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FACTORS AFFECTING THE AREA OF RISK MANAGEMENT DISCLOSURES

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Abstract: The purpose of this study was to analyze the effect of leverage, company size, profitability, and auditors on the extent of risk management disclosure. This study uses the population of this study are non-financial companies listed in the 2016 MSCI Indonesia Index for the period of 2016, the research sample used was 68 companies. The data used in this research is secondary data. The data source in this study comes from the website www.ishare.com to find out the data of companies listed in the 2016 MSCI Indonesia Index. The research data used is the company's annual report which can be accessed through the relevant company website or the IDX website at www.idx. co.id. The data analysis method for this research is multiple regression analysis. The results showed that the leverage variable had no significant effect on the extent of risk management disclosure. The results of the leverage test showed that the significance value of leverage was 0.030 (sig <0.05). The firm size variable has an insignificant effect on risk management disclosure, the results of the firm size test show the significance value of the company size of 0.073 (sig <0.05). The profitability variable has no significant effect on risk management disclosure, the results of the profitability test show a value of 0.037 (sig <0.05). The auditor quality variable has no effect on risk disclosure, the results of the auditor quality test show a value of 0.713 (sig <0.05). The simultaneous test results show that the calculated F value shows a value of 3,360 with a probability of 0.015. The probability value is much smaller than 0.05, so the regression model can be used to predict risk management disclosures.

Keywords: *leverage, company size, profitability, risk management, auditors*

1. Introduction

In this globalization era, competition in the business world is getting tighter, so that in order to maintain the trust of stakeholders in each company, it is expected that they can disclose information on company performance in a more transparent manner (Adam et al., 2014). The information disclosed must be understandable, reliable, relevant and transparent. The information disclosed in the company's annual report is the basis for business decision making for stakeholders. The information disclosed can also be used as material for consideration in making business decisions to address business risks that arise as a result of the business activities that have been carried out.

Risk is an inherent part of daily business operations. All companies face financial and operational risks without exception. Disclosure of risk by companies is very useful for stakeholders in making decisions, especially in investing in certain companies. The implementation of good risk management must ensure that the organization is able to provide appropriate treatment for risks that will affect it (Setyarini, 2011). Risk is also closely related to success and failure. An effective risk management system is a company strength that helps achieve the company's business goals and improves the quality of financial disclosure and reporting as an effort to protect the company's reputation (Setyarini, 2011).

A case of failure to manage corporate risk has also occurred in Indonesia, at Century Bank. The Bank Century failure case is indicated to have occurred due to a criminal act committed by the owner of Century Bank himself. In addition, Century Bank also traded illegal investment products. The impact of this case caused enormous losses for Century Bank customers. The customers' money in Century Bank could not be disbursed so that the bank had to be taken over by the Deposit Insurance Corporation (LPS) and declared a bank failure in 2008 due to the large number of non-performing loans from Century Bank (DetikFinance, 2009).

Risk cannot be completely avoided and eliminated, but with risk management disclosures, risk can be managed so that it can be predicted and minimized. Risk management disclosure is a company plan or strategy carried out to manage and evaluate risk in an integrated manner. Obalola et al. (2014) stated that risk management disclosures are basically used to integrate and coordinate all types of risks that exist and may arise in the company. The stakeholders do not know how the risk management implementation process is carried out by the company, so it is necessary to disclose risk management. Risk management disclosures are designed to identify potential events affecting the organization. Risk management disclosure is a solution to help restore public trust and help control the activities of management levels so as to minimize fraudulent practices.

Disclosure of risk is legally mandatory for companies, as a form of corporate reporting and responsibility for users of the company's annual report. In Indonesia, risk disclosure is regulated in government regulations, including PSAK No. 50 (Revised 2006) concerning financial instruments: disclosure and decision of the chairman of BAPEPAM and LK Number: Kep-134 / BL / 2006 regarding the obligation to submit annual reports for issuers and public companies.

