The Effect Of Geographic Diversification, Competition Level, And Corporate Governance On Risk Disclosure

Desti Nur Fitania, Amrie Firmansyah

Abstract: This study aims to examine the effect of geographic diversification, competition level, and corporate governance on risk disclosure. The method employed in this study is quantitative methods. The sample used in this research is manufacturing companies listed on the Indonesia Stock Exchange (IDX). The type of data used in this study is secondary data in the form of financial statements and annual reports from 2012 to 2016. The sample selection using a purposive sampling method with the number of samples amounted to 395 samples. This study suggests that geographic diversification and competition level are not associated with risk disclosure. The number of factories and operational offices, which are measures of geographical diversification, do not make companies disclose higher risks. While competition level does not capture the level of risk disclosure conducted by the company. Furthermore, corporate governance is positively associated with risk disclosure. Corporate governance is essential to boost management to disclose risk to stakeholders.

Index Terms: Risk Disclosure, Diversification, Competition, Governance.

1. INTRODUCTION

The revelation of the window dressing manipulation carried out by major companies and Enron in 2001 has shocked many parties. The company engaged in the energy sector is proven to be cheating by recording profits on financial statements, even though the company suffered a loss. This moral hazard behavior was carried out by the management so that Enron's shares remained in demand by investors so that the firm's value was maintained. This fraud case involved the leading auditor Arthur Andersen (one of the five largest accounting companies) who worked with Enron. Arthur Andersen was found guilty, and the United States Government froze the activities of all members of Arthur Andersen in the United States (bisnis.tempo.co.id). A year later, WorldCom, which was the second-largest communications company in the United States, also proved to be cheating in the preparation of its financial statements in 2002. This action was carried out by the CEO of WorldCom, which eventually caused 20,000 workers to lose their jobs after WorldCom was declared bankrupt (finance. detik.com). In 2017, British Telcom was known to have committed accounting fraud on one of its lines of business in Italy. Even these fraud cases also involved Price Waterhouse Coopers (PwC), which resulted in the reputation of the public accounting firm being polluted (wartaekonomi.co.id). The phenomenon of fraud cases also occurs in Indonesia, both those carried out by banks and non-bank financial institutions. In 2001, fraud cases occurred at Citibank, where internal employees committed fraud. Then in 2002, Indonesia Capital Market Supervisory Agency (now the Financial Services Authority), published the financial report manipulation carried out by PT. Kimia Farma Tbk.

- *Desti Nur Fitania: Department of Accounting, Polytechnic of State Finance STAN Bintaro Main Street 5th Sector, Bintaro Jaya South Tangerang, Banten, Indonesia, 15222. Email: desti.yodesti@gmail.com*
- *Amrie Firmansyah: Department of Accounting, Polytechnic of State Finance STAN, Bintaro Main Street 5th Sector, Bintaro Jaya South Tangerang, Banten, Indonesia, 15222. Email: amrie.firmansyah@gmail.com*

It took fraudulent actions. The company overstated the value of sales and inventory, which resulted in the company's reported net profit being too high (www.kompasiana.com). The events that happened to many of these companies were a reflection of the failure of the risk management mechanism carried out by the company to eventually cause losses to the company. The failure of this risk management mechanism is in contrast to stewardship theory, which states that managers as stewards will behave cooperatively with the principal to achieve organizational goals. Good risk management is one of the things that must be done to ensure the survival of a company and prevent bankruptcy. Unfortunately, the many practices of fraud committed, illustrate that companies in Indonesia have not optimally implemented risk management. Fraud practices carried out by several companies have an impact on the principal's decreased trust in management. Transparency of information, in addition to the form of management's responsibility towards the principal, is also one way to restore principal trust in management. One form of information transparency is a risk disclosure that has been managed by the company, or how the company in managing risk in the future (Fathimiyah et al. 2012). Therefore, risk management disclosures function as a control tool to prevent fraudulent practices as well as, at the same time, become a means of information for stakeholders to know the condition of the company. The complexity of risks originating from internal or external companies can disrupt the level of profitability of the company so that companies that do not have good risk management will have difficulty maintaining the company's business continuity. Voluntary risk disclosure is useful to reduce the existence of asymmetric information between the owner of the company and management so that it can reduce the agency conflict between the owner and management. Indonesia Financial Accounting Standard Board has issued regulations relating to reporting information on risks faced by companies. Financial Accounting Standard Statement (PSAK) 60 (IAI, 2016) concerning the disclosure of financial instruments, states that the company must disclose information on risks to provide transparency to users of financial statements. For public companies, the regulation for issuing annual reports, including financial and non-financial information, has been regulated by Indonesia Capital Market

