ISSN: 2460 – 7223

# Determinants Of Enterprise Risk Management Disclosure

1st Dedi Putra
*Economic and Accouting Departement*
*Institute Informatika an Business Darmajaya, Lampung. Indonesia.*
Email : dedi.putra@darmajaya.ac.id

2nd Pebrina Swissia
*Economic and Accouting Departement*
*Institute Informatika an Business Darmajaya, Lampung. Indonesia.*
Email : pebrinaswissia@darmajaya.ac.id

3rf Anik Irawati
*Economic and Accouting Departement*
*Institute Informatika an Business Darmajaya, Lampung. Indonesia.*
Email : anikirawati@darmajaya.ac.id

***ABSTRACT-This study aims to prove empirically the factors that influence the disclosure of Enterprise Risk Management (ERM). This type of research is a quantitative research. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange. The sample in this study amounted to 120 companies. The sampling method in this study was purposive sampling technique. This study uses secondary data in the form of annual reports totaling 120 samples of financial companies listed on the Indonesia Stock Exchange (IDX) in the 2017-2019 period. The analysis in this study uses multiple linear regression with the SPSS program. The results of this study indicate that the size of the company has a positive effect on the disclosure of Enterprise Risk Management (ERM).***

***Keywords: Company size, Risk Management Committee (RMC), auditor reputation, ownership concentration, and Chief Risk Officer (CRO), Enterprise Risk Management (ERM) disclosure.***

## I. INTRODUCTION

The information contained in the financial statements and annual reports is very important for the company's stakeholders. Stakeholder information uses it as a consideration for decisions, such as investment decisions, lending, and other decisions. To meet the information needs of the company's stakeholders, it is necessary to make full and transparent disclosures about the company's activities in the annual report. The company's annual report contains not only financial aspects, but also non-financial aspects. This is because financial information alone is not sufficient to consider business decisions. Risk management is a strategy used to evaluate and manage all risks in the company.

Risk is always present in every activity or activity carried out by the company. The bigger the company, the more risk it takes stalking him.

Therefore, companies are required to control and minimize these risks so as not to harm the stakeholders or the company itself. One way is to do risk management. Disclosure of risk management is a form of corporate responsibility in controlling management activities so as to minimize the occurrence of fraudulent practices in financial statements. The importance of risk disclosure has made regulatory agencies in Indonesia issue regulations that require information related to risks to be reported by companies in annual reports.

Phenomenon about case risk management disclosures occur in several large companies, one of which occurs in a default case where the default is included in one type of credit risk in the 5th (five) dimension, namely risk response (Risk Response) in risk disclosure carried out by PT Sunprima Nusantara Financing ( SNP Finance), the case stems from the failure to pay Medium Term Notes (MTN) issued by SNP Finance on 9 May 2018. Total debt interest obligations that must be paid reach Rp. 6.75 billion from 2 (two) MTN series. According to data from KSEI (Indonesian Central Securities Depository), the entire value of MTN is Rp. 1.852 trillion with different maturities and series. The case then continued, the company also had difficulty paying debts to its creditors. SNP Finance's credit value to 14 banks reached Rp. 6 trillion [5].

## II. LITERATURE REVIEW

### *Signaling Theory*

*Signaling Theory*emphasizes the importance of information issued by the company on investment decisions of outsiders. Information is an important element for investors and business people because information essentially presents information, notes or descriptions for both past, current and future conditions for the survival of a company and how the securities market is. Complete, relevant, accurate and timely information is needed by investors in the capital market as an analytical tool to make investment decisions. Signal theory can also explain the disclosure of ERM. ERM disclosure is said to be one of the company's signals to show that the company has established good GCG and ERM.

**Enterprise Risk Management (ERM) Disclosure**

Disclosure of corporate risk management is one element of the company's non-financial report information. Compared to its predecessor, the Committee of Sponsoring Organizations of the Tradeway Commission (COSO) Enterprise Risk Management (ERM) added a new concept, namely event management. The COSO ERM framework itself has been recognized as an industry reference in the United States and even the world. According to ISO, in order to be successful, risk management must be placed within a risk management framework. This framework will be the basis and arrangement that covers all risk management activities at all levels of operations. Based on the ERM Famework issued by COSO, there are 108 ERM disclosure items.

