Why did management need to disclose risk information? A study in Indonesia's food and beverage manufacturing companies

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Abstract

Risk disclosure provides high-quality information about the potential risks that occur in a company. This information is available for stakeholders to make a decision. This research aims to analyze the influence of financial performance (profitability and leverage) and good corporate governance (GCG) on risk disclosure in Food and beverage manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020. The 45-sample size was selected through the purposive random sampling techniques. The multiple linear regression used to analyze and hypothesis testing. The results of the study revealed that GCG-managerial ownership, GCG-risk management committee, and GCG-public ownership encourage companies' tendency to disclose risks. In addition, high profitability diminishes companies' tendency to disclose risks. Meanwhile, leverage and GCG-auditor reputation have no impact on risk disclosure. This research is expected to be able to improve the quality of both financial and non-financial information to provide accurate information to stakeholders in making the right decisions.

Keywords

Risk disclosure, Financial performance, Good corporate governance

Introduction

As a basis for decision making and accountability to stakeholders, the company's annual report provides financial and non-financial information on the management policy for the use of its resources. This requires the company to communicate information in a transparent, reliable and relevant manner, which is useful for the minimization of risks and uncertainties. Risks arise due to the company's activities, especially in the economic field with all stakeholders [1].

Every risk due to economic activity will certainly be minimized by the Company properly through risk management. Risk management is the Company's order in managing the risks faced by the Company so as not to endanger the Company and stakeholders. Risk

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management is systematically communicated by the management through risk disclosure [2]. The importance of risk disclosure is stated in Chairman Bapepam LK No: KEP-431/BL/2012 related to the presentation and disclosure of periodic financial statements of issuers or public companies. In PSAK No. 60 related to financial instruments disclosure. Figure 1 is the level of risk disclosure in the manufacturing sector in 2020.

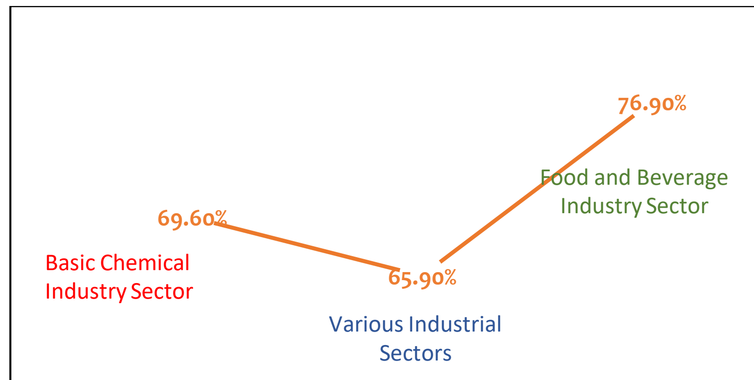

Figure 1. Graph of risk disclosure level

From Figure 1, it can be seen that the consumer goods industry sector has the highest level of risk disclosure compared to other sectors, which is 76.9%, while the basic chemicals industry sector is 69.6% and the miscellaneous industry sector is 65.9%. Manufacturing companies in the food and beverage subsector are among the most important companies in society to meet the needs of life. However, the growth rate of food and beverage industry fluctuates due to various risks faced such as supply and demand, government policies, market patterns, and e-commerce and other factors. In 2017-2020, food and beverage companies experienced a decline in industry growth, and in 2019-2020 this sector also experienced a sharp decrease because of the pandemic, but in 2021 quarter 1 the food and beverage industry experienced an increase. As shown in Figure 2.

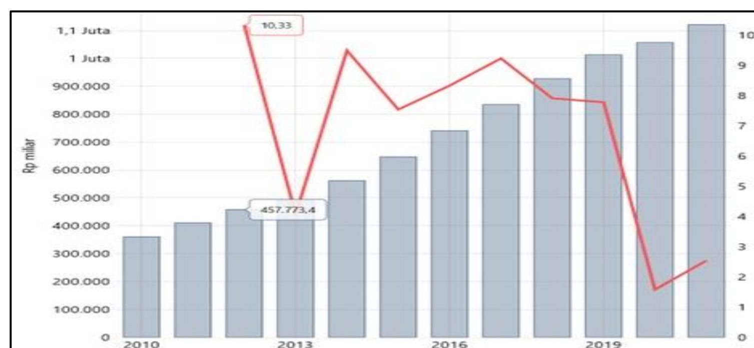

Figure 2. Growth chart of the food and beverage industry 2011-2021

One of the cases that a manufacturing company in the food and beverage sub-sector in Indonesia, namely PT Tiga Pilar Sejahtera Food Tbk (AISA) in 2019. AISA companies commit fraud where management presents financial statement information manipulatively so that investor confidence and other parties decrease. These problems indicate a poor level of risk management Risk management is able to solve problems

from various risks faced, so that company losses can be minimized. From this phenomenon, it can be concluded that the company has not managed risk management properly.

