The Influence of Financial Performance and Corporate Governance on Corporate Risk Disclosure

by Yuni Nustini

Submission date: 16-Apr-2023 05:11PM (UTC+0700)
Submission ID: 2065779851
File name: ,_ICABE,The_Influence_of_Financial_Performance_and_Corporate.pdf (6.28M)
Word count: 4187
Character count: 41600

FACULTY OF ECONOMICS

UII-ICABE

3rd International Conference on Accounting, Business & Economics

CERTIFICATE OF APPRECIATION

We would like to thank you and present this certificate to:

Yuni Nustini

As a paper presenter entitled

The Influence of Financial Performance and Corporate Governance on Corporate Risk Disclosure

in the 3rd International Conference on Accounting,
Business and Economics conference, "Global Opportunities and Challenges in Industry Revolution 4.0: Never Ending Innovation"
Universitas Islam Indonesia, Yogyakarta
held on 23 - 24 October 2019 in Yogyakarta, Indonesia

Your contribution enabled us to host a successful conference

Yogyakarta, 23 October 2019

Chair of the Conference

Achmad Tohirin, Ph.D.

Dean of Faculty of Economics

Jaka Sriyana, Ph.D.

Co-Host Partners:

Supported by:

The Influence Of Financial Performance And Corporate Governance On Corporate Risk Disclosure

Yuni Nustini
Faculty of Economics
Universitas Islam Indonesia

Qurrota A'yun
Faculty of Economics
Universitas Islam Indonesia

ABSTRACT

This research is aimed at analyzing the influence of financial performance on proxies of profitability and leverage and corporate governance on proxies of auditor reputation, managerial ownership and risk management committee toward corporate risk disclosure. The mining companies listed on the Indonesia Stock Exchange (IDX) from the period of 2015 to 2017 are the population of this research. Purposive sampling method was employed in this research to select research sample. The data was collected from corporate annual report. The the technique of multiple regression analysis was employed to test the research hypothesis. The results of this research reveal that the variables of auditor reputation and risk management committee have a positive and significant effect on corporate risk disclosure. Managerial ownership has a negative effect on corporate risk disclosure and leverage. While, profitability and leverage have no effects on corporate risk disclosure. Thus corporate risk disclosure is only influence by corporate governance.

Keywords: Financial performance, corporate governance, corporate risk disclosure, mining companies.

INTRODUCTION

According to SFAC No.1 in paragraph 50, the information within financial reporting should contain how the corporate management used the enterprise resource assign to the owners (shareholders). Thus, the disclosure provided by corporates can be used as the instrument to measure the corporate's accountability. It is useful to lessen uncertainty as well as anticipate economic situations such as social changes, technological changes and inflation or deflation. Corporate risk is one of the disclosure on non – financial segment that has received considerable attention from stakeholders after numerous accounting scandals on big corporates for example cases which happened in the year 2002 such as Enron and WorldCom in the United States and Kimia Farma in Indonesia. The financial crisis that happened during 1997 in East Asia and the subprime mortgage in the United States during 2008 was also one of the reasons why stakeholders demanded the transparency information disclosure on the financial report (Utomo & Chariri, 2014). It questioned the effectiveness of corporate risk management and disclosure practice that triggered a regulatory response.

Corporate risk defined as something that can impact the corporate in the future or had already affected the corporate which can be any opportunity or any hazard, danger, exposure (Linsley & Shrives, 2006). Hence, by disclosing risk information, the corporate has tried to be more transparent in providing information to stakeholders. Risk disclosure is highly important to investors, both equity investors and creditors, as these investors may lose money if the corporate in which investors have invested fails. Furthermore, risk management and risk disclosure have gained heightened research attention in previous years. However most empirical researches have been conducted in developed countries and there is a dearth of risk reporting in emerging countries (Habtoor, Ahmad, Mohamad, & Haat, 2017).

In Indonesia, several regulations that maintain corporates to disclose risk information in annual reports, particularly to corporates listed in Indonesia Stock Exchange (IDX). Risk information disclosure is regulated in Statement of Financial Accounting Standard or PSAK No.60 (revised 2014) issued by the Institute of Indonesia Chartered Accountants, Financial Institution's Chairman No. KEP-431/BL/2012, and OJK regulations Number 17/2014, Number 1 /2015, and Number 18/2016. The regulations from OJK are only compulsory to the financial sector corporates (i.e., financial services, commercial banking, and non – banking). Nonetheless, for the other two regulations which stated that information pertaining to risk is obligatory to be disclosed yet, no regulation that asserts the minimum coverage area of risk information. The study conducted in public corporates in Indonesia by Achmad, Faisal, and Oktarina (2017) found the mean of risk disclosure is 32%, which considers a low extent of disclosure. It indicated that the public corporates in Indonesia may not consider regarding the completeness instrument of risk disclosure.

In enhancing accountability, transparency, and explication of risk disclosure, the role of good corporate governance is necessary. Corporate governance is defined as "the system of checks and balances, both internal and external to corporates, which ensures that corporates discharge their accountability to all stakeholders and act in a socially responsible way in all areas of their business activities" (Solomon & Solomon, 2004 cited in Al-maghzom, Hussainey, & Aly, 2016). Corporate needs to disclose their risk management to show the practice of corporate governance as risk disclosure is part of corporate governance. In practice, the corporate must explain corporate risks that arise along with the actions to manage the calculated risks.

