“Can the risk management committee improve risk management disclosure practices in Indonesian companies?”

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CAN THE RISK MANAGEMENT COMMITTEE IMPROVE RISK MANAGEMENT DISCLOSURE PRACTICES IN INDONESIAN COMPANIES?

Abstract

This study examines the role of the risk management committee as a moderating variable. The risk management committee will moderate the relationship between firm size, profitability, ownership concentration, and the size of the Enterprise Risk Management (ERM) disclosure board. The study is based on agency theory, which discusses the relationship between management and company owners and shareholders. The research sample consisted of 56 manufacturing companies in Indonesia with 224 units of analysis obtained using the purposive sampling technique. It has been proven that the risk management committee can moderate the relationship between firm size and ERM disclosure and ownership concentration and ERM disclosure. Company size is known to affect the disclosure of risk management in a company. But ownership concentration shows different things, that is, it does not affect corporate risk management disclosures. The results also show that the risk management committee cannot moderate the relationship between profitability and the size of the board of commissioners on the company's risk management disclosures. It has also not been proven that profitability and the size of the board of commissioners directly affect corporate risk management disclosures. Thus, it can be stated that the risk management committee plays a role in controlling the extent of the company's risk management disclosures; this is necessary to maintain stakeholder trust in the company.

Keywords enterprise risk management committee, firm size, profitability, ownership concentration, commissioners board size, enterprise risk management disclosure

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INTRODUCTION

Today, companies are forced to always be transparent in their business to achieve targeted performance. This transparency is designed to ensure that corporate governance can run well and produce optimal performance. Thus, a company is expected to provide information completely, correctly, on time, and without hidden disclosures.

An annual report presented by a company becomes a means of presenting and disclosing financial and non-financial information. This information becomes the basis for business decision making by various stakeholders. In addition, various information contained in the annual report becomes the basis for analyzing the situation when dealing with unexpected situations in a business operation; this situation is then known as risk.

Companies must be able to control the existing risks so that their survival can be maintained. The company's success in managing risk to an acceptable level needs to be disclosed because controlling this risk is one of the keys to achieving performance targets. In addition, stake-

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holders will view positively a company that is transparent to risks it faces and is transparent about controlling them. Various processes a company undertakes to manage this risk are called risk management.

Risk management is expected not only to control, but also disclose the necessary information so that interested parties can be aware of risk management. Enterprise risk management (ERM) plays an essential role as it refers to identification, measurement and financial control of activity risks, which can cause damage or loss to a company. ERM disclosure can reduce information asymmetry to maintain good relations between interested parties and a company.

The hope is that with ERM disclosure, the public can easily understand the types of risks faced by companies, both financial and non-financial. Besides, the company can identify risks in the future, making it easier for companies to anticipate in advance and not cause significant problems. ERM can provide investors with information about the risks they will face when investing, so that in the future, investors have a high level of confidence in investing their shares.

In 2018, there was a case of risk management failure at PT Sariwangi Agriculture Estate Agency. The company was declared bankrupt by the Central Jakarta Commercial Court due to its failure to analyze and manage worrying risks. The main factor in the company's bankruptcy was the failure of its investment in product development efforts. PT Sariwangi Agricultural Estate Agency should carry out risk management as a preventive effort to face risks that threaten the company's sustainability (Sugianto, 2018).

Many problems related to companies in Indonesia are caused by a company's lack of transparency regarding risk management. Complex and detailed ERM disclosure will be a strategy in increasing company value, but this is contrary to Indonesia's manufacturing companies' awareness. Companies are still less than optimal in implementing and disclosing ERM, even though investor demand is getting stronger in ERM disclosure (Syifa, 2013). Even Rujiin and Sukirman (2020) and Yunifa and Juliarto (2017) state in their studies that ERM disclosure in manufacturing companies listed on the Indonesia Stock Exchange is still low at only 39% to 50%. Therefore, more research needs to be done related to ERM disclosure in Indonesian companies.

