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HOW SIGNIFICANT THE INFLUANCE OF VOLUNTARY RISK MANAGEMENT DISCLOSURE AND ITS IMPLICATION TO COMPANY VALUE

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Abstract: The aim of this research is to examine the effect of voluntary risk management disclosure and its implication to firm value. Independent variables used in this research are product diversification, geographical diversification, type of industry and company size. Intervening variable is voluntary risk management disclosure. While the dependent variable in this study is firm value measured using Tobin's Q. This research used a sample of non financial companies listed on the Indonesia Stock Exchange (IDX) in 2019. The sampling method in this research is purposive sampling and acquired 418 companies that meet the criteria. Hypothesis testing using multiple regression analysis. The results of this research showed that the higher the level of product diversification, geographical diversification, type of industry and company size, the higher the voluntary risk management disclosure. Voluntary risk management disclosure has a positive influential on firm value, the wider the disclosure of corporate risk management, will increase the firm value, otherwise the less disclosure of corporate risk management, will decrease the firm value or the value are getting worse.

Keywords: Product diversification, geographical diversification, type of industry, company size, voluntary risk management disclosure, firm value.

INTRODUCTION

Business activities in recent years have been dynamic, complex and closely interrelated. The financial crisis in the United States in 2008 which was followed by several countries in Europe, shows an example of instability in the world's financial sector that can reduce the company's condition.The case of financial statements where there is a systematic and structured manipulation plan, such as Enron and Worldcom, has made several parties aware that the company needs to provide information about the risks experienced by the company.

In the process of achieving goals, there are events that have the possibility to occur. This is called risk. Generally, the risk of the business world is directly related to investment activities and company operational activities. Risk management is becoming an increasingly important activity in companies and organizations. Risk management, like any other management activity, must be practical, cost effective, and help the organization to survive and grow. The growth of risk management is directly related to the increasing amount of organization risk because it faces complexity (Golberg & Palladini, 2010).

Investors need information about the company's risk disclosure in anticipating all problems that occur in making investment decisions. The need for quality voluntary qualitative information on topics such as corporate risk becomes important. According to (Miihkinen, 2013), the stages of communicating risk management with performance are inherently problematic, especially in terms of narrative disclosure. Difficulties in risk disclosure arise from commercially sensitive information, which means that disclosure of risk information can result in strategic exploitation by competitors and also the fact that forward-looking risk information can encourage investors to sue the company (Liebenberg & Hoyt, 2011). For this reason, (Linsley and Shrives, 2006) argue that company managers may not wish to disclose information risk in their annual reports. They assert that third parties who do not have interests aligned with the interests of the company may use information that is disclosed and is contrary to the objectives of the company's welfare. The impact of the cost of ownership on firm value and competitive position that arises from risk disclosure can cause voluntary risk to have a dilemma in its disclosure (Liebenberg & Hoyt, 2011).

Effective risk reporting practices can reduce information asymmetry between companies and stakeholders, build positive relationships, strengthen trust in management and have a positive effect on firm value. Risk disclosure is often correlated with several variables such as the mechanism of Good Corporate Governance (GCG), company characteristics, and company financial performance. The use of GCG variables cannot be separated from the role of GCG in increasing company transparency. Company characteristics are related to share ownership as well as company business characteristics such as diversification and type of company industry. The company's performance includes profitability, liquidity, leverage and the company's stock price. The focus of this research is the disclosure of the risk of non-financial institutions listed on the Indonesia Stock Exchange in 2017, where there is no further explanation regarding the regulations concerning risk management disclosure. Meanwhile, the risks that occur in non-banking companies today are more complicated and have a high risk, similar to banking companies.

The differences in previous studies raise the question of what are the determinants of voluntary risk management disclosure (VRMD). Whereas as we know that the greater the disclosure of a company's risk, it will increase investor confidence and the value of the company will certainly increase. Based on this description, this study aims to analyze the characteristics of the company, VRMD and its implications for firm value.

Problems Formula

Based on the phenomena that occur in the background and the contradictions of the research results, several problems are formulated in this study, such as:

1. Does product diversification affect Voluntary Risk Management Disclosure?
2. Does geographical diversification affect Voluntary Risk Management Disclosure?
3. Does the industrial type affect the Voluntary Risk Management Disclosure?
4. Does company size affect Voluntary Risk Management Disclosure?
5. Does Voluntary Risk Management Disclosure affect firm value?

