INTERNATIONAL JOURNAL OF SOCIAL HEALTH
https://ijsh.ph/index.php/rp
Volume 2 Number 8 August 2023 E-ISSN: 2984-7079

HOW DO WE ASSESS ENTERPRISE RISK MANAGEMENT DISCLOSURE?

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KEYWORDS	ABSTRACT
company size, independent board of commissioners, managerial ownership, institutional ownership, audit committee, risk management.	This study aims to empirically explore company size and corporate governance as determinants of risk management disclosure by investigating the effect of a combination of determinants on risk management disclosure practices in manufacturing companies. This study used a random sampling method. The sample for this research is 189 manufacturing companies (3 years of observation) listed on the Indonesia Stock Exchange for the 2019-2021 period. The COSO 2017 spreadsheet was used to measure the level of risk management disclosure. Panel data regression analysis using the Eviews program version 10 was used to examine the effect of company size and corporate governance on risk management disclosure. The results showed that company size, institutional ownership, and audit committee had a positive effect. In contrast, the size of the board of commissioners hurt risk management. The independent board of commissioners with managerial ownership shows results that do not affect risk management in manufacturing companies in Indonesia.
DOI: 10.58860/ijsh.v2i8.88	

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INTRODUCTION

Risk is an unexpected situation and can occur in every activity carried out by a company. The collapse of the world's largest companies raises big question marks for the implementation of risk management, from the failure of Baring Bank in (1995), the failure of Enron in (2001), the failure of WorldCom in (2002), and the Toshiba fraud case in (2015). Shows that there is a failure in risk management (Yuniasih et al., 2011). The risk management process is essential for the company because, in addition to maintaining the stability of the company in facing risk, it also increases investors' trust (Rujiin & Sukirman, 2020). Disclosure of risk management is essential for non-financial companies because it can be helpful for supervisory bodies to develop more detailed guidelines on risk management disclosures in non-financial companies Abdullah et al., (2017).

There are several cases of company bankruptcy caused by the company's failure to manage risks, as published by the Indonesia Risk Management Professional Association (IRMAPA); the case of PT Nyonya Meneer was declared bankrupt by the Semarang District Court (PN). The heavy burden of debt that is borne makes the company no longer healthy. In addition to debt burdens, disputes over power struggles between families are said to have triggered the bankruptcy of the company founded in 1919. In the case of the debt, the company was declared bankrupt because it could not fulfill its debt obligations of Rp. Two hundred fifty-two billion to 85 creditors. PT. Mrs. Meneer has debts to several State-Owned Enterprises (BUMN), such as the Pratama Tax Office of IDR 36 billion, BPJS Kesehatan, IDR 1 billion, and BPJS Employment, IDR 12 billion. Then debt to employees was also recorded at IDR 29 billion.

The following case that resulted in the company going bankrupt due to failure to pay off its obligations was a tea company, PT Sariwangi Agricultural Estate Agency. According to the

kompas.com article (2018), there were financial problems in 2015 at PT Sariwangi Agricultural Estate Agency with its affiliated company, PT Indorub Sumber Wadung Plantation Airlines. The two companies are in debt of up to 1.5 trillion to several creditors. The factor that causes unpaid loans is that PT Sariwangi Agricultural Estate Agency has invested in 3 technologies in terms of sprinkling water on tea plantations to increase the production of tea produced on these plantations, which will automatically require high costs. Unfortunately, the investment made by PT Sariwangi Agricultural Estate Agency failed, causing the company to be unable to repay the debt borrowed from creditors.

In addition, fraud cases have also occurred at PT. Kimia Farma (Devi et al., 2017) . This case began when the company submitted audit results on December 31, 2001, which were audited by Hans Tuanakotta and Mustofa (HTM). However, BUMN and Bapepam considered that the financial statements contained engineering. After a re-audit, on October 3, 2002, the company's financial statements were restated, and it was found that the profit earned did not match what was reported. The failure to manage risk that even involves companies that are hundreds of years old shows the weakness of risk management disclosure, which should be able to help control management activities to minimize the occurrence of fraud in both developed and developing countries, including Indonesia.