1. LITERATURE REVIEW

Enterprise risk management is a process involving all parts of a company, such as management, employees, directors. Enterprise risk management integrates organizational culture, capabilities, and practices with the strategic setting to manage risk in creating, preserving, and delivering value (COSO, 2017). The implementation of risk management is a strategy used to survive in a competitive business environment. KNKG (2011) stated that there are no standard guidelines in the risk management infrastructure. The most important thing is the clarity of accountability and responsibility to encourage the implementation of risk management. Regarding risk management, currently, the global community refers to two standards, namely the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and The International Organization for Standardization (ISO) 31000. The National Standardization Agency Indonesia has adopted the ISO standard into the Indonesian National Standard.

Agency theory and signaling theory are used in this study. Jensen and Meckling (1976) describe agency theory as the relationship between the principal and the agent in an entity. The principal and the agent are involved in a contract that seeks to maximize their respective utility so that the agent does not always act in the principal's interests and will create a conflict of interest. Signalling theory explains the importance of information about the company's state as a basis for making informed decisions. Companies that expect stocks to be attracted and bought by investors can carry out various signals (Spence, 1973).

Research related to ERM disclosure has produced mixed findings. Lechner and Gatzert (2017), Yunifa and Juliarto (2017), Mohd-sanusi et al. (2017), Nahar et al. (2016), and Syifa (2013) reveal the influence of a company's size on ERM disclosure, while Sulistyaningsih and Gunawan (2016), and Razali et al. (2011) show that there is no effect of company size on ERM disclosure. The impact of profitability on ERM disclosure shows significant results concluded by Saskara and Budiasih (2018), Yunifa and Juliarto (2017), Zeghal and Aoun (2016), but Mohd-sanusi et al. (2017), Wicaksono and Adiwibowo (2017), and Probohudono et al. (2013) concluded that the results did not affect.

Agista and Mimba (2017), Zhao and Singhaputtangkul (2016), and Syifa (2013) concluded that there was a significant relationship between ownership concentration and ERM. Different results were found by Mohd-sanusi et al. (2017), Saggar and Singh (2017), and Htay et al. (2011), who stated that ERM disclosure was not influenced by ownership concentration. Sulistyaningsih and Gunawan (2016), Zeghal and Aoun (2016), Al-shammari (2014), and Husaini et al. (2013) detail that the size of the commissioners' board has a significant effect on ERM disclosure, while Kurniawanto et al. (2017) and Agista and Mimba (2017) concluded that ERM disclosure was not influenced by the size of the board of commissioners. Company size, profitability, ownership concentration, and commissioners board size are used as independent variables in this study, given the inconsistencies in previous research results.

Various previous studies related to ERM disclosure showed inconsistent results. This is thought to be caused by research related to ERM disclosure so far only testing the direct influence relationship model, especially research in Indonesia. Even though this direct relationship may be influenced by the cause, it is strengthened by the presence of other variables This study proposes a model in which a moderating variable is used, namely the risk management committee.

The risk management committee is a committee formed by the board of commissioners and reports directly to the commissioners. The purpose of establishing this committee is to assist in overseeing and monitoring a company's risk management implementation. The establishment of a risk management committee gives companies more power compared to companies that do not have a risk management committee; ownership of this committee is considered an effective mechanism in supporting the board of commissioners in risk control and internal control management. (Subramaniam et al., 2009; Sambera & Meiranto, 2013). The development of risk management committees in Indonesia is starting to increase. The government has begun to mandate the establishment of a risk management committee as a risk supervisor in the banking industry and state-owned enterprises; this can be seen in various regulations such as PBI No. 8/4/PBI/2006 and Regulation of the Minister of State-Owned Enterprises No. Per-10/MBU/2012. Therefore, the role of the risk management committee in companies in Indonesia is very vital and is expected to strengthen the company's risk management practices and disclosures. Therefore, this study aims to examine what factors can affect ERM disclosure in Indonesia and what is the role of the risk management committee in this regard.