Supervisory Agency Number Kep-431 / BL / 2012 concerning Submission of Annual Reports of Issuers or Public Companies. By these two regulations, both financial and non-financial companies are required to submit risk information in annual reports. However, the broad minimum disclosure regarding risk management is not regulated in these regulations. Whereas for non-financial companies, the disclosure of the existence of a risk management committee is only an appeal because there are no regulations that require it. It resulted in many non-financial companies tending to pay less attention to the completeness of risk disclosure instruments. This study employes manufacturing sector companies that are part of non-financial companies as research objects. The awareness of manufacturing companies in Indonesia to disclose risk is still relatively low. The results of the research conducted by Syifa (2013) suggested that there are still manufacturing companies that do not disclose risk even though the demand for investor disclosure is higher. In fact, in 2018, Indonesia's manufacturing industry is the largest in ASEAN. Furthermore, manufacturing companies, including companies that have a high level of risk in carrying out operating activities and require high funding sources so that the information / financial statements disclosed will be the basis for decision making for stakeholders' special interests of investors. Research on firm risk disclosure has been carried out both in Indonesia and other countries. For research in Indonesia itself, with the object of research in financial and non-financial institutions, the factors that are used as independent variables are mostly elements of corporate governance, such as share ownership structure, board of directors size, existence of audit committees and other variables including company size, leverage and profitability ratio, and auditor reputation. This study employs three independent variables, namely, geographical diversification variables, competition levels, and corporate governance variables. Diversification is the main measure for companies in dealing with risks (Frenken et al., 2000). Many companies are struggling to diversify as an alternative to increasing the profitability of companies. However, few have succeeded in carrying out this diversification strategy (Zook, 2001). Research conducted by Doi & Harto (2014) stated that geographical diversification affects the level of disclosure of a company's risk. Using companies listed on Bursa Malaysia, Amran et al. (2009) found that geographical diversification is not associated with risk disclosure. The study used the proxy for the number of factories and operational offices relevant to Doi & Harto (2014). The selection of geographical diversification variables and proxies used, namely the number of factories and operational offices, is relevant to the object of this research, namely manufacturing companies. Where the nature of manufacturing companies whose business processes are from upstream to downstream, processing raw materials into finished goods, this diversification strategy is one of the choices for the expansion of the products produced. The second factor used to examine risk disclosure in this study is the company competition level. Competition is an important key in a company's risk profile (Beretta & Bozzolan, 2004). Companies with high levels of competition tend to do more risk disclosure than companies with lower levels of competition. Based on research conducted by Mokhtar & Mellet (2013) in Egypt, it was stated that the level of competition was one of the determinant factors in the disclosure of corporate risk, both mandatory and voluntary disclosure. The selection of this level of competition variable is based on the philosophy that competition will occur in several groups of competitors that are not only on similar products or services, but can also occur in substitution products or services as well as competition in upstream and downstream (Porter, 1996). The level of competition in this study using a total fixed assets proxy refers to the research conducted by Mokhtar & Mellet (2013). The third factor used to examine risk disclosure is corporate governance. Many studies have been conducted to examine the effect of corporate governance on risk disclosure. In research conducted in Indonesia, the determinant factors used are elements of corporate governance such as ownership structures, the board of directors, and audit committees. In the study conducted by Candra et al. (2014) for manufacturing companies listed on the Indonesia Stock Exchange from 2010 to 2012, indicating that ownership structures which are an element of corporate governance do not affect risk disclosure. The ownership structure in the study includes management ownership, domestic ownership, institutional ownership, and public ownership. Different results are shown by research conducted by Sulistyaningsih & Barbara (2016). The study suggested that public ownership and the board of commissioners are associated with risk disclosure. However, managerial ownership and auditor reputation are not associated with risk disclosure. In this study, corporate governance employs the proxy index calculations by good corporate governance guidelines issued by the OECD (Organization for Economic Cooperation & Development). By calculating the index consisting of components of rights of shareholders, the equitable treatment of shareholders, roles of stakeholders, disclosure, and transparency, and the role of the board of directors, it is expected that the results of this study can strengthen conclusions about the effect of corporate governance on risk disclosure. By calculating the index score, it takes into account all items of disclosure of corporate governance based on OECD guidelines. The difference between this research and previous research is that this study combines geographical diversification variables, the level of competition, and corporate governance on risk disclosure in one model. Also, the proxy used in this study is specifically the risk disclosure proxy and corporate governance, measured by index scoring. Risk disclosure is measured by calculating the index value by the framework of Enterprise Risk Management (ERM) issued by COSO in 2004. In a previous study of the effect of corporate governance on risk disclosure, no study has used index measurement proxy for either of these variables. Sari (2013) and Sulistyaningsih & Barbara (2016) used index proxy only for risk disclosure variables. In this study, a control variable is used, which functions to control so that other factors outside the research do not influence the influence of independent variables on the dependent variable. The control variables used are company size, leverage, and profitability. The selection of control variables is based on previous research that can explain risk disclosure variables. Company size variables use the proxy of the total sales logarithms, according to Amran et al. (2009), only in the research of Amran et al. (2009) does not use natural logarithmic functions. In this study, the use of the natural logarithmic function of total sales is to equalize units with other variables. The research conducted by Amran et al.