The actor that influences risk management disclosure is company size. Company size is the size of the company's capital and human resources. Usually, large companies will disclose more information than small companies. Also, the bigger the company, the more stakeholders are involved (Rudangga & Sudiarta, 2016). The results of previous research on company size on risk management showed inconsistent results, which concluded that company size had a positive effect on Adam et al. (2016), Pristianingrum et al. (2018), and Rujiin & Sukirman (2020). Meanwhile, other studies concluded that the results did not affect Ramadhani et al. (2015) and, Sanusi et al. (2017), Falendro et al. (2018).

Meanwhile, other factors that influence risk management are corporate governance proxied by the size of the board of commissioners, independent board of commissioners, managerial ownership, institutional ownership, and audit committee. Rustam (2017) states that improving corporate governance is one way that can be used to reduce company risk so that information users can identify, measure, and manage the risks that arise from all business activities, both credit risk, operational risk, or other risks, to optimize company value.

Based on the background description above, this study aims to empirically explore the company size and corporate governance as determinants of risk management disclosure by investigating the influence of the combination of determinants on risk management disclosure practices in manufacturing companies..

METHODS

The data used is the data panel. Panel data is a combination of time series and cross-section. Time series is data from one object with several specific periods, while cross-section is data obtained from one or more research objects in the same period. The data used in this study is secondary data in the form of annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Table 1 . Sample Selection Process

Criteria	2019	2020	2021
Manufacturing companies listed on the IDX for the 2019-2021 period	181	193	211
Manufacturing companies that do not consistently issue financial reports in the 2019-2021 period	(13)	(25)	(43)
Total population	168	168	168
Manufacturing companies that are the research sample with the Slovin formula	63	63	63
total sample		189	

The population in this study are manufacturing sector companies listed on the Indonesia Stock Exchange in 2019-2021. The research sample consisted of 63 companies with 189 observations during the observation period. The sampling technique in this study uses probability random sampling, where the population is drawn using a number table or random numbers so that all population members have the same opportunity to be sampled (Sugiyono, 2019).

RESULTS AND DISCUSSION

Based on 63 companies with a total observation of 189 companies during the observation period, the descriptive results of the variables studied can be seen in Table 2:

Table 2. Descriptive Statistics (N=189)

Variable	Minimum	Maximum	Means	Standard Deviation
Risk management	0.400	0.950	0.71	0.113
Company Size	11,874	16,738	14,42	0.909
Size of the Board of Commissioners	7	8	7,76	0.430
Independent Board of Commissioners	3	4	3.72	0.448
Managerial ownership	0.010	0.306	0.08	0.076
Institutional Ownership	7,047	22,317	12.93	4,465
Audit Committee	3	4	3.66	0.474

Source: Processed Secondary Data, 2022

Based on Table 4, it can be seen the minimum, maximum, average, and standard deviation values of the variables studied. The risk management implementation variable is calculated by dividing the total implementation by the sum of all items implemented, with a maximum value of 0.950, a minimum value of 0.400, and an average of 0.71. The higher the value of risk management, the higher the company implements corporate risk management. On the other hand, the smaller the value, the smaller the company's risk management implementation. On average, 71% of companies have implemented enterprise risk management with a standard deviation of 0.113, indicating that the size of the risk management spread tends to be homogeneous because the value is smaller than the average value.

The research data is divided into three categories using the formula shown in Table 3. To obtain a descriptive picture of ERM disclosure data by manufacturing companies in annual reports during the study period. The results of classifying research data using the data classification formula quoted from research by Riwidikdo (2009) are shown in Tables 3 and 4.

The average ERM disclosure calculated based on Table 4 is 71.49%, indicating that overall manufacturing companies have a moderate level of ERM disclosure (based on the range of scores in Table 4). ERM disclosure provisions regarding the minimum requirements for items that non-financial companies must disclose cause manufacturing companies to pay less attention to the completeness of ERM disclosure instruments and tend to present general information.

Table 3. Formulas Data Categorization

Classification	intervals
Tall	$X > M + 1\ SD$
Currently	$M - 1\ SD \leq X \leq M + 1\ SD$
Low	$X < M - 1\ SD$

Source: Riwidikdo (2009)

Table 4. Results Categorization Data (Disclosure ERM)

Category	Score	Amount	Percentage
Tall	> 82	30	15.87%
Currently	61 – 82	116	61.38%
Low	< 61	43	22.75%

Category	Score	Amount	Percentage
Total		**189**	**100%**

The average value of ERM disclosure calculated based on Table 5 is 71.49%, indicating that, as a whole, manufacturing companies have a moderate level of ERM disclosure (based on the range of scores in Table 4). Based on the calculations in Table 5, the dimensions of information, communication, and reports have the highest percentage of 81.83%. In comparison, the dimensions of strategy and goal setting have the lowest percentage of the total score of 69.05%. These results indicate that, in general, manufacturing companies pay more attention to the process of conveying information, communication, and reporting in the company. At the same time, the dimensions of strategy and setting risk objectives are still less of a concern for manufacturing companies.

