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Company Size and the Presence of Independent Commissioners, Can They Affect the Disclosure of Enterprise Risk Management?

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ABSTRACT

This study aims to determine the effect of company size and independent commissioners on enterprise risk management disclosure. The object of this research is manufacturing companies listed on the Indonesia Stock Exchange during 2019-2021 with a total of 31 companies that meet the criteria using purposive sampling technique. The data was analysed using SPSS. The results showed that company size has a significant effect on the disclosure of enterprise risk management. Meanwhile, the independent commissioner has no effect on the disclosure of enterprise risk management. The results of this study contribute to investors for investment decisions based on company size. This means that the larger the size of the company, the company tends to disclose more information about risk management.

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1. INTRODUCTION

The development of the business world is currently accelerating, so it is necessary to manage the company properly and thoroughly. In managing the company, of course, it is inseparable from risk. Every business undertaken by the company must have risks, and is expected to control by offering solutions to risks that may occur. According to Devi et al. (2017) the complexity of risk can affect the amount of profitability of the company's profits, and if it has poor risk management, the company will have difficulty in maintaining its operations.

Several problems that occur in the company, such as fraud, embezzlement, theft and financial manipulation are risks that can occur in the company, if governance management and risk management are not implemented properly. In accordance with agency theory, business risk may cause information asymmetry that causes information differences between the principal and the agent. According to Jensen & Meckling (1976) agency theory is a theory that explains the working relationship between company management as agents and shareholders as principals. Agency theory explains the existence of committees that are expected to prevent conflicts between agents and principals.

Enterprise risk management is one of the important factors to reduce conflicts that occur. According to Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise risk management is a process implemented in a company strategy that is designed to identify possibilities that can affect the company and manage risks that may occur in the future and can also be a more feasible guarantee in achieving the company's goals. In enterprise risk management (ERM), companies must present financial reporting in a transparent and open manner in accordance with established risk management standards. Effective ERM implementation can make risk management the best step that can bring the company to success in the future (Gunawan, 2020).

Based on the results of previous research, the disclosure of enterprise risk management (ERM) can show several factors that influence it. Judging from the size of the company, large companies have different levels of risk compared to small companies. According to Tarantika & Solikhah (2019) company size is seen from the level of the company which describes its wealth such as labor, production, and the capital it uses. Ibrahim & Rasyid (2022) state that company size is a measure used by considering various factors, including total assets, share value, and market value. Larger companies' annual reports will contain more detail and transparency about ERM disclosures. In the research of Tarantika & Solikhah (2019); Rini & Zakiyah (2020); and Fayola & Nurbaiti (2020) stated that company size has a positive effect on enterprise risk management. However, it is different from the research by Rujiin & Sukirman (2020); Ibrahim & Rasyid (2022); Haryanti & Hardiyanti (2022) which shows the results of research that company size cannot affect enterprise risk management.

The next factor is independent commissioners. Independent commissioners are people who qualify as commissioners who come from outside the issuer or public company (Financial Services Authority Regulation No. 33 of 2014). The independent board of commissioners is an independent representative of the interests of stakeholders who are required to disclose information about corporate risk management (Widyiawati & Halmawati, 2018). According to Hardiyanti et al. (2022) independent commissioner function, expected to help implement risk management broadly, both within the organization and outside the organization. This will make it possible to find and correct reporting errors that managers deliberately make. Companies that have independent commissioners can implement more comprehensive risk management and improve the quality of supervisory activities in the company. Beasley et al. (2005) state that

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the presence of independent commissioners can improve the quality of supervision of risk management and reduce the possibility of fraud by managers. Research that shows a significant effect of independent commissioners on disclosure of enterprise risk management, namely Puspawardani & Juliarto (2019); Rini & Zakiyah (2020); Haryanti & Hardiyanti (2022); and Masri & Muslih (2022). Meanwhile, research showing that independent commissioners have no significant effect on disclosure of ERM is Susanti (2015); Pangestuti & Susilowati (2017); and Lokaputra et al. (2022).

