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The Impact of Effective Corporate Governance, Profitability, and Leverage on the Disclosure of Corporate Risk Management

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ABSTRAK

Pesatnya kemajuan sektor usaha mengakibatkan semakin meningkatnya intensitas persaingan usaha. Oleh karena itu, untuk menjaga kepercayaan stakeholder, setiap perusahaan diharapkan dapat mengungkapkan informasi mengenai kinerja perusahaannya secara lebih transparan dan selalu berhati-hati dalam membuat kebijakan untuk meminimalisir berbagai risiko yang mungkin timbul. Dalam dunia bisnis, risiko merupakan sesuatu yang cukup sulit dihindari sehingga diperlukan pengungkapan risiko yang memadai melalui pengungkapan manajemen risiko. Tujuan dari penelitian ini adalah untuk menguji dampak tata kelola perusahaan yang baik, profitabilitas, dan leverage terhadap pengungkapan manajemen risiko pada perusahaan manufaktur di sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia selama periode 2019-2021. Jumlah sampel yang digunakan adalah 51 sampel dengan menggunakan metode purposive sampling. Variabel yang akan dipertimbangkan independen dalam penelitian ini terdiri dari kepemilikan manajerial, kepemilikan publik, profitabilitas, dan leverage. Di sisi lain, variabel yang akan dianggap dependen adalah pengungkapan manajemen risiko. Teknik analisis yang digunakan adalah analisis regresi linier berganda dan uji t menggunakan software SPSS 26. Hasil penelitian menunjukkan bahwa variabel kepemilikan publik dan leverage mempengaruhi pengungkapan manajemen risiko sedangkan variabel kepemilikan manajerial dan profitabilitas tidak berpengaruh terhadap pengungkapan manajemen risiko. Hasil penelitian ini dapat memberikan informasi tambahan bagi perusahaan mengenai pengungkapan manajemen risiko dan dapat membantu perusahaan mengambil keputusan dan memperbaiki sistem yang ada di perusahaan.

Keywords :
Good Corporate Governance, Profitability, Leverage, Risk Management Disclosure.

ABSTRACT

The quick advancement of the business sector has resulted in an increasing intensity of business competition. Therefore, to maintain the trust of stakeholders, each company is expected to disclose information about its company's performance more transparently and always be careful in making policies to minimize various risks that may arise. In the business world, risk is something that is quite difficult to avoid so that adequate disclosure of risk is needed through risk management disclosure. The objective of this research is to examine the impact of good corporate governance, profitability, and leverage on the disclosure of risk management in manufacturing firms within the basic and chemical industry sectors that are enlisted on the Indonesia Stock Exchange during the period of 2019-2021. The number of samples used was 51 samples using the purposive sampling method. The variables that will be considered as independent in this research consist managerial ownership, public ownership, profitability, and leverage. On the other hand, the variable that will be considered as dependent is risk management disclosure. The analysis technique used were multiple linear regression analysis and the t test using SPSS 26 software. The research results showed that the variables of public ownership and leverage affect risk management disclosure while the variables of managerial ownership and profitability have no effect on risk management disclosure. The results of this research can provide additional information for companies regarding risk management disclosure and can help companies make decisions and improve existing systems in the company.

INTRODUCTION

The development of the times followed by quick advancement of the business sector has resulted in an increasing intensity of business competition so that in order to maintain the trust of stakeholders, each company is expected to be able to disclose information about its company's performance more transparently and always be careful in making company policies to minimize various risks that may arise. In the business world, risk is something that is quite difficult to avoid so that adequate risk-related disclosure is needed through risk management disclosure. Effective risk management disclosure can reduce information asymmetry and can help stakeholders obtain a basis for decision making in investing their funds.

The existence of risk management disclosure is basically important. However, there are still many companies that pay less attention, resulting in cases of risk management failure. For example, in 2018 there was a case of breaking into 14 State-Owned Enterprises and private banks by the company PT Sunprima Nusantara Pembiayaan because the level of risk control was still low. In 2020 there was also a case of breaking into PT Bank Maybank Indonesia Tbk due to the bank's negligence in implementing risk management, resulting in the loss of IDR 22 billion in customer money. In addition, there was also a case of PT Nippon Indosari Corporindo Tbk which experienced strategic risk in terms of regulation so that a fine of IDR 2.8 billion was imposed.