A company's size can be seen from the total assets (Sulistyaningsih & Gunawan, 2016). Signaling theory states that the size of a company will provide a positive signal for shareholders. The company's large size will attract interest of shareholders, so that shareholders' level of willingness to cooperate with the company will be even higher. Large-scale companies have complex operational activities, so that the tendency for risk is also getting more significant. Large companies tend to have a higher public demand for ERM information than small companies (Kristiono et al., 2014). According to Tarantika and Solikhah (2019), Lechner and Gatzert (2017), and Saggar and Singh (2017), the larger the size of a company, the greater the disclosure of ERM, Therefore, companies need to present ERM disclosures so as not to mislead interested parties.

The profitability of a company will show the company's ability to manage its resources to generate profits. Signal theory explains that company performance expectations in the future are conveyed through various kinds of signals, namely through increasing profitability. High company profitability detoxifies investors' interest in buying shares

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(Saskara & Budiasih, 2018). Companies with high profitability can disclose broader information, especially ERM information because investors need to be accountable for the investment of funds that have been invested in seeing the risks obtained in investing their capital. This study is in line with Saskara and Budiasih (2018), Yunifa and Juliarto (2017), and Abdullah et al. (2015). Thus, profitability has a positive effect on enterprise risk management disclosure.

The concentration of ownership is the condition of an individual or group having a dominant number of shares compared to other individuals or groups (Syifa, 2013). Referring to agency theory, the gap between the welfare of managers and shareholders will trigger agency conflicts. The existence of ownership by the dominant shareholder can suppress agency problems (Desender, 2011; Agista & Mimba, 2017). When dominant shareholders own high shares, they will control managers' performance and encourage them to disclose ERM; this concurs with Agista and Mimba (2017) and Syifa (2013). So, the increasing concentration of ownership can increase ERM disclosure.

The board of commissioners' size is the number of board members who in general and specifically supervise and provide direction to the board of directors (Tarantika & Solikhah, 2019). Based on agency theory, one of the efforts that can be taken to reduce agency problems between owners and management is the internal supervision mechanism by the board of commissioners. Many commissioners are thought to be more intensive in supervising management to hide no information (Elzahar & Hussainey, 2012; Sulistyaningsih & Gunawan, 2016). The support and presence of a board of commissioners in a company can increase corporate governance's monitoring capacity and trigger management to implement ERM disclosures. The large size of the board of commissioners will expand ERM disclosure, which is in line with Saggar and Singh (2017), Sulistyaningsih and Gunawan (2016), and Husaini et al. (2013). Therefore, the size of the commissioners' board has a positive effect on enterprise risk management disclosure.

Large companies are adequate in terms of resources, so they need and can finance risk information for internal or external needs compared to small companies. Signaling theory explains that a large company's size will share a positive signal for shareholders because the company's size indicates the company's wealth. The company's size is in line with the complexity of business activities, which may significantly affect investors and the environment. Following agency theory, information asymmetry will arise in this condition, so that a party that can reduce agency problems is presented, namely, the risk management committee. The risk management committee will be useful to expand the capacity of monitoring and information delivery, thereby increasing the quality of ERM disclosure. Companies will do various things that can increase profitability because they aspire to be more attractive and get many benefits. When a company does not manage profitability properly, it will cause financial risk, so it needs to disclose more risk management, especially if it is related to positive or beneficial information. High profitability will provide a positive signal for shareholders; this is following signaling theory. The risk management committee's role is presented to reduce agent costs; this is according to agency theory. By the risk management committee's function, namely reviewing and monitoring company risk, the risk management committee will encourage management to carry out risk management activities and disclose them in the annual report.