The two factors have different research results, so we are interested in conducting research again considering the importance of preventing risks through disclosure of ERM in companies, based on the size of the company and the presence of independent commissioners. The disclosure of enterprise risk management is very necessary and important for investors and shareholders for investment decisions and stock trading. This means that the more the company has a large company size and the presence of independent commissioners, the more likely it is to disclose more information about risk management.

The Effect of Company Size on Enterprise Risk Management Disclosure

In the company there are several stakeholders, who need important information for decision making, especially those related to the risks that exist in the company. This result is supported by research by Tarantika & Solikhah (2019); Rini & Zakiyah (2020); and Fayola & Nurbaiti (2020) found that corporate risk management disclosure is positively and significantly influenced by organizational size. The bigger the company's size company, the more widely the company discloses its risks, which is a form of accountability to investors. The more disclosure or extensive risk disclosure the company does, it indicates that the company has the ability to avoid these risks and this directly affects ERM disclosure. Based on the findings of this study, hypotheses were established:

H1: Company size has a significant effect on Enterprise Risk Management Disclosure.

Effect of Independent Commissioner on Enterprise Risk Management Disclosure

The existence of independent commissioners can reflect the level of transparency of the company in improving the quality of supervisory activities for the benefit of stakeholders. Independent commissioners have the authority to carry out proper corporate governance and report the results to shareholders and other important stakeholders. The independence and integrity characteristics of an independent commissioner can affect the fairness of reporting which can pose a risk in its disclosure. In the research of Puspawardani & Juliarto (2019); Rini & Zakiyah (2020); Haryanti & Hardiyanti (2022); and Masri & Muslih (2022) show that the independent board of commissioners has a positive effect on enterprise risk management. These results show clear evidence that the presence of independent commissioners can improve audit and supervision of risk management implementation, thereby reducing fraud. Based on the findings of this study, hypotheses were established:

H2: Independent Commissioners have a significant effect on Enterprise Risk Management Disclosure.

2. RESEARCH METHODOLOGY

This research was conducted in manufacturing companies listed on the Indonesia Stock Exchange which published complete financial reports during the 2019-2021 period with a population of 182 companies using purposive sampling method. With the criteria that companies are not listed consecutively during 2019-2021 on the IDX as many as 33 companies and companies that do not have complete data according to the research variables needed

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according to 2019-2021 as many as 118 companies. The number of research samples that meet the criteria is 31 companies with 93 research data. The analysis technique used in this research is multiple linear regression analysis using SPSS version 25. The following is the regression equation:

$$Y = \alpha + \beta X1 + \beta X2 + e$$

Description:

Y : Enterprise Risk Management
α : Constant
X1 : Company Size
X2 : Independent Commissioner
ε : residual error

with the following research model:

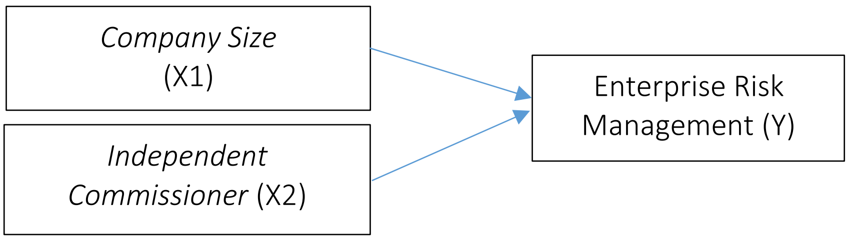

Figure 1. Research Model

Operational Definition of Variables

1. The dependent variable used in this study is enterprise risk management. Based on the ERM framework issued by COSO, there are 17 disclosure items from ERM. The measurement of the dependent variable in this study is:

$$\boxed{\text{IPERM} = \frac{\text{Total items submitted}}{17} \text{ x } 100\%}$$

