The Analysis of the Effect of Corporate Governance on Corporate Risk Disclosure (Empirical Study of Manufacturing Company Listed in the Indonesia Stock Exchange in the Period of 2018-2019)

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(Empirical Study of Manufacturing Company Listed in the Indonesia Stock Exchange in the Period of 2018-2019)

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ABSTRACT: *According to agency theory as the theoretical framework, this study investigates the influences of corporate governance attributes (including the proportion of the independent commissioners, the board of commissioners' size, managerial ownership, the existence of risk oversight committee, and the board of commissioners and audit committee meeting frequency) on corporate risk disclosure with firm performance as controlling variable. This study analyzes 126 annual reports of manufacturing companies listed in the Indonesia Stock Exchange (IDX) from 2018 to 2019. The unweighted disclosure index approach is applied to quantify corporate risk disclosure by adapting the risk items checklist developed by Mokhtar and Mellett (2013). To prove the hypotheses, this study employs the multiple regression analysis method. The results point out that the board of commissioners' size, managerial ownership, risk oversight committee, and board of commissioners meeting frequency are all significantly positive associated to corporate risk disclosure, while the proportion of the independent commissioners, audit committee meeting frequency, and firm performance as the control variable do not affect corporate risk disclosure.*

KEYWORDS -*Corporate Risk Disclosure, Corporate Governance, GCG, Unweighted Disclosure Index, Agency Theory.*

I. INTRODUCTION

Corporate risk disclosure has become a major issue to discuss since the occurrence of major corporate shocking incidents, such as Enron, Tyco, WorldCom, Xerox, and Parmalat. These controversy have caused significant losses for investors; hence it is not surprising if there is an encouragement to achieve good corporate governance, characterized by accountability, well-defined responsibilities, and ensures greater transparency to return investors' trust (Salem et al., 2019). When there is no information available, moral hazard can negatively impact the company's value since managers can act as opposed to the investors' interest, which can affect the global economy (Giner et al., 2020).

Risk disclosure is defined as a form of communication regarding factors that influence the company's expected results (Alkurdi et al., 2019). At the same time, Linsley and Shrives (2006)describe risk disclosure as information exposed to public about any opportunity, danger, and threat that has already or will affect the company in the future. Risk disclosure can be very beneficial for both companies and investors. For companies, risk disclosure can be the key to increasing their value and competitive advantage, reducing capital costs and, consequently, increasing capital market activities (Kurniawanto et al., 2017; Sarens and D'Onza, 2017; Alkurdi et al., 2019). As for investors, risk disclosure can be utilized to determine the companies' risk profile and their ability to manage risk (Kurniawanto et al., 2017), so it can help the investors in the decision-making process.

After the global financial crisis, risk disclosure has become a primary concern and has gained significant interest in recent years (Jia et al., 2019; Ott, 2020). A study held by Achmad et al. (2017) reported that the level of risk disclosure in Indonesia is quite weak, even weaker than in Australia, Singapore, and Malaysia (Probohudono et al., 2013). The inadequacy of risk disclosure pointed out the necessity to recognize factors that influences risk disclosure in distinct circumstances (Mokhtar and Mellett, 2013). This is important to study since external users need more information about corporate risk disclosure (Kurniawanto et al., 2017).

Risk disclosure has become increasingly important in international policy areas and has generated worldwide significant interest (Nahar et al., 2020). Hady (2019)stated that recently, corporate governance practices have played an important role in increasing risk disclosure. These statements are confirmed by a study held by Al-Hadi et al. (2019) and Khandelwal et al. (2020), which claim that companies with a good and effective governance structure are bound to disclose risk more regularly and have greater transparency as a signal to the investors about their quality. Companies that disclose more risks will certainly get a positive response from the stakeholders because the company is considered more confident and has a high ability to deal with its risks, thus increasing its credibility.