(2009), shows the results that the size of the company has a positive effect on risk disclosure. The level of leverage is measured by comparing total liabilities with total assets, according to the research of Utomo and Chariri (2014), wherein the study stated that leverage has a positive effect on risk disclosure. For profitability variables, it is measured by dividing net income after tax with total assets, referring to the research conducted by Doi & Harto (2014), whose results show that profitability has a positive effect on risk disclosure. Stewardship theory describes a situation where managers are motivated by the main target of the organization's interests, not motivated by their interests (Ahmad & Ahmad, 2019; Donaldson & Davis, 1989). Managers will behave cooperatively with principals and work together to achieve organizational goals and values. In achieving the goals of the organization, one of the main tasks of the manager is to develop the company, through the implementation of the company's strategy, which is the responsibility of the manager. According to efficient capital market arguments, diversification of companies can create corporate value (George & Kabir, 2005). Geographical diversification is one type of diversification, where this strategy is intended to expand product marketing and increase sales and profitability. However, on the other hand, the implementation of this geographical diversification strategy will bring new risks to the company, which will affect the company's income in the new location. Previous research that examined the effect of geographical diversification on risk disclosure showed different results. In the research conducted by Doi & Harto (2014), stated that geographical diversification affects risk disclosure carried out by the company. Different results are shown by Amran et al. (2009) as well as Taures (2011), who stated that geographical diversification is not associated with risk disclosure. Based on this explanation, the first hypothesis in this study is:

H_1: Geographical diversification is positively associated with risk disclosure

Competition terminology is a concept that is often used in economics to understand how the formation of market prices and pricing decisions by a company or seller. The competition will occur in several groups of competitors that are not only on similar products or services but can also occur in substitution products or services and competition in upstream and downstream (Porter, 1996). The level of competition between companies is influenced by three factors, namely government regulation, corporate strategy, and investment funds needed by companies to carry out their activities (Depoers, 2000). The level of competition will affect the extent of information disclosure carried out by the company. The wider the information disclosed by the company, the higher the presentation costs that must be spent by the company. Also, the disclosed information has the potential to be used by competing companies, which will harm the company. So the company must consider the costs and benefits related to disclosure of information carried out (Chariri & Ghozali in Agustina, 2014). Previous research related to the influence of the level of competition on risk disclosure has been carried out by Agustina & Ratmono (2014), where the research was conducted on non-financial companies listed on the Indonesian Stock Exchange in 2012. The results of the study stated that the level of competition is associated with risk disclosure. This result is in line with other studies conducted by Mokhtar & Mellet (2013). Companies that operate with a higher level of barrier (barrier to entry) are more likely to make risk disclosures because the disclosure information cannot be utilized by potential competitors (Laidroo, in Mokhtar & Mellet, 2009). Different results are shown by Pratiwi (2015), which found that the level of competition has no significant is associated with risk disclosure. Therefore, the second hypothesis in this study is as follows:

H_2: competition level is positively associated with risk disclosure

Corporate governance is a series of mechanisms that direct and control a company by the expectations of stakeholders (The Indonesian Institute of Corporate Governance, 2014). The commitment of Indonesian companies to realize good corporate governance is further strengthened by the establishment of the National Governance Policy Committee. This committee carries out several services related to the realization of good corporate governance for public companies, from the assistance of the preparation of GCG guidelines, implementation to a briefing for the Board of Commissioners and Directors. The realization of good corporate governance will encourage the disclosure of high corporate risk. Previous research on the effect of corporate governance on risk disclosure shows different results. Research conducted by Aditya & Meiranto (2015) related to the effect of good corporate governance on risk disclosure shows that not all elements of GCG that are used as independent variables have a positive effect on risk disclosure. The institutional ownership variables and the size of the board of commissioners have a positive effect, while the independent board of commissioners and managerial ownership do not affect. Another study was conducted by Sulistyaningsih & Barbara (2016) about the influence of elements of corporate governance on risk disclosure. The results of the study state that public ownership and the size of the board of commissioners influence the disclosure of risk, while management ownership and the reputation of the auditor do not affect. Research conducted by Sari (2013) suggested that the reputation of auditors, risk management committees, and ownership concentration influences risk disclosure, while independent commissioners do not affect. Utomo & Chariri (2014) found that from several elements of corporate governance that are used as independent variables, only the frequency variables of the board of commissioner meetings have a positive effect on risk disclosure. Other variables, in the form of ownership structures, independent commissioners, and audit committees, were declared to have no significant effect. Another result is shown by Syaifurakhman (2016), which found that the size of the board of directors and the audit committee has a positive effect on risk disclosure. Therefore, the third hypothesis in this study is as follows:

H3: corporate governance is positively associated with risk disclosure

2. RESEARCH METHODOLOGY

2.1. Data Selection

This study employs a descriptive quantitative method. Multiple linear regression models are used to analyze the data in this study. The objects of the research were taken from annual report data and company financial reports, which were obtained from the Indonesia Stock Exchange (IDX) from 2012 to 2016, so that this study uses panel data. Sampling is conducted by purposive sampling, which is the selection of samples non-randomly with certain criteria. This study employs three independent variables, which consist of geographical diversification, competition level, and corporate governance. This study follows Doi and Hartono (2014) which used several factories and operational management to represent a proxy for geographical diversification to measure geographical diversification are as follows:

DIVGEO = Total number of factories and operational offices of the companyThe competition level in this study follows Depoers (2000) which stated that to measure the level of competition in a company, a proxy that can be used is a measure of a barrier to entry. It employs total fixed assets scaled by trillion rupiahs:

BE (barrier to entry) = total fixed assets Corporate governance variable is measured by developing an index where there are five main measurement dimensions, namely rights of shareholders, the equitable treatment of shareholders, roles of stakeholders, disclosure, and transparency, and the role of the board of directors by corporate governance guidelines developed by OECD. The five main dimensions are then reduced to several checklist points, which will then be used to form a corporate governance index on a scale of 0-1. Initially, the writer will determine the keywords based on checklist points and will match them with the company's annual report. Keywords use English because they are based on the guidelines set out in the OECD. That is why companies with annual reports that do not use English are excluded from the study. Furthermore, the dependent variable used in this study is risk disclosure. Risk disclosure is proxied by the Enterprise Risk Management (ERM) Framework issued by COSO. In the broad disclosure using ERM, there are 108 items divided into eight dimensions, namely internal environment, goal setting, event identification, risk assessment, risk response, information and communication monitoring activities, and monitoring (Desender in Meizaroh & Lucinda, 2011). The following are measurements for risk disclosures:

$$ERM = \frac{number\ of\ items\ disclosed}{108}$$

Besides, control variables are used in this study employs control variables. According to Sudarmadji and Ardi Murdoko (2007), the size of the company can be expressed in total assets, sales, and market capitalization. In this study, the firm size variable (firm size) is measured using total sales. The second control variable is leverage. Leverage is described to see the extent to which a company's assets are financed by debt compared to its capital. The measurement of leverage follows Sulistyaningsih & Barbara (2016), which is measured by dividing total liabilities by total assets. The third one is profitability, which describes the ability of a company to generate profits at the level of sales, assets, and certain share capital. In this study, the profitability is proxied by Return on Assets (ROA) as Doi and Harto (2014). This ratio compares net income after tax and total assets.
The research model that will be used is as follows:

$$RD_{it} = \alpha + \beta_1 GeoDiv_{it} + \beta_2 BE_{it} + \beta_3 CG_{it} + \beta_4 SIZE + \beta_5 Lev_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$$

Keterangan:

RD	: Risk Disclosure
α	: Konstanta
GeoDiv	: geographical diversification
BE	: barrier to entry
CG	: corporate governance
SIZE	: total sales
Lev	: leverage
ROA	: return on assets

3. RESULTS AND DISCUSSIONS

The result of the research sample selection is as follows:

TABLE 4.1
The result of the research sample:

No.	Criteria	Amount
1	Manufacturing companies registered in IDX from 2012 to 2016	124
2	Manufacturing companies that do not have complete data from 2012 up to 2016	(32)
3	The manufacturing company whose annual report is not in bilingual language (Bahasa & English)	(13)
Number of manufacturing companies that meet the criteria		79
Number of years of observation		5
Number of samples		**395**

Furthermore, descriptive statistics are also used to determine the pattern of data distribution. Descriptive statistics in this test show the average value (mean), standard deviation (standard deviation), the lowest value (minimum), and the highest value (maximum). The results of the descriptive statistics in this study are as follows:

TABLE 4.2.
Statistics-Descriptive

	Obs	Mean	Med	Max	Min	Std. Dev.
RD	395	0.323	0.324	0.425	0.203	0.064
GeoDiv	395	6.926	4.000	35.000	1.000	8.717
BE	395	2972.718	753.802	18973.27	14.250	5082.380
CG	395	0.519	0.522	0.793	0.220	0.101
Size	395	28.425	28.347	32.937	23.197	1.625
Lev	395	0.550	0.492	5.056	0.037	0.533
ROA	395	5.010	3.538	66.909	-34.594	9.570

The equation model regression test results are as follows:

TABLE 4.3
Equation Model Regression Test Results

Variable	Coeff	t-Statistic	Prob.	
C	-0.083	-0.949	0.342	
GeoDiv	-0.0006	-1.026	0.305	
BE	2.47E-08	0.030	0.975	
CG	0.3471	14.543	0.000	***
Size	0.008	2.666	0.008	***
Lev	-0.013	-1.843	0.066	*
ROA	-0.0002	-1.018	0.3091	
Adjusted R^2	0.393			
F-statistic	43.634			
Prob(F-statistic)	0.000			

From the tests that have been carried out, which include the Chow test, Hausman test, and Lagrange Multiplier test, this study is most appropriate to use a random effect model.