Companies that finance their business activities using shares are thought to have many parties that act as control holders over the company's business activities, illustrated by ownership concentration. The dominant shareholder will encourage management to carry out ERM disclosures to ensure the safety of their investment. Agency theory explains that monitoring costs are one of the agency costs that can reduce interest conflicts between agents and principals. Although ownership concentration can increase ERM disclosure, third parties' role can strengthen the effect of ownership concentration. The third party in this study is the risk management committee. The risk management committee plays a role in pressuring management to carry out ERM disclosures. The existence of a risk management committee will result in more controlled supervision of management. The risk management committee assumes responsibility to ensure that risks are always identified and adequately managed. Agency theory also explains that board commissioners' size can reduce costs because a large board size plays a more influential role in performing its supervisory function. Companies with a large board of commissioners will expand ERM disclosure as the board of commissioners needs information about the company's risks in carrying out its activities. The effect of board size of commissioners on ERM disclosure can be strengthened by the presence of a risk management committee formed by the board of commissioners themselves. A risk management committee can assist the board of commissioners in advancing the quality of risk assessment and monitoring and moving companies to detail the disclosure of risks they face.

The company's risk management committee plays a vital role. The committee is expected to increase ERM disclosure. Therefore, this study will explore the role of the risk management committee in influencing firm size, profitability, ownership concentration, and board size when disclosing ERM information.

2. METHODS

The quantitative approach used in this study is the research design, namely the hypothesis testing study. A total of 165 manufacturing companies listed on the Indonesia Stock Exchange were the research population. The criteria for determining the sample were selected using the purposive sampling technique. The criteria were as follows: 1) Companies that publish annual reports in four consecutive years of observation; 2) Companies that describe the concentration of ownership; 3) Companies that experience profits in four consecutive years of observation; and 4) Companies that use the rupiah currency in the presentation of financial statements. The sample used in this study were 56 companies with 224 units of analysis.

Enterprise Risk Management disclosure is used as a dependent variable, and the risk management committee as moderating. This study has four independent variables such as company size, profitability, ownership concentration, and board size. The measurement of ERM Disclosure refers to Tarantika and Solikhah's (2019) study (number of items disclosed/25) x100% regarding ISO 31000:2009. Company size is measured using the formula Ln Total Assets (Syifa, 2013). Profitability is measured by NPM = (Net Profit/Sales) x 100% (Saskara & Budiasih, 2018). The concentration of ownership is measured by the formula (the largest number of shareholdings/total company shares) x 100% (Agista & Mimba, 2017). The size of the board of commissioners is measured by the number of members of the commissioners' board (Wicaksono & Adiwibowo, 2017). At the same time, the Risk Management Committee is measured by the number of risk management committees within the company (Wicaksono & Adiwibowo, 2017).

The use of secondary data selected in this study is obtained using the documentation techniques. The data is in the form of annual reports published by the IDX and companies. Descriptive statistical analysis, classical assumption testing and moderation regression analysis are the data analysis techniques used. The hypothesis testing is then determined using a 5% significance level.

3. RESULT

ERM disclosure measured using ISO 31000:2009 shows a result of 65.78%, so it is still classified as less than optimal. Descriptive statistical analysis is useful for understanding research data's description through the minimum, maximum, mean, standard deviation, variance, sum, range, kurtosis, and skewness values (Ghozali, 2013). The descriptive statistical analysis results show that the disclosure of ERM, company size, ownership concentration, size of the board of commissioners, and the risk management committee has a relatively good data distribution. It evidenced by the mean value higher than the standard deviation value (Enterprise risk management disclosure = 0.658 > 0.055; firm size = 28.871 > 2.14; ownership concentration = 0.576 > 0.21; board size = 4.370 > 1.91; risk management committee = 3.280 > 1.13). Meanwhile, profitability has a mean value lower than the standard deviation value (profitability = 0.139 < 0.08), which means that the data distribution is not good. Descriptive statistical analysis can be seen in Table 1.

The normality test of data transactions is typically distributed with a significance of 0.08 (0.08 > 0.05).

