the Jarque-Bera probability value of 0.000 < 0.05 indicates the residuals are not normally distributed. However, in accordance with the Central Limit Theorem (Gaussian), when n > 30, the sampling distribution can be assumed to approximate normality. With n = 55 observations, this condition is fulfilled, and the regression analysis can proceed.

Multicollinearity Test

The multicollinearity test was performed to examine whether the independent variables have high intercorrelation. A model is free from multicollinearity if the correlation coefficient between independent variables is below 0.8.

Table 3. Multicollinearity Test Results (Correlation Matrix)

Variable	ERM (X1)	ROA (X2)	Firm Size (X3)
ERM (X1)	1.000000	0.212608	-0.508185

ROA (X2)	0.212608	1.000000	-0.308314
Firm Size (X3)	-0.508185	-0.308314	1.000000

Based on Table 3, all inter-variable correlations are below the threshold of 0.8: X1–X2 = 0.2126 (weak), X2–X3 = −0.3083 (weak), and X1–X3 = −0.5082 (moderate, still within tolerance). Since no pair of independent variables exceeds 0.8, there is no serious multicollinearity in the model.

Heteroscedasticity Test

The heteroscedasticity test was conducted to determine whether the variance of residuals is constant across observations. The model is free from heteroscedasticity if Prob. > 0.05 for each independent variable.

Table 4. Heteroscedasticity Test Results

Variable	Coefficient	Prob.	Conclusion
ERM (X1)	0.1823	0.7193	No Heteroscedasticity
ROA (X2)	2.9471	0.1340	No Heteroscedasticity
Firm Size (X3)	0.0072	0.7892	No Heteroscedasticity

Based on Table 4, the probability values for all independent variables exceed the 0.05 significance level (X1: 0.7193; X2: 0.1340; X3: 0.7892), indicating that no independent variable has a significant effect on the absolute residual value. The residual variance is therefore homoscedastic (constant), meaning the classical heteroscedasticity assumption is satisfied, and the model is suitable for further analysis.

Panel Data Regression Model Selection

Three sequential tests were conducted to determine the most appropriate panel data regression model: Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test.

Table 5. Panel Data Model Selection Test Results

Test	Models Compared	Statistic	Prob.	Decision
Chow Test	CEM vs FEM	Cross-section F	0.0000	FEM
Hausman Test	FEM vs REM	Chi-Sq. Statistic	0.5308	REM
Lagrange Multiplier	CEM vs REM	Breusch-Pagan	0.0000	REM
Final Model	REM			

Note: CEM = Common Effect Model; FEM = Fixed Effect Model; REM = Random Effect Model.

The Chow Test in Table 5 yielded Prob. = 0.000 < 0.05, indicating that the Fixed Effect Model (FEM) is superior to the Common Effect Model (CEM). The Hausman Test yielded Prob. = 0.5308 > 0.05, indicating that the Random Effect Model (REM) is preferred over the FEM. The Lagrange Multiplier Test yielded Prob. (Breusch-Pagan) = 0.000 < 0.05, confirming that the REM is superior to the CEM. Therefore, the best and final model used in this study is the REM.

Coefficient of Determination (R^2) and Simultaneous Hypothesis Test (F Test)

Table 6. Coefficient of Determination and F Test Results

Statistic	Value	Conclusion
R-squared	0.1665 (16.65%)	Model explains 16.65% of PBV variation
Adjusted R-squared	0.1174 (11.74%)	Limited predictive power
F-statistic	3.3949	Model is fit
Prob(F-statistic)	0.0247	Sig. at α = 0.05; H0 rejected, H1 accepted

The R^2 of 0.1665 in Table 6 indicates that the independent variables can explain 16.65% of the variation in firm value (PBV), while the remaining 83.35% is explained by variables outside the model. The Adjusted R^2 of 0.1174 (11.74%) is relatively low, indicating limited model predictive power. The F-statistic of 3.3949 with Prob(F-statistic) = 0.0247 < 0.05 leads to the rejection of H0, confirming that ERM, ROA, and firm size simultaneously have a significant effect on firm value. The regression model is therefore declared fit for use in this study.