Table 5. Results of the Frequency of Disclosure of Each Item ERM Disclosures on Each Dimension ERM Disclosures

The Five Dimensions of ERM Disclosure	The total score of all items that should be disclosed, calculated from the total of all observations (63 companies x 3 years = 189 observations)	The total score of all disclosed ERM disclosure items	Percentage of the total score of all disclosed ERM disclosure items
Governance and Organizational Culture (5 items)	945	697	**73.76%**
Strategy and Goal Setting (4 Principles)	756	522	**69.05%**
Performance (5 Principles)	945	657	**69.52%**
Review and Revision (3 principles	567	359	**63.31%**
Information, Communication, and Reports (3 items)	567	464	**81.83%**

Average ERM Disclosure = (73.76% + 69.05% + 69.52% + 63.31% + 81.83%)/5
= 71.49% (Including medium category)

Research Hypothesis

Table 6. Hypothesis Testing Results

Variables	coefficient	std. Error	t-Statistics	Prob.
C	-0.097397	0.129973	-0.749366	0.4551
UP	0.654864	0.059359	11.03231	0.0000
UDK	-0.013818	0.005733	-2.410205	0.0175
DKI	0.042215	0.022489	1.877140	0.0629
km	0.049382	0.025014	1.974164	0.0507
KI	0.008929	0.001088	8.209328	0.0000
ka	0.079696	0.010427	7.643281	0.0000
Cross-section fixed (dummy variables)				
R-squared	0.903650	Mean dependent var		0.714021
Adjusted R-squared	0.849051	SD dependent var		0.110856
SE of regression	0.043070	Akaike info criterion		-3.176078
Sum squared residue	0.222603	Schwarz criterion		-1.992583
Likelihood logs	369.1394	Hannan-Quinn criteria.		-2.696616
F-statistics	16.55079	Durbin-Watson stat		2.116487
Prob(F-statistic)	0.000000			

Source: Secondary data processed, 2022

Simultaneous Test (Test F)

Based on the results of hypothesis testing, an F value of 16,551 is obtained with a significance of 0,000. A significance value < 0.05 indicates that Company Size, Board of Commissioners Size, Independent Board of Commissioners, Managerial Ownership, Institutional Ownership, and Audit Committee affect Risk Management.

Determination Coefficient Test (*R square*)

The coefficient of determination test aims to determine the influence of the independent variables on the dependent variable. Based on the results of testing the hypothesis, the R squares value is 0.9036 or 90.36%. This shows that the joint effect of company size, board of commissioners, independent commissioners, managerial ownership, institutional ownership, and audit committee on risk management is 90.36%. At the same time, the remaining 9.64% is influenced by other variables outside the study.

Partial Test (t-test)

The t-statistical Test was carried out to measure how much influence an independent variable has in explaining variations in the dependent variable. There is a significant effect if the significance value is less than 0.05.

The Effect of Company Size on ERM Disclosures

The test results show that there is a significant effect of company size on risk management. This is evidenced by a significance of 0.000 (significance smaller than 0.05). So Company Size has a significant effect on Risk Management. The coefficient value of Firm Size (X_1) is $b_1 = 0.654$, so it can be said that there is a positive influence, meaning that the larger the size of the company, the more detailed information will be disclosed so that the quality of ERM disclosure will be better.

Based on agency theory, large companies have higher agency costs when compared to small companies (Jensen & Meckling, 1976). Previous research stated that the larger the size of the company, the number of stakeholders in the company also increases, so more information must be disclosed to meet stakeholders' needs (Amran & Devi (2008). In addition, large companies pay much attention to the public; disclosing company information is part of the company's efforts to realize public accountability to maintain the company's reputation and good name. The larger the company, the higher the ERM disclosure (Larasati, 2020). This research is in line with previous research, which found that company size positively affects risk management (Adam et al., 2016; Pristianingrum et al., 2018; Rujiin & Sukirman, 2020).