Based on prior research, the author found some research gaps. First, it can be concluded that there are still inconsistent results regarding the corporate governance characteristics that influence corporate risk disclosure. This can be caused by the distinction of regulations where the research occurred, time period used, sample characteristics, research methods, and other conditions that may significantly affect the results. Second, this study includes the risk oversight committee as one of the independent variables where the influence of its existence has not been widely studied. Third, most of the previous research is conducted in countries that use a one-tier system, so it will be inappropriate if those research are used as guidance to improve corporate risk disclosure practice in Indonesia, which implements a two-tier system. These findings encourage the author to fill these gaps by using manufacturing companies listed in the Indonesia Stock Exchange (IDX) as the research population.

The author focuses on manufacturing companies since the regulation regarding risk items that should be disclosed in this sector has not been specified in detail. It is crucial to find out the companies' intention when disclosing their risk despite the limited regulation. The data was selected in 2018-2019 since it was a stable and the latest year when the research was conducted so it can completely describe the latest manufacturing company profile.

II. THEORITICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

2.1 Agency Theory

This study uses agency theory to develop the research hypotheses. Agency theory untangles the relationship between principals and agents. It says that agents' interests may contradict principals' interests (Alshirah et al., 2020). Principals and agents are considered parties who have rational economic behavior that only act for their gain (Ghozali, 2020). Conflict of interest happens when an asymmetric information problem exists between them (Jensen and Meckling, 1976).

Agency theory can explain agents' motivation when disclosing information while regulations do not exist (Nahar et al., 2020).Agents are described as self-interest and individualistic people that only disclose information based on the cost-benefit analysis where rewards and punishments appear to be the priority (Jensen and Meckling, 1976; Alkurdi et al., 2019). The information asymmetry can make principals wrongly predict the company's prospects, putting both parties at a disadvantage situation. To avoid this from happening, agency theory agrees that transparency in the form of company disclosure is required to lessen information asymmetry (Mukhibad et al., 2020). In addition, it is also believed that by implementing good corporate governance practices as a mechanism in monitoring company, the occurrence of information asymmetry could be lessened and the company's credibility might be improved (Achmad et al., 2017; Elgammal et al., 2018).

2.2 Independent Commissioners

Most researchers generally think that independent commissioners are the most effective instrument for supervising the company's activities (Ahmad et al., 2015). According to agency theory, boards dominated by independent parties tend to be more effective in monitoring the board of directors' behavior and decision, thus minimizing agency problems (Viljoen et al., 2016; Habtoor and Ahmad, 2017).

Empirical evidence appears to be inconsistent.Saggar and Singh (2017),and Khandelwal et al. (2020) found that these two variables did not have any association, indicate that the appointment of independent commissioners is only to fulfill the regulations instead of implementing good corporate governance. By contrast, some researchers found that the independent commissioners are significantly related to corporate risk disclosure (Alkurdi et al., 2019; Hady, 2019; Nahar et al., 2020). This result may be because the independent commissioners are not fully driven by personal interests, enabling them to inform risk better (Probohudono et al., 2013).With reference to this information, the first hypothesis is designed as follows:

H1: Independent commissioners are significantly positive related to corporate risk disclosure

2.3 The Board of Commissioners' Size

The board of commissioners' size is considered an essential component in determining its effectiveness (Allini et al., 2016). Agency theory argues that larger boards can be a good instrument in monitoring company performance to enhance the implementation of risk disclosure (Bufarwa et al., 2020). Prior research provided mixed findings. For example, Oliveira et al. (2018) and Elgammal et al. (2018)found that board of commissioners' size has no effect on corporate risk disclosure. Similarly, Kurniawanto et al. (2017)confirmed that the large board can increase the likelihood of internal conflict and slow down the decision-making process, making the board's existence less effective in monitoring risk disclosure practice. By contrast, Saggar and Singh (2017), Seta and Setyaningrum (2018), Hady (2019), and Nahar et al. (2020)found an impact between the board of commissioners' size and corporate risk disclosure. Hady (2019) indicates that a bigger size of the board of commissioners will come up with the utmost monitoring so the company will disclose risk in a good and comprehensive manner. A smaller board size might cause an excessive workload for each member, which will negatively impact their performance on monitoring company managers effectively (Elgammal et al., 2018)**.** By having a large board, board members' awareness about their commitment to support risk disclosure will increase (Saggar and Singh, 2017).As regards to these circumstances, the second hypothesis is designed as follows:

H2: The board of commissioners' size is significantly positive related to corporate risk disclosure

2.4 Managerial Ownership

Referring to agency theory, if the manager owns the company's shares, the information asymmetry can be avoided, and in this case, by disclosing risk information (Jensen and Meckling, 1976). Hady (2019) indicates that as managerial ownership enhances, the company's disclosure will be more comprehensive. In contrast with previous results, Saha and Akter (2013) argued that company with higher managerial ownership disclose less risk information. This might happen since managers already have all the information needed, so they prefer not to disclose to minimize disclosure costs (Achmad et al., 2017). As regards to these explanations, the third hypothesis is designed as follows:

H3: Managerial ownership is significantly positive related to corporate risk disclosure

2.5 Risk Oversight Committee

The risk oversight committee is the board of commissioners' supporting committee in terms of monitoring towards risk management implementation. According to agency theory, the risk oversight committee, as a committee that has no affiliation with the company, can provide impartial assessments about risks faced by the company (Al-Hadi et al., 2016). Since the risk oversight committee takes the crucial responsibility towards risk management, it is plausible to claim that the risk oversight committee is connected with corporate risk disclosure (Jia et al., 2019).

Al-Hadi et al. (2016) and Seta and Setyaningrum (2018)proved that the existence of the risk oversight committee positively affects the corporate risk disclosure, which indicates that its role can provide the company with adequate skills, time, and dedication so it can enhance the implementation of good corporate governance and corporate risk disclosure practices. Referring to this view,Nahar et al. (2020)arrived at similar findings stating that the risk oversight committee may enhance the company's information transmission process about risk management, thus thus creating the company more credible to stakeholders. In keeping with these explanations, the fourth hypothesis is designed as follows:

H4: The manufacturing company with a separate risk oversight committee tends to disclose more risks.

2.6 Board of Commissioners Meeting Frequency

Agency theory suggests that the board of commissioners' activities are related to the company's intention to disclose risk information (Saggar and Singh, 2017). The diligent board, measured by the board of commissioners meetings, are more likely to fulfill their tasks on monitoring the reporting process, resulting a greater disclosure, including risk-related information (Habtoor and Ahmad, 2017; Alshirah et al., 2020).

Habtoor and Ahmad (2017) and Oliveira et al. (2018) prove that the board of commissioners meetings frequency positively affects corporate risk disclosure. Board of commissioners who meet more often tend to have more information related to the company's behavior and the performance of its employees, which influences the standard of supervision and increases the disclosure of risk information (Habtoor and Ahmad, 2017). However, Saggar and Singh (2017) and Hady (2019) found the opposite result, which suggests that the board of commissioners may not be strong enough to influence and encourage the board of directors to disclose more risks(Abdullah et al., 2017). As regards to the arguments shown above, the fifth hypothesis is designed as follows:

H5: Board of commissioners meeting frequency is significantly positive related to corporate risk disclosure

2.7 Audit Committee Meeting Frequency

Bryce et al. (2015) and Abdullah et al. (2017)stated that audit committee meetings that are held oftentimes might facilitate the communication of risk management information so it can lead to the increasing control of reporting and improving corporate risk disclosure. This statement is conformable with agency theory and previous studies have proven its conclusive effect on more extensive risk disclosures.

Previous studies found significant results between the audit committee meeting frequency and corporate risk disclosure. Al-Maghzom (2016) suggests that companies which held audit committee meeting frequently are more encouraged to disclose more risks. This result is also identical with Alkurdi et al. (2019)which states that the audit committee can behave as an effective supervising system that can reduce agency cost by increasing disclosure. In reference to the information above, the sixth hypothesis is designed as follows:

H6: Audit committee meeting frequency is significantly positive related to corporate risk disclosure