LITERATURE REVIEW

Signaling Theory

Signaling theory states, companies with good quality will deliberately give signals to the market in the form of information. This information will be the difference between a good quality company and a bad quality company. "For the signal to be effective, it must be able to be captured by the market and perceived well, and not easily imitated by poor quality companies" (Husnan, 2005).

Information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains a value that is not yet known by investors, the information will be analyzed so that it can be concluded that the information is a good or bad signal. "If the information gives a good signal, it is expected that the market will react when the announcement is received by the market whose reaction will be seen from changes in the level of selling a number shares" (Husnan, 2005).

In order for the value of the company to increase, management must show good financial performance which is reflected in the financial statements as good news for investors. "Apart from company management, there is also other information that can be used as a measurement for investors to assess investment, namely from external companies in the form of political policies (change of executive officers and so on), security of a country (related to investment security), economic policies, natural disasters. and so on" (Husnan, 2005).

Stakeholder Theory

Stakeholder theory is a theory that learning about the dynamic and complex relationship between companies and their surrounding environment, namely stakeholders (Gray et al., 1996 in Amran et al., 2009). In achieving its goals, the company needs stakeholder support in the form of providing economic resources for the company's operations.

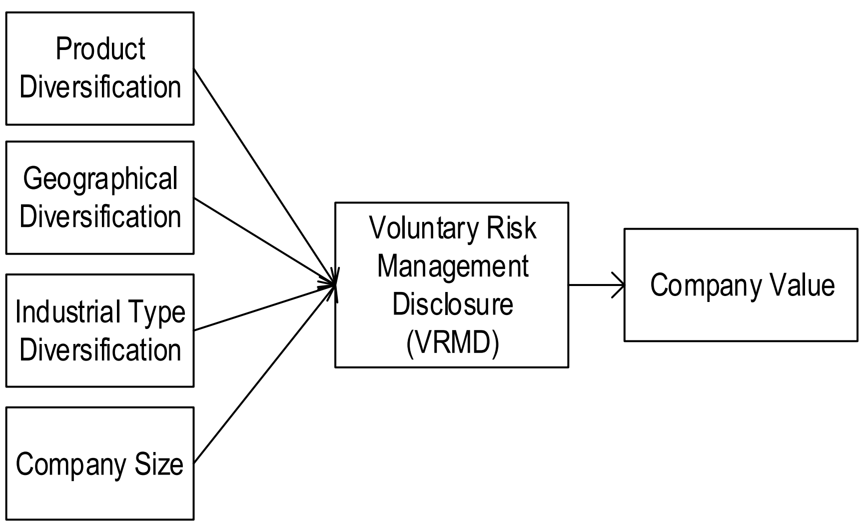
If stakeholders are able to provide support to the company by controlling important economic resources for the company, the company will react in a way that satisfies the interests of its stakeholders (Ullman, 1985 in Ghozali & Chariri, 2007). One way for companies to satisfy stakeholder interests is to make wider disclosures.

Based on the stakeholder theory, companies with a high level of risk will try to disclose more risk information to provide justification and explanation for what is happening in the company (Amran, et al., 2009). So the higher the risk of the company, the more it will be done, because management needs to explain the causes of risk, the impact, and how to manage risk by the company (Linsley & Shrives, 2006).

Companies that disclose more risk information will find that the market reacts better to the company's risk position and the company is then perceived as less risky than before (ICAEW, 1999 in Linsley & Shrives, 2006). So companies that disclose more risk information, will be considered less risky than companies that disclose less risk information.

Framework

This research was conducted to analyze the effect of the dependent variable, namely firm value as measured using Tobins Q on the independent variables in the form of: business product diversification, geographical diversification, type of industry, firm size using the VRMD variable as the intervening variable.



Ilustration 1 Framework

Hypothesis

The Effect of Company Diversification to Voluntary Risk Management Disclosure

H1 : Product diversification has a positive effect on VRMD

H2 : Geographical diversification has a positive effect against VRMD

The Industrial Type Affect the Voluntary Risk Management Disclosure

H3: Type of industry has a positive effect on VRMD

Company Size Affect Voluntary Risk Management Disclosure

H4 : Firm size has a positive effect against VRMD

Voluntary Risk Management Disclosure affect firm value

H5: VRMD has a positive effect on firm value.