Effect of Board of Commissioners' Size on ERM Disclosure

The test results show a significant effect of board size on risk management. This is evidenced by a significance of 0.017 (significance smaller than 0.05). So that the size of the board of commissioners has a significant effect on risk management. The coefficient value of the size of the board of Commissioners (X_2) is $b_2 = -0.013$, so it can be said that there is a negative influence, meaning that every time there is an increase in the number of commissioners, it reduces the level of ERM disclosure.

Jensen (1993), in his research entitled The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems, and Yermack (1996), argue that the smaller size of the board of commissioners is more effective in monitoring company managers. Boards of commissioners with a large number tend to be less effective because of the possibility of being involved in greater conflict in the decision-making process, which will affect the company's level of disclosure Wang & Hussainey (2013). This can be related to communication and coordination problems, such as extended decision-making time, increased costs, and poor communication, which can occur in companies with larger commissioners (Al-Maghzom et al., 2016). Therefore, a company with a larger board of commissioners has lower effectiveness than a company with a smaller board of commissioners.

As for those that support a negative relationship between board size and voluntary risk management (Al-Maghzom et al., 2019; Elgammal et al., 2018; Wang & Hussainey, 2013), at the same time, the results of previous studies show a positive relationship between board size and risk management (Manurung & Kusumah, 2016; Sulistyaningsih & Gunawan, 2016; Wicaksono & Adiwibowo, 2017).

Influence of the Independent Board of Commissioners on ERM Disclosures

The test results show no significant effect of the independent board of commissioners on risk management. This is evidenced by a significance of 0.062 (a significance greater than 0.05). So that the board of commissioners is independent no significant effect on ERM disclosure. The coefficient value of the Independent Board of Commissioners (X_3) is $b_3 = 0.042$, so there is a positive influence, meaning that every increase in the Board of independent commissioners can increase ERM disclosure in a company.

The insignificant relationship between independent commissioners on the level of risk management is consistent with (Allegrini & Greco, 2013; Rodríguez et al., 2014). This finding suggests that a high proportion of independent commissioners in a company does not guarantee that disclosure risk will be high. The existence of an independent commissioner in Indonesia does not play a significant role in encouraging companies to provide high-risk disclosures. This result was caused by the appointment of an independent commissioner only for the sake of complying with regulations, not to implement good corporate governance (Nurul et al., 2021)

Independent commissioners in a company are only formalities to comply with regulations, where each company is required to have a minimum of 30% independent commissioners on the board, so the existence of these independent commissioners is not to carry out a good oversight function and not to use their independence to oversee the policies of the directors Pangestuti et al . , (2017). In addition, the insignificant value of the independent commissioners can also be caused by the quality and educational background of the members of the board of commissioners. Previous research stated that independent commissioners had no influence on risk disclosure (Elzahar & Hussainey (2012). This insignificant result is probably because the company's independent commissioners need more vital insight into providing independent advice to members of the board of commissioners in convincing management to act in the interests of shareholders.

The results of this study are not in accordance with the results of the research (Jia et al., 2019; Sulistyaningsih & Gunawan, 2016; Wicaksono & Adiwibowo, 2017). However, research results support these results (Kinasih, 2016; Haryanti & Hardiyanti, 2021; Pangestuti et al., 2017).

Effect of Managerial Ownership on ERM Disclosure

The test results show no significant effect of managerial ownership on risk management. This is evidenced by a significance of 0.050 (a significance greater than 0.05). So managerial ownership has no significant effect on risk management. The managerial ownership coefficient (X_4) is $b_4 = 0.049$, so there is a positive influence, meaning that the greater the managerial ownership, the better the quality of a company's ERM disclosure.

Managerial ownership has no effect on ERM disclosure. This is not in line with agency theory which states that if management also owns company shares, it can minimize information asymmetry or agency conflicts between agents and owners (Hidayah, 2017). This is because the management, who also acts as the owner of the company, already knows clearly what risks can worsen the condition of the company and its investment; they also know the amount of costs that will be incurred in ERM disclosure so that management assumes that ERM disclosure is not necessary.

The results of this study are in accordance with the previous statement, which stated that managerial ownership has no effect on risk management disclosures by Prayoga & Almilia (2013). This

is because management has a dual role as management as well as a shareholder so that management has been aware of the risks faced by the company even though they are not disclosed in the financial statements and has taken into account the costs for disclosing the company's risk management. Therefore, management assumes the company's risk management does not need to be disclosed.

