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Determine the Effect of Risk Management Disclosures in Consumer Goods Manufacture Companies with The Analysis of Firm Size, Leverage, and Managerial Ownership

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Abstract:

This research objective to analyze whether risk management disclosure in the consumer goods sector of manufacture companies that are listed on the Indonesia Stock Exchange (IDX) on 2019-2021 period can be influenced by firm size, leverage, and managerial ownership. A quantitative research method was employed using data that was cumulated from annual reports of 50 manufacture companies, specifically the consumer goods sector that is listed on the IDX. Based on the conduction tests, it is known that risk management disclosure is not influenced by firm size and managerial ownership partially, while leverage has a significant negative influence on risk management disclosure. However, when these three variables are used together, they have a significant influence on risk management disclosure by the companies. This research provides valuable insights for investors to consider risk management disclosure as an important factor. Therefore, future research can further develop this study by using more representative variables and considering external factors that may affect risk in consumer goods manufacture companies.

Keywords: *Firm Size, Leverage, Managerial Ownership, Manufacture, Risk Management*

1. Introduction

Corporate Finance Institute defines a manufacture company as a sector of a company that produces or produces finished or semi-finished goods by processing raw materials with equipment, machinery and human power on a large production scale. The development of the manufacture industry sector has a direct impact on economic and social conditions (A. Permatasari et al., 2019). Based on data on the official website of the Indonesian Central Bureau of Statistics, there is an economic increase in the manufacture industry of 3.39% in 2021 which contributes 0.75% to Indonesia's

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economic growth in 2021 (Sutanto et al., 2021). However, there is a high vulnerability of data manipulation at manufacturing sector (Narsa et al., 2023).

Consumer goods manufacture companies are a sector of manufacture companies that produce/manufacture products in the form of food and beverages, pharmaceuticals, tobacco, and cosmetics (Rujiin & Sukirman, 2020). In Indonesia, the condition of consumer goods manufacture companies is developing very rapidly due to its nature which is widely used by the public so that it can attract investors to invest because it is considered to have good prospects (RI Ministry of Industry, 2020). Although attractive to investors, there are risks due to economic instability that need to be considered so that the investment goes well. Risk is a form of unreliability regarding matters that potentially occur in decisions of investment such interest rates, market risk, inflation risk, liquidity risk, currency exchange rate risk, and country risk (Firli et al., 2022). Risk will always exist in every company, so companies must be able to distinguish between those who are at risk and those who are at low risk (Muhamad et al., 2021).

Economic growth in Indonesia has created economic competition for companies in Indonesia. Competition between companies does not escape the risks that have the potential to hinder the company's growth. Existing risks affect investor confidence in the company therefore it is necessary to have high-quality information about the risks that exist in the company to assess performance and determine company risks which will later influence the business decision-making process. Risk management disclosure is aim to help the users of financial reports of fully assess public company (Jia & Li, 2022). Risk management disclosure also could help the need of companies especially for the investors (Ahmad et al., 2015).

Firm size is related to risk management disclosure (Alqahtani et al., 2021). When the size of the company gets bigger, the level of disclosure of risk management will be higher because the bigger the company, the greater the risks (Xie, 2023). Research by Sarwono (2018) and Rujiin (2020) states that company size has a positive effect on risk management disclosure.

High leverage condition illustrates that the degree of unreliability of return that potentially obtained is higher (Majid & Nurbaiti, 2021). This is in line with the term "high risk high return” so that when an existing risk is higher, companies will be more motivated to be able to disclose existing risk management in order to maintain investor confidence (Su et al., 2023). This is in line with previous research made by Rujiin (2020) Elisabeth (2021) Ibrahim (2019) Pravadinda (2021) which states that leverage negatively affects disclosure of risk management.

Managerial ownership is related to agency theory where the manager is the person whose role is to manage the company. Based on agency theory, the managerial ownership and the level of risk management disclosure has a positive relationship (Lokaputra, Anugerah, & Kurnia, 2022). That is because the higher the shares owned by managerial parties, the higher the desire of shareholders to keep stock prices stable so that they will carry out risk management disclosures very well to maintain investor confidence. This is in line with research that conducted by Rohmaniyah (2017) and Lokaputra (2022) which state that managerial ownership has a positive effect on risk management disclosure.

