The Effect of Corporate Risk Disclosure toward Firm Value in Indonesia Sharia Stock Index

M D F Abdullah

Magister Terapan Keuangan dan Perbankan Syariah, Politeknik Negeri Bandung, Indonesia.

Abstract. This study aims to examine the factors that influence corporate risk disclosure which consist of company type, size and profitability, as well as the impact of corporate risk disclosure itself on the firm value. Every company has different risk. Investors need to know the risks faced by the company and the strategies used to deal with them. The companies listed on the ISSI are required to conduct their business based on sharia principles. Risk disclosure is a form of applying sharia principles in business ethics. The population of this research is 265 non-financial companies listed on ISSI and published the annual report for 2015-2017. The study sample are 73 non-financial companies which are chosen by applying Slovin’s formula. The data analysis techniques are path analysis and multiple group analysis. The results show that the company type, size, and profitability have a significant impact on the corporate risk disclosure, while the corporate risk disclosure itself has a positive and significant impact on firm value. This research results can be used as a consideration for the company’s management to increase the corporate risk disclosures in the annual report as it can be a positive signal to encourage the increase in company value.

1. Introduction

Every company has different risks. Investors need to know the risks that the company will face in producing values and strategies it will use to deal with these risks. Information about company’s risk can help the investors to identify types of risks the company will face and to measure the company value through stock prices forecast [1, 2]. The Institute of Chartered Accountants in England and Wales (ICAEW) (1998, 1999, 2002) published several studies that discuss financial risk reporting and prospective financial information [3]. ICAEW states that corporate risk disclosure will lead companies to better risk management, as well as increase the accountability for investor protection and the usefulness of financial reporting.

The research of [4] finds a significant market reaction to the company’s disclosure of investment in the company’s resource planning system it also concludes that future non-financial information is very important to be included in financial reporting. The companies also benefit from risk disclosures such as helping to manage the change, reducing capital costs, increasing shareholder’s wealth, reducing the possibility of financial failure, determining the risk profile of a company and estimating the market value of securities [1]. These show the importance of risk disclosure for the company.

The global monetary crisis in 2008 which rocked several companies attracted investors’ attention [5] and the fraud by British Telecom and PwC companies in 2017 [6] made investors doubt the financial information provided by the companies, thus encourage the companies to be more open in convey information to investors [7]. In addition to financial information, the companies also need to disclose non-financial information which contains the information about the companies’ risks. The quality of risk information can be seen in company disclosures, which is the corporate risk disclosure [5].
Otoritas Jasa Keuangan (OJK) has regulated the risk management which is disclosed by the companies in their annual report. It consists of an overview of the risk management system, the type of risk, how it is managed, and a review of the effectiveness of the risk management system [8]. Although it has regulated risk disclosure, OJK does not regulate how much risk the company must disclose so it needs to be investigated more to find out how much a company discloses its risks to public.

This research is intended to discuss the factors that influence corporate risk disclosure which consists of company type, size and profitability as well as the impact of corporate risk disclosure itself on the firm value. The identified model can help us to understand the factors that influence corporate risk disclosure and its impact on firm value.

1.1. Stakeholder Theory
The stakeholder theory argues that a company must provide various types of information to meet the needs of various types of stakeholders. The company must also maintain the relationships with the stakeholders by accommodating their needs, especially the ones who have the strengths to the availability of resources used for the company's operational activities, such as labour, market for the company's products, etc. [9].

Managers use the information to manage or manipulate the most influential stakeholders to get their supports, so the company can survive. One of the strategies in maintaining the relationships with the stakeholders is to disclose the company risks. The company get motivated to disclose the risks in order to build and maintain relationships with the stakeholders [10].

1.2. Agency Theory
The agency theory can be used as a basis for understanding the risk disclosure practices. Managers as the agents have more accurate information about the company, compared to the stakeholders. The information covers all conditions of the company, including the conditions that might be faced in the future. The shareholders, creditors, and other stakeholders need this information to be used as the basis for decision making [11].