The results of this study need to follow the results of the research (Adam et al., 2016; Leksmono, 2020; Sulistyaningsih & Gunawan, 2016). However, these results are relevant to other studies that state that managerial ownership does not affect risk management (Alkurdi et al., 2019; Khumairoh & Agustina, 2017; Prayoga & Almilia, 2013; Salem et al., 2019).

Effect of Institutional Ownership on ERM Disclosure

The test results show a significant effect of institutional ownership on risk management. This is evidenced by a significance of 0.000 (significance smaller than 0.05). So that institutional ownership has a significant effect on risk. The coefficient value of institutional ownership (X_5) is $b_5 = 0.008$, so there is a positive influence, meaning that the greater the institutional ownership, the better the quality of a company's ERM disclosure.

Agency theory explains that larger institutional ownership has extra oversight to monitor disclosure policies. High levels of institutional ownership lead to greater monitoring efforts by institutional investors to inhibit the behavior of managers who prioritize their interests, ultimately harming company owners. Institutional ownership's role will encourage companies to be more transparent in disclosing information.

Ownership significantly minimizes agency conflicts (Jensen & Meckling (1976). A higher level of institutional ownership will lead to more extraordinary monitoring efforts by investors to inhibit the behavior of managers concerned with their interests, which can ultimately harm the company. The results of this study support the statement that an increase in the number of institutional shareholders can determine the level of disclosure of company information and the requirements for broader access to other company information. More excellent supervision of management by institutional investors will indirectly put pressure on the quality of risk management disclosures (Ashfaq et al., 2019)

previous research found that institutional ownership has an effect on risk management disclosures (Al-Maghzom et al., 2019; Neifar & Jarboui, 2018; Pangestuti et al., 2017; Pravadinda & Majidah, 2021; Prayoga & Almilia, 2013).

The Influence of the Audit Committee on ERM Disclosures

The test results show a significant influence of the Audit Committee on risk management. This is evidenced by a significance of 0.000 (significance smaller than 0.05). So the Audit Committee has a significant effect on Risk Management. The coefficient value of Institutional Ownership (X_5) is $b_5 = 0.008$, so there is a positive influence, meaning that the larger the audit committee, the better the quality of ERM disclosures.

Agency theory aims that each related party can get the best for himself (Jensen & Meckling, 1976). This theory emphasizes mechanisms that can complement contracts to overcome problems that can cause information asymmetry between the two parties. Adverse selection is one of the effects caused by information asymmetry, where management tends to take a safe position for itself in making investment decisions. (Jensen & Meckling, 1976) . Establishing an audit committee is a way to encourage the oversight function and resolve agency problems; this is because the audit committee has an important role, one of which is overseeing the financial reporting process in addition to its primary task of ensuring the integrity and credibility of financial reports (Gajevszky, 2014)

According to OJK Regulation Number 55/POJK.04/2015, the audit committee is responsible for recommending the appointment of an external auditor, overseeing the audit process, management, and internal audit, and ensuring the credibility of financial reporting. More prominent audit committees can

provide more robust monitoring, leading to higher transparency (Abdullah et al., 2015). In addition, good oversight from the audit committee can support transparency and encourage management to provide more information than is required. Previous research proves that the audit committee influences risk management (Elzahar & Hussainey, 2012; Tai et al., 2020; Thesarani, 2017).

CONCLUSION

Company size, board of commissioners size, independent board of commissioners, managerial ownership, institutional ownership, and audit committee influence risk management in manufacturing companies listed on the Indonesia Stock Exchange in the year of observation 2019-2021. The implications of this research are as follows: 1) Strategic Decision-Making: This means that the size of the company and the composition of the board of commissioners play a crucial role in determining the company's approach to risk management. 2) Corporate Governance Enhancement: Additionally, companies could consider strengthening their corporate governance structures by including independent oversight and diverse expertise in risk assessment and mitigation. 3) Investor Confidence:Moreover, the findings underline the importance of risk management disclosure as a way to build investor confidence. Manufacturing companies should ensure transparent and accurate reporting of their risk management practices to attract and retain investors.

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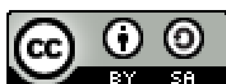

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