The relatively low Adjusted R^2 (11.74%) indicates that the model explains only a limited proportion of the variation in firm value. This suggests that firm value is influenced by many other factors outside the model, including macroeconomic conditions, investor sentiment, leverage, corporate governance, market competition, and industry-specific dynamics. Therefore, the findings should not be interpreted as indicating that ERM, ROA, and firm size are the sole determinants of firm value.

Despite this limitation, the model still provides meaningful insights into the relative importance of profitability compared to other variables. The significant coefficient of ROA suggests that profitability remains a key determinant of firm value, even when the overall explanatory power of the model is limited.

Partial Hypothesis Testing (t Test)
The partial t-test was conducted to determine the individual effect of each independent variable on the dependent variable. The decision criterion is: if Prob. < 0.05 then H0 is rejected (significant effect); if Prob. > 0.05, then H0 is accepted (not significant).

Table 7. Partial Hypothesis Test Results (t Test)

Variable	Coefficient (β)	t-Statistic	Prob.	Conclusion
Constant (α)	-1.434972	-0.4100	0.6841	—
ERM (X1)	1.5300	0.5171	0.6074	Not Significant
ROA (X2)	14.8417	3.0701	0.0034**	Significant (+)
Firm Size (X3)	0.0503	0.6904	0.4931	Not Significant

Note: **p < 0.01

Based on Table 7, the regression equation is: PBV = −1.434972 + 1.5300 ERM + 14.8417 ROA + 0.0503 SIZE. ERM (X1) shows a coefficient of 1.5300 with Prob. = 0.6074 > 0.05, meaning ERM does not have a significant partial effect on firm value (H2 rejected). ROA (X2) shows a coefficient of 14.8417 with Prob. = 0.0034 < 0.05, confirming a significant positive partial effect on firm value (H3 accepted). Firm size (X3) shows a coefficient of 0.0503 with Prob. = 0.4931 > 0.05, indicating no significant partial effect on firm value (H4 rejected).

The coefficient of ROA (14.8417) indicates that a 0.01 increase in ROA is associated with an approximate increase of 0.1484 in PBV, assuming other variables remain constant. This suggests that higher profitability tends to improve investor valuation of automotive firms. However, this relationship should be interpreted cautiously given the relatively low Adjusted R^2, which indicates that a substantial proportion of firm value variation is explained by factors outside the model.

Table 8. Summary of Hypothesis Testing Results

Hypothesis		Result	Decision
H1	ERM, ROA, and firm size simultaneously affect firm value	F = 3.3949, p = 0.0247	Accepted

H2	ERM has a significant positive effect on firm value	p = 0.6074	Rejected
H3	ROA has a significant positive effect on firm value	p = 0.0034**	Accepted
H4	Firm size has a significant positive effect on firm value	p = 0.4931	Rejected

Note: **p < 0.01

Table 8 presents the summary of the hypothesis testing results. The simultaneous test shows that ERM, ROA, and firm size jointly have a significant effect on firm value, as indicated by an F-statistic of 3.3949 and a probability value of 0.0247 (< 0.05). Therefore, H1 is accepted. Regarding the partial effects, ERM does not have a significant effect on firm value because its probability value of 0.6074 exceeds the 5% significance level, leading to the rejection of H2. In contrast, ROA has a significant positive effect on firm value with a probability value of 0.0034 (< 0.01), supporting H3. Meanwhile, firm size does not significantly affect firm value, as indicated by a probability value of 0.4931 (> 0.05); therefore, H4 is rejected. Overall, the results indicate that although the proposed model is statistically significant, only ROA demonstrates a significant individual effect on firm value.