This study focus is to analyze whether the firm size, leverage, and managerial ownership can affect the risk management disclosures of manufacture consumer goods companies that are listed on the IDX for the 2019-2021 period. However, several previous studies have not examined management's disclosure much. risks in the consumer goods manufacture sector. The results of this study can be additional information regarding certain ratios for additional consideration in measuring risk in a company.

2. Theoretical Background

Agency Theory discusses the pattern of relationship between the owner (*principal*) with manager (agent) (Mauludin, 2020). Agency theory states that in a company, the interests of the company owner may not be in line with the company's management (agent) so that it can lead to information asymmetry (Jensen & Meckling, 1976). Risk is defined as the uncertainty that has the potential to occur due to a lack of information provision. adequate knowledge of matters that have the potential to occur in the future (Farida et al., 2019). Disclosure of risk management is a form of oversight mechanism within a company that aims to eliminate information asymmetry (Ramos & Cahyonowati, 2021). Disclosure item of risk management can be in the form of disclosure items in the company's annual report, for which the board of directors is responsible at the General Meeting of Shareholders (GMS) (I. Permatasari, 2020). Therefore, an analysis can be carried out regarding the aspects that are expected to influence how much the company discloses its risk management (Majid & Nurbaiti, 2019). With good disclosure of risk management, the level of investor confidence will be higher so that it can assist in the development of the firm.

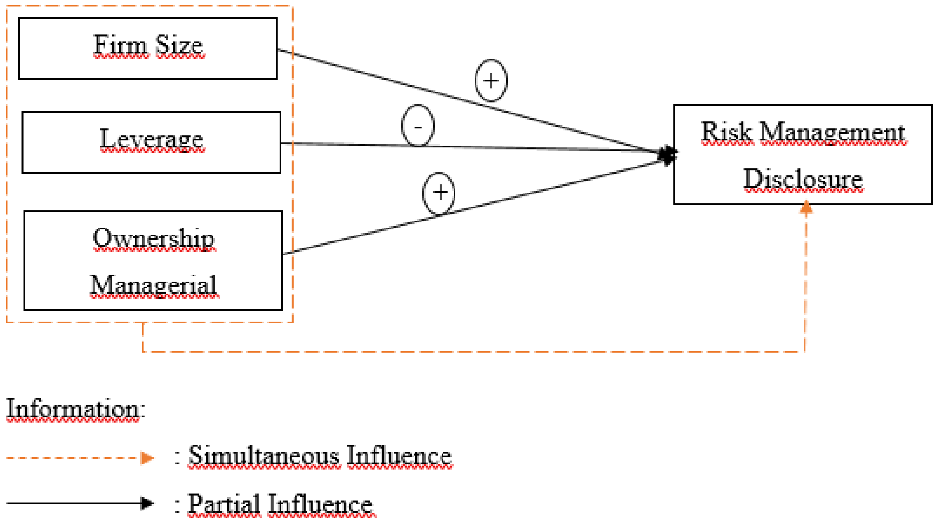
Firm size is the number or value of assets owned by the firm (Putri & Filianti, 2021). In general, if the company has a large-scale company, the delivery of information about risk will be better than a company with a small company size.(Ibrahim et al., 2019). In its measurement, total assets are measured using Natural Logarithms (Ln) with the aim of reducing large or significant variations between large companies and small companies (Rukmana Sari et al., 2021).

Leverage defined as a ratio for measuring the use of company funds or assets financed with liabilities (debt) (Ayudya Rahmawati & Andry Sugeng, 2022). That is, the business activities of a company that is run or operated do not use personal capital but with debt (Segal & Olaffson, 2023). Thus, the company must incur fixed costs to finance these assets (Lienardo et al., 2022). The amount of debt to a company will always be accompanied by the amount of responsibility to disclose information about the risks that exist in the company (Hadianto & Tjun, 2009).

Company managers can own part of a company's shares or are called company shareholders where this is commonly referred to as managerial ownership (Rismayanti et al., 2020). Managerial ownership measurement is carried out. with. measure the ratio of the number. owned shares. managerial party with total company shares (Yulius Jogi Christiawan & Josua Tarigan, 2020). Managerial ownership is in line with risk management disclosure (Lin et al., 2023). But, in carrying out the task of risk management disclosure, there maybe a statements manipulation to increase the investor expectations (Narsa et al., 2023). These three variables are expected to have an influence on risk management.

Based on these research theories, a framework for this research can be created, namely as follows.