**Company Size**

Company size is the level of a company that shows the company's wealth through labor capacity, production capacity, and capital capacity it uses [12]. The larger the size of the company, the more activities the company carries out, the company will face a high risk of uncertainty. Large companies will also disclose more information than small companies because large companies will face greater political risk than small companies [9].

***Risk Management Committee* (RMC)**

*Risk Management Committee* (RMC) or committee monitoring risk is an element of good corporate governance in managing corporate risk management. RMC is a committee formed by the board of commissioners and is responsible direct to the board of commissioners is intended to help oversee and monitor implementation management risk company. *Risk Management Committee* is mechanism risk supervisor which important for companies [13]. The Risk Management Committee (RMC) is a sub-committee that has a very important function in the company.

**Auditor Reputation**

Auditor reputation is where the auditor is responsible for maintaining public trust and maintaining the good name of the auditor himself and the KAP where the auditor works by issuing an opinion that is in accordance with the actual state of the company [11]. This study will explain the reputation of external auditors as a mechanism to improve corporate risk management. External auditor reputation is a KAP that has a good name, achievements and gains the trust of the public which is owned by the KAP. Public Accounting Firms that are included in the big four are public accounting firms that have a reputation label for auditors who have reliable audit quality.

**Ownership Concentration**

Concentration of ownership is a group of controllers over the business activities of a company. According to the Decree of the Board of Directors of the JSE No. Kep-305/BEJ/07-2004, the controlling shareholder is the shareholder who owns 25% (twenty five percent) or more of the company's shares. The concentration of ownership shows that the majority shareholder or the largest shareholder of the company controls the company's management and demands that the company be more transparent in disclosing wider risk information [1]. The greater the level of concentration of ownership in disclosing the risks that the company may face [9].

***Chief Risk Officer* ( CRO)**

[3] defines the role of the Chief Risk Officer (CRO) as the head of the risk department who works with other managers in establishing effective risk management and has the responsibility to monitor progress and to assist other managers in reporting risk information.

relevant across entities. A company needs a CRO so that the company's risk management is effective and efficient. [11] revealed that by establishing CRO, companies can maintain ERM practices. CRO in the company can also be used as a signal to stakeholders that the company has tried to implement and carry out risk management properly and has better risk control than other companies.

## III. RESEARCH METHODS

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange 2017-2019.

### A. DEFINITION OF VARIABLE OPERATING

**Disclosure *Enterprise riskManagement* (ERM)**

The item calculation uses a dichotomous approach where each item that is disclosed is given a value of 1 and 0 if it is not disclosed disclosed is shown in the annual report company in formsentence. Then every items added for get index ERM. Information about disclosure ERM calculated by using the formula: obtained from the company's annual report.variable ERM calculatedby using the formula:

$$= \frac{\underline{total}\ i\text{tern}\ \underline{yang\ diungkapkan}}{108}$$

**Company Size**

The researcher uses asset value as company size, arguing that asset value is relatively more stable than market capitalized value and sales in measuring company size.

Company Size = log (Ln) Total Assets

***Risk Management Committee*(RMC)**

RMC joined the audit committee or separate from the audit committee is given a value of 1 and vice versa if the company does not have an RMC is given a value of 0 [13].

***Chief Risk Officer*(CRO)**

*Chief Risk Officer*(CRO) is measured by Use variable *dummy* that isif the company exists there are *four*as a proxy for the reputation of the auditor. Measurement variable withusing a dummy variable, namely if the company uses KAP audit bigfour in auditing financial statements, it is given a value of 1 and vice versa is given a value of 0 [13]. The big four are Ernst & Young, Delloite Touche Tohmatsu, KPMG Peat Marwick, and Pricewaterhouse Coopers.

