The Effect of Firm Internal and External Characteristics on Risk Reporting Practices among Malaysian Listed Firms

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Abstract: This study examines the effect of firm internal and external characteristics on risk reporting practices among the Malaysian public listed firms. Specifically, this study focuses on three internal characteristics namely, duality of board leadership, the presence of stand-alone risk management committee, and length of CEO tenure and external characteristics namely, competition, debt governance and auditor quality on the risk reporting practices among the Malaysian public listed firms. Using, content analysis on 200 top public listed firms in Bursa Malaysia, this study shows that one of the external characteristics namely, debt governance significantly influence risk disclosure among the Malaysian public listed firms. This study however, shows that none of the internal characteristics influence risk disclosure among the Malaysian public listed firms. The findings of this study provide further understanding on the factors influencing risk disclosure of Malaysian public listed firms.

Keywords: firm internal characteristics, firm external characteristics, risk disclosure, public listed firms, Malaysia.

Introduction

Corporate disclosure has been remarkably criticized following the collapse of Enron in the early 2000s and the financial crisis in the East Asian region in mid-1997. Professional bodies and associations around the world, especially in the developed countries such as United States (US) and United Kingdom (UK), government agencies, politicians and as well as individuals, had begun to challenge the current systems and contribute ideas attempting to avoid similar incidents from recurring. The root of a great number of the corporate failure is due to the insufficient disclosure in the annual reports, comparability issues (Zeff, 2007) and lack of transparency especially the clarity in risk reporting (Dobler et al., 2011). Lack of consistencies and insufficient risk-related information in the annual report limit the investors in identifying the firms' risk profile and interpreting the annual report (Zeff, 2007). Of consequence, this restricts the investors' consideration on risk-related factors when making investment decisions (Mokhtar & Mellett, 2013).

Insufficient disclosure is due to the gap between the information disclosed in the annual reports and the information expected by the investors (Adamu, 2013). According to Verrecchia (1983), firms with greater disclosure in the annual reports would be able to reduce the cost of debt. The reduction in the cost of capital from disclosing more information would be compensated with the proprietary cost resulting from providing more disclosures. Insufficient disclosure in the annual reports is more complex in a competitive market condition. In a competitive market, firms are pressured to determine the information to be disclosed to investors (Mokhtar & Mellett, 2013). With complex business environment, risk has become a fundamental element for decision making and firms are expected to disclose information on a timely basis and in the best interest of the investors (Amran et al., 2008; Yusoff et al., 2018). Investors also believed in consistent and transparent risk information in eliminating inconsistencies of information perceived and expected by investors with the actual deliverables thus eliminating information asymmetries. The extent to which firms are able to assess and be transparent about the management of their various types of risk however depends ultimately on the choice of disclosing or withholding the information (Buckby et al., 2015). This is consistent with the statement from the Institute of Chartered Accountants in England and Wales (ICAEW, 2011) that inadequate risk information disclosed has been the contributing factor to the financial crisis due to inappropriate investment assessment.

This study aims to examine the effect of firm internal and external characteristics on the level of risk disclosure among the public listed firms in Malaysia. Specifically, this study focuses on three internal characteristics namely, duality of board leadership, the presence of stand-alone risk management committee, and length of CEO tenure and external characteristics namely, competition, debt governance and auditor quality on the risk reporting practices among the Malaysian public listed firms. The findings of this study provide further understanding on the nature of risk disclosure of Malaysian public listed firms, thus improving their transparency and accountability to their stakeholders.

This study draws on agency theory and proprietary cost theory about the firms' internal and external characteristics that influence the extent of risk disclosure in Malaysian public listed firms. Prior evaluations by Elzahar & Hussainey (2012) on how agency theory believes that disclosing more risk related information to outsiders can potentially reduce the information asymmetries, especially to high debt firms. This is further explained as the agent of high debt firms is trying to give signals about their financial situation in fulfilling debt payment obligations to the debt holders. Proprietary theory has influence as well to the risk disclosure. According to Abraham & Shrives (2014), there is a potential of managers of the firm who may not sure their standpoint of disclosing risk information that is sensitive thus might influence the extent to which the information are disclosed.