Research on risk management disclosure in Indonesia is still relatively minimum and the increasing demand for risk management disclosure by principals makes the theme of research on the influence of good corporate governance proxied as managerial ownership and public ownership, as well as profitability and leverage on risk management disclosure is still an interesting topic for further research. The manufacturing firms in the basic and chemical industries sector were the focus of this research because the basic and chemical industries sector has a very important contribution to economic development, especially in the manufacturing sector. The basic and chemical industries sector was able to increase the Composite Stock Price Index (JCI) by 8.72% year to date, making it the sector with the largest increase. The basic and chemical industry is in the highest position in industrial growth on the Indonesia Stock Exchange during 2019 with a percentage of 8.86% so that the basic and chemical industries sector is interesting to study.

RESEARCH METHODS

This study is quantitative analysis that uses information from manufacturing businesses' annual reports in the basic and chemical industries during 2019-2021. These reports were collected from the official website of the Indonesia Stock Exchange, specifically www.idx.co.id. The population for this analysis consists of 70 manufacturing enterprises that are officially listed on the Indonesia Stock Exchange in the basic and chemical industries from 2019 to 2021. The purposive sampling technique was applied, and a sample of 17 companies was acquired over a three-year research period, for a total sample of 51 samples. The analysis technique used were multiple linear regression analysis and the partial test (t test).

LITERATURE REVIEW

Stakeholder Theory

Theory of stakeholders explains that companies are not only focused on achieving the targets but also must provide benefits to their stakeholder (Saskara & Budiasih, 2018). One of the strategies that companies can do to maximize stakeholder satisfaction and desires is to carry out corporate risk management disclosure.

Agency Theory

The theory of agency describes the relation between management as an agent and stakeholders as principals. Agency theory arises due to the possibility of conflict in the separation of ownership by the operational management of an organization (Puspitaningrum & Taswan, 2020). In this theory, management is known to have more complete information about the company than the principal, allowing information asymmetry to arise (Fayola & Nurbaiti, 2020). To minimize this, risk management disclosure is needed so that the quality of the annual report of company can improve and the information presented is more transparent.

Risk Management Disclosure

According to Nugroho & Pramesti (2021) risk management disclosure is a company's disclosure of risks which have already occurred and can be resolved and it may also be seen as a disclosure of the company's efforts to manage risks that may occur in the future. In this study, information on the amount of risk management disclosure made by the company is obtained from the disclosure items in the annual financial statements and company websites divided by the total disclosure items.

$$\text{RMD} = \frac{\sum \text{disclosure items}}{\text{total disclosure items}}$$

Good Corporate Governance

Good Corporate Governance (GCG) is a series of rules that management uses as guidelines in managing the company to achieve predetermined goals (Wahyudi et al., 2021). GCG can be used to reduce company risk because GCG can prevent financial statement manipulation. In this study, the GCG variable will be proxied by managerial ownership and public ownership.

Managerial Ownership

Managerial ownership is when the company's management owns its shares (Anggraini & Terzaghi, 2022). The greater percentage of managerial ownership of the company will result in greater responsibility for all business activities carried out, resulting in higher risk management disclosure. Managerial ownership is measured by the formula:

$$\text{MO} = \frac{\sum \text{managerial shares total}}{\text{total outstanding shares}}$$

H1: Managerial Ownership affects Risk Management Disclosure.

Public Ownership

Public ownership refers to the individuals outside the company who own shares of it. The higher public ownership will encourage broader risk management disclosure, because the more public parties who own the shares of company, the more threats or demands the company will receive to enhance transparency in disclosing information about the company's condition so that the company must do more risk management disclosure. The formula for measuring public ownership is as follows:

$$\text{PO} = \frac{\sum \text{publicly held shares total}}{\text{total outstanding shares}}$$

H2: Public Ownership affects Risk Management Disclosure.

Profitability

Profitability refers to the capacity of the company to manage its resources to generate income (Nustini & Nuraini, 2022). According to Puspitaningrum & Taswan (2020) companies with high profitability tend to make more extensive disclosures because the company is followed by high risk so that it will be encouraged to disclose more extensive risk information for the purpose to maintain the trust of shareholders. Return on Asset (ROA) is the profitability ratio used in this research which is calculated by the formula:

$$\text{ROA} = \frac{\text{net profit}}{\text{total assets}}$$

H3: Profitability affects Risk Management Disclosure.