The research by Sultisyaningsih & Gunawan (2016) found there is a positive significant relationship between managerial ownership and risk management disclosure. Habtoor et al., (2017) found that auditor reputation has a positive relation to the extent of risk disclosure. In addition, the existence of risk management committee can help corporate to manage their risk better and enhance the practice of corporate risk disclosure. Risk management committee itself is responsible for monitoring the risk strategies, policies and risk tolerance level as well as reviewing the sufficiency of risk management policies (Kallamu, 2015). The study conducted by Al-hadi, Hasan, & Habib (2016) found that there is a positive relation between the size of risk committee and market risk disclosure. The finding of this study provided evidences that the existence and size of risk committee may be used as a channel to improve disclosure level.

Financial performance is a factor that determines the coverage of disclosure in a corporate. Leverage is one of the measurements of financial performance and it will affect the number of disclosures made by the corporate, including risk disclosures. High leverage makes corporates face greater risks related to the amount of debt used to finance corporate activities. Foster (as cited in Habtoor et al., 2017) argued that corporates with high leverage tend to have greater motivation to provide more risk disclosure in favour to assure debt holders and creditors the corporate ability to manage risks arise from leverage and fulfil their obligation. A study by Utomo & Chariri (2014) found that leverage have positive relation to the practice of risk disclosure. However, Habtoor et al.,(2017) and Dey et al., (2018) found a negative relation between leverage and risk disclosure.

Profitability is also one of the determinants of corporate risk disclosure (Achmad et al., 2017; Ruwita & Harto, 2013). Profitability can be seen as an indication of good management. Hence, a corporate with a high level of profit margin will be willing to disclose more information to show their management competence to the stakeholder (Linsley & Shrives, 2006).

Based on the research background, the formulation of the problems in this study are whether financial performance proxies by profitability and leverage influence the practice of corporate risk disclosure and whether corporate governance proxies by auditor reputation,

managerial ownership, and risk management committee influence the practice of corporate risk disclosure.

LITERATURE REVIEW

Agency theory

Agency theory has a close relationship with corporate governance. This theory is the basis for the corporates to understand the concept of corporate governance. This theory mainly enlightened about the relation between the principal (shareholder) and agent (management). Agency theory can be utilized as a basic understanding of risk disclosure practice. The provision of reliable information related to risk by management (internal parties who have risk information) to investors and creditors will reduce the asymmetry of problem information. Moreover, with the existence of risk disclosure, the quality of the financial statement swill increase because the information will be more transparent.

Signaling theory

Signal theory underlies voluntary disclosure. Wolk (as cited in Prayoga & Almilia, 2013) asserted that signal theory explains the reason for corporate's information disclosure in the capital market. Signal theory stated how the corporate should give signals to the financial statement users. The signal theory provides information and explanations about what agents have been done to the principals and users of financial reports. The signalling theory framework asserted that the corporate's drive to present information is due to the existence of information asymmetry between the managers and outsider parties of corporates since the managers know more about the corporate. Management is interested in conveying information that can increase its credibility even though the information is not mandatory. According to Subramaniam, et al. (2009) as cited in Hanafiah (2014), voluntary disclosure is a positive signal to corporates.

Risk disclosure

Risk is an inevitable element of any business venture. In addition to financial risk, a company is also susceptible to business risks or changes in the overall economic climate. According to the modernist view, risk includes both the positive and negative outcomes occurred of events. Thus, risk defined as any prospect, or any hazard, threat, exposure or danger that has already impacted or may impact the corporate in the future (Linsley & Shrives, 2006).

Disclosure is the provision of information that is useful for the party in need. The risk disclosure practice should consider information on strategy, actions, and performance in addition to information particularly concentrated on risk aspects (Beretta & Bozzolan, 2004). Risk disclosure define if the reader is informed as any opportunity, or any hazard, danger, harm, threat or exposure, that has already impacted upon the company or may impact upon the company in the future or of management of any such opportunity, prospect, hazard, harm, threat or exposure (Linsley & Shrives cited in Achmad et al., 2017). In this study, there are six risk categories consisting of financial risk, operation risk, empowerment risk, information processing and technology risk, integrity risk and strategic risk. The risk categorized using a risk model developed by The Institute of Chartered Accountants in England and Wales (ICAEW) and afterward used by Linsley and Shrives (2006) and Achmad et al., (2017) on risk disclosure study.

Financial performance

Corporate's main objective is to maximize its value to maximize shareholders' benefits and satisfaction. Hence, corporates should provide validity, reliability, transparency, and value relevance of accounting numbers, which directly influence capital market values (Kopecká, 2018). The information is mandatory to be prepared in the form of financial statements and it

aims to assist stakeholders in decision making about financing and investment. Furthermore, the financial performance of corporates can be analyzed through the financial statements. In this study, the financial performance is proxied by profitability and leverage.