Figure 1. Research Framework



Source: Personal Processed Data (2023)

Based on the framewok, the authors make several hypotheses regarding this study. The following is the hypothesis in this study.

H1: Firm size, leverage, and managerial ownership have an simultaneous influence on risk management disclosure

H2: Firm size has a partial positive influence on risk management disclosure

H3: Leverage partially negative influence on risk management disclosure

H4: Managerial ownership has a partially positive influence on risk management disclosure.

3. Methodology

This research using a quantitative method, the data is in the form of numbers and is used to test a hypothesis using a certain population or sample (Sugiyono, 2020). independent variable used is the size of the firm by logarithm natural (Ln) of total company assets, leverage with Debt to Equity Ratio (DER) and managerial ownership. Whereas dependent variable used are risk management disclosures sought using techniques *content analysis* based on risk management disclosure items according to ISO 31000 totaling 25 items (Pravadinda & Majidah, 2021).

This research population is consumer goods manufacture companies on the IDX for the 2019-2021 period. Then based on *purpossive sampling*, a research sample was obtained, namely 50 consumer goods manufacture companies on the IDX in the 2019-2021 period. IDX's official website and the company's official website are used to compile the company's 150 annual reports.

Table 1. Research Sample Selection Criteria

No.	Criteria	Sum
1.	Consumer goods manufacture company on the Indonesia Stock Exchange (IDX) in 2019-2021	54
2.	Consumer goods manufacture companies on the Indonesia Stock Exchange (IDX) that do not issue annual reports (*annual report*) and inconsistent for three years	(4)
Total number of research samples		50
Observation Data (3 years)		150

Source: Personal Processed Data (2023)

At the data analysis stage, descriptive statistical analysis, classical assumption test and hypothesis testing using panel data regression analysis were the methods used in this study. Descriptive analysis was carried out with the aim of describing the characteristics of the study population based on descriptive presentation. The classical assumption test was carried out to test the level of multicollinearity symptoms on the independent variables in the study. Before entering into hypothesis testing, model testing is carried out first to find out the best model to be used in the form of the Chow test, the Hausman test and the Lagrange Multiplier test (LM test). Then in the final stage, panel data regression analysis was carried out to test the hypothesis by using the E-Views 12 software. Hypothesis testing consists of a coefficient of determination test (R^2) to determine the ability of the independent variable to explain the dependent variable, partial significance test (T test) to test the partial impact of the independent variable, and simultaneous significance test (F test) to test the impact of simultaneous variable.

4. Empirical Findings/Result

Based on the descriptive statistical analysis, several results of the data characteristics of each variable were obtained. These characteristics consist of standard deviation values, average (*mean*), median, maximum value and minimum value. Based on the results, the data on risk management disclosure variables tend to be uniform or grouped. This illustrates that companies in the consumer goods manufacture sector that are listed on the IDX in the 2019-2021 period. The company that discloses the highest risk management is PT. Kalbe Farma Tbk (KLBF) in 2020 and 2021 with a risk management disclosure percentage of 100%. While the company with the lowest risk management disclosure, namely PT. Tri Banyan Tirta Tbk (ALTO) in 2020 with a risk management disclosure percentage of 52%. tend to disclose risk management items in fairly uniform amounts.

Table 2. Descriptive Statistical Value

	Risk Management Disclosure	**Firm Size**	**Leverage**	**Managerial Ownership**
Mean	0,809333333	24,3222866	0,89186667	75,88468
Median	0,8	26,9639701	0,675	80,22
Maximum	1	30,876213	3,82	99,94
Minimum	0,52	13,6199518	-2,13	17,88
Deviation Standard	0,099331096	5,1492171	0,87231497	16,0752746
N	150	150	150	150

Source: Personal Processed Data (2023)

The multicollinearity test shows that the research data does not show the presence of multicollinearity symptoms because all the correlation values between the independent variables are <0.8. Model testing which consists of three tests provides a suitable model for use in hypothesis testing, namely r*andom effect model* (REM). Then processing is carried out in the form of panel data regression using the REM model to produce probability figures for later interpretation.