III. RESEARCH METHODS

3.1 Research Variables

As the dependent variable, corporate risk disclosure is quantified by applying the unweighted disclosure index approach whereby the value of 1 is given for each risk item disclosed and 0 otherwise. The risk disclosure categories developed by Mokhtar and Mellett (2013) are adopted and presented below:

Table 1
Risk Disclosure Checklist

Risk Category	Disclosure Items
Financial risk	**(1)** Interest rate **(2)** Exchange rate **(3)** Commodity **(4)** Liquidity **(5)** Credit **(6)** Going concern **(7)**Cost of capital
Operational risk	**(8)** Customer satisfaction **(9)** Product development **(10)** Efficiency and performance **(11)** Sourcing **(12)** Stock obsolescence **(13)** Product and service failure **(14)** Environmental **(15)** Health and safety **(16)** Brand name erosion **(17)** Management Process
Empowerment risk	4 **(18)** Leadership and management **(19)** Outsourcing**(20)** Performance incentives **(21)** Change readiness **(22)** Communications
Information processing and technology risk	**(23)** Integrity **(24)** Access **(25)** Availability **(26)** Infrastructure
Integrity risk	**(27)** Management and employee fraud **(28)** Illegal acts **(29)** Reputation
Strategic risk	**(30)** Environmental scan **(31)** Industry **(32)** Business portfolio **(33)** Competitors **(34)** Pricing **(35)** Valuation **(36)** Planning **(37)** Life cycle **(38)** Performance measurement **(39)** Regulatory **(40)** Sovereign and political

Furthermore, Table 2 provides details about the list of variables used in this study along with their measurements:

Table 2
Variables Measurements

No.	Variable	Acronym	Proxy
1.	Corporate Risk Disclosure	CRD	The percentage of the number of risk items disclosed to the total number of risk disclosure items.
2.	Independent Commissioners	INDEP	The percentage of INDEP to the total number of BOC.
3.	The Board of Commissioners' Size	BSIZE	The number of BOC members.
4.	Managerial Ownership	MOWN	The percentage of shares owned by the BOC and BOD.
5.	Risk Oversight Committee	ROC	Dummy variable which scores1 if the company has a separate ROC and 0 otherwise.
6.	Board of Commissioners Meeting Frequency	COMEET	The number of BOC meetings.
7.	Audit Committee Meeting Frequency	ACMEET	The number of AC meetings.
8.	Firm Performance	ROA	Earning after tax divided by total assets.

3.2 Data and Sample Selection

3 This study collected and analyzed data obtained from manufacturing companies' annual reports listed in the Indonesia Stock Exchange (IDX) in 2018-2019. In selecting sample, this study uses the purposive

sampling method and resulting126 annual reports as the final sample. Table 3 below provides the sample selection process conducted in this study.

Table 3
Sample Selection Process

No.	Criteria	Total
1.	Number of manufacturing companies listed in the Indonesia Stock Exchange (IDX) in 2018-2019.	332
2.	Number of manufacturing companies that did not publishannualreports in 2018-2019.	(10)
3.	Number of manufacturing companies that did not have full available data related to research variable.	(138)
4.	Outlier	(58)
	Final Sample	126

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics Analysis

Table 4 below displays the descriptive statistics of the research's variables.

Table 4
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CRD	126	.10	.54	.2305	.09492
INDEP	126	.22	1.00	.4024	.10834
BSIZE	126	2	10	4.02	1.839
MOWN	126	.00	.12	.0184	.03123
COMEET	126	2	24	10.16	4.268
ACMEET	126	3	14	5.81	2.688
ROA	126	-.08	.23	.0437	.06462
Variable	N	Value: 1	(%)	Value: 0	(%)
ROC	126	5	4	121	96