The application of various rules regarding risk management has implications for increasing risk management practices and risk management disclosures. However, risk management practices and disclosures vary between companies. The application of risk management disclosures is closely related to the level of corporate leverage. Leverage is the ratio between debt and assets that shows the company’s ability to meet long-term obligations. The higher the level of leverage of a company, the wider the risk disclosure that must be carried out by the company as a form of corporate responsibility to creditors. This is because creditors need responsibility from the company for the use of funds that have been loaned as a measure to determine the company’s ability to repay debt. Along with creditors' demands for this information, the company will have a high debt ratio (leverage) and will make wider disclosures (Sudarmaji and Sularto, 2007). Previous research has shown that leverage has no significant effect on risk management disclosure (Andarini and Indira, 2012; Hoyt, 2008). Different results were obtained from the results of research conducted by Almilia and Retrinasari, (2007), which stated that leverage was significant for the disclosure of company annual reports.

In addition, the size of a company also has an influence on risk management disclosure. Large companies will disclose more risk than small companies. Company size is the level of the company in which there is labor capacity, production capacity, and capital capacity as measured by using total assets. Jensen and Mecklin (1976) revealed that agency theory can result in large companies having higher agency costs compared to small companies. The results of research conducted by

Andarini & Indira (2012) and Hoyt (2008) show that company size has a significant effect on risk management disclosure. Different results were obtained from the results of research conducted by Sudarmaji and Sularto (2007) which stated that company size was not significant for the disclosure of the company's annual report.

Another characteristic that may influence risk management disclosures is profitability. Based on agency theory, companies with high levels of principal ownership will encourage an increase in more optimal supervision of management performance, so that this active intervention can reduce agency costs. The way to assess the profitability of a company depends on the profit and assets or capital that will be compared from the profit from the company's operations or net profit, after tax with its own capital. The greater the profitability generated by the company, the more extensive the risk disclosure will be. This will show stakeholders about the company's ability to streamline the use of capital within the company. The level of profitability is a way of describing the company’s profit position as measured by using the net profit margin. The results of research conducted by Almilia and Retrinasari (2007) concluded that the net profit margin has no significant effect on risk management disclosure. Similar results were also obtained from research by Kumalasari et al (2014) and Utomo & Chariri (2014) which showed that profitability had a positive effect on risk management disclosure.

An external auditor is someone who conducts an annual audit who must be independent, competent, and qualified in order to provide external and objective assurance on material financial statements (Indonesian Accounting Association, 2015). In addition, external auditors will also affect the quality of external audits related to the level of stakeholder trust in the company. Companies audited by KAP Big4 have demands to expand the information disclosed. Stakeholders can then use the information in the form of an annual report presented by the company for consideration in making decisions.

Auditor quality is considered to encourage the company to disclose the risks it faces. KAP (Public Accounting Firm) which is bigger and more well-known (Auditor big4) tends to encourage client companies to conduct wider disclosure of information to maintain their reputation (Chalmers and Godfrey, 2004 in Oliveira et al, 2011). Companies that are audited by big4 auditors tend to disclose higher risks than other companies (Elshandidy, 2013 in Abid and Shaiq, 2015). High quality audits by big4 auditors will signal that the client company is following the rules of disclosure practice.

Abid & Shaiq, (2015) and Oliveira et al., (2011) revealed that there is a significant and positive influence between auditor quality on corporate risk disclosure. Meanwhile, Wardhana and Cahyonowati (2013) revealed that auditor quality does not have a significant effect on corporate risk disclosure.

Based on the description above, the research gap in this study is the factors that influence the area of risk management disclosure.

Research Framework

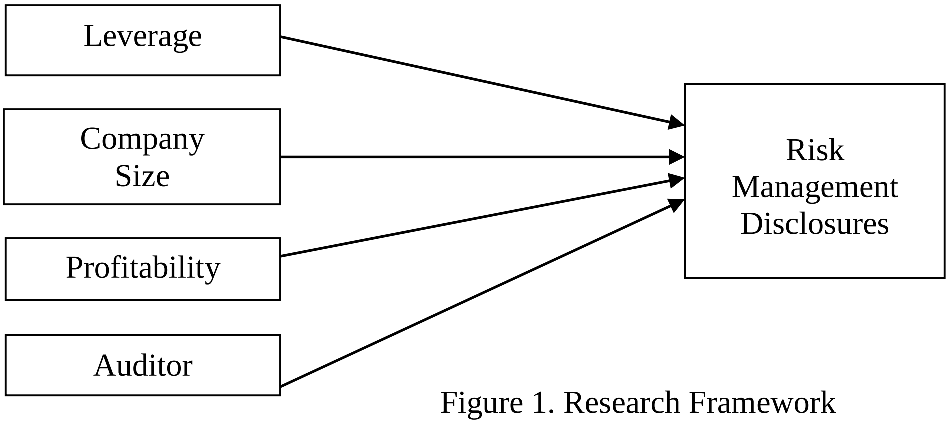

Figure 1. Research Framework

Hypothesis

From the existing exposure, the following hypothesis is obtained:
H1: Leverage has a significant positive effect on the extent of risk management disclosure.
H2: Company size has a significant positive effect on the extent of risk management disclosure.
H3: Profitability has a significant positive effect on the extent of risk management disclosure.
H4: Auditor's quality has a significant positive effect on the extent of risk management disclosure.