DISCUSSION

Effect of ERM, ROA, and Firm Size on Firm Value (H1)

The findings indicate that ERM, ROA, and firm size simultaneously have a significant effect on firm value; therefore, H1 is supported. This result suggests that the three variables collectively contribute to explaining variations in firm value among automotive companies listed on the IDX during the 2020–2024 period. Although not all variables demonstrate significant individual effects, their combined influence indicates that firm value is shaped by the interaction of organizational capabilities, financial performance, and resource capacity rather than by a single factor alone.

From the RBV perspective, firm value is generated through the combination and effective utilization of organizational resources and capabilities. ERM represents a risk management capability, ROA reflects the firm's ability to generate returns from available resources, and firm size indicates the scale of organizational resources under management. The significant simultaneous effect suggests that these factors collectively form part of the strategic resource base that influences how firms create and sustain value.

The result further implies that investors may evaluate companies using a broader set of considerations rather than relying solely on a single financial or non-financial indicator. In the context of the automotive industry, which experienced substantial challenges during the post-pandemic recovery period and the transition toward EV technology, firm value may be influenced by the combined ability of firms to manage risks, maintain profitability, and utilize available resources efficiently. Consequently, the significant joint effect of ERM, ROA, and firm size reflects the multidimensional nature of investor valuation within a dynamic and uncertain business environment.

The finding is consistent with the notion that organizational resources and capabilities operate as an integrated system rather than as isolated elements. While subsequent analysis shows that profitability is the most influential individual determinant of firm value, the significant F-test result indicates that the overall model remains relevant in explaining firm value. This finding supports Fadhilah and Sukmaningrum (2020), who reported that

ERM, profitability, and company characteristics collectively contribute to firm value, even though some variables may exhibit different levels of significance when examined individually.

Effect of ERM on Firm Value (H2)

The findings indicate that ERM does not have a significant effect on firm value; therefore, H2 is not supported. Although the estimated coefficient shows a positive direction, the relationship is statistically insignificant. This result suggests that greater ERM disclosure is not necessarily associated with higher market valuation among automotive companies listed on the IDX during the 2020–2024 period. Within the RBV framework, ERM may be considered a strategic organizational capability that supports firms in identifying, assessing, and managing risks. However, the present findings imply that the existence of such capability alone may not be sufficient to generate value unless it is effectively implemented and translated into observable organizational outcomes.

One possible explanation is that the level of ERM disclosure among automotive companies was relatively high and homogeneous, with an average disclosure score of 82.71%, thereby limiting the variability required to differentiate investor assessments across firms. In addition, the measurement of ERM through a COSO-based disclosure index may primarily capture reporting practices rather than the substantive quality of risk management implementation. As a result, investors may face difficulties in evaluating whether disclosed ERM practices genuinely contribute to operational resilience and long-term performance.

The insignificant effect of ERM may also reflect the unique context of the Indonesian automotive industry during the post-pandemic recovery period and the transition toward EVs. During periods characterized by industrial transformation, rising investment requirements, and technological uncertainty, investors may place greater emphasis on observable financial performance than on disclosure-based governance mechanisms. Consequently, ERM may function more as a supporting organizational capability rather than as a direct determinant of market valuation.

This finding is consistent with Syafitri et al. (2023), who reported that ERM disclosure did not significantly influence firm value. Similar evidence was documented by Tahir and Razali (2011), who found a positive but statistically insignificant relationship between ERM and firm value among Malaysian public listed companies. These findings suggest that the market may not always recognize risk management practices as a value-enhancing mechanism when implementation effectiveness cannot be directly observed by external stakeholders.

However, the result differs from Iswajuni et al. (2018), who found that ERM positively and significantly affected firm value in Indonesian manufacturing firms, and from Sari and Witjaksono (2021), who reported a significant relationship between ERM and firm value. Such differences may arise from variations in industrial characteristics, measurement approaches, observation periods, and investor perceptions across sectors. Compared with manufacturing or property-related industries, the automotive sector during the 2020–2024 period faced substantial external pressures associated with supply chain disruptions, economic recovery, and technological transformation, which may have shifted investor attention toward short-term financial outcomes rather than risk governance quality.