3.1. The Association between Geographical Diversification and Risk Disclosure

The results of hypothesis testing suggest that geographical diversification is not associated with risk disclosure. It can be inferred that the addition of factory locations and operational offices will not affect the company in carrying out broader risk disclosures. The result of this study is relevant to Amran et al. (2009). A different result is shown by research conducted by Doi & Harto (2014), whose results suggested that geographical diversification is associated with risk disclosure. The difference in results between this study and the research conducted by Doi and Harto (2014), although the research was carried out together in Indonesia, could be due to differences in research objects, periods, and proxy used. The absence of provisions related to disclosure of risk information and risk management for non-financial companies in Indonesia was followed as a cause of the insignificance of the effect of geographical diversification on risk disclosure in this study. The two regulations, PSAK 60 (2016) and the Decree of Capital Market Supervisory Agency Number Kep-431 / BL / 2012, do not regulate the minimum disclosure that must be disclosed by the company. It means that risk disclosure is still voluntary disclosure. In contrast to financial companies, in addition to being bound by these two regulations, provisions regarding risk disclosure are also regulated by Bank Indonesia Regulation Number 11/25 / PBI / 2009 concerning Amendments to Bank Indonesia Regulation Number 5/8 / PBI / 2003 concerning Implementation of Risk Management for Banks General. In Article 24, paragraph 2 of the Bank Indonesia regulation, it is stated that financial companies are required to disclose the existence of a risk management committee. As for manufacturing (non-financial) companies, the disclosure of the existence of a risk management committee is only an appeal because there are no regulations that require it. This risk disclosure is still appealing, and voluntary disclosure seems to make manufacturing companies in Indonesia not too concerned with making disclosures. Moreover, the risk disclosure, on the one hand, does affect the company, in terms of receiving funding from investors. Inevitably, investors' decisions in allocating sources of funds are also influenced by the type of business, where risk factors play a role. This factor has made manufacturing (non-financial) companies in Indonesia, not yet carrying out extensive risk disclosures, compared to banking companies that have been widely regulated risk disclosures that must be conducted. In addition to these factors, related to the addition of factories and operational offices, companies in Indonesia, especially manufacturing, diversified geographically in the interests of expanding production. The nature of the business of manufacturing companies, whose production process from upstream to downstream, processes raw materials into finished goods, requires companies to produce at an efficient level. That is, one of the main factors in the company's consideration to increase the number of factories and operational offices is for production efficiency, which in turn will impact on increasing profitability. The importance of factory location selection, including the addition of new factories, is to determine the success of the company about operating costs, selling prices, and the company's ability to compete in the market (Ahmad & Ahmad, 2018; Hindrayani, 2010). Moreover, this consumptive pattern of the Indonesian people also became the company's consideration in expanding production. Many companies are opening new factories, taking into account the high market demand for manufactured products. The addition of a new factory also brings new risks to the company. As stated in PSAK No.5 (2015), which states that the addition of a new plant will increase the complexity of the company because it will affect income and bring new risks to the company however, as explained in the previous explanation, where the consideration of the addition of a new plant, namely for business expansion and cost efficiency, as well as the nature of risk disclosure which is still voluntary, explains the results of research that geographical diversification does not affect risk disclosure.

3.2. The Association between Competition Level and Risk Disclosure

The results of the hypothesis testing suggested that competition level is not associated with risk disclosure. The result of this study is different from Mokhtar & Mellett (2013) and Agustina & Ratmono (2014). The difference in the results of this study with previous research could be due to the different proxies used, both for competition level variables and risk disclosure proxies, as well as differences in types of research data. The level of competition in this study is represented by total fixed assets, referring to research conducted by Mokhtar & Mellet (2013). In the research conducted by Agustina & Ratmono (2014), the level of competition is represented by investment capital. For risk disclosure variables, measured by index scoring based on the framework of Enterprise Risk Management COSO, which measures risk disclosure is different from the two previous studies. Also, this study uses panel data, which is a combination of cross-section and time-series data. This combination causes the number of observations to be very large, and the model used becomes more complex because of its many parameters (Nachrowi & Usman, 2006). Unlike the previous research, wherein the research of Mokhtar & Mellet (2013), the data used was cross-section, namely the annual report of non-financial companies in Egypt in 2007. Likewise, with the research conducted by Agustina & Ratmono, where data used is also cross-section data, namely the annual report of non-financial companies listed on the Indonesian Stock Exchange in 2012. As explained in the previous discussion, there is no obligation to disclose the risk of manufacturing (non-financial) companies in Indonesia, making companies less concerned about disclosing risk information that must be done. This condition is different from non-financial companies in Egypt, which is the object of research by Mokhtar & Mellet (2013). In Egypt's non-financial companies, regulations related to risk disclosure have been regulated in Egyptian Accounting Standard (EAS) 25, both mandatory disclosure and voluntary disclosure. However, the results of this study are in line with the perspective of the cost of ownership, which states that companies become less motivated to conduct voluntary disclosure because potential competitors of the company can utilize the information disclosed to make decisions in entering the market (Mokhtar & Mellet, 2013). Therefore, many companies are reluctant to do voluntary disclosure, even though the company has a high level of competition because the information has the potential to be used by competitors, which ultimately harms the company. Besides, the wider the disclosure made by the company, the higher the costs incurred by the company to present the information. Chariri & Ghozali (2007) explained that financial accounting information would be sought to be presented in financial statements, as long as the benefits obtained from the presentation of information exceed the costs required to produce information. The disclosure of risk to non-financial companies in Indonesia is indeed more beneficial for investors than for the company itself. Investors can use risk disclosure information as a basis for decisions regarding the allocation of funding sources. Whereas for companies, because the nature of risk disclosure is still voluntary disclosure, the disclosure of this risk is limited to management's accountability to the principal regarding the performance that has been carried out. Not all risk information is disclosed, because the company will try to get funding sources from, while investor decisions regarding the allocation of funding sources are influenced by the type of business, whether the business is high or low risk. The implementation of voluntary disclosure is a trade-off that must be considered carefully for its costs and benefits. Based on this explanation, it can be concluded that in Indonesian manufacturing companies, the level of competition has not been able to influence risk disclosure.