Profitability

Profitability is an indicator of the success of a corporate in terms of its ability to generate profits by utilizing its resources (Sjahrial and Purba, 2013). Profitability can be seen as an indication of good management. Corporate with a high level of profit margin will be willing to disclose more information to show their management competence to the stakeholder (Linsley & Shrives, 2006).

Leverage

Leverage is a level that shows a corporate's ability to fulfill its financial obligations. Leverage determines as a ratio that states the relationship between debt and total equity or corporate asset (Habtoor et al., 2017). Moreover, Foster (as cited in Habtoor et al., 2017) argued that corporates with high leverage tend to have greater motivation to provide more risk disclosure in favor of assure debt holders and creditors. The corporate ability to manage risks arises from leverage and fulfill their obligation. In this study, the leverage is measured by using debt to asset ratio. This is according to several previous studies that used debt to asset ratio as the basis for proxy leverage (Sulistyaningsih & Gunawan, 2016; Utomo & Chariri, 2014).

Corporate governance

Good Corporate governance is defined by Monks and Forum for Corporate Governance in Indonesia (cited in Latupono & Andyani, 2015) as a corporate governance system that explains the relationships of various participants in determining the direction and performance of the corporate. It aims to add stakeholder's value and improve the performance of the corporate if the corporate governance runs effectively. In this study, corporate governance is proxied by auditor reputation, managerial ownership, and risk committee.

Auditor reputation

The reputation of external auditors used by corporates can influence corporate behavior. According to Jensen & Meckling (1976), external auditors have a strong influence on mitigating agency conflicts between managers and investors through enhancing corporate disclosure. When the corporates are audited by the auditor which is a part of Big 4 (i.e. PwC, KPMG, Deloitte, Ernest and Young) audit corporates and have a good reputation, the corporate could enhance information disclosure especially risk.

Managerial ownership

The ownership structure is a necessary part of corporate governance and managerial ownership is one of the structures within the corporate. Managerial ownership means that the manager of the company has some of the corporate's shares. Managerial ownership is the ratio of shares owned by managers to total shares outstanding (Ruan & Tian, 2011). According to Weisbcah (1988) as cited in Kamardin (2014) managerial ownerships work as direct encouragements for managers to act in line with shareholders' interests. Hence, management has a double role which is managing the business continuity as well as being shareholders. Achmad et al., (2017) stated that corporates that have a higher managerial ownership composition incline to disclose less information to shareholders. Because the managers have lower encouragements to meet the demands of shareholders through voluntary risk disclosure. The level of risk disclosure will decrease because the information disclosure also decreases.

Risk management committee

Risk committee is an independent committee that is responsible for the risk management policies. Risk management committee itself is responsible for monitoring the risk strategies, policies and risk tolerance level as well as reviewing the sufficiency of risk management policies (Kallamu, 2015). Risk committee benefits corporates by enlightening the board oversight of risk management. In Indonesia, through the regulation BI No.8/4/PBI/2006 about Good Corporate Governance, risk committee is mandatory to establish as a risk supervisor for banking industry. Meanwhile, for other industries, risk committee establishment is still voluntary.

Profitability on corporate risk disclosure practice

Profitability is corporate's ability to utilize its resource to generate income (Sjahrial and Purba, 2013). According to agency theory, corporate's manager with high profit margin tends to provide deeper risk information to show the shareholders that managers already performed in the best interest of shareholders (Linsley & Shrives, 2006). The management has willingness to disclose more information to show their management competence to stakeholder. Furthermore, signalling theory posited that corporates tend to disclose more information when they have high level of profitability (Bini, Giunta & Dainelli, 2010). This has been proven by studies conducted by Achmad et al., (2017) and Hanafiah (2014) that found a positive relation between profitability and risk disclosure level. Thus, the first hypothesis is proposed as follows;
H1: There is a positive association between profitability and the practice of corporate risk disclosure.

Leverage on corporate risk disclosure practice

Leverage is defined as a level that shows a corporate's ability to fulfil its financial obligations. It could be measured by total debt to total asset. The corporate with high levels of debt is likely to be highly leverage and have more risk (Dey et al., 2018). Corporates with high leverage tend to have greater motivation to provide more risk disclosure in favour to assure debt holders and creditors regarding the corporate ability to manage risks arise from debt and fulfil their obligation. Based on the agency theory perspective, management of higher leverage corporates is encouraged to disclose more information from their creditor. Thus, the leverage level of corporate is a factor that influences to practice of corporate risk disclosure. The studies conducted by Utomo & Chariri (2014) proved that leverage has a positive significant effect in risk disclosure. Whereas a study conducted by Dey et al. (2018) found no association between the level of leverage and risk disclosure. Hence, the second hypothesis proposed is:
H2: There is a positive association between leverage and and the practice of corporate risk disclosure.