Board leadership is an important variable in the study related to risk reporting disclosure as the independence of board has the roles to mitigate agency conflicts (Allegrini & Greco, 2013). In the setting of this study, the duality of board leadership in a firm is determined when a single individual holds two leading roles in a firm which are the post of chairman of the board and also CEO of the company (Hamid, 2011; Mrad & Hallara, 2014). Agency theory asserts that the fact of combining the positions of CEO and chairman of the board weakens the balance of power (Mrad & Hallara, 2014). The chairman who is the director of the firm is entrusted to monitor and evaluate the actions of top management (Ghazali, 2010) but, combining both roles would mean giving the authorization to the CEO to make a bias decision in communicating information particularly risk information. Hence, CEO who is also the chairman of the board may utilise his power to avoid reporting the risk of which this action put the welfare of shareholders at stake. Previous study by Mokhtar & Mellett (2013) indicated a significant negative association between role duality and mandatory risk reporting. However, the results also found no significant relationship with voluntary risk reporting. Based on this argument, separating

the roles of chairman and CEO should lead to better decisions for corporate risk management disclosure thus this duality of role influence the extent of risk management disclosure by firms.

When a business becomes larger, complex and diversified, it becomes more difficult for boards to retain effective control and to manage risk as compared to smaller businesses which the process and operations are simpler. Therefore, in a complex business environment, the boards would require support from monitoring mechanisms (Oliveira et al., 2011) such as risk management committees to control and manage the risk. As agency theory suggested managers as agents may have different agendas from their owners, the principal (i.e. shareholders), monitoring managers decision and action are indeed very crucial (Vera-Muñoz, 2005). Therefore, the presence of risk management committee in a firm is predicted to act as the monitoring tool to control managers' action with the hopes that the availability of a stand-alone risk management committee can be the representatives of shareholders. In order to ensure that the committee can be the representatives for shareholders, it is important that the risk management committee is independent from being part of a firm's management, and then only the presence of risk management committee can become an effective control mechanism in a firm (Tao & Hutchinson, 2013). However, Yatim (2010) believed that board that is more independent, expert, and diligent is likely to set up a stand-alone risk management committee to oversee and control various risks faced by the firm because they believed that risk management involves the contribution of many participants, and not only focusing to the one single committee to control. Yatim (2010) also found that an active board structure with complex and high risk can establish a stand-alone risk management committee to strengthen their internal control. In relation to this study, the focus is on the presence and role of risk management committees in which they have all risk-related information faced by the firms. Therefore, there is a possibility that if the risk management committee in the particular firm is independent, they may have better ability to disclose more risk-related information.

CEO is seen to have a vital role in the overall responsibility for the conduct of the firm to meet organisational objectives. According to Hambrick (1987), CEO tenure has a crucial influence on the types of decision be it on market share, the productivity or even on employee matters. Generally, CEO of a firm might have the biggest influence to a firm's decision (Li et al., 2008). CEO length of tenure in particular firm might influence the decision on information to be disclosed in the annual report (Baatwah et al., 2015). CEO tenure length is associated with managerial opportunism because their control over employees increases over time during their serving as CEOs (Tanaka, 2014). CEO with longer length of tenure might have different influence over information to be released due to managerial opportunism (Tanaka, 2014) and opportunistic behaviour (Ghazali, 2010) by CEO. However, managerial opportunism and opportunistic behaviour can be controlled with the presence of duality of role between chairman and CEO in order to ensure power and authority balance (Ghazali, 2010). (Tao & Hutchinson, 2013) suggested that directors' ability to monitor risk is related to the length of service on the board. Directors who have longer tenure on the board (i.e. 10 years or more) are likely to have greater knowledge and experiences in risk management practices. On the other hand, a study done by Ali & Taylor (2014) found that CEO with shorter tenure years provides higher corporate risk disclosure.