RESEARCH METHODS

Dependent Variable

The dependent variable in this study is firm value. Firm value is the present value of free cash flow in the future at a discount rate according to the weighted average cost of capital. Free cash flow is the cash flow available to investors (creditors and owners) after taking into account all expenses for company operations and expenditures for investment and net current assets (Brigham & Davis, 2004). The value of the company in this study refers to the research of (Abdullah, et.al.,2015) which uses Tobin's Q as a measuring tool.

$$\text{Tobin's } Q = \frac{MVE + D}{\text{Total Assets}}$$

MVE = Market Value Of Equity

D = Debt (Total Liabilities)

Intervening Variable.

The intervening variable in this study is VRMD. VRMD is a disclosure of the risks managed by the company or disclosure of how the company will control risks related to the future. Risk management disclosure has the potential to have benefits for analysts, investors, and stakeholders (Ruwita, Cahya 2012).

The calculation of the VRMD level uses a dichotomous approach, where each VRMD item that is disclosed is given a value of 1, and a value of 0 if it is not disclosed. Each item will be summed to obtain the overall VRMD index.

The formulation is as follows:

$$VRMD = \frac{\text{A number of expected Score}}{39} \times 100$$

Independent Variable

Product diversification is a company's effort to develop the number of business products that the company runs. Measurement of product diversification is based on Taures' research (2011) by calculating the number of business segments owned by the company.

Geographical diversification is a company's effort to expand the number of product marketing areas that the company runs. Measurement of geographic diversification is based on Taures' research (2011) by calculating the number of geographic segments owned by the company. (Taures, 2011) uses the number of geographical diversification according to the number of countries.

The type of industry will influence the company in order to disclose the risk voluntarily. The type of industry is divided into two: high profile industry and low profile industry. Companies that are included in the high profile are companies that have a high level of sensitivity to the environment, high political risk or a level of intense competition, while low profile industry companies are companies that have simpler operating activities, a higher level of tolerance for failure and far from the public spotlight. Companies that enter the high profile industry group are given a value of 1 (one) while companies that are included in the low profile industry group are given a value of 0 (zero). Companies that are included in the high profile industry group include: mining, chemical, forestry, paper, automotive, aviation, agribusiness, cigarettes, food, energy, and transportation.
(Zuhroh and Sukmawati, 2003). Groups of low profile industry companies include: building, finance, property, and textiles.

Company size is a value that shows the size of the company. Large companies, of course, disclose risks with a different portion than small companies. Company size is a classification of companies based on the number of labor capacity, production capacity and capital capacity. Company size is calculated based on total assets. SIZE = Ln (total assets)

Population and Sample

The population in this study are all non-financial companies listed on the Indonesia Stock Exchange in 2019. The sampling technique used is purposive sampling, which is sampling based on the consideration of the subjectivity of the researcher. In the purposive sampling method, the sample is selected based on the suitability of the characteristics with the specified sample criteria in order to obtain a representative sample. The sample criteria in this study are:
1. Publication of the complete 2019 annual report and annual report.
2. Companies that have complete data related to research variables.
3. Financial statements are presented in rupiah and end on December 31

Analytical Data Method

For hypothesis testing, this study uses multiple regression analysis (multiple regression). The multiple regression equations for hypothesis testing in this research are :

VRMD = α + β1 DIVPROD + β2 DIVGEO + β3 INDS + β4 SIZE + e

Tobins Q = α + β5 VRMD + e

Explanation:

VRMD	: Disclosure of Voluntary Risk Indext
DIVPROD	: Product Diversification
DVGEO	: Geographic Diversification
INDS	: Type of Industry
SIZE	: Company Size
Tobin's Q	: Company Value
e	: Residual Value

FINDINGS AND DISCUSSION

Statistic Descriptive

The variables in this research is product diversification, geographical diversification, type of industry, company size, VRMD and company value. These variables have been tested statistically descriptively as shown in the following table. The population used in this study are non-financial companies listed on the Indonesia Stock Exchange (IDX) as many as 473 companies. The study was conducted on a sample in 2019, and the final sample in this study was a total of 418 company units. The sampling process based on the criteria can be seen in Table 1 below:

Table 1. Sample Descriptive

No.	Citeria	A number of Company
1.	All non-financial companies listed on the Indonesia Stock Exchange in 2017	473
2.	Companies that issue incomplete financial statements that have been audited and published in 2017	-28
3.	Companies that issue financial statements not in rupiah in 2017	27
	Total Sample Ended	418
	Total Observation in 1 year x Total Sample	418

source: www.idx.co.id

Table 2. Result of descriptive statistic before outlier

	N	*Min.*	*Max.*	*Mean*	*Std. Deviation*
Product Diversification	418	1	5	1,77	0,612
Geographic Diversification	418	1	4	1,02	0,176
Company Size	418	$9x10^9$	$3x10^{14}$	$9x10^{12}$	$2,24x10^{13}$
VRMD	418	0,615	0,897	0,701	0,060

Company Value	**418**	**0,046**	**89,276**	**1,295**	**4,791**

source: processing secondary data,2020

Based on Table 2. it is known that initially the total sample was 418. The results of the data screening test, there were 103 companies that had outlier or extreme data, therefore companies with extreme data had to be dropped. After going through the outlier process, and eliminating 103 companies, there are 315 companies left. The results of the descriptive statistical test of 315 companies are presented in Table 3.

Table 3. Result of descriptive statistic after outlier

	N	*Min.*	*Max.*	*Mean*	*Std. Deviation*
Product Diversification	**315**	**1**	**3**	**1,74**	**0,600**
Geographic Diversification	**315**	**1**	**4**	**1,02**	**0,202**
Company Size	**315**	**$2x10^{10}$**	**$3x10^{14}$**	**$9x10^{12}$**	**$2,25x10^{12}$**
VRMD	**315**	**0,615**	**0,872**	**0,689**	**0,470**
Company Value	**315**	**0,218**	**2,073**	**0,698**	**0,299**

source: processing secondary data,2020

Regression Hypothesize

Multiple linear regression analysis was used to determine the effect of product diversification, geographical diversification, type of industry, company size on VRMD. Simple linear regression analysis was used to determine the effect of VRMD on firm value. The results of the complete regression analysis are presented as follows:

Table 4. Result of Hypothesis t – First Equation

Model 1	*Unstandardized Coefficients*		*Standardized Coefficients*		
	B	*Std. Error*	*Beta*	*T*	*Sig.*
(Constant)	**-0,688**	**0,030**		**-22,558**	**0,000**
Diversifikasi Produk	**0,060**	**0,005**	**0,544**	**12,429**	**0,000**
Diversifikasi Geografis	**0,081**	**0,014**	**0,247**	**5,762**	**0,000**
Jenis Industri	**0,026**	**0,007**	**0,152**	**3,545**	**0,000**
Ukuran Perusahaan	**0,007**	**0,002**	**0,175**	**3,991**	**0,000**

source: processing secondary data,2020

Based on the results of SPSS calculations in Table 4, the following multiple linear regression equation is obtained:

$Y_1 = -0,688 + 0,060X_1 + 0,081X_2 + 0,026X_3 + 0,007X_4 + e$

Explanation:

Y_1 = VRMD

X_1 = Product Diversification
X_2 = Geographic Diversification
X_3 = Industrial Type
X_4 = Company Size

Table 5. Result of Hypothesis t – Second Equation

Model 2	***Unstandardized Coefficients***		***Stand. Coeff.***	***t***	***Sig.***
	B	***Std. Error***	***Beta***		
(Constant)	**0,038**	**0,134**		**0,286**	**0,775**
VRMD	**1,294**	**0,353**	**0,203**	**3,666**	**0,000**

source: processing secondary data,2020

Based on the results of SPSS calculations in Table 5, the following multiple linear regression equation is obtained:

$Y_2 = 0{,}038 + 1{,}294Y_1 + e$

Explanation:
Y_1 = VRMD
Y_2 = Company Value

Interpretation

Result of Hypothesis 1: The Effect of Company Diversification to VRMD

Table 4 shows that the product diversification variable has a significance value of 0.000 which is smaller than 0.05. It can be concluded that product diversification has an effect on VRMD. This shows that H1 which states that product diversification has a positive effect on VRMD is accepted.The wider the voluntary risk management disclosures that are presented, conversely the smaller the product diversification, the less voluntary risk management disclosures are presented. The results of this study support the research of Shabani (2016) that product diversification has a significant positive effect on risk management disclosure.