Auditor reputation on corporate risk disclosure practice

Audit activities can reduce information gaps, increase disclosure effectiveness and lessen agency costs (Jensen & Meckling, 1976). The agency theory evoked that external auditor has a strong influence in lessening agency conflicts between managers and investors through extend corporate disclosure (Jensen & Meckling, 1976). Furthermore, when the corporates are audited by the auditor which is a part of Big 4 audit corporates and have good reputation, the corporate could enhance information that will be disclose especially risk. The auditor which is a part of the big 4 audit corporates will assist the internal auditor to improve the quality of corporate risk assessment and supervision. If there is enhancement in the quality of assessment and supervision, the company will disclose greater risk of disclosure to decrease asymmetry information that may emerge between agent and principle. In addition, the good audit reputation firms (i.e. the big four) encourage their clients to engage in more disclosure as they have strong reinforcement to maintain their reputation as provider of high quality audit service

(Dey et al., 2018). Thereby, high level of risk disclosure can be disclosing in annual report by corporates that use one of the big four audit firm as their audit service providers. The previous studies by Dey et al. (2018) and Habtoor et al. (2017) proved that auditor reputation has a positive relation to the extent of risk disclosure. Therefore, the third hypothesis proposed is:
H3: There is a positive association between auditor reputation and the practice of corporate risk disclosure.

Managerial ownership on corporate risk disclosure

Managerial ownership refers to share ownership owned by managers in a corporate. According to Jensen & Meckling (1976), the high managerial ownership could reduce agency problem of the managers to set the interests of managers as agents and shareholders as the principal. There is an increment of conflict of interest between the managers and the owners when the managerial ownership decreases. Nevertheless, the managerial ownership may lead to the entrenchment effect which happens when higher managerial ownership causes a strong position to manage the company and it is difficult to be controlled by external parties (Febrianto and Suwardjono cited in Nurleni, Bandang, Darmawati, & Amiruddin, 2017).

According to the agency theory, corporates that have a higher managerial ownership composition inclines to disclose less information to shareholders (Achmad et al., 2017) because the managers have lower encouragements to meet the demands of shareholders through voluntary risk disclosure and because the information requirement also decrease. Someone who has double shared roles will incline to store information and not disclose it to outsiders. The study of Probohudono and Tower (2013) noted that there is a negative association between managerial ownership and corporate disclosure. Though, Sultisyaningsih and Gunawan (2016) found that there is a positive significant relation between managerial ownership and risk management disclosure. Thus, the fourth hypothesis proposed is:
H4: There is a negative association between managerial ownership and the practice of corporate risk disclosure.

Risk management committee on corporate risk disclosure

Risk management committee itself is responsible for monitoring the risk strategies, policies and risk tolerance level as well as reviewing the sufficiency of risk management policies (Kallamu, 2015). The formation of risk management committee within a corporate governance may enhance the practice of risk disclosure. Additionally, according to signal theory, it may help corporate give the signal regarding the risk which might happen in the future. The presence of risk committee management can be used as a signal for the stakeholders that the corporate has tried to managed risk properly and has better risk control than other corporates. Al – Hadi et.al (2016) stated that risk committee improves the board oversight of risk management by foreseeing and reacting to events and trend that might be invisible. The studies from Al-Hadi et al. (2016) found that there is a positive significant relation between the size of risk committee on market risk disclosure. Therefore, the fifth hypothesis proposed is:
H5: There is a positive association between the existence of risk committee and the practice of corporate risk disclosure.

Research model

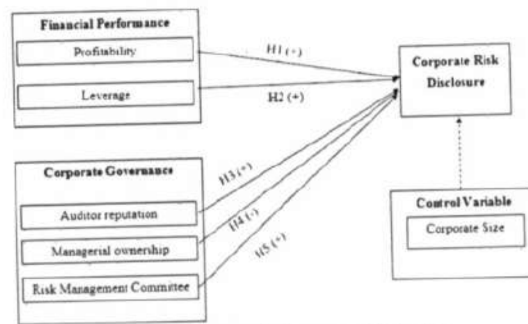

Figure 1. Research model

RESEARCH METHOD

Population and sample

The population in this research study is mining companies listed on Indonesia Stock Exchange (IDX) in the period 2015–2017 and the sample is 40 mining companies. Determining the sample design is based on a purposive sampling method. Out of the 48 mining companies, 4 companies were listed after 2015 and 4 companies did not publish their financial statements during 2015 - 2017 respectively. Thus, the research sample is 40 mining companies that have met the criteria; the number is multiplied with the three-consecutive year-observation term. So, 120 samples are obtained.

Data collection method

Data collection method in this research were using documents research method which involved the study of existing documents (Walliman, 2011). The type of data used in this study were secondary data in the form of Annual Report of mining corporates listed on Indonesian Stock Exchange in the period of 2015 – 2017. The research data obtained from the Annual Reports of mining corporates through direct access to www.idx.co.id. and mining corporates website.

Dependent Variable

The dependent variable in this research is corporate risk disclosure. The analysis of risk disclosure used content analysis method. Content analysis was used to categorize items of text where a large amount of qualitative data needs to be analyzed (Holsti cited in Linsley & Shrives, 2006). Weber (1990) defined content analysis as a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding. It is a set of procedures to make valid inferences from text. Content analysis is widely used for previous researchers in assessing disclosure (Achmad et al., 2017; Al-maghzom et al., 2016; Habtoor et al., 2017).