Table 4 denotes the average valueof corporate risk disclosure (CRD) is 23,05%, ranging from 10% to54%. This result points out that the quantity of risk disclosure in manufacturing companies in Indonesia is quite weak and needs to be improved along with the higher levels of uncertainty in the business environment faced by the company. Regarding independent variables, the average value of the proportion of independent commissioners (INDEP) is 40%, ranging from 22% to 100%. This average value has met the membership requirements provided by OJK, which require at least 30% of the board of commissioners. The average size of the board of commissioners (BSIZE) is 4, with a range from 2 to 10. This result shows the manufacturing company's obedience to the OJK's requirements which require a company to have at least 2 members. Moreover, the descriptive statistics denote the low average score in managerial ownership (MOWN)which scores 1,84% in a range of 0% to 12%. The average number of the board of commissioners meetings (COMEET) is 10, ranging from 2 to 24. This average value has met the minimum requirements mandated by OJK to conduct an internal meeting at least 6 times a year and a joint meeting at least 3 times a year. For audit committee meetings frequency (COMEET), it shows that the average value is 6 with a range from 3 to 14. This indicates that most manufacturing companies have complied with the requirements set out by OJK to conduct a regular meeting at least 4 times a year. Furthermore, in terms of the existence of the risk oversight committee

(ROC), it shows that only 4% of 126 samples have a separate risk oversight committee, while the other 96% still rely on the audit committee. This is because the existence of the risk oversight committee is still voluntary for manufacturing companies, which can be formed if its existence is considered necessary.

4.2 Hypotheses Testing

Table 5 give a summary of the hypotheses testing's results. From table 5, it can be deduced that the model used in this study is statistically significant with an F-value of 5,243, which affirms its fitness to predict the dependent variable (CRD) simultaneously. In addition, the adjusted R^2 value is 0,192, which implies that all of the independent variables (INDEP, BSIZE, MOWN, ROC, COMEET, ACMEET, ROA) predict 19,2% of the variation of the dependent variable (CRD).

Table 5
Multiple Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.078	.043		1.810	.073
INDEP	.091	.073	.104	1.244	.216
BSIZE	.012	.004	.234	2.786	.006
MOWN	.970	.257	.319	3.781	.000
ROC	.105	.041	.216	2.523	.013
COMEET	.005	.002	.214	2.501	.014
ACMEET	.001	.003	.017	.198	.843
ROA	-.156	.123	-.106	-1.263	.209

F-value = 5,243; Adjusted R^2 = 0,192; sig = 0,000; Durbin-Watson = 1,911

The multiple regression analysis shown above reveals mixed results. In contrast with agency theory, the results reveal a positive but no significant relation between the independent commissioners and corporate risk disclosure with a p-value of 0,216. Hence, H1 is rejected. This finding is identical with preceding research (Allini et al., 2016;Viljoen et al., 2016; Abdullah et al., 2017; Habtoor and Ahmad, 2017; Saggar and Singh, 2017; Seta and Setyaningrum, 2018) which indicate that the existence of the independent commissioners does not guarantee companies to disclose more risks, proving their ineffectiveness to enhance the quality of corporate governance (Zulfikar et al., 2017; Falendro et al., 2018). The descriptive statistics in table 4.2 also support this finding, indicating the members' disproportionate composition where the average member is only 40%. This disproportionate composition makes the independent commissioners have insufficient power to influence and encourage directors to disclose more about company risks (Abdullah et al., 2017).

The results give the evidence that the board of commissioners' size positively affects corporate risk disclosure with a p-value of 0,006. Hence, H2 is accepted. This finding is in conformity with agency theory which argues that the extensive board can be a beneficial instrument in supervising company's activity, thus improving the implementation of risk disclosure (Bufarwa et al., 2020). Prior research also found similar results (Saggar and Singh, 2017; Seta and Setyaningrum, 2018; Hady, 2019; Nahar et al., 2020), which indicate that a large board of commissioners can provide more optimal monitoring so the company will be encouraged to disclose risk in a better and comprehensive manner (Hady, (2019). The board size enhancement guides to the board members' awareness about their duties to urge more risk disclosure and is a major influence for the risk communication (Saggar and Singh, 2017). Furthermore, large boards tend to have diversified expertise, making decisions more effectively to support risk disclosure (Mokhtar and Mellett, 2013; Nahar et al., 2020).