Risk disclosure is the completeness of financial statement information regarding estimates, judgments, and application of accounting policies [3]. The implementation of risk disclosure is influenced by several things both financial and non-financial. Financial factors are shown through financial performance as an element of risk disclosure. One of the prioritized financial aspects is profitability and leverage. High profitability, companies tend to provide complete information for risk disclosure to show good performance in the company. A study from [4] reveals profitability increases risk disclosure. Consistent with research [5] [6] [7] that high profits will increase risk disclosure. Meanwhile, another result is that high profitability will reduce risk disclosure [8] [9] [10].

The next financial aspect is leverage. Leverage is the level of company debt to assets owned. high leverage indicates greater risk due to the level of debt to finance company activities. Research results by [11] that leverage has a negative relationship to risk disclosure and is consistent with [12]. But different from [13], [14], [15] and [9] that leverage increases risk disclosure. And other research states that leverage has no impact on risk disclosure [16] [17].

In addition to financial factors, there are also non-financial factors in risk management and disclosure, namely Good Corporate Governance (GCG). GCG supports management in improving transparency, accountability and risk disclosure. GCG has several components, namely: auditor reputation, managerial ownership, risk management committee, and public ownership. First, auditor reputation will increase the level of public trust in the financial information presented. The company chooses auditors from the Big Four KAP with good credibility for stakeholders. The results found that auditor reputation is able to increase risk disclosure [18], [19]. Other findings state that the reputation of auditors has no effect on risk disclosure [20] and [21] High auditor reputation will reduce risk disclosure.

Managerial ownership refers to the shares owned by managers. It is often believed that high managerial ownership can lead to better access to complete information. However, research findings regarding the relationship between managerial ownership and risk disclosure vary. Some studies suggest that high managerial ownership actually reduces risk disclosure [13], while others indicate that it has no impact [22] or can even increase risk disclosure [10][23]. Additionally, the risk management committee, established by the board of commissioners, is responsible for formulating strategies and evaluating company information in line with regulations. Research findings on the impact of the risk management committee on risk disclosure are also mixed. Some studies suggest that the presence of a risk management committee positively influences risk disclosure [15], while others find no significant impact [24].

Another aspect of GCG is public ownership, which refers to shares owned by the public. Research findings on its impact on risk disclosure differ. Some studies, such as [9] and [25], suggest that high public ownership increases risk disclosure. However, other studies, such as [15], find no significant effect of public ownership on risk disclosure.

This research, as outlined in [4], introduces several novel aspects compared to previous studies. Firstly, it incorporates the proxy of public ownership into the corporate governance (GCG) element, aligning with [6] which suggests that public ownership incentivizes companies to furnish comprehensive and transparent information, particularly in terms of risk disclosure. Secondly, it focuses on manufacturing companies within the food and beverage subsector spanning the period from 2016 to 2020. This sector is chosen due to its notable level of risk disclosure, despite experiencing fluctuating industry growth values from year to year. The primary objective of this study is to analyze the relationship between financial performance, corporate governance practices, and risk disclosure within this context.

Methods

The population of this study comprises Indonesia's food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2020. The sampling method employed is purposive sampling technique. The samples are selected based on the following criteria 1) listed as Indonesia’s food and beverage manufacturing companies, 2) the financial statements use IDR currency, and 3) published financial statements consistently in 2016-2020.

Risk disclosure, as explained in previous research [15], is the dependent variable in this study, representing the extent of risk information faced by the company. The Risk Disclosure Index (RDI) is employed to gauge this variable. Additionally, there are six independent variables under consideration. Profitability assesses the company's ability to generate profits from its business operations and is quantified by the net profit margin. Leverage, on the other hand, denotes the company's capacity to meet its obligations based on its assets [26]. Auditor reputation pertains to the credibility of the auditing firm, with a Big Four designation receiving a value of 1 and a Non-Big Four designation receiving a value of 0 [27].

Managerial ownership refers to the proportion of shares owned by managers relative to the total shares available in circulation [28]. Conversely, the management risk committee is an autonomous committee responsible for evaluating risk management policies [13]. This is measured using a dummy variable, where a value of 1 indicates the presence of a risk management committee, while a value of 0 indicates its absence. Meanwhile, public ownership denotes the ratio of shares owned by the general public to the total shares outstanding [15].

This study uses regression linear to analyze the hypotheses. The regression linear used to predict the effect of leverage, profitability, auditor reputation, managerial ownership and risk management committee, public ownership to risk disclosure.

Results

Statistic descriptive

The sample data of this study are Indonesia's food and beverage manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. There were 45 samples obtained to carry out further analysis (Table 1).

Table 1. Statistic descriptive

Variable	N	Minimum	Maximum	Mean	Std. Deviation
PROF	45	-0.240	0.186	0.046	0.080
LEV	45	0.141	0.843	0.463	0.154
AR	45	0.000	1.000	0.311	0.468
MO	45	0.000	67.295	12.053	16.706
RMC	45	0.000	1.000	0.089	0.288
PO	45	0.049	0.587	0.262	0.162
RD	45	-2.510	-0.840	-1.750	0.439

Hypotheses testing

A t-test is utilized to predict the effect of profitability, leverage, auditor reputation, managerial ownership and risk management commite and public ownership to risk disclosure. Based on the sample size (n=45) and the different factor (df=n-1) is 44, so the t-table is 1.680 (Table 2).

