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Firm Characteristics and Enterprise Risk Management Disclosures: Evidence From State-Owned Enterprise in Indonesia

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ABSTRACT

The purpose of this study is to examine the effect of firm characteristics on enterprise risk management disclosure. The object of research is State-Owned Enterprises listed on the Indonesia Stock Exchange in 2019-2020, a total sample of 40 annual reports using purposive sampling and multiple regression analysis. The results of this study prove that firm size and leverage do not affect enterprise risk management disclosure, while profitability affects enterprise risk management disclosure. The greater the profitability generated by the company, the wider the risk disclosure will be made to show stakeholders that State-Owned Enterprises in Indonesia can use capital efficiently.

Keywords: Firm Size, Leverage, Profitability, Enterprise Risk Management Disclosure, Indonesia Stock Exchange

INTRODUCTION

The phenomenon of the Garuda Indonesia company financial report case is considered a loss to shareholders. The management of Garuda Indonesia company in the company's 2018 annual financial position report based on previous information (2017 financial position report) there are irregularities, information is obtained that Garuda Indonesia company recorded a profit of Rp 11 billion in December 2018, but in 2017 Garuda Indonesia company suffered a loss up to IDR 3 trillion (Merdeka.com dated July 3, 2019). Proven Defect, Garuda Loss Financial Statement Status. The Financial Services Authority and the Ministry of Finance have imposed sanctions on Garuda Indonesia company and certified public accountant Kasner Sirumapea and certified public accountant Tanubrata, Sutanto, Fahmi, Bambang & Partners because it was proven that there were violations related to the financial report case. annual. The presentation of this annual financial report is not by the standards of The Financial Services Authority Regulations and is not by the Statement of Financial Accounting Standards (finance.detik.com date June 28, 2019).

The increasingly fierce business competition encourages every company to be more transparent in disclosing information. The information disclosed must be understandable,

relevant, reliable, and comparable. The more quality and comprehensive the information presented in the company's annual report, the more important the report is to investors (Miihkinen, 2012) and reduces information asymmetry between investors and management (Lajili & Zeghal, 2005). Disclosure of risk will help investors determine the level of risk they will face and improve the quality of their investment decisions (Solomon, Solomon, Norton, & Joseph, 2000).

Empirically, the effect of firm characteristics such as firm size, leverage, and profitability on enterprise risk management disclosure results varies. Studies (Sinaga, Nazar, & muslih, 2018) and (Yunifa & Juliarto, 2017) concluded that firm size had a positive effect, while (Hassan, 2009) and (Sanusi, Motjaba-nia, Roosle, Sari, & Harjitok, 2017) concluded that the results did not affect. Studies (Marhaeni, T., & Yanto, 2015) and (Kumalasari, Subono, & Anissykurlillah, 2014) concluded that leverage had a positive effect, while (Amran, Bin, & Hassan, 2009), (Sulistyaningsih, & Gunawan, 2016), and (Khumairoh, & Agustina, 2017) showed no effect. Studies (Aljifri & Hussainey, 2007), and (Miihkinen, 2012) concluded that profitability had a positive effect, while (Lajili & Zeghal, 2005), and (Olveira, Rodrigues, & Craight, 2011) find a negative effect between the two variables.

This research can contribute to the government as a reference in determining policies on risk management disclosure of state-owned companies listed on the Indonesia Stock Exchange to increase investor confidence. For company management, this research can provide information and understanding of corporate risk management disclosures to help improve risk management disclosure practices in companies and realize good corporate governance.

Based on the description of the background above, the purpose of this study is to examine the extent to which firm characteristics can affect enterprise risk management disclosure. The main question of this study is whether the firm characteristics represented by firm size, leverage, and profitability can affect enterprise risk management disclosure. The purpose of this study, namely to obtain empirical evidence of the effect of firm characteristics on the enterprise risk management disclosure.

LITERATUR REVIEW

According (Jensen & Meckling, 1976) discusses the relationship between principals (shareholders) and agents (managers) related to how to manage the company. The principal is an entity that delegates authority to agents to manage the company on behalf of the principal including to make decisions. Agency theory predicts that managers will do the work or will make decisions that will benefit themselves, even if those decisions are not in the best interests of shareholders. In addition, managers have more and more accurate company information than shareholders. The main purpose of risk disclosure is to reduce agency costs incurred because the interests of managers are different from the interests of shareholders and the information asymmetry that occurs between managers and shareholders.

Stakeholder theory provides the idea that companies do not only operate for the company themselves but also to provide benefits to stakeholders. Information is an important element in decision making, so investors as one of the stakeholders will find ways to get information

related to the risk that is useful in making decisions (Amran et al., 2009). By making wider disclosures including risk disclosure, investors will feel more satisfied.

Risk is an uncertain outcome because the probability of uncertainty cannot be determined. There are six risk categories, namely: financial risk, operating risk, empowerment risk, information processing, and technology risk, integrity risk, and strategic risk (Linsley & Shrives, 2006). (Miihkinen, 2012) defines risk disclosure as all information about the risk presented by the company in the annual report. The lack of information about corporate risk in the annual report can threaten the relevance of the report (Cabedo & Tirado, 2004).