2. Company size can be determined by the value of total assets, sales, capital, and profits and can determine how large or small a company is. The indicators of company size are as follows:

$$\boxed{\text{Company size} = \text{Ln Total Assets}}$$

3. The percentage of independent commissioners to all members of the board of commissioners is used to calculate the number of independent commissioners with the following formula:

$$\boxed{\text{KI} = \frac{\text{Number of Independent Commissioners}}{\text{Number of Board of Commissioners Members}} \text{ X } 100\%}$$

3. RESULTS AND DISCUSSION

The results of descriptive statistical analysis with a total of 93 samples of observation data tested are as follows:

Tabel 1. Descriptive Statistical Analysis Test

Variable	N	Min	Max	Mean
X1	93	25.75	33.54	29.0880

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X2	93	0.25	0.38	0.3316
Y	93	0.35	1.00	0.6923
Valid N (listwise)	93			

Source: SPSS results, 2023.

This study conducted a classic assumption test to test whether the regression model used in this study is feasible or not to use. The following are the results of the classic assumption test:

Normality Test

Normality testing in this study used SPSS 25, with the following results:

Table 2. Hasil Uji Normalitas

One-Sample Kolmogorov-Smirnov Test		
N		93
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	0.10289446
Most Extreme Differences	Absolute	0.061
	Positive	0.058
	Negative	-0.061
Test Statistic		0.061
Asymp. Sig. (2-tailed)		0.200[c,d]

Source: SPSS results, 2023.

The table above shows that the residual data follows a normal distribution, based on the output results, the Kolmogorov-Smirnov value is significant at 0.200>0.05. Thus, the residual data is normally distributed and the regression model has fulfilled the assumption of normality.

Multicollinearity Test

Table 3 shows the results of the multicollinearity test using SPSS 25.

Table 3. Multicollinearity Test Results

Model	Collinearity Statistics	
(Constant)	Tolerance	VIF
X1	0.996	1.004
X2	0.996	1.004

Source: SPSS results, 2023.

The multicollinearity test results show that the two independent variables do not occur multicollinearity because the Tolerance value ≥ 0.10 or the VIF value ≤ 10 so it can be concluded that there are no symptoms of multicollinearity.

Heteroscedasticity Test

Using SPSS 25, the results of the heteroscedasticity test are as follows:

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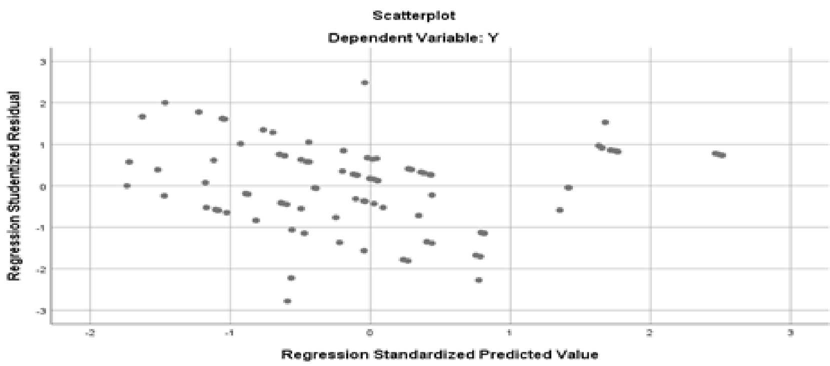

Figure 1. Heteroscedasticity Test Results

Based on the data distribution image at point 0, it can be concluded that there is no heteroscedasticity problem.

Autocorrelation Test

Testing autocorrelation in this study using SPSS 25, with the following results:

Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.672[a]	0.452	0.440	0.10403	1.894

Source: SPSS results, 2023.