Result of Hypothesis 2: The Effect of Geographical Diversification to VRMD

Table 4 shows that the geographical diversification variable has a significance value of 0.000 less than 0.05. It can be concluded that geographic diversification has positive effect on VRMD. This shows that H2 which states that geographical diversification has a positive effect on VRMD is accepted. The wider geographical diversification, the wider the voluntary risk management disclosures that are presented, conversely the narrower the geographical diversification, the less voluntary risk management disclosures are presented. The results of this study are consistent with the research of (Shabani,2016) that geographical diversification has a significant positive effect on the VRMD.

Result of Hypothesis 3: The Effect of Industrial Type Diversification to VRMD

Table 4 shows that the type of industry variable has a significance value of 0.000 which is smaller than 0.05. It can be concluded that the type of industry has a positive effect on VRMD. This shows that H3 which states the type of industry has a positive effect on VRMD is accepted. High Profile Industry companies make more disclosures of risk management voluntarily presented, on the contrary, Low Profile Industry companies, do less risk management disclosures.

High Profile Industry companies disclose more information than Low Profile Industry companies because in High Profile Industry companies the complexity of the business and business that is run is more complex and sensitive to external influences such as political stability and the level of intense competition. In contrast to retailer companies that have less risk because retailer companies only sell goods, not produce. The results of this study are consistent with the research of (Shabani,2016) and (Wijananti, 2013) that the type of industry has a significant positive effect on the risk management disclosure.

Result of Hypothesis 4: The Effect of Company Size Diversification to VRMD

Table 4 shows that the firm size variable has a significance value of 0.000 which is smaller than 0.05. It can be concluded that firm size has an effect on VRMD. This shows that H4 which states that firm size has a positive effect on VRMD is accepted. The size of a company is a factor that greatly influences the disclosure of information of a company. Large companies disclose more information than small companies because large companies have more complex business cycles than small companies (Mavlanova, 2012). The larger the size of a company, the more voluntary risk disclosure will be. The results of this study support the research of Shabani (2016) and Baroma (2014) that firm size has a significant positive effect on the extent of corporate risk management disclosure.

Result of Hypothesis 5: The Effect of VRMD to Company Value

Table 5 shows that the VRMD variable has a significance value of 0.000 which is smaller than 0.05. It can be concluded that VRMD has an effect on firm value. This shows that H5 which states that VRMD has a positive effect on firm value is accepted.

Signal theory and agency theory can be used to explain the behavioral effects when two parties who have access to different information have gained momentum. One party, the sender, is assumed to choose how to communicate (or signal) the information and the other party, the receiver, is assumed to choose how to interpret the signal (Connelly et al., 2011). The wider the disclosure of the company's risk management, the higher the value of the company, on the contrary, the less disclosure of the company's risk management, the lower or worse the value of the company.Disclosure practices prove that managers tend to disclose information voluntarily to signal good corporate governance mechanisms and fewer agency conflicts, thus leading to higher firm value (Lajili, 2010). Companies that disclose risk information can provide better quality in terms of disclosure and can attract more investors because of increased trust so that it will increase the value of the company.

The results of this study support the research of Hoyt and Liebenberg (2011), Jankensgard, Hoffman and Rahmat (2014), Abdullah (2015), Devi, Budiasih, and Badera (2017) that the higher the company's risk management disclosure, the better or increase the value of the company.

CONCLUSION

Based on the results of the research and discussion of the previous chapter, it can be concluded that the results of this research test are:

1. Product diversification has a positive effect on the voluntary risk management disclosure of non-financial companies listed on the IDX in 2019.
2. Geographical diversification has a positive effect on the voluntary risk management disclosure of non-financial companies listed on the Indonesia Stock Exchange in 2019.
3. Type of Industry has a positive effect on the voluntary risk management disclosure of non-financial companies listed on the IDX in 2019.
4. Company size has a positive effect on the voluntary risk management disclosure of non-financial companies listed on the 2019 Indonesia Stock Exchange.
5. Voluntary risk management disclosure has a positive effect on the value of non-financial companies listed on the IDX in 2019.

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