2. Research Method

This research is a quantitative research. The population of this study is non-financial companies listed on the 2016 MSCI Indonesia Index for the period of 2016. The sample used in this study was 68 companies. The data used in this research is secondary data. The data source in this study comes from the website www.ishare.com. This site is accessed to find out data on companies registered in the MSCI Indonesia Index for the period 2016. The research data used is the company's annual report which can be accessed through the relevant company website or the IDX website at www.idx.co.id. The data analysis method for this research is multiple regression analysis.

3. Results and Discussion

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	68	2	49	10,60	10,956
company size	68	,0769	,9312	,457441	,1820760
Profitability	68	-,8269	,3677	,108556	,1490379
Risk Management Disclosures	68	,4444	,7333	,600981	,0614821
Valid N (listwise)	68				

Source: secondary data processed, 2020

Based on the descriptive statistics above, the leverage level shows a minimum value of 2 at a maximum value of 49. The average value of leverage is 10.60 with a std deviation of 10,956.0,8269. The minimum value of company size is 0.0769 (7.69%) and the maximum value is 0.9312 (93.1%). The average value of company size is 0.457441 (45.7%) with a value of std. deviation of 0.1820760. Profitability has a value of -0.8269 (-82.7%) and a maximum value of 0.3667 (36.7%). The average profitability value is 0.1085 (10.1%) with a std value. deviation of 0.1490. Risk management disclosure shows a minimum value of 0.4444 (44.4%) and a maximum value of 0.7333 (73.3%). The average value of risk management disclosure level is 0.600981 (60.1%) with std value. deviation 0.0614821

Table 2. Frequency Distribution of Auditor Quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Auditor Non Big4	25	36,8	36,8	36,8
	Auditor Big4	43	63,2	63,2	100,0
	Total	68	100,0	100,0	

Source: Data processed, 2020

Table 2 shows the results of the frequency distribution test of the auditor quality variable which is a dummy variable, where the company audited by the Big4 Auditor has a value of 1 while the company audited by the Non-Big4 Auditor has a value of 0. The percent value shows that 36.8% of the total sample companies were audited. by Non-Big4 Auditor. Meanwhile, the remaining 63.4% were audited by Big4 Auditors.

Regression Analysis

Table 3. Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,536	,025		21,849	,000
	Leverage	,001	,001	,267	2,226	,030
	Company size	,074	,041	,220	1,823	,073
	Profitability	,103	,048	,249	2,135	,037
	Auditor quality	,006	,016	,045	,369	,713

Source: Data processed, 2020

3.1 Leverage has a significant positive effect on the extent of risk management disclosure.

The first hypothesis in this study is rejected because the higher the level of leverage of a company, the wider the risk disclosure that must be carried out by the company as a form of corporate responsibility to creditors. It can be seen from Table 3 that the measurement of the level of leverage has a significant value of 0.030 (sig <0.05), which means that the leverage variable has an insignificant effect on the extent of risk management disclosure. This is because creditors need accountability from the company for the use of funds that have been loaned as a measure to determine the company's ability to repay debt. Along with creditors' demands for this information, the company will have a high debt ratio (leverage) and will make wider disclosures. The results of this study are in line with research from Andarini & Indira (2012) and Hoyt (2008) which states that leverage has no significant effect on risk management disclosure. This result is different from the results of research conducted by Sudarmaji & Sularto (2007) and also research by Almilia & Retrinasari (2007).