The measurement of corporate risk disclosure used the unweighted disclosure index approach. The score of 1 was given if the corporate disclose information as determined in checklist index and 0 was given if the corporate did not disclose the information. The disclosure check list items adopted the index of risk disclosure by Achmad, Faisal, & Oktarina (2017) referring to the Indonesia Financial Services Authority (OJK) and Linsley & Shrives (2006). Table 1 presents disclosure items used to measure risk disclosure.

Table 1. Corporate risk disclosure items

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

Thus, the index calculation in corporate risk disclosure is formulated as follows:

$$\text{Risk Disclosure Index (RDI)} = \frac{\text{numbers of items disclosure}}{37}$$

Independent variable

Profitability

Profitability is corporate's ability to utilize its resource to generate income (Sjahrial and Purba, 2011). Net Profit Margin (NPM) is selected as a proxy for the level of profitability in this study. The profit margin has been chosen as the proxy of profitability in this study because the corporate with a higher profit margin tends to provide deeper risk information to show the shareholders that managers already performed in the best interest of shareholders (Linsley & Shrives, 2006). Thus, net profit margin measure as follows:

$$\text{Net profit margin} = \frac{\text{Net profit (after tax)}}{\text{Sales}} \times 100$$

Leverage

Leverage determines as a ratio that states the relationship between debt and total equity or corporate's asset (Habtoor et al.,2017). It measures the ability of both long-term debt and short – term debt used to finance a corporate's activities. The proxy used to measure the leverage based on (Habtoor et al., 2017) is:

$$\text{Leverage} = \frac{\text{Total liabilities}}{\text{Total asset}}$$

Auditor reputation

Auditor reputation is indicated by whether a corporate uses a big accounting corporate as its external auditor and incorporated in the big 4 accounting corporate (i.e. KPMG, Price Waterhouse Coopers (PWC), Deloitte Touche Tohmatsu and Ernst & Young (EY)). The auditor reputation can be measured by dummy variables. The corporate that uses one of the big four audit corporates will be given the value 1 and 0 if the corporate does not use one of the big four audit corporates.

Managerial ownerships

Managerial ownership is the ratio of shares owned by all managers to total shares outstanding (Ruan & Tian, 2011). In this case, the management has a double role which are managing the business continuity as well as shareholders. The formula is as follow:

$$\text{Managerial ownerships} = \frac{\text{Number of Shares Own by Managers}}{\text{Total Outstanding Shares}}$$

Risk management committee

Risk management committee (RMC) is an essential element in the management of corporate's risk. RMC can be measured by using dummy variables that if the corporate has RMC it will be given a value of 1 and 0 if there is no RMC.

Control variable

This study used one control variable which is corporate size. Corporate size can be described as the successfulness of corporate financial condition. Size of a corporate directly reflects the level of operational activity. A big size corporate usually has more complexity rather than a small size corporate. Corporate size describes the total average of net sales, total assets and capital changes for the concerned year up to several years (Sulistyanigsih et al., 2016). The corporate size could be measured as follows:

$$\text{Corporate size} = \text{Ln (total asset)}$$

Data analysis method

Hypotheses testing was conducted using multiple linear regression analysis. The regression model employed in this study is as follows.

$$CRD = \alpha + \beta_1 PROF + \beta_2 LEV + \beta_3 AR + \beta_4 MO - \beta_5 RC + \beta_5 FS\ \varepsilon$$

Information:

CRD	=	Corporate Risk Disclosure
PROF	=	Profitability
LEV	=	Leverage
AR	=	Auditor Reputation
MO	=	Managerial Ownerships
RC	=	Risk Management Committee
FS	=	Corporate size
A	=	Constant value
$\beta_1 - \beta_7$	=	Independent Variables Regression coefficient
ε	=	Error

Result and discussion

Descriptive Statistical Analysis

Descriptive statistic analysis is used to describe the data that shows the characteristics of the research variables seen from the minimum, maximum, average (mean), and standard deviation values. The Table 2 contains descriptive statistics of the dependent variable namely corporate risk disclosure (CRD) and independent variables namely profitability (PROF), leverage (LEV), auditor reputation (AR), managerial ownership (MO), and risk management committee (RMC) also one control variable namely corporate size (CS) in this study.

Table 2. Descriptive Statistic

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CRD	120	.19	.89	.5624	.14929
PROF	120	-53.95	13.98	-1.1126	6.38006
LEV	120	.00	1.99	.5396	.35941
AR	120	0	1	.47	.501
MO	120	.00	.93	.0305	.10933
RMC	120	0	1	.30	.460
CS	120	25.65	32.16	29.2852	1.48748
Valid N Listwise	120				

The output from descriptive statistics analysis in Table 2 shows that there were 120 total samples. From the 120 samples, the highest CRD score is 0.89 and the lowest CRD score is 0.19. The mean value of corporate risk disclosure is 0.5624. This value indicated that the level of corporate risk disclosure of mining companies from 2015 to 2017 is 56.24 % means there was a relatively good practice of risk disclosure as the mining companies already disclosed half of the risk categories.

The average of the corporate's profitability proxied by net profit margin is -1.1126 (-110.26%). The value showed that corporates in the mining industry do not generate a good profit from sales as the mean value is negative and indicated that the operating expenses and overhead expenses were greater than revenue.