A business without competition is a monopoly player and usually has the power to control the profit provided that there is no government intervention. However, demand can be inflexible towards the quality and price of supply. Therefore, it is likely highly with the availability of competition in business environment, where it can be a pushing factor for business to improve the product quality. Therefore, in order to improve the quality without increasing the costs, there is a need to improve the production efficiency by improving their internal control (Jensen, 1986) to manage the risk that can reduce the total profitability. In this context, competition seems to be one of the important variables because competition determines the risk management implementation in a firm. As a result, competition can be one of the key factors that may influence risk profile of a firm (Beretta & Bozzolan, 2004; Mokhtar & Mellett, 2013).

Sá & Hambrick (1989) believed that disclosing of information to competitors had given rise to serious competition risks. Based on proprietary cost theory, competition does have an influence towards risk disclosure whereby in Verrecchia (1983) a firm that provides too much information on risk can be wrongly used by their competitors hence, it is harmful to the company in which, this deters firms to disclose such information. Amran et al. (2008) had also found that the risk profiling that are disclosed by the firm is more towards financial risk as the most frequently disclosed in the annual report followed by credit risk and market risk due to a firm's reaction towards competition. Consistent with the prediction of proprietary cost perspective, Mokhtar & Mellett (2013) found that in the less competitive environment, the level of disclosure is higher.

Agency theory can better explains that debt is able to reduce agency cost (Jensen, 1986). As debt increases, by default, the audience who are interested in risk faced by the firm also increases. Due to this, managers has to work harder and increase the needs to produce more relevant and sufficient information timely to the creditor in the disclosure, particularly risk management information to give proper signals to debt holders (Elzahar & Hussainey, 2012). This may possibly indirectly benefits agent and reducing information asymmetries. It is found that high leverage firm have a positive relationship with risk disclosure (Oliveira et al., 2011) because risk disclosure is an incentive for the lenders to monitor the business. On the other notes, the argument is riskier firms with high leverage provide less risk disclosure due to heavy reliance on bank debt financing due to bank's ability to access internal and confidential information (Dobler et al., 2011). Agency theory suggested that banks play the role of insiders that can access the internal information of the firms. Based on a study conducted in Germany by Dobler et al. (2011), they found that there is a negative association between risk disclosure quantity and leverage. In a similar vein, a study that used annual report narratives of UK non-financial listed firms by Elshandidy et al. (2013), they found that risk disclosures are influenced negatively by high leverage.
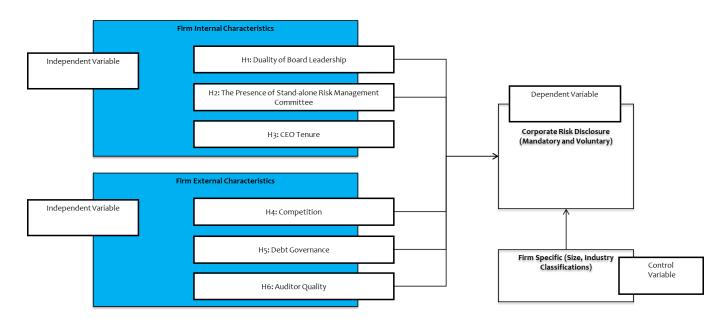

Figure 1 Theoretical Framework

Auditor plays an important role in improving the quality of corporate risk management disclosure (Abraham & Shrives, 2014) because they are highly likely to ensure transparency and eliminate mistakes in a firm's financial statements. Risk management disclosure provides improve information when the firms are audited by big four audit firms because large audit firm concerns on the quality of information disclosed to uphold their reputation (Abdel-Meguid et al., 2013; Yatim, 2010) which suggested that there is a relationship

between auditor dependence and financial reporting practices. This is because auditor independence is likely to be compromised when the auditor's economic dependence on the client is high. Since there is no audit to discretionary information disclosed in the narrative statements, auditors may also pay less attention to the information even though the information may be important for shareholders for decision making (Choo & Isa, 2013). Previous study by Oliveira et al. (2011) argued that firms audited by the big 4 audit firms, disclosed more risk-related information to reduce agency costs. Mokhtar & Mellett (2013) in their study supported this argument in which they showed a significant positive association between auditor type and mandatory risk reporting. The authors found that Egyptian firms audited by audit firms with international affiliations complied more with mandatory risk reporting. However, the study also found that there is significant negative relationship between auditor type and voluntary risk reporting.