Overall, the findings do not fully support the RBV expectation that strategic risk management capabilities directly enhance firm value. Instead, they suggest that ERM

may represent a potential strategic resource whose contribution to firm value depends on the quality of implementation, managerial effectiveness, and the firm's ability to convert risk management practices into tangible business performance.

Effect of ROA on Firm Value (H3)

The results demonstrate that ROA has a significant positive effect on firm value; therefore, H3 is supported. This finding indicates that firms with higher profitability tend to achieve higher market valuation. From the RBV perspective, profitability reflects a realized organizational capability resulting from the efficient utilization of valuable resources and managerial competencies. Unlike ERM and firm size, which represent potential strategic resources, ROA captures actual performance outcomes that can be directly observed and evaluated by investors.

The positive relationship between ROA and firm value suggests that investors place considerable importance on firms' ability to generate profits from their assets, particularly during periods of economic uncertainty and industrial transformation. The automotive industry during 2020–2024 experienced significant challenges arising from post-pandemic recovery efforts, changing consumer demand, and substantial investments required for EV-related technological adaptation. Under such circumstances, profitability may serve as an important signal of operational efficiency, financial stability, and managerial effectiveness.

The findings imply that firms capable of maintaining profitable operations despite external pressures are more likely to gain investor confidence and receive higher market valuations. This interpretation is consistent with the RBV argument that competitive advantage is not solely derived from resource ownership but from the firm's ability to deploy and utilize resources effectively to generate superior performance.

The present result supports previous empirical evidence indicating that profitability positively influences firm value. Iswajuni et al. (2018) reported that ROA significantly contributes to firm value enhancement. Similarly, Septyanto and Nugraha (2021) found that profitability positively affects firm value, suggesting that profitable firms are perceived as possessing stronger financial prospects and greater sustainability. The findings are further supported by Nugraha and Artini (2022), who demonstrated that financial performance significantly influences stock prices in Indonesian automotive companies, and by Nugroho and Haritanto (2022), who found a positive relationship between ROA and firm value within the automotive sector.

Although the average ROA of the sampled firms was relatively modest during the observation period, profitability remained a significant determinant of firm value. This outcome suggests that the Indonesian capital market is highly responsive to firms' ability to generate earnings from their asset base. Consequently, profitability appears to be the most value-relevant capability within the proposed model, emphasizing the importance of operational efficiency and financial performance in shaping investor perceptions and market valuation.

Effect of Firm Size on Firm Value (H4)

The findings reveal that firm size does not have a significant effect on firm value; therefore, H4 is not supported. Although larger firms generally possess greater asset bases, broader market access, and stronger organizational resources, the results indicate that organizational scale alone is insufficient to enhance market valuation. Within the RBV framework, firm size may reflect the availability of strategic resources; however, such resources do not automatically create competitive advantage unless they are

managed effectively and transformed into superior organizational performance.

One possible explanation is that investors during the 2020–2024 period focused more on firms' ability to generate profitability and adapt to industrial transformation than on the magnitude of assets owned. The transition toward EV technology required substantial investments in innovation, infrastructure, and technological adaptation, creating significant financial and operational challenges even for larger firms. Consequently, large organizational scale may not necessarily be interpreted as a positive signal if it is not accompanied by efficient resource utilization and sustainable profitability.

Furthermore, larger firms often face greater organizational complexity, higher operating costs, and substantial capital expenditure requirements. Under conditions of economic uncertainty and technological disruption, these factors may offset the potential benefits associated with firm size. Therefore, investors may place greater emphasis on performance indicators that reflect realized outcomes rather than on the scale of organizational resources.

The findings support Putri and Maryanti (2023), who concluded that company size is not always a primary determinant of firm value, particularly in industries characterized by high competitive intensity and dynamic market conditions. The result also aligns conceptually with the present finding that resource availability alone may not guarantee value creation unless supported by effective managerial capability.