**Ownership Concentration**

The concentration of ownership is the majority shareholder or the largest shareholder in a company. The size of the concentration of ownership of a company is expressed by the largest percentage of ownership in the company (according to the formula developed in ICMD) which is the sample of this study with the following formula

$$OC = \frac{\text{Number of outstanding shareholdings}}{\text{total company shares}}$$

***Chief Risk Officer*(CRO)**

*Chief Risk Officer*(CRO) is measured by Use variable *dummy* that isif the company exists there are *chief risk officer*(CRO) then it is given a value of 1 and vice versa is given a value

## IV. RESULTS AND DISCUSSION

The results of hypothesis testing are as follows:

1. The results of the hypothesis test of the variable Size company size show that significant 0.000 <0.05 then the answer to the hypothesis that Ha is accepted and rejected H0 which states that there is an effect of Firm Size to enterprise risk management (ERM) on financial company.
2. The results of the Risk Management Committee (RMC) variable hypothesis test (X2) show that with a significant 0.996 <0.05, the answer to the hypothesis is H0accepted and rejected Hawhichstated that there was no effect of RMC on Enterprise risk Management (ERM) on company finance.
3. Results test hypothesis variable Reputation Auditor (X3) show that with significant 0.155 <0.05 then the answer to the hypothesis is H0 is accepted and Ha is rejected which states that there is no effect of Auditor's Reputation on Enterprise Risk *Management*(ERM) in financial companies.
4. The results of the hypothesis test of the Ownership Concentration variable (X4) indicate that with a significant 0.155 <0.05, the answer to the hypothesis is H0accepted and rejected Hawhichstated that there was no effect Concentration Ownership of Enterprise Risk Management (ERM) in financial companies.
5. The results of the hypothesis test for the Chief Risk Officer (CRO) variable (X5) show that with a significant 0.155 <0.05, the answer to the hypothesis is H0accepted and rejected Hawhichstated that there is no influence of the Chief Risk Officer (CRO) on Enterprise Risk Management (ERM) in financial companies.

**Discussion**

**The Effect of Company Size on Enterprise Risk Management (ERM) Disclosures**

The results of data analysis show that company size has a positive effect on Enterprise Risk disclosure *Management*(ERM), this can be interpreted as a high total asset, the impact of ERM disclosure is also higher.

This shows that companies have the ability to manage risk and more information about risk management will be disclosed because it is included in the principle of transparency in corporate governance practices [13] .

The results of this study are in line with the research of [3] which states that the size of the company as a proxy for total assets has an effect on the disclosure of Enterprise Risk Management ERM.

**Effect of Risk Management Committee (RMC) on Enterprise Risk Management (ERM) Disclosure**

The results of data analysis show that RMC does not take effect to ERM disclosure, this shows that the existence of RMC as a risk monitor has not played an optimal role in ERM disclosure. The number of RMC members does not affect ERM disclosure. In research Currently, RMC in financial companies does not fully disclose ERM, where there is still a merger of RMC members with the audit committee so that RMC does not focus too much on ERM disclosure. In this study, RMC in banking no fully disclose ERM, where there is still a merger of RMC members with the audit committee so that RMC does not focus too much on ERM disclosure [4].

The results of this study are not in line with the research of [3] which stated that the Risk Management Committee (RMC) take effectto Enterprise Risk Management (ERM) disclosures.

**Effect of Auditor's Reputation on Enterprise Risk Management (ERM) Disclosures**

The results of data analysis show that the auditor's reputation has no effect on ERM disclosure. This result shows that with using Big Four KAPs and non-Big Four KAPs in financial companies does not affect much or at least the value of risk management disclosure. This shows that The role of the Big Four KAPs in auditing has not yet fully made financial companies disclose risk management [1].

The reputation of the auditor does not make a significant contribution to the risk information disclosed, because the non-big four KAPs are able to provide value recommendations that can increase the value of the company. The results of this study are not in line with the research of [3] which states that the auditor's reputation affects the disclosure of Enterprise Risk Management ERM.

**The Effect of Ownership Concentration on Enterprise Risk Management (ERM) Disclosures**

The results of data analysis show that ownership concentration has no effect on ERM disclosure. This shows that whether the concentration of ownership in a company is large or not, the company will still provide easy access to information for concentrated shareholders so that shareholders can consider various investment decisions properly and can doing disclosurerisk management properly [7].

This shows the weakness of management control and supervision of the company. Weak supervision will pose a risk to the company. This is also confirmed in the research of [4] which found that the higher the concentration of ownership, the stronger the demand for risk identification.

This study is not in line with the research of [3] which states that the concentration of ownership affects the disclosure of Enterprise Risk Management (ERM).