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Table 1. Descriptive statistical analysis

Variables	N	Minimum	Maximum	Mean	Std. deviation
Company size	224	25.619	40.381	28,871	2.146
Profitability	224	0.001	1.901	0,089	0.139
Ownership concentration	224	0.250	0.956	0,576	0.218
Board of commissioners' size	224	2.000	13.000	4.370	1.913
Risk management committee	224	2.000	12.000	3.280	1.139
Enterprise risk management disclosure	224	0.480	0.840	0.658	0.055
Valid N (listwise)	224	–	–	–	–

The multicollinearity test indicates that the regression model passes the multicollinearity test (tolerance > 0.10 and VIF < 10). Furthermore, the autocorrelation test value is above 5%, namely 0.180, the uniform regression model passes the autocorrelation test. The heteroscedasticity test performed using the Rank Spearman test has a significance parameter coefficient above 0.05, which means the regression model in this study is free from the assumption of heteroscedasticity.

This study resulted in an adjusted R^2 value of 0.370; this means that 37% of the variation in enterprise risk management disclosure as a dependent variable can be explained by the moderating variables and independent variables used in this study; other variables can explain the remaining 63% outside of this study. Testing results are shown in Table 2.

4. DISCUSSION

Firm size has a positive effect on an enterprise's risk management disclosure. The findings of this study show a good agreement with the signaling theory. The management tries to convey to creditors the best expectations for the company's performance. This hope is transmitted through several signals, one of which is through the collection of assets. A large company's various activities will have a more significant impact on shareholders and the surrounding environment. The company discloses more information as a form of corporate responsibility to the public. Therefore, there is a need to disclose ERM information to inform about the risks arising in the company. The results of this study are in line with Lechner and Gatzert (2017), Mohd-sanusi et al. (2017), and Yunifa and Juliarto (2017).

There is no significant effect of profitability on ERM disclosure. The results of this study contradict the signaling theory. The discrepancy of research findings is because other theories explain that profitability does not affect ERM disclosure. The theory of legitimacy describes when the company has high profits; the company thinks it no longer needs to convey things that can interfere with information on its success. But when profitability is low, they hope that users of the report will better understand the good news of the company's performance, for example, in the social sphere, which will en-

Table 2. Test results

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.	Result
	B	Std. Error	Beta			
(Constant)	0.685	0.008	–	87.630	0.000	–
Firm size	0.025	0.005	0.451	5.055	0.000	Accepted
Profitability	–0.006	0.009	–0.112	–0.676	0.500	Rejected
Ownership concentration	–0.004	0.003	–0.067	–1.117	0.265	Rejected
The size of the board of commissioners	0.019	0.005	0.350	3.558	0.000	Accepted
Moderation-Firm size	–0.015	0.006	–0.306	–2.784	0.006	Accepted
Moderation-Profitability	0.010	0.009	0.235	1.056	0.292	Rejected
Moderation- Ownership concentration	–0.014	0.006	–0.255	–2.434	0.016	Accepted
Moderation- The size of the board of commissioners	–0.009	0.007	–0.150	–1.312	0.191	Rejected

courage investors to keep investing in the company. These research results are consistent with Wicaksono and Adiwibowo (2017) and Mohdsanusi et al. (2017).

Ownership concentration does not affect ERM disclosure; it rejects agency theory that has been described in hypothesis development. A large concentration of share ownership cannot properly guarantee the management's performance to disclose enterprise risk management properly. The large amount of dividends received by the majority shareholder reduces the pressure of the majority shareholder on company management in carrying out ERM disclosures because large dividends are a form of good investment returns so that they feel more appreciated through dividends without requiring extensive disclosure of information. In reality, most shareholders rely more on company management to manage and increase the company's value, so that concentration of ownership cannot guarantee that the company's risk management implementation will run well. This study's results are in line with Pangestuti and Susilowati (2017) and Saggar and Singh (2017).

There is a significant positive relationship between the board of commissioners' size and ERM disclosure. This supports the agency theory described in hypothesis development. In the case of ERM disclosure, agency conflicts can be minimized through the board of commissioners' role, who can oversee management in managing risk management implementation so that risk management can be carried out properly up to the risk management reporting process. It is predicted that the board of commissioners' existence will be more stringent in overseeing risk disclosure implementation so that no information is covered up. This study's findings are consistent with Saggar and Singh (2017) and Wicaksono and Adiwibowo (2017).