Table 3. Panel Data Regression Test Results

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 06/10/23 Time: 01:24
Sample: 2019 2021
Periods included: 3
Cross-sections included: 50
Total panel (balanced) observations: 150
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.759073	0.086453	8.780173	0.0000
X1	-0.001140	0.002335	-0.488054	0.6262
X2	0.027618	0.008985	3.073873	0.0025
X3	0.000703	0.000710	0.990392	0.3236

Effects Specification

	S.D.	Rho
Cross-section random	0.081147	0.7044
Idiosyncratic random	0.052566	0.2956

Weighted Statistics

R-squared	0.071657	Mean dependent var	0.283512
Adjusted R-squared	0.052581	S.D. dependent var	0.054549
S.E. of regression	0.053095	Sum squared resid	0.411586
F-statistic	3.756478	Durbin-Watson stat	1.756151
Prob(F-statistic)	0.012322		

Unweighted Statistics

R-squared	0.087935	Mean dependent var	0.809333
Sum squared resid	1.340857	Durbin-Watson stat	0.539064

Source: Personal Processed Data (2023)

Based on the results listed in table 3, the coefficient of determination test (R^2) that shows by value of a*djusted R-squared* is 0.052 or 5.2%. Thus, it can be concluded that the independent variable (firm size, leverage, managerial ownership) in this research cannot explain the dependent variable (risk management disclosure) because its value is close to 0. The partial significance test shows that the Prob value (*t-statistic*) variables X1 (0.6262) and X3 (0.3236) are more than 0.05 so that it can be seen that company size and managerial ownership don't have a partially significant effect on risk management disclosure. But the Prob Value (*t-statistic*) variable X2 is 0.0025 <0.05, so it can be seen that leverage partially significant impact on risk management disclosure. Then based on the results of the simultaneous significance test, the Prob value (*F-statistic*) is 0.0123 where the figure is less than 0.05 so it can be concluded that the three independent variables namely firm size, l*everage*, and managerial ownership has a simultaneous significant effect on disclosure of risk management in consumer goods manufacture companies listed on the IDX in 2019-2021 period.

5. Discussion

Firm size has no significant effect partially on risk management disclosure. It illustrates that the size of a company does not affect the level of risk management disclosure. This result is in line with research conducted by Hakim (2019) which states that not all companies with large assets disclose risk management properly. On the other hand, firms with a below average level of firm size express good risk management.

Leverage negatively affects the level of risk management disclosure. The higher the level leverage, the lower the possibility of the company to make adequate disclosures related to risk management. This is in line with research conducted by Rujiin (2020) which states that the level of leverage A high rate will bring high risks such as the risk of not being able to fulfill obligations. Under these conditions, companies may be more inclined to withhold information about the risks they face. This can be influenced by several factors, such as market perceptions related to investor and creditor concerns and the potential impact on the cost of debt such as difficulties in obtaining additional funding.

Managerial ownership does not affect the extent to which the company discloses information related to risk management to the public. This is in line with research conducted by Astuti & Priantinah (2020) which states that managers have a personal interest in the company, there may be other factors such as regulations, market pressures and demands stakeholder which more influences the level of risk management disclosure. Benkraiem (2022) also suggest that managerial ownership is not likely to affect the risk management disclosure.

The results of this study are in line with research conducted by Rujiin & Sukirman (2020) (Ibrahim et al., 2019) and Pravadinda & Majidah (2021) where their research showed that *leverage* negatively affect risk management disclosure.

6. Conclusions

Based on the descriptive statistical analysis conducted, so it can be known that the data on all variables (independent and dependent) used in this study tend to be uniform or in groups, because each variable has a mean which is greater than the standard deviation of each. Based on the hypothesis testing result, firm size and managerial ownership each don’t have a partially significant effect on risk management disclosure, while leverage negatively affect risk management disclosure. But if the size of the company, leverage and managerial ownership are used jointly, so these three variables is significantly influence on risk management disclosures in manufacture companies in the consumer goods sector listed on the IDX in the period 2019-2021.

This research still has limitations, so it is hoped that future research can conduct further research with some improvements from this research. The author suggests using other variables that have the potential to explain risk management disclosure, both in manufacture companies such as GCG quality, independent audit committee, board of commissioner’s size, and others. In addition, the research sample that is too varied can be reduced to one sample category of consumer goods manufacture companies in certain sectors, such as pharmaceuticals, cosmetics, or food and beverages. Investors are expected to pay attention to risk management disclosure items as additional considerations for investors in conducting investment analysis in a company. Also pay attention to global and market issues related to manufacture companies because these external factors can affect the level of investment risk in consumer goods manufacture companies.

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