3.3. The Association Corporate Governance on Risk Disclosure

The result of the testing hypothesis suggested that corporate governance is positively associated with risk disclosure. The result of this study is relevant to Saputro & Suryono (2014), Sulistyaningsih (2016), and Syaifurakhman (2016). However, this study is different from Agustina & Ratmono (2014). Corporate governance in this study is measured by conducting an index scoring based on public company governance regulations issued by the Organization for Economic Co-operation and Development (OECD). The higher the index value of a company, the better the embodiment of corporate governance is carried out. There are 86 items disclosed in the corporate governance guidelines, which are divided into five components, namely the rights of shareholders, the equitable treatment of shareholders, roles of stakeholders, disclosure, and transparency, and the role of the board of directors. In the OECD trader, several disclosure items are also part of the COSO Enterprise Risk Management framework that is used to measure risk disclosure variables in this study. It shows that the implementation of good corporate governance is part of good risk management. Stewardship theory can explain management's behavior in disclosing the company's risk as a form of accountability to the principal. Stakeholders have the right to obtain information about activities carried out by the company in minimizing losses that may arise for stakeholders. One of the information that is needed by stakeholders is information about the company's risk profile and management of these risks which will later be used as a basis for decision making (allocation of funding sources) so that it can be concluded that risk disclosure is part of the realization of good corporate governance. The use of index proxies for corporate governance variables in this study, to corroborate the results of previous research on the effect of corporate governance on risk disclosure. Previous research related to the influence of corporate governance on risk disclosure, the proxy used for corporate governance variables, which only represents part of the elements of corporate governance. The use of some of these elements, makes the results of research on the effect of corporate governance on risk disclosure to be biased, whether it is influential or not.

4. CONCLUSION

Geographic diversification is not associated with risk disclosure. This result indicates that the addition of geographical diversification carried out by manufacturing companies in Indonesia does not affect the level of risk disclosure. Additions to the number of factories and operational offices, which are measures of geographical diversification, do not make companies disclose higher risks. Besides, the competition level is not associated with risk disclosure. Competition level does not capture the level of risk disclosure conducted by the company. Furthermore, corporate governance is positively associated with risk disclosure. However, this study has limitations, namely the discovery of several annual company reports that cannot be carried out (unsearchable) because the annual report format is in the form of an image. The annual report with image format will be excluded from the sample population because these conditions cause difficulties in conducting index scoring on risk disclosure variables and corporate governance. The result of this study indicates that the level of risk disclosure of manufacturing companies listed on the Stock Exchange for 2012 d. 2016 is still low. The low disclosure of the risk of manufacturing companies in this study should be the basis for Indonesia Financial Services Authority to issue regulations related to mandatory disclosure regarding risk disclosures in annual reports, including minimum provisions for information that must be disclosed. This study explains that the application of good corporate governance will increase the disclosure of corporate risk. This company risk information plays an important role for investors in determining decision making related to the allocation of funding sources. To participate in the realization of good corporate governance, investors should participate in corporate decision making, because in the instrument of corporate governance, there are components that involve the rights of shareholders. Furthermore, future research should be carried out by adding other variables related to the disclosure of company risk and increasing the period of the study and the addition of a wider industrial sector in addition to manufacturing companies to obtain diverse results.