Table 2. The result of t-test

Model	B	t	Sig	Result
Constant	-1.584	-5.397	0.000	-
PROF	-4.336	-4.465	0.000	H_{1a} not accepted
LEV	-0.993	-2.015	0.051	H_{1b} not accepted
AR	0.090	0.756	0.454	H_{2a} not accepted
MO	0.009	2.436	0.020	H_{2b} not accepted
RMC	0.649	2.994	0.005	H_{2c} accepted
PO	1.130	2.963	0.005	H_{2d} accepted

Discussion

The influence of financial performance-profitability on risk disclosure

Based on the test results, it is evident that financial performance-profitability exerts a negative effect on risk disclosure. This implies that companies with lower profits are inclined to provide more detailed disclosures. This behavior is driven by their recognition of various risks faced by the company. It is an effort to uphold the trust of company investors by demonstrating managerial responsibility for the capital they oversee, allowing investors to comprehend the true condition of the company through its financial reports [8].

This study aligns with the findings of [8] and [10], supporting the notion that profitability negatively impacts risk disclosure. In contrast, this contradicts the results of research conducted by [5][7][18][6], which asserted that profitability has a positive influence on risk disclosure

The influence of financial performance-leverage on risk disclosure

According to the test results, it is evident that financial performance-leverage has no significant effect on risk disclosure. The company's leverage level does not impact the extent to which risks are disclosed. Whether a company has high or low leverage, it does not influence the company's disclosure of risks in financial reports. This is because creditors already possess the necessary information when providing loans, rendering extensive disclosure about anticipated risks unnecessary for companies [29].

This study aligns with the findings of [17] and [16], indicating that the level of leverage does not impact risk disclosure. However, it contrasts with the results of research conducted by [14][18][15][9], which suggest that leverage has a positive effect on risk disclosure. Meanwhile, research by [11][4][12] indicates that leverage has a negative effect on risk disclosure.

The influence of GCG-auditor reputation on risk disclosure

According to the test results, it is evident that GCG-auditor reputation does not have a significant effect on risk disclosure. Essentially, auditors from both Big Four KAPs and Non-Big Four KAPs follow the same procedures throughout the audit process, from planning to reporting audit results. The distinction between the two lies in the auditor's independence when assessing the business to identify risks for risk evaluation. The choice between Big Four KAPs and Non-Big Four KAPs does not impact the disclosure of information in annual reports, as stakeholders do not differentiate between the audit results produced by these two KAPs, as long as the KAPs are authorized by BAPEPAM LK to serve as company auditors [30].

Consistent with [20], asserting that the auditor's reputation has no effect on risk disclosure. However, it contradicts the results of research conducted by [27] and [18] which claim that auditor reputation has a positive effect on risk disclosure. Additionally, it is inconsistent with research conducted by [21], stating that the auditor's reputation has a negative effect on risk disclosure.

The influence of GCG-managerial ownership on risk disclosure

Based on the test results, it is evident that GCG-managerial ownership has a positive effect on risk disclosure. According to [23], managerial ownership positively influences risk disclosure as it can diminish agency costs, aligning management interests with those of other shareholders.

This study aligns with the findings of [23] and [10], both indicating that managerial ownership positively affects risk disclosure. However, it diverges from research by [22]

and [18], which suggest that managerial ownership has a negative effect on risk disclosure.

The influence of GCG-risk management committee on risk disclosure

Based on the test results, it is evident that the GCG-risk management committee has a positive effect on risk disclosure. The presence of a risk management committee in a company can enhance risk disclosure practices and contribute to signaling potential risks that may arise in the future [18].

This study aligns with the findings of [18] and [15], all indicating that GCG-risk management committees have a positive effect on risk disclosure. However, it differs from research conducted by [32], which suggests that the GCG-risk management committee has no effect on risk disclosure.

The influence of GCG-public ownership on risk disclosure

Based on the test results, it is evident that GCG-public ownership has a positive effect on risk disclosure. As noted by [9], the greater the shares owned by the public, the higher the pressure exerted on the company. Consequently, companies tend to provide more information in financial and annual reports, including details about risk management disclosures.

This research is consistent with previous studies by [25][18][9], all affirming that public ownership has a positive effect on risk disclosure. However, the results of this research differ from the findings of [33], suggesting that public ownership has a negative effect on risk disclosure. Additionally, this contrasts with research by [34] and [15], which claim that public ownership has no effect on risk disclosure.

Conclusion

The results showed that GCG-risk management committee and GCG-public ownership are able to improve risk disclosure. High financial performance-profitability minimizes the scope of risk disclosure. Meanwhile, financial performance-leverage, GCG-managerial ownership and GCG-auditor reputation have no impact on risk disclosure. The limitation of this study is that the sample has not been separated between profit and no profit. Future research with profitability variables should separate companies that have profits or not. The research implies that companies must be able to provide accurate and transparent information to stakeholders and manage risks well, so as to create the right business decisions.

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