3.2 Company size has a significant positive effect on the extent of risk management disclosure.

The second hypothesis in this study is rejected, it can be seen from the results of testing company size has a significant value of 0.073 (sig <0.05). This shows that company size has no significant effect on risk management disclosure. Companies that have larger total assets do not necessarily disclose broader risks. This is because the greater the total asset value of a company, the more complex the company's activities will be and the more extensive the disclosure made by a company. This has resulted in more and more published information that competitors cannot use in seeking opportunities. Therefore, some companies that have larger total assets make voluntary disclosures. The results of this study are in line with research conducted by Sudarmaji and Sularto (2007) which states that company size is not significant for the disclosure of the company's annual report. In contrast to the research results of Andarini & Indira, (2012) and also Hoyt (2008), which shows that company size has a significant effect on risk management disclosure.

3.3 Profitability has a significant positive effect on the extent of risk management disclosure.

The third hypothesis in the study was rejected, this can be seen from the results of testing the level of profitability which has a significant value of 0.037 (sig <0.05). The greater the profitability generated by the company, the wider the risk disclosure that is carried out to show stakeholders about the company's ability to make efficient use of capital within the company. This study is in accordance with the results of research conducted by Almilia & Retrinasari (2007), which concluded that the net profit margin has no significant effect on risk management disclosure. Similar results were also obtained from research by Kumalasari et al., (2014) and Utomo & Chariri (2014), which showed that profitability had a positive effect on risk management disclosure. High profitability will encourage management to convey detailed information, because management wants to convince investors of their ability to generate profits (Ruwita and Harto, 2013).

Different results are shown in research conducted by Jannah (2016) which states that profitability, which is proxied by NPM (net profit margin), has a positive effect on risk disclosure. This is because profitability, which is proxied by NPM (net profit margin), shows that companies with high profits will be followed by high risks. So that the higher the profitability, the wider the risk disclosure made by the company. Achmad et al. (2017) explain that companies with good financial performance will provide complete risk information to shareholders and the public to reduce information asymmetry and maintain public trust. Amran et al. (2009) also states that risk disclosure will assist investors in making investment decisions.

3.4 Auditor's quality has a significant positive effect on the extent of risk management disclosure.

The fourth hypothesis in the study was rejected, this can be seen from the results of testing the level of audit quality has a significant value of 0.713 (sig <0.05). The results of this study explain that it is not certain that the company audited by the Big4 Auditor does the company's risk disclosure extensively. This is in line with research from Wardhana & Cahyanowati (2013) and Sulistyanigsih & Barbara (2016). Auditor quality has no effect on risk disclosure, because companies that have used Big4 Auditor usually already have the trust of stakeholders and the public, so the company only makes disclosures in accordance with the rules set by BAPEPAM LK (Sulistyanigsih and Barbara, 2016). Meanwhile, some companies that have not used the Big4 Auditor have disclosed their risks more broadly to gain the trust of stakeholders.

Simultaneous Test

Table 4. Simultaneous test results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,045	4	,011	3,360	,015[b]
	Residual	,209	63	,003		
	Total	,253	67			

Source: Data processed, 2020

The simultaneous test results show that the calculated F value shows how the influence of all the independent variables together on the dependent variable. In other words, this value is to test whether our regression model is good / significant or not good / non-significant. The F value shows a value of 3,360 with a probability of 0.015. The probability value is much smaller than 0.05, so the regression model can be used to predict risk management disclosures.

4. Conclusion and Suggestion

4.1. Conclusion

The results showed that:

1. The leverage variable has no significant effect on the extent of risk management disclosure. The results of the leverage test show that the significance value of leverage is 0.030 (sig <0.05).
2. The company size variable has an insignificant effect on risk management disclosure. The results of the company size test show a significant value of company size of 0.073 (sig <0.05).
3. The profitability variable has no significant effect on risk management disclosure, the results of the profitability test show a value of 0.037 (sig <0.05).
4. The variable quality of auditors has no effect on risk disclosure, the results of auditors' quality testing show a value of 0.713 (sig <0.05).
5. The simultaneous test results show that the calculated F value shows a value of 3,360 with a probability of 0.015. The probability value is much smaller than 0.05, so the regression model can be used to predict risk management disclosures.

4.2 Suggestion

The prospective researcher is expected to be able to add to the research variables that have been studied, such as research with different research years, because the state of the company is always changing every year. This research was only conducted in the 2016 time period, so the data studied did not reflect the actual conditions of the company. In addition, the sample used is only non-financial companies. This research on corporate risk disclosure uses a risk disclosure index originating from abroad so that it does not reflect the overall accounting regulations in Indonesia.

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