5 REFERENCES

[1] Aditya, H., & Meiranto, W. (2015). Analisis pengaruh good corporate governance terhadap risk disclosure: studi empiris pada perusahaan perbankan yang terdaftar di bursa efek indonesia 2012-2014. Diponegoro Journal of Accounting, 4 (4), 1-10.

[2] Ahmad, I., & Ahmad, S. 2018. Multiple Skills and Medium Enterprises Performance in Punjab Pakistan: A Pilot Study. The Journal of Social Sciences Research: 44-49: 44.

[3] Agustina, C. H., & Ratmono, D. (2014). Pengaruh kompetisi, corporate governance, struktur kepemilikan terhadap pengungkapan risiko. Diponegoro Journal of Accounting, 3 (4), 1-13.

[4] Amran, A., Bin, A. M. R., & Hassan, B. C. H. M. (2009). Risk reporting: An explanatory study on risk management disclosure in Malaysia annual report. Managerial Auditing Journal, 24 (1): 39-57.

[5] Ahmad, I., & Ahmad, S. (2019). The Mediation Effect of Strategic Planning on The Relationship Between Business Skills and Firm's Performance: Evidence from Medium Enterprises in Punjab, Pakistan. Opcion, 35(24), 746-778.

[6] Depoers, F. (2000). A cost-benefit study of voluntary disclosure: some empirical evidence from French listed companies. The European Accounting Review, 9 (2), 245-263.

[7] Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. Australian Journal of Management, 16, 49-64.

[8] Frenken, M., Hommel, U., & Rudolf, M. (2000). Risk Management. Heidelberg: Springer-Verlag

[9] Hindrayani, A. 2010. Manajemen Operasi. Yogyakarta: Pohon Cahaya.

[10] Laidroo, L. (2009). Association between ownership structure and public announcements disclosure. Corporate Governance: An International Review, 17 (1), 13-34.

[11] Mokhtar, E. S., & Mellet, H. (2013). Competition, corporate governance, ownership structure, and risk reporting. Managerial Auditing Journal, 28 (9), 838-865.

[12] Pratiwi, A. (2015). Pengungkapan risiko pada laporan tahunan perusahaan (studi empiris pada perusahaan non-keuangan yang terdaftar di bursa efek indonesia). Skripsi. Universitas Gadjah Mada.

[13] Saputro, C. D., & Suryono, B. (2014). Pengaruh struktur kepemilikan, leverage dan ukuran perusahaan terhadap pengungkapan manajemen resiko. Jurnal Ilmu dan Riset Akuntansi, 3 (2).

[14] Sari, F. J. (2013). Pengaruh corporate governance, konsentrasi kepemilikan dan ukuran perusahaan terhadap pengungkapan enterprise risk management: studi empiris pada perusahaan manufaktur yang terdaftar di bei tahun 2010-2011. Skripsi. Universitas Negeri Semarang.

[15] Sugiyono. (2016). Metode Penelitian Pendidikan Pendekatan Kuantitatif, Kualitatif, dan R&D. Bandung: Alfabeta.

[16] Sulistyaningsih, Gunawan, B. 2016. Analisis faktor-faktor yang mempengaruhi risk management disclosure. Riset Akuntansi dan Keuangan Indonesia, 1 (1), 1-11.

[17] Taures, N. S. I. (2011). Analisis hubungan antara karakteristik perusahaan dengan pengungkapan risiko. Skripsi. Universitas Diponegoro.

[18] Zook, C. (2001). Desperately seeking growth: the virtues of attending to your core. Harvard Management Update, 6 (6).