Corporate risk disclosure is a way to mitigate the agency problems, in which the agents or managers disclose more information to reduce the agency costs and to convince the investors that the managers have worked optimally. The provision of risk information shows the accountability of the managers and their efforts in achieving the goal of maximizing the shareholders’ wealth and reducing the asymmetry of information [3].

1.3. Signaling Theory
This theory is used by the companies to provide positive and negative signals, in order to reduce the asymmetry of information. The management provides information about the corporate risk disclosure through financial reporting [12]. It shows that the company has been a transparent to the investors regarding the financial reporting. The management always tries to disclose important information which, according to its consideration, attracts the investors the most, especially good information. In this case, the company's reputation turn good and the company value increases.

1.4. Company Size to Corporate Risk Disclosure
The company size is an illustration of how big a company is. The size of the company can be expressed by total assets, sales, and market capitalization. The larger a company, the more parties get interested and the greater the need to disclose the information to the stakeholders. As a consequence, the disclosure of company risk management becomes broader and the information provided is also becomes more accurate and more complete. It is a form of management accountability to the investors [13]. Based on the explanation above, the hypothesis that can be drawn is:

H1: the company size has a positive and significant impact on the corporate risk disclosure
1.5. Profitability to Corporate Risk Disclosure
Profitability is one way to assess management performance in achieving company goals by knowing the increase in company profits. Profitability is one indicator of the company’s success, especially on its ability to generate profits by utilizing its resources such as assets or equity [14]. Some measures to calculate the level of profitability are ROE (Return on Equity), ROA (Return on Assets) and Net Profit Margin. The companies with high profitability will reveal more information. It is because high profitability indicates how well the company can manage the risk. It gives information and a good signal to the investors. Based on the explanation above, the hypothesis that can be drawn is:
H2: profitability has a positive and significant impact on corporate risk disclosure

1.6. Corporate Risk Disclosure to Firm Value
Corporate risk disclosure is one of the ways to increase company credibility to help investors in understanding the strategy of company’s business management. The method used to analyze risk disclosure is content analysis method. This method uses sentencing approach that is measured by calculating the total number of sentences containing the risk information in the annual report. This method focuses on quantity, not on the quality of risk disclosure [3, 14-16]. The companies that disclose their company risks can increase the value of their company because they will be valued by stakeholders. Corporate risk disclosure can increase investors and stakeholders’ trust in company performance and prospects. Researches [16, 17] state that risk disclosure has a positive and significant effect on firm value. Based on the explanation above, the hypothesis that can be drawn is:
H3: corporate risk disclosure has a positive and significant impact on company value

1.7. Company Type to Corporate Risk Disclosure
The types of company classify them according to the business activities they operate [15]. Each company faces different risks depending on the complexity of its characteristics. If in one industry a company cannot disclose the same level of risk, it is considered as a hidden signal [14]. Because of these different characteristics, the type of company does not appear as a variable in the model but becomes a categorical moderator which is tested by a multi group analysis approach. It was conducted by comparing the influence among different types of the companies. [18]. Based on the explanation above, the hypothesis that can be drawn is:
H4: the company type has a significant impact on corporate risk disclosure

2. Research Method
This research is intended to discuss the factors that influence corporate risk disclosure which consists of the company type, size and profitability and as well as the impact of corporate risk disclosure itself on the firm value. The population in this study are 265 non-financial companies that are listed on the Indonesian Syariah Stock Index (ISSI) and publish annual reports for the period of 2015-2017. Based on the calculation using the Slovin formula, the total numbers of samples in this study are 73 companies. Refer to the opinions of experts [19, 20], the data analysis technique used in this study is path analysis by applying the PLS-SEM (Partial Least Square Structural Equation Modeling) method. For the variable of company types, a multiple group analysis approach can be adapted to compare the indirect effects between different types of the companies. The data processing is conducted by using WarpPLS 6.0 software[20, 21].