Methods

In general, firms used various mediums of communication to announce on the performance of the firms to the public, namely, electronic media, social media, firm's websites as well as annual report. For the purpose of this study, it focuses to study risk reporting disclosure in annual report because annual report acts as the key source of information referred by the shareholders in their decision-making processes (Linsley & Shrives, 2005). Generally, risk-related information is placed in the description sections such as notes to the accounts, chairman statement, statement on internal control and management reports (Linsley & Shrives, 2005). For the purpose of this study, the sample firms are chosen based on the market capitalisation for the year 2014 to ensure it provides the up-to-date analysis and the year report that is chosen in this study is for those reporting period ended on 31 December. The annual reports that are chosen in this study are from firms that are listed in Bursa Malaysia which are top 200 firms in terms of market capitalization. Therefore, it is conform to Malaysian Financial Reporting Standard on the degree of Malaysia firm risk reporting practices.

At first, the sample that was analysed to understand the hypothesis of the subjects is top 200 annual reports from public listed firms in Bursa Malaysia. In order to do the sample selection, Thompson One Banker is used to obtain a list of firms and retrieve the target sample. From the Thompson One Banker listing, there are about 200 selected firms based on the top market capitalisation. This study chooses large firms which is based on the top in the list based on their market capitalizations since they are more likely to provide information particularly in risk area (Linsley & Shrives, 2005). However, this study excludes 22 firms from the finance industry such as banking, insurance, securities and close-end funds because these firms are being governed under different regulations and have significantly different kinds of operation (Linsley & Shrives, 2005). Another 10 public listed firms are excluded due to non-availability of annual reports and incompleteness of data. Therefore, the final number of annual report available to be analysed is 168.

In addition, this study also captured information from Thompson One banker such as information on the years the CEO has started to be in the position, information on total fixed assets of the firm to define the competition level and debt information to calculate debt ratios to identify its leverage level. Besides that, other information such as auditor types and the amount of risk information disclosed are captured from additional information in the annual report and since this study focused on public firms, the annual report is obtained from Bursa Malaysia website where it published the annual report of public listed firms. There is some information such as the role of directors as chairman and CEO are not mentioned in Thompson, thus this information is collected from the annual report. In order to identify the amount of risk in annual report, the risk disclosure data is manually collected, counted and recorded from the few sections of annual reports: operating and financial review, separate risk disclosure section, notes to the financial statements, and corporate governance section (Miihkinen, 2013). Measurement of dual board leadership is based on whether the

chairman and CEO are stand alone or chairman and CEO are the same people. If the CEO of the firm is also the same person listed as chairman, hence there is duality of board (Mokhtar & Mellett, 2013) in which dummy variable 1 if CEO is the chairman and 0 if otherwise.

Table 1 Risk Classifications and Definitions

Types of Risk	Definition used in this study
Strategic risk	Risk in this category includes Environmental scan Industry, Business portfolio, Competitors Pricing and Valuation Planning
Operation risk	Risk in this category includes Customer satisfaction, Product development, Efficiency and performance, Sourcing, Stock obsolescence and shrinkage, Product and service failure, Environmental Health and safety, and Brand name erosion
Empowerment risk	Risk in this category includes Leadership and management, Outsourcing, Performance incentives, Change readiness and Communications
Information processing and technology risk	Risk in this category includes Integrity, Access Availability, and Infrastructure
Integrity risk	Risk in this category includes Management and employee fraud, Illegal acts and Reputation
Finance risk	Risk in this category includes Interest rate, Exchange rate, Commodity, Liquidity, and Credit Risk

A stand-alone risk management committee is based on the availability of separate committee apart of existing internal control and audit committee, and they have the ability to report their findings or available information to the shareholders. This is done by understanding the availability of risk management committee which is separate from other committee such as audit committee or corporate governance committee. The hierarchy of reporting is also checked to ensure the risk management committee is independent from other committee as mention above. For this variable, this study adopts unit measurement by Yatim (2010) whereby risk management committee is a dummy variable of 1 if a firm sets up a risk management committee and 0 if otherwise.