The average of leverage (LEV) variable is 0.5396. This indicated that an average of 53.96 % of the corporate's asset is financed by debt. The lowest level of leverage is 0.00 while the highest level of leverage is 1.99. The highest leverage is greater than 1 means that the is corporate that is financed more with debt which arising greater risk that will be faced by corporate.

The average of corporates that used the big four audit firms to audit their financial report is 47% while 53% did not use the non-big four audit firms. The maximum and minimum values of the data are 1 and 0. The minimum value of AR is shown by the companies that did not use the big four audit firms and the maximum value is shown by the companies that used the big four audit firms.

The average of 3.05% of corporate ownerships is owned by managers of the corporates. The minimum MO value of the sample corporate is 0, while the maximum MO value of the sample company is 0.93. The value indicates that in mining corporate, managers are rarely taking part in the ownership structure of the corporates.

Risk management committee variable proxied by dummy variable and the average of corporates that has a risk management committee within their organization structure is 30% while the other 70% do not have a risk management committee. It indicates that mining companies did not consider create a risk management committee in their organizational structure as a necessary matter since RMC is still considered voluntary.

The output average value of the corporate size (CS) variable is 29.2852. This indicated that the average size of mining corporates is 29.581. The minimum size of the corporate is 25.65, while the maximum size of the sample corporate is 32.16.

Determinant Coefficient Test (R^2)

The determinant coefficient test was conducted to measure how far the mode's ability in this study to explain variations of independent variables. According to Table 3, the result of the analysis of determinant coefficient (Adjusted R Square) was 0.0763. This indicated that the

independent variable (profitability, leverage, auditor reputation, managerial ownership and risk management committee) and control variables (corporate size) used in this study can explain corporate risk disclosure variable with the percentage of 76.30%, while the rest of 23.70% means that corporate risk disclosure can be influenced by other variables that are not involved in this study.

Table 3. R^2 Test

Model	R	R Square	Adjusted R Square
1	.881[a]	.775	.763

Hypothesis test result

Table 4. Hypothesis test result

Variable	Unstandardized Coefficients (B)	Sig
(Constant)	-0.548	0.001
PROF	-0.001	0.581
LEV	-0.002	0.920
AR	0.121	0.000*
MO	-0.196	0.002*
RMC	0.097	0.000*
CS	0.035	0.000*

Note: *) Significant

The t test was conducted to find the effect of partially independent variables on the dependent variable. This method was used to test the hypotheses. Testing was done using a significant level of 0.05. If the significance is greater than 0.05, the hypothesis is rejected and If the significance is less than 0.05, the hypothesis is accepted. The hypothesis test results are shown in Table 4.

Based on the results of testing the first hypothesis (H1) it can be concluded that profitability proxied by net profit margin does not have a positive significant effect on corporate risk disclosure practice. Hence, the first hypothesis is not accepted. Profitability is corporate's ability to utilize its resource to generate income (Sjahrial & Purba, 2011). According to agency theory, corporate's manager with high profit margin tend to provide deeper risk information (Linsley & Shrives, 2006). Moreover, signalling theory posits that corporates tend to disclose more information when they have high level of profitability (Bini, et al.,2010). Previous studies conducted by Achmad et al., (2017) and Hanafiah (2014) supported those theories and found that there is positive and significant relationships between profitability and corporate risk disclosure. Hence, the result of this contradict the research by Achmad et al., (2017) and Hanafiah (2014). This study found that profitability has no effect on corporate risk disclosure and this study did not support the agency and signaling theory. Financial performance with high levels of profitability does not assure that the corporate will provide more corporate risk disclosure on their annual report. Corporates may have the view that rather than expand risk disclosure that required more cost, it is better to use the cost to expand business operations and pay corporate liabilities.

Based on the results of testing the second hypothesis (H2) it can be concluded that leverage represented by ratio of total asset to total liabilities does not have a positive significant effect on corporate risk disclosure practice. Thus, the second hypothesis is also not accepted. The amount of leverage will not affect the level of risk disclosure. According to agency theory,

management of higher leverage corporates is encouraged to disclose more information from their creditor. It generates more information regarding risk that will be disclosing by corporates with higher level leverage than corporates with lower level leverage. However, the statistical result in this study found no association between leverage and corporate risk disclosure. Thus, this result was against the agency theory and contradict the research by Utomo and Chariri (2014) that argued a positive influence of leverage on corporate risk disclosure. The finding indicated that corporates with high leverage have low concerns for risk disclosure. The corporates with high leverage are better to hide risks that occur to avoid negative judgement from investors. The result of this study is in line with the research result conducted by Dey et al. (2018) which concluded that leverage has no influence on risk disclosure.