The results report asignificantly positive relation between managerial ownership and corporate risk disclosure with a p-value of 0,000. Hence, H3 is accepted. This finding shows that the bigger power the board has over the company, the more risks will be disclosed to the public. When the company makes adequate risk disclosure, this indicates that the company is giving a signal to the public that they are completely confident with their ability and performance in managing risk. Consequently, the capital market will give a positive response, which will provide additional benefits for the management who owns the company's shares.

Interestingly, findings show that the mmanufacturing company with a separate risk oversight committee tends to disclose more risks with a coefficient of 0,105. Hence, H4 is accepted. This finding is supported by prior research (Abdullah et al., 2017; Seta and Setyaningrum, 2018; Nahar et al., 2020), which show that the presence of the risk oversight committee has an important role in encouraging companies to disclose more risks. Other than that, the risk oversight committee can provide better quality in monitoring risk and strengthen the risk management process, thus creating the company more credible to stakeholders(Falendro et al. 2018; Nahar et al. 2020). This result is also similar with Al-Hadi et al. (2016), which indicates that the role of the risk oversight committee can provide the company with adequate competence and perseverancefor improving risk supervision, which is reflected in risk disclosure.

The regression results also reveal a significantly positive relation between the board of commissioners meeting frequency and corporate risk disclosure with a p-value of 0,014. Hence, H5 is accepted. This is in conformity with agency theory which shows that meetings held by the board of commissioners also lead a crucial part in increasing corporate risk disclosure. Habtoor and Ahmad (2017)and Oliveira et al. (2018) arrived at similar finding by stating that boards of commissioners who meet frequently tend to have more information related to the company's action and the performance of its managers, which positively influences the quality of supervision and finally increases the company risk disclosure.

Moreover, the results point out that audit committee meeting frequency has a positive but no significant relation on corporate risk disclosure with a p-value of 0,843. Hence, H6 is rejected. This finding shows that the meeting conducted by the audit committee as a form of supervisory function is not effective enough to enhance the corporate risk disclosure. The audit committee might have insufficient ability, chance, and guidance in conducting a good risk assessment since the numerous risks faced by the company have become more complex (Al-Hadi et al., 2016). Furthermore, the results of descriptive statistics in table 4.2 also provide evidence that supports this result, in which the meetings conducted by the audit committee (6 times a year) are not as frequent as the meetings conducted by the board of commissioners (10 times a year). Holding the overwhelming responsibility make it impossible for the audit committee to focus only on one issue. It is important to establish another more specified committee, such as the risk oversight committee, to obtain better control and increase the transparency of company risk. This result is also consistent with Allini et al. (2016), who obtained an insignificant relation between the audit committee meetings frequency and corporate risk disclosure in 17 state-owned companies listed in Italy.

V. CONCLUSION

This study aims to investigate the influences of corporate governance aspects (including the proportion of the independent commissioners, the board of commissioners' size, managerial ownership, the existence of risk oversight committee, and the board of commissioners and audit committee meeting frequency) on corporate risk disclosure with firm performance as controlling variable. 126 samples of the manufacturing company listed in Indonesia from 2018 to 2019 were obtained through the purposive sampling method. This study found that the quantity of risk disclosure in manufacturing companies in Indonesia is quite weak and needs to be improved along with the higher levels of uncertainty in the business environment faced by the company. The hypotheses testing pointed out that the board of commissioners' size, managerial ownership, risk oversight committee, and board of commissioners meeting frequency are all significantly positive related to corporate risk disclosure. However, this study failed to present evidence concerning the impact of the proportion of the independent commissioners, audit committee meeting frequency, and firm performance as the control variable on corporate risk disclosure.

After conducting this study, several limitations were found. First, the risk classification process contains subjectivity that can affect results reliability since it was only done by a single author. Second, this study only focuses on the corporate governance aspect on explaining corporate risk disclosure practice. In order to follow up the limitations found in this study, future research is expected to consider these suggestions to provide a better quality of research. First, future research is expected to be done by more than one author so it can be less subjective and the reliability of the risk classification process can be assured. Second, future research may consider other aspects as the independent variable, such as firm characteristics (including industry type, liquidity, solvability, firm size, and firm growth) to explain corporate risk disclosure more comprehensively.

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