3. Result and Discussion
The results of data processing show that the value of goodness of fit (GoF) is 0.315, and indicates the compatibility of the ideal model. Furthermore, the Average block VIF (AVIF) has an acceptable value of 1.064 and Average full collinearity VIF (AFVIF) also has an acceptable and ideal value at 1.049 The Sympon's paradox ratio (SPR) also has an acceptable value of 1.000. Similarly, the R-squared contribution ratio (RSCR) shows an acceptable value of 1.000 and the Statistical suppression ratio (SSR)
of 1,000 which can fulfill the suitability of the model. In accordance with the indicators that must be in line with WarpPLS, the model proposed in this study is appropriate.

3.1. Path Analysis

Based on the conditions that must be fulfilled in PLS-SEM analysis using the WarpPLS analysis tool, it can be concluded through the final results which will be shown in the Figure 1:

![Figure 1. The Result of Testing Model](image)

The company size and profitability have a positive and significant impact on corporate risk disclosure with each coefficient of 0.34 with significance <0.01 and 0.18 with significance <0.01. It shows that the greater the company and the more profit the company gets, the more risks the company discloses. Corporate risk disclosure has a positive and significant effect on firm value with a coefficient of 0.14 with a significance of 0.02. Based on the results of this study, it can be seen that the corporate risk disclosure affects the firm value, the more a company discloses the risks, the higher value the company gets.

3.2. Multiple Group Analysis

Multiple group analysis is used to test different types of companies. In the path analysis model the company size and profitability affect 18% of company risk disclosure while the corporate risk disclosure only affects 2% of the company value. With multiple group analysis, it can be seen the effect of each variable toward each type of company. The test results can be seen in the Table 1 (see Table 1):

| Type of Industry                         | Size | Profit | Risk   | Value  |
|----------------------------------------|------|--------|--------|--------|
|                                        | β    | p     | β      | p     | β     | p     | R^2   |        |
| Agriculture                            | 0.74 | <0.01 | 0.15   | 0.34  | 0.53  | -0.97 | <0.01 | 0.94   |
| Mining                                 | 0.67 | <0.01 | 0.18   | 0.18  | 0.64  | 0.36  | 0.03  | 0.13   |
| Basic Industry and Chemicals           | 0.16 | 0.17  | 0.23   | 0.08  | 0.10  | 0.36  | 0.01  | 0.13   |
| Miscellaneous Industry                 | 0.69 | <0.01 | -0.29  | 0.08  | 0.64  | 0.22  | 0.15  | 0.05   |
| Consumer Goods Industry                | 0.29 | 0.05  | 0.65   | <0.01 | 0.68  | 0.51  | <0.01 | 0.26   |
| Property, Real Estate, and Building Construction | 0.49 | <0.01 | -0.30  | 0.02  | 0.21  | 0.05  | 0.39  | 0.00   |
| Infrastructure, Utilities and Transportation | 0.75 | <0.01 | 0.27   | 0.07  | 0.82  | 0.73  | <0.01 | 0.54   |
Based on the results above the coefficient, significance, and \( R^2 \) values of each sector are different. Then it can be concluded that the company type can affect the corporate risk disclosure. In the agricultural sector, the value of the risk disclosure coefficient is negative. It shows that in the agricultural sector, the more a company reveals the risk, the lesser the investors show interest. It is necessary for companies to pay attention to this condition because each company has a different impact, but overall risk disclosure has a positive impact on the company value.

Figure 1. shows that company size has a positive relationship with corporate risk disclosure. This is consistent with prior studies such as [2, 22] that found company size positively related to corporate risk disclosure, because large companies tend to disclose more information than small companies. In Figure 1. also shows that profitability has has a positive and significant relationship with corporate risk disclosure is similar with prior studies such as [5]. The result of Table 1. is consistent with prior studies such as [16, 17] state that risk disclosure has a positive and significant effect on firm value. In addition, this study shows that there is a different impact in every sector.

4. Conclusion
In general, the results of this study indicate that the company type, size, and profitability have a significant impact on the corporate risk disclosure. Meanwhile corporate risk disclosure itself also has a significant impact on the firm value. In the multiple group analysis, there are some differences in the results of each sector of the company. This finding shows that every company needs to know how much risk is disclosed, because not all companies that disclose their risks will increase the value of the companies. There are some companies that increasingly disclose their risks and reduce the investors’ interest. It is important for companies to know the condition of their companies and get to know their investors.

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