Based on the results of testing the third hypothesis (H3) it can be concluded that there is a positive influence of auditor reputation on the practice of corporate risk disclosure in mining companies. It can be interpreted that the mining corporates audited by the big four audit firms tend to provide higher corporate risk disclosure. In agency theory perspectives, an external auditor has a strong influence in lessening agency conflicts between managers and investors through disclosing more information (Jensen & Meckling, 1976). Thus, the corporates tend to increase their levels of risk disclosure to avoid information asymmetry. The good reputable audit firms such as the big four are associated with higher levels of corporate risk disclosure since they have strong encouragement to maintain their reputation as providers of high quality audit service (Dey et al., 2018). Additionally, the auditor which part of the big four will assist corporate risk assessment and supervision which resulted to increasing levels of risk disclosure that will be disclosed. It is in order to decrease information asymmetry that may emerge between agent and principle. Accordingly, the finding of this study is consistent with the research that has been done by Dey et al. (2018) and Habtoor et al. (2017) which supported the agency thory.

Based on the results of testing the fourth hypothesis (H4) it can be concluded that managerial ownership proxied by number of shares own by managers to total outstanding shares has negative influence on corporate risk disclosure practice. Hence, H4 is supported. According to the agency theory, corporates that have high managerial ownership on their ownership structure incline to disclose less information to shareholders and vice versa. Thus, this result supports the agency theory and the research conducted by Probohudono & Tower (2013). This result is contradicted with the study has been conducted by Sultisyaningsih & Gunawan (2016) that found a positive association between managerial ownership and corporate risk disclosure. This result may indicate that the managers have lower encouragements to meet the demand of shareholders to disclose because the information requirement also decreases when the managers have high level of ownership. It also may be due to the information that the managers have as they need which make the managers tend to not disclose high level of corporate risk disclosure so that they could decrease the costs of disclosure activity.

Based on the results of testing the fifth hypothesis (H5) it can be concluded that there is positive association between risk management committee on corporate risk disclosure practice. Thus, H5 is supported. The result can be explained that the presence of risk committee management can be used as a signal for the stakeholders to show the corporate that has tried to manage risk properly and has better risk control than other corporates. Risk management committee presence may also act as an effective monitoring function for risk governance. Al – Hadi et.al (2016) argued that risk committee improve the board oversight of risk management by foreseeing and reacting to events and trend that might be invisible. It makes the corporates tend to disclose more information regarding risk. This study is supported the study conducted

by Al-Hadi et al. (2016) that found the positive influence of risk management committee presence on risk disclosure.

Corporate size as control variable in this study show that there is a positive significant relationship between corporate size and practice of corporate risk disclosure. It indicated that the big size corporates tend to disclose greater information than the small size corporate. Since, the big size corporates face larger business risk than small size corporate thus the corporates need to disclose more information. The result is in line with the study conducted by Achmad T. et al., (2017) that found a positive association between corporate size and corporate risk disclosure.

Conclusion

Based on the results and discussions, it can be concluded as follows; First, there is no association between profitability and corporate risk disclosure practice. It is empirically proven that the corporate profitability level will not enhance management to disclose more risk disclosure. The corporates may have the view that rather than expand risk disclosure that requires more cost, it is better to use the cost to expand business operations and pay corporate liabilities. Second, there is no association between leverage and corporate risk disclosure. It indicates that corporates with high leverage have low concern for risk disclosure. The corporates with high leverage were better to hide risk that occur to avoid negative judgement from their current and potential investors. Third, managerial ownership has negative association with the practice of corporate risk disclosure. It indicates that the managers have lower encouragements to meet the demand of shareholders to disclose more information because the information requirement also decreases when the managers have high levels of ownership. Fourth, auditor reputation has positive association with the practice of corporate risk disclosure. The use of big 4 audit firms tends to encourage corporates to disclose more risk disclosure. The auditors which part of the big four will assist corporate risk assessment and supervision which resulted the increasing levels of risk disclosure that will be disclosed to decrease information asymmetry that may emerge between agent and principle. Fifth, risk management committee has positive association with the practice of corporate risk disclosure. The presence of risk management committee encourages the corporate to enhance their risk disclosure. The risk management committee will improve the board oversight of risk management by foreseeing and reacting to events and trend that might be invisible to lead into broader risk information that will be disclosed by corporates.

For academicians, this study is expected to be able to enrich the development of theories regarding the determinant of corporate risk disclosure. The findings of this study can contribute to add information and empirical evidences about the influence of financial performance and corporate governance on risk disclosure practice in Indonesia especially in mining sector. This study can give additional information that corporate governance with the proxies used which are auditor reputation, managerial ownership, and risk management committee have influences on the disclosure of risk. Furthermore, as the presence of this study and previous studies, investors can consider the practice of corporate governance within the corporation to make decisions. Investors should be aware of the importance of corporate governance which can be used to enhance corporate risk disclosure practice in the mining industry to ensure information adequacy.

Like other empirical studies, this study also has several limitations and suggestions that may affect the study as follows; First, In the measurement of disclosure, the subjectivity cannot be avoided. Thus, there was a possibility of bias in measuring the corporate disclosure. Hence,

the future research is expected to be more in-depth in analyzing the elements of disclosure referred in the annual report. Second, this study used only a few independent variables. The future research should look deeper into the different independent variables that may be involved in the practice of CRD such as board diversity on the gender basis and the role of government ownership.