Large companies are considered capable of providing information to both internal and external parties and have plenty of resources to do so so that large companies do not incur additional costs to present information to all stakeholders. The larger the company, the more information will be disclosed. Details will also be disclosed, such as information related to the risks faced by the company, because large companies are considered capable of providing this information (Prayoga & Almilia, 2013).

The results of research conducted by (Linsley & Shrives, 2006), (Abraham & Cox, 2007), (Barakat & Hussainey, 2013), (Ruwita & Harto, 2013) show that firm size is significantly related to corporate risk disclosure. The size of the company can affect the company's risk disclosure because the bigger the company, the more stakeholders the company has. Following the stakeholder theory, as the number of stakeholders increases, the risk disclosure obligation becomes greater to meet the needs of stakeholders. Based on the description above, the hypothesis is found:

H_1: Firm size is positively associated with enterprise risk management disclosure

According to agency theory, creditors from companies that have a high level of debt risk in the capital structure can force companies to disclose more information (Amran et al., 2009). This is because companies with high debt levels are usually more speculative and risky so that wider disclosure of risk information is needed to reduce information asymmetry between agents and principals.

The results of previous research conducted by (Abraham & Cox, 2007), (Hassan, 2009), (Olveira et al., 2011) found that leverage has a positive effect on risk disclosure. Based on the description above, the hypothesis is found:

H_2: Leverage is positively associated with enterprise risk management disclosure

The level of profitability can be interpreted as a characteristic that describes the company's ability to generate profits. Companies with high levels of profitability will disclose more information. This is because high profitability shows that the company can manage the company well. Companies that produce high levels of profitability are followed by high risks, thus encouraging companies to disclose increasingly widespread risk information. There is a positive relationship between the level of profitability and risk disclosure because company managers in increasing earnings can provide greater information to increase investor confidence and thereby increase their compensation.

The results of research conducted by (Aljifri & Hussainey, 2007), (Miihkinen, 2012) show that profitability is significantly related to corporate risk disclosure. Profitability has a positive effect on corporate risk disclosure because the higher the profit generated by the company, the greater the incentive for managers to provide detailed information as evidence that they can generate profits for the company. Based on the description above, a hypothesis is proposed:

H_3: Profitability is positively associated with enterprise risk management disclosure

METHODOLOGY

This research is a type of causal research, which aims to test the hypothesis about the effect of one or several independent variables on the dependent variable. The hypothesis proposed in this study was tested using quantitative research methods, namely performing regression testing in the form of descriptive statistics and multiple regression analysis. The data obtained in this study will be processed using Statistical Product and Service Solutions.

Enterprise Risk Management Disclosure

Enterprise Risk Management Disclosure in this study was measured using a total score index of disclosure items based on ISO 31000 dimensions which include 5 dimensions, namely mandates and commitments, framework planning, risk management implementation, monitoring, and continuous improvement following ISO 31000 component standards. Calculation of items using a dummy variable, that is, each ERM item that is disclosed is given a value of 1 and a value of 0 if it is not disclosed. Each item will be summed to obtain the overall ERM index of each company. Information regarding ERM disclosures is obtained from annual reports and company websites. The calculation of the Enterprise Risk Management Disclosure Index is formulated as follows:

$$\text{ERM Indek} = \frac{\text{Number of item disclosed}}{\text{25 disclosure items}} \quad (1)$$

Firm Size

Firm size can be seen from the size of the capital used, total assets controlled, or total sales generated. This study uses the total assets of the company in determining the size of the company. Since the company's total assets are of high value, this can be simplified by transforming them into a natural logarithm so that the size of the company can be calculated by:

$$\text{Firm size} = \text{Total Aset} \quad (2)$$

Leverage

Leverage is used to measure how much the company's assets come from debt or capital. Leverage is a ratio that states the relationship between debt and total capital or company assets (Sulistyaningsih, & Gunawan, 2016). The level of leverage in this study was measured using the debt to asset ratio. The measurement of leverage uses the debt to asset ratio because this ratio can indicate an increased risk for creditors in terms of the company's inability to pay off the company's debt. The following formula is used to measure the debt to asset ratio (Utomo & Chariri, 2014):

$$\text{Leverage} = \frac{\text{Total Amount of debt}}{\text{Total assets}} \quad (3)$$

Profitability

Profitability is a ratio that describes the company's ability to earn a profit. The increase in profit is the basis for evaluating the company's performance. In this study, profitability is proxied by Return on Assets (ROA). ROA is the measurement of financial performance that is most often used in the literature because this ratio measures profitability related to the number of assets used (Rose, 2016).

Return on Assets (ROA) is expressed by the formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \quad (4)$$

The population in this study includes all state-owned companies listed on the Indonesia Stock Exchange 2019 - 2020, which includes a total of 20 companies. Samples were obtained by the purposive sampling technique. The final sample used in this study is 40 annual reports of state-owned companies listed on the Indonesia Stock Exchange 2019 - 2020.

The data collection method in this study uses secondary data taken from the annual reports of state-owned companies listed on the Indonesia Stock Exchange in 2019-2020. The secondary data collected was obtained from the website www.IDX.co.id and the sites of each sample company.