**Influence of Chief Risk Officer (CRO) on Enterprise Risk Management (ERM) disclosure**

The results of data analysis show that the Chief Risk Officer (CRO) has no effect on ERM disclosure. Companies that do not have a chief risk officer will still be able to carry out ERM disclosure properly because that authority can be exercised and managed by the risk management committee, monitoring committee risk and cooperate with the audit committee in managing risk within the company so that risk control is achieved properly [13]. This is because the chief risk officer is only an executive tasked with making regulations or rules regarding risk management that will be used by the company [15].

This study is not in line with the research of [10] which states that the Chief Risk Officer (CRO) has an effect on the disclosure of Enterprise Risk Management (ERM).

## CONCLUSIONS

This study aims to empirically prove the factor swhich affect the disclosure of Enterprise Risk Management (ERM) in financial companies. The variables used in this study are company size, Risk Management Committee (RMC), auditor reputation, ownership concentration, and Chief Risk Officer (CRO). [14] The data used is secondary data in the form of annual financial reports of financial companies registered in the Indonesia Stock Exchange (IDX) for the period 2017-2019. This study uses 120 samples of financial companies. In this study, the method used is descriptive statistics, classical assumption test and multiple linear regression, the analytical tool used is SPSS version 20 with a 95% confidence level. The results of this study indicate that the size of the company has a positive effect on the disclosure of Enterprise Risk Management (ERM). As for the Risk Management Committee (RMC), reputation auditors, concentration ownership and Chief Risk Officer (CRO) have no effect on Enterprise Risk Management (ERM) disclosure

## REFERENCES


[1] Agista, GG, Putu, N., & Harta, S. (2017). Effect of Corporate Governance Structure and Ownership Concentration on Enterprise Risk Management Disclosure. E-Journal of Accounting, 2017(1), 438–466.

[2] Indonesia Stock Exchange (IDX). Annual Report 2019 Annual Report. Accessed December 27, 2020. From:www.idx.co.id.

[3] Yanto Et al Committee of Sponsoring Organizations of the Treadway Commission (COSO). 2004. Enterprise risk Management–Integrated Framework (COSO-ERMreports).:.http://www.coso.org/documents/coso_erm_executivesummary (Accessed on: 25 December 2020).

[4] Artiani. CRM Indonesia. National Risk Management Survey 2018. Accessed on 25 December 2020 from CRMS Indonesia

5] https://crmsindonesia.org/wp-content/uploads/2019/11/CRMS- Indonesia-National-Survey- Risk-Management-2019.pdf.

[6] Ghozali, Imam and Anis Chairiri. 2007. Accounting Theory: Third Edition. Semarang: Diponegoro University Publisher.

[7] Handayani, BD, & Heri Yanto, PM P.(2013). Determinantdisclosure enterprise risk management. Journal of Finance and Banking, 17(3), 333-342.

[8] Financial Services Authority (OJK). Regulation DisclosureRisk management. Retrieved December 26, 2020. From:www.ojk.co.id.

[9] Pangestuti, KD, & Susilowati, Y. (2017). Independent Commissioner, Auditor Reputation, Ownership Concentration, and Company Size on Disclosure Enterprise risk Management. Accounting Dynamics Finance and Banking, 6(2).

[10] Riyadi, RBK (2018). Effect of Corporate Governance Structure, Financial Ratios and Company Size on Enterprise Disclosure

[11] Risk Management. Rustam. 2017. Risk management: Principles, Applications, And Research/Bambang. Jakarta: Salemba Four.

[12] Tarantika, RA, & Solikhah, B. (2019). The Influence of Company Characteristics, Board of Commissioners Characteristics and Auditor Reputation on Risk Management Disclosure. Journal of Economics, Management, Accounting and Technology (JEMATech), 2(2), 142-155.

[13] Trinanda, &Anisykurillah. (2017). Influence of Good Corporate Governance, And Company Size, Toward Enterprise Risk Management Disclosure. Accounting Analysis Journal.

[14] Vousinas, G. L. (2019). Advancing Theory of Fraud: The S.C.O.R.E. Model. Journal of Financial Crime, 26(1), 372–381. https://doi.org/10.1108/JFC-12-2017-0128

[15] Crowe, H. (2012). The Mind Behind The Fraudsters Crime: Key Behavioral and Environmental Elements. United States of America: Crowe Horwath LLP, 1-62.