Signaling theory and agency theory are used as a reference that explains the effect of company size on ERM disclosure moderated by the risk management committee. This result implies that the risk management committee can moderate the effect of company size on ERM disclosure. Companies can determine if ERM disclosure is relevant information to stakeholders. The extent of disclosure by a company will increase the publication of information that competing companies can use in seeking opportunities (Kumalasari et al., 2014). The risk management committee will take actions that do not significantly impact the company, one of which is related to information disclosure. The information that needs to be prepared in ERM must be carefully considered for each stakeholder because the relevance of information is better than information overload. After all, this could be a reason for companies to narrow down ERM disclosures.

The risk management committee cannot moderate the effect of profitability on ERM disclosure. These findings are inconsistent with the signaling theory and agency theory used as references. The reason is that a company thinks that it does not need to convey things that might cover up information on the company's success when its profits are high. The risk management committee that functions as an ERM disclosure supervisor must also be careful in carrying out its activities in disclosing risk management. Besides, carring out extensive ERM disclosures would require a lot of funds. Therefore, it is suspected that companies with high profits will prefer to use these profits for priority matters so that there is no effect on ERM disclosure. It can be seen from the sample company, namely PT Merck Tbk (MERK) in 2018, which had profit of Rp1,163,324,165,000 but only performed ERM disclosure with an index of 64%. In 2017, PT Delta Djakarta Tbk (DLTA) had a profit of Rp279,772,635,000 and only performed ERM disclosure with an index of 60%.

The risk management committee can negatively moderate the effect of ownership concentration on the company's risk management disclosure. The concentration of ownership is proven not to influence ERM disclosure because the owner's focus is on the profits and dividends given. So do not pay too much attention to other disclosures as long as the profit is achieved. The presence of the management committee makes ERM disclosure lower as, when viewed from descriptive statistics, the number of members of this committee is low for the level of companies listed on the

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Indonesia Stock Exchange. Companies that are successfully listed on the stock exchange have complex businesses and have a broad impact on society. The lack of risk management committee members causes the risk control process to be suboptimal; this leads to the fact that there are still many things related to the risks faced by a company that have not been correctly mapped, so that ERM disclosure is disrupted.

The risk management committee cannot moderate the effect of board size of commissioners on ERM disclosure. The findings of this study contradict the agency theory that is the reference. The risk management committee can moderate board size on ERM disclosure because the board of commissioners as supervisors implements ERM (KNKG, 2012). The large size of the board of commissioners in a company reduces the need to form a risk committee as they can carry out risk control tasks. The board of commissioners oversees any risks that could worsen the company's condition. They can also see all the costs incurred in the ERM disclosure so that the board of commissioners believes that their party can do ERM disclosure.

CONCLUSION

Based on the results of this study, one can conclude that the risk management committee plays a role in controlling a company's risk management disclosures. In large companies that need to provide a wide range of information, the risk management committee limits risk disclosure to urgent matters, and risk management is planned to maintain stakeholder trust. Meanwhile, on the other hand, the lack of members of the risk management committee leads to the fact that the risks faced by a company are not optimally mapped, despite the fact that the majority owner also does not provide supervision on this matter because he is interested in making a profit for the company. This indicates that the quality of ERM disclosure still needs improvement regarding what is presented. Although in part, the disclosure of corporate risk management will be carried out more massively when the board of commissioners closely supervises the company and large companies have are responsible for providing information that is not covered up to stakeholders. The research object is limited to manufacturing companies, so this study cannot be generalized to companies outside the manufacturing sector. Further research can expand the object of research by industry type to get more specific results and can use the latest ISO measurement standards, namely ISO 31000:2018 concerning Risk Management – Principles and Guidelines.

AUTHOR CONTRIBUTIONS

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Writing – review & editing: Linda Agustina, Kuat Waluyo Jati, Niswah Baroroh, Ardian Widiarto.

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