The multiple regression equation for hypothesis testing in this study is:

$$ERMD = \alpha 0 + \beta 1SIZE + \beta 2LEV + \beta 3PROFIT + \varepsilon \quad (5)$$

Where:

ERMD	: Enterprise Risk Management Disclosure,
SIZE	: Firm Size,
LEV	: Leverage,
PROFIT	: Profitability
α0	: Constant,
β1... β3	: regression coefficient, and
ε	: error term.

FINDINGS

Description of Data

Overall, there are 40 observation data on the annual report of SOE companies in Indonesia for 2019-2020. Table 1 below describes the descriptive statistics of the research variables. Information on the descriptive statistics includes minimum, maximum, mean, and standard deviation values.

Table 1 Descriptive Statistic

Variable	Min	Max	Mean	Std. Deviation
Firm Size (milyard)	5.5710	891.3370	116.21797	192.8888
Leverage	0,4060	0,8904	0,7341	0,1545566
Profitability	-0,4563	0,1473	0,0085	0,0855546
ERM Diclosure	0,7600	0,8800	0,8040	0,0502711
Valid N (listwise)	40			

Source: Secondary data are processed

Table 1 shows the average level of enterprise risk management disclosure in state-owned companies in Indonesia of 80.40% with a maximum value of 88.00% and a minimum of 76.00%. These results indicate that the awareness of SOEs companies in Indonesia is quite high regarding the importance of disclosing company risk as one of the keys to creating value and competitive advantage for companies. Descriptive statistics from independent variables: The average number of firm sizes is Rp. 5,571,000,000,000, - the average leverage is 73.41%. and the average profitability of 0.85%.

Multiple Regression Analysis.

The results of multiple regression after testing the classical assumptions can be seen as follows. Table 2 shows that the value of R Square (R2) is 28.60% and Adjusted R Square (Adjusted R2) is 22.60%. Based on the Adjusted (R2) value, it can be concluded that as much as 22.60% of ERM disclosures can be explained by independent variables, the remaining 77.40% is explained by other factors outside the model.

The table shows the calculated F value of 4.805 with a probability of 0.006 (p-value < 0.050). Because the F value is greater than 4,000 and the probability is less than 0.050, this regression model shows the Goodness of Fit Model so that the regression model can be used to predict the enterprise risk management disclosure and can show that the independent variables jointly affect enterprise risk management disclosure.

Table 2 Result of Multiple Regressions

Variables	Coefficient	t	p-value
(Constant)	1,151	7,878	0,000
Firm Size	-0,009	-1,896	0,066
Leverage	-0,079	-1,601	0,118
Profitability	0,192	2,200	0,034**
R-Square	0,286		
Adjusted R-Square	0,226		
F	4,805		
Sig	0,006		

Notes: Significance at: *0,10, **0,05, and ***0,01 levels.

The variable that has a significant effect on the level of corporate risk disclosure is profitability at a significance level of 0.05 while the firm size and leverage variables have no effect on enterprise risk management disclosure.

Firm size (ρ-value = 0.066 and coefficient = -0.009) indicates that firm size has no effect on enterprise risk management disclosure. These results are consistent with research conducted by (Hassan, 2009) and (Sanusi et al., 2017) who found that there was no effect of firm size on the disclosure of firm risk. This is because companies, both large and small, in carrying out their operational activities are faced with different social situations, regulations and business environments in carrying out risk disclosure practices.

Leverage (ρ-value = 0.118 and coefficient = -0.079) indicates that leverage has no effect on corporate risk disclosure. These results are consistent with the research conducted by (Amran et al., 2009) who found that there was no effect of leverage on the company's risk disclosure. It is suspected that creditors and investors in general in Indonesia pay less attention to financial analysis factors so that although the disclosures in the annual report have been made by the company, the disclosure is not responded well. Leverage, which is one indicator of the company's performance measurement and financial information, is less able to influence risk disclosure in the company's annual report.

Profitability (ρ-value = 0.034 and coefficient = 0.192) indicates that profitability has a significant positive effect on corporate risk disclosure. These results are consistent with the results of research conducted by (Aljifri & Hussainey, 2007) and (Miihkinen, 2012) which shows that the level of profitability affects the disclosure of company risk. The greater the profitability generated by the company, the wider the risk disclosure will be made to show stakeholders that SOEs companies in Indonesia are able to use capital efficiently.

CONCLUSION

From the research results obtained, it can be concluded that firm size and leverage do not affect enterprise risk management disclosure in Indonesia. The firm size does not affect the enterprise risk management disclosure. This is because companies, both large and small, in carrying out their operational activities are faced with different social situations, regulations, and business environments in carrying out risk disclosure practices.

Leverage does not affect the enterprise risk management disclosure. This shows that leverage, which is one indicator of the company's performance measurement and financial information, is less able to influence risk disclosure in the company's annual report.

Profitability affects the enterprise risk management disclosure. The greater the profitability generated by the company, the wider the risk disclosure will be made to show stakeholders that State-Owned enterprises in Indonesia can use capital efficiently.

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