Leverage

The phrase leverage refers to the ability of a company to pay its financial obligations. A high level of leverage will make the company more dependent on creditors (Asiyah & Damayanti, 2022). The bigger the quantity of debt, the greater risk that the company is willing to take because there will be more demands for companies to disclose information more widely and transparently. In this study, the Debt to Equity Ratio (DER) is used to calculate leverage using the formula:

$$\mathrm{DER} = \frac{\text{total debt}}{\text{total equity}}$$

H4: Leverage affects Risk Management Disclosure.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Managerial Ownership	51	.00	.45	.1379	.13953
Public Ownership	51	.07	.49	.2131	.10628
Profitability	51	.00	.36	.0623	.06825
Leverage	51	.09	3.34	.8190	.69851
Risk Management Disclosure	51	.07	.34	.1846	.07975
Valid N (listwise)	51				

Source: SPSS 26 output (data processed)

The table shows that each minimum value, maximum value, average (mean), and standard devition.

Classical Assumption Test

Table 2. Classical Assumption Test Results

Test		Sig.	X1	X2	X3	X4	Information
Normality		0,200					Normally Distributed
Multicollinearity	**Tolerance**		0,673	0,801	0,875	0,711	No multicollinearity
	VIF		1,486	1,248	1,142	1,406	No multicollinearity
Heteroskedasticity	**Sig.**		0,074	0,425	0,235	0,477	No heteroskedasticity
Autocorrelation		0,066					No autocorrelation

Source: SPSS 26 output (data processed)

Multiple Linear Regression Analysis

Table 3. Multiple Linear Regression Analysis Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.268	.028		9.613	.000
	Managerial Ownership	.046	.084	.080	.549	.586
	Public Ownership	-.319	.101	-.425	-3.167	.003
	Profitability	.159	.150	.136	1.059	.295
	Leverage	-.039	.016	-.340	-2.386	.021

a. Dependent Variable: Risk Management Disclosure

Source: SPSS 26 output (data processed)

Based on the finding obtained from the table analysis, the formula for multiple linear regression can be written as follows:

RMD = 0.268 + 0.046MO - 0.319PO + 0.159PRO – 0.039LEV + e

T Test Statistics

Table 4. T Test Statistics Results

Variables	t	Sig	α	Conclusion
Managerial Ownership	0,549	0,586	0,05	H1 rejected
Public Ownership	-3,167	0,003	0,05	H2 accepted
Profitability	1,059	0,295	0,05	H3 rejected
Leverage	-2,386	0,021	0,05	H4 accepted

Source: SPSS 26 output (data processed)

The disclosure of risk management is not affected by managerial ownership, thus resulting in the rejection of the initial hypothesis. Managerial ownership in the company tends to be small so that management does not have enough control to select what information gets disclosed in the annual report, so that it does not affect risk management disclosure. This is corroborated by Astuti & Priantinah (2020), which found that managerial ownership does not affect risk management disclosure.

The disclosure of risk management is affected by public ownership, thereby leading to the acceptance of the second hypothesis. When the public ownership of a company is higher, the company's demands for risk management disclosure will also increase because there will be more parties who need information about the company's condition. Previous research by Susanti et al. (2018) and Swarte et al. (2020) backs up the findings of this research which revealed that public ownership affects risk management disclosure.

The disclosure of risk management is not affected by profitability, thus resulting in the rejection of the third hypothesis. Company profitability does not affect risk management disclosure because companies are still required to disclose complete risk information in all conditions, including when they are experiencing low profit and high loss conditions. The finding of this study are corroborated by earlier research by Susanti et al. (2018), Puspitaningrum & Taswan (2020), and Shagan (2022), which state that profitability does not affect risk management disclosure.

The disclosure of risk management is influenced by leverage, thereby leading to the acceptance of the fourth hypothesis. The company will be more likely to report risk management due to its higher level of leverage because creditors require accountability for the management of funds that have been loaned. Previous research by Susanti et al. (2018) and Shagan (2022) is used to corroborate the findings of this study, which showed that leverage affects risk management disclosure.

CONCLUSION

According to the results of the analysis that has been done to examine the effect of good corporate governance, profitability and leverage on risk management disclosure, it can be inferred that risk management disclosure are affected by public ownership and leverage. However, risk management disclosure are not affected by managerial ownership and profitability.

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