The table above shows that the DW test value is 2.214. By using a confidence degree of 95% and a = 5% and a sample size of 93 samples (K2), the durbin watson table will get a dU value of 1.7066. It can be concluded that the DW test value of 2.214 is greater than the dU value of 1.7066 and smaller than the 4-dU value of 1.894. It is concluded that dU < dW < 4- dU or 1.7066 < 1.894 < 2.2934. Thus, there is no autocorrelation in the model used in this study.

Multiple Linear Regression Test

The multiple linear regression test results in Table 5 are as follows:

Table 5. Multiple Linear Regression Test

Variable	B	t	Sig.
(Constant)	-0.553	-2.401	0.018
X1	0.049	8.427	0.000
X2	-0.534	-1.216	0.227
F Test	F = 37.071		0.000

Source: SPSS results, 2023.

From the statistical results with SPSS, it can be seen that the multiple linear regression equation is as follows:

Y = -0,553+ 0,049X1 - 0,4534X2 + e

Hypothesis Testing

Hypothesis testing used in this study aims to test how company size and independent commissioners affect enterprise risk management. Based on the table above, the results of hypothesis testing in the study are presented in the following table:

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Table 6. T-test, F-test, and Coefficient Test

Hypotesis	Test	Value of t	Sig.	Results
H1	Test t	8.427	0.000	Significant
H2	Test t	-1.216	0.227	Not Significant
F Test		Sig. value = 0.000		Significant
Coef. Determination		Adjusted R Square 0.440 (44%)		

Based on the table above, the results showed that Hypothesis 1 has a significance value of 0.000<0.05 which indicates that company risk management is influenced by company size, thus H1 is supported. The results of Hypothesis 2 show that there is no significant influence between independent commissioners on enterprise risk management, with a significance value of 0.227>0.05, thus H2 is not supported. When viewed simultaneously, it shows that the significance test shows a significance value of 0.000<0.05. These results can be concluded that company size and independent commissioners together affect the disclosure of ERM.

DISCUSSION

The Effect of Company Size on Enterprise Risk Management Disclosure

The results showed that company size has a positive and significant effect on the disclosure of enterprise risk management or Hypothesis 1 is accepted. This means that the larger the size of the company, the higher the risk management disclosure. Conversely, the smaller the company size, the lower the risk management disclosure. Larger companies tend to face greater agency problems, as monitoring actions become more difficult. This results in more extensive disclosures about risk management and the data informed will be more accurate and complete. Extensive information disclosure will make it easier for creditors to obtain detailed company information and assist investors in making investment decisions. The results of this study support research conducted by Tarantika & Solikhah (2019); Rini & Zakiyah (2020); and Fayola & Nurbaiti (2020) which shows a positive significant relationship between company size and risk management disclosure.

Effect of Independent Commissioner on Enterprise Risk Management Disclosure

The use of independent commissioner variables in this study shows that these variables do not have a real impact on business risk management disclosure, thus rejecting Hypothesis 2. This finding indicates that the amount of risk management disclosure is not affected by variations in the number of independent commissioners because the performance of the independent commissioners is more decisive in risk management disclosure than the percentage of independent commissioners. This result supports the research of Susanti (2015); Pangestuti & Susilowati (2017) and Lokaputra et al. (2022) which shows that independent commissioners have no significant effect on the disclosure of enterprise risk management.

4. CONCLUSION AND RECOMMENDATION

Based on the results of research and discussion, it can be concluded that company size is proven to have a positive and significant effect on the disclosure of enterprise risk management. The likelihood of a company to disclose more information about risk management increases based on the size of the company. Meanwhile, independent commissioners are proven to have no effect on the disclosure of enterprise risk management. The number of independent commissioners does not affect the extent of risk management disclosure, because the board of independent commissioners is assessed based on quality rather than quantity. Simultaneously,

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the results of this study indicate that the tendency of companies to disclose more information about risk management increases along with company size and the quality of work performed by independent commissioners. The research has implications for investors and shareholders that the disclosure of enterprise risk management has an impact on investment decisions and stock trading.

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