In this study, to measure the length of CEO tenure on the board, CEO is identified as either group managing director or executive director and the length of tenure is measured from the stated date of the directorship begins in the annual report. For the purpose of this variable, studies by Baatwah et al. (2015); Ali & Taylor (2014) are adopted to measure CEO tenure by identifying the number of years that the CEO has occupied that position in that particular firm. Some of the information might not be available in Thomson, hence using information from other sources such as Reuters or Bloomberg.

To determine the relationship of competition in this study, the measurement used by Mokhtar & Mellett (2013) is adopted. The competition between the firms is measured by barriers to enter the market. Barriers to enter to the market determine on the difficulty of other new entrants to set up a similar business and compete in the same market. Therefore, one of the key unit measurements to calculate the competition level is by total fixed assets of the firm which is also available in the Thompson. Fixed assets can represent competition because for an industry where a huge investment or capital cost needed to start up the business, the higher the barrier to enter hence highly likely the chance for competition to be available. Debt governance is determined by the level of leverage within the firm in which the unit measurement is adopted from a study done by Allegrini & Greco (2013). Following this study, leverage is measured using book value of total debt over

the total asset which is available in the Thompson as well. Consistent with prior expectations, big 4 audit firms are considered as more quality auditor. Therefore, measurement of auditor quality is categorised as 1 if the firm has a big 4 external auditor and 0 otherwise (Buckby et al., 2015).

The approach used in this study in quantifying the risk management reporting is the content analysis to identify and later quantify the amount of risk management reporting disclosed in each annual report. The checklist and decision rules used in this study are those developed by Linsley & Shrives (2005). In performing content analysis, number of sentences is chosen. Content analysis by counting a number of sentences can enable coding of risk disclosure according to different risk categories as compared to counting by words. The risk categorization adopted in this study is from a study which are demonstrated in the Table 1.

Table 2 Operationalization of the Research Variables

Variables	Variable description	Variable Code	Unit of measurement
Dependent Variables	Level of Risk Disclosure	TRD	Risk Disclosure, number of sentences (Linsley & Shrives, 2005)
Independent Variables	Duality of Board Leadership	DB	Dichotomous variable, a dummy variable 1 = CEO is the chairman and 0= otherwise (Mokhtar & Mellett, 2013)
	Presence of Risk Management committee	RMC	Dichotomous variable, a dummy variable of 1 = a firm sets up a risk management committee, 0 = otherwise (Yatim, 2010)
	CEO Tenure	CT	The number of years that the CEO has occupied that position (Baatwah et al., 2015)
	Competition	COMP	The total fixed assets of the firm (Mokhtar & Mellett, 2013)
	Debt governance	DG	Debt ratio = Total Debt to Total Asset (Allegrini & Greco, 2013)
	Auditor Quality	AQ	Dichotomous variable, dummy variable= 1 if auditing firm is a Big 4 firm; 0 otherwise (Buckby et al., 2015)
Control Variables	Firm Size	FSize	Size of the firm is measured based on the firm's turnover (Linsley & Shrives, 2005)
	Industry	Industry	Industry classifications was dichotomous of 1 if the firm is trading and services sector, 2 if in construction industry, 3 if the firm is consumer sector,4 for industrial, 5 for plantation, 6 for properties sector, 7 if technology and infrastructure, 8 if the firm is in IPC sector and 0 if otherwise (Linsley & Shrives, 2005)