However, the findings differ from those reported by Halimah & Maharani (2024), Rahmasari & Kartika (2025), and Shiyammurti & Tjahjadi (2023), who found that firm size positively influences firm value. These inconsistencies may be attributable to differences in industrial settings, research periods, sample characteristics, and investor responses to changing economic conditions. While larger firms may benefit from economies of scale and stronger market reputation under normal circumstances, such advantages may become less influential during periods of industrial transformation when investors prioritize profitability, adaptability, and operational efficiency.

Taken together, the results suggest that firm size represents a potential resource capacity rather than a directly realized strategic advantage. Consistent with the RBV perspective, the findings indicate that firm value depends not merely on the quantity of resources owned by the firm but on how effectively those resources are deployed to generate sustainable performance and competitive advantage.

CONCLUSION

This study examined the effects of ERM, ROA, and firm size on firm value in automotive companies listed on the IDX during the 2020–2024 period. The findings reveal that ERM, ROA, and firm size simultaneously influence firm value. However, partial analysis indicates that only ROA has a significant positive effect on firm value, whereas ERM and firm size do not demonstrate significant individual effects.

The results suggest that profitability remains the most value-relevant factor within the Indonesian automotive sector. During the period of post-pandemic recovery and industry transition toward EVs, investors appear to place greater emphasis on firms' ability to generate profits and utilize assets efficiently than on risk management disclosure or organizational scale alone. These findings indicate that the existence of strategic resources and organizational capabilities does not automatically translate into higher

market valuation unless such resources are effectively converted into observable financial performance.

From a theoretical perspective, this study contributes to the RBV literature by demonstrating that realized capabilities, represented by profitability, have a more direct relationship with firm value than potential capabilities reflected through ERM disclosure and firm size. The findings extend the RBV perspective by emphasizing that the effectiveness of resource utilization and capability execution may be more important than resource ownership itself in creating shareholder value.

From a practical perspective, the results imply that managers should prioritize strategies that improve profitability through efficient asset utilization, operational effectiveness, and sustainable business performance. While ERM and organizational scale remain potentially important organizational resources, their contribution to firm value may depend on the quality of implementation, strategic integration, and the firm's ability to transform these resources into measurable performance outcomes. For investors, the findings indicate that profitability remains a more reliable indicator of firm value than ERM disclosure or firm size in the Indonesian automotive industry.

LIMITATION

This study has several limitations that should be considered when interpreting the findings. First, the model explains a relatively limited proportion of the variation in firm value, as indicated by the Adjusted R^2 of 11.74%. This suggests that firm value is influenced by numerous factors beyond the variables included in the present study, such as leverage, dividend policy, corporate governance, market conditions, investor sentiment, and other industry-specific characteristics.

Second, ERM was measured using a COSO-based disclosure index derived from annual reports. Although this approach is widely used in prior studies, disclosure-based measures may not fully capture the actual quality, effectiveness, and maturity of ERM implementation within firms. Consequently, the measurement may reflect the extent of disclosure rather than the substantive effectiveness of risk management practices.

Third, the study focuses exclusively on 11 automotive companies listed on the IDX during the 2020–2024 period. As a result, the findings may not be fully generalizable to other industries, countries, or different economic environments.

Future research is encouraged to incorporate additional determinants of firm value, including dividend policy, leverage, managerial ownership, corporate governance quality, innovation capability, sustainability performance, and investment efficiency. Dividend policy, for example, remains an important corporate financial decision because it directly influences shareholder returns and investor perceptions (Lubis et al., 2024). Future studies may also explore broader topics related to financial and economic resilience, including the role of financial inclusion during periods of economic uncertainty (Irem et al., 2024). In addition, future researchers may consider alternative approaches to measuring ERM, such as risk maturity assessments, survey-based evaluations, or qualitative analyses, and may expand the observation period or conduct comparative studies across industries and countries to improve the generalizability and explanatory power of the findings.

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The author declares no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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