References

Achmad, T., Faisal, F., & Oktarina, M. (2017). Factors influencing voluntary corporate risk disclosure practices by Indonesian companies. *Corporate Ownership & Control*, *14*(3), 286–292. https://doi.org/10.22495/cocv14i3c2art2

Al-Hadi, A., Hasan, M. M., & Habib, A. (2016). Risk Committee, Firm Life Cycle, and Market Risk Disclosures. *Corporate Governance: An International Review*, *24*(2), 145–170. https://doi.org/10.1111/corg.12115

Al-maghzom, A., Hussainey, K., & Aly, D. (2016). Corporate Governance and Risk Disclosure: Evidence from Saudi Arabia. *Corporate Ownership & Control*, *13*(2), 145–166.

Beretta, S., & Bozzolan, S. (2004). A framework for the analysis of firm risk communication. *International Journal of Accounting*, *39*(3), 265–288. https://doi.org/10.1016/j.intacc.2004.06.006

Dey, R., Hossain, S., & Rezaee, Z. (2018). Financial Risk Disclosure and Financial Attributes among Publicly Traded Manufacturing Companies: Evidence from Bangladesh. *Journal of Risk and Financial Management*, *11*(3), 50. https://doi.org/10.3390/jrfm11030050

Habtoor, O. S., Ahmad, N., Mohamad, N. R., & Haat, M. H. C. (2017). Linking corporate risk disclosure practices with firm-specific characteristics in Saudi Arabia. *Gadjah Mada International Journal of Business*, *19*(3), 247–267. https://doi.org/10.22146/gamaijb.26769

Hanafiah, R. (2014). Tingkat Leverage , Dan Profitabilitas Terhadap Pengungkapan Risiko (Studi Empiris Pada Laporan Tahunan Yang Terdaftar Di Bei Tahun 2007-2011) the Influence of Firm Size , Type of Industry , the Level of Leverage , and Profitability To Risk Disclosure (. *Jurnal Ekonomi*, *2*(2), 42–66.

Jensen, C., & Meckling, H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, *3*, 305–360.

Kallamu, B. S. (2015). Risk Management Committee Attributes and Firm Performance. *International Finance and Banking*, *2*(2), 1. https://doi.org/10.5296/ifb.v2i2.8580

Kamardin, H. (2014). Managerial Ownership and Firm Performance: The Influence of Family Directors and Non - Family Directors. *Ethics, Governance and Corporate Crime: Challenges and Consequences*, *6*, 47–83.

Kopecká, N. (2018). A Literature Review of Financial Performance Measures and Value Relevance. *The Impact of Globalization on International Finance and Accounting*, *10*(42), 385–393. https://doi.org/10.1007/978-3-319-68762-9_42

Latupono, S. S., & Andyani. (2015). Pengaruh Corporate Social Responsibility Terhadap Nilai Perusahaan: Good Corporate Governance Variabel Moderating. *Jurnal Ilmu Dan Riset*

Akuntansi, *4*(8), 1–15. https://doi.org/10.1080/17450140600679883

Linsley, P. M., & Shrives, P. J. (2006). Risk reporting: A study of risk disclosures in the annual reports of UK companies. *British Accounting Review*, *38*(4), 387–404. https://doi.org/10.1016/j.bar.2006.05.002

Nurleni, Bandang, A., Darmawati, & Amiruddin, A. (2017). Article information : *International Journal of Law and Management*, *60*, 979–987.

Prayoga, E. B., & Almilia, L. S. (2013). Pengaruh struktur kepemilikan dan ukuran perusahaan terhadap pengungkapan manajemen risiko. *Jurnal Akuntansi Dan Keuangan*, *4*(1), 1–19.

Probohudono, A. N., & Tower, G. (2013). Diversity in Risk Communication. *Australasian Accounting, Business and Finance Journal*, *7*(1), 43–58. https://doi.org/10.14453/aabfj.v7i1.4

Ruan, W., & Tian, G. (2011). Managerial Ownership , Capital Structure and Firm Value : Evidence from China ' s Civilian-run Firms Managerial Ownership , Capital Structure and Firm Value : Evidence from. *Australasian Accounting, Business and Finance Journal*, *5*(3), 73–92.

Ruwita, C., & Harto, P. (2013). Corporate Governance Terhadap Pengungkapan. *Diponegoro Journal of Accounting*, *2*(2), 1–13.

Sjahrial, Dermawan dan Djahotman Purba. 2013. *Analisis Laporan Keuangan*. Jakarta: Mitra Wacana Media.

Sulistyaningsih, & Gunawan, B. (2016). Analisis Faktor - Faktor yang Memengaruhi Risk Disclosure (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Pengembangan). *Riset Akuntansi Dan Keuangan Indonesia*, *1*(1), 1–11.

Utomo, Y., & Chariri, A. (2014). Determinan Pengungkapan Risiko Pada Perusahaan Nonkeuangan di Indonesia. *Diponegoro Journal of Accounting*, *03*(03), 1–14.

Walliman, N.(2011). *Research methods:The basics*. New York, USA: Routledge.

The Influence of Financial Performance and Corporate Governance on Corporate Risk Disclosure

ORIGINALITY REPORT

1%	1%	0%	0%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

	icabe.uii.ac.id Internet Source	1%

Exclude quotes	On	Exclude matches	< 1%
Exclude bibliography	On		