The control variables used in this study are firm size and industry type (Beretta & Bozzolan, 2004; Buckby et al., 2015). To evaluate the level of disclosure using the traditional framework, these two factors appear to affect the study hence needed to control the variables. Prior studies in different countries have proven a large association between risk disclosures with firm size. It is reported that size does matter, and there is a significant relationship between firm size and disclosure (Taliyang et al., 2011). Larger firms with higher levels of environmental sensitivity disclose more risk-related information to manage stakeholders' perceptions about corporate reputation (Oliveira et al., 2011). This is evidenced by Amran et al. (2008) where bigger firm can have a larger group of stakeholders who would be interested to know the business economic situation. Besides that a larger business usually needs higher levels of financing, hence would face with higher level of liquidity risks

(Elzahar & Hussainey, 2012). Arguably, larger firms tend to disclose more risk information to make a decline in agency costs and to reduce information asymmetries. Therefore, this study focuses on the top firms in the Bursa Malaysia to ensure that they are within the same size of the firms.

With regards to industry, firms are pressured to disclose industry-related information (Beretta & Bozzolan, 2004) in their disclosure hence a study of different industry might have a different impact on their types of risk information and extent of disclosure. Therefore, to control the industry variations, industry dummy variables are included according to sectors classified by the Bursa Malaysia in the model (Yatim, 2010). Therefore, these two variables which are firm size and industry type are used as control variables in this study. The summary of all the operational variables in this study is shown in Table 2.

In order to examine concurrently the association between CEO tenure, competition, debt governance, board leadership, risk management committee and auditor quality with risk disclosure in annual report, the following regression model has been employed.

$TRD = a + b_1CT + b_2COMP + b_3DG + b_4AQ - b_5RMC + b_5DB + b_6FSize + b_7Industry$

Where,

a	=	Intercept
$b_1 - b_7$	=	Coefficient
TRD	=	Total Risk Disclosure
DB	=	Duality of Board Leadership
RMC	=	Risk Management Committee
CT	=	CEO tenure
COMP	=	Competition
DG	=	Debt Governance
AQ	=	Auditor quality
FSize	=	Firm Size
Industry	=	Industry

Results and Discussion

Table 3 presents the descriptive statistics of the continuous variables. As reported in Table 3, the mean value of total risk disclosure is 178.04 sentences (the average number of risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 67% of the maximum score of 637 sentences, therefore average spread between the mean and actual outcomes is about 67 sentences. The mean value of total financial risk disclosure is 51.05 sentences (the average number of financial risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 16% of the maximum score of 113 sentences, therefore average spread between the mean and actual outcomes is about 16 sentences. The mean value of total operation risk disclosure is 48.31 sentences (the average number of operation risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 27% of the maximum score of 174 sentences, therefore average spread between the mean and actual outcomes is about 27 sentences.

The mean value of total empowerment risk disclosure is 25 sentences (the average number of empowerment risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 10% of the maximum score of 86 sentences therefore average spread between the mean and actual outcomes is about 10 sentences. The mean value of total information processing and

technology risk disclosure is 4.51 sentences (the average number of Information processing and technology risk disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 9% of the maximum score of 75 sentences therefore average spread between the mean and actual outcomes is about 9 sentences. The mean value of total Integrity risk disclosure is 29.7 sentences (the average number of integrity risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 14% of the maximum score of 103 sentences therefore average spread between the mean and actual outcomes is about 14 sentences. The mean value of total Strategic risk disclosure is 18.98 sentences (the average number of strategic risk disclosure sentences disclosed by the 168 sampled firms in 2014) meanwhile the standard deviation is approximately 19% of the maximum score of 169 sentences therefore average spread between the mean and actual outcomes is about 19 sentences.

Table 3 Descriptive Statistics of Continuous Variables

Statistics	Mean	Median	Std. Deviation	Minimum	Maximum
Total Risk Disclosure	178.04	162	67.4	63	637
Total Financial Risk	51.5	51	15.766	13	113
Total Operation Risk	48.31	44	27.009	0	174
Total Empowerment Risk	25	23	10.499	0	86
Total Information Processing and Technology Risk	4.51	0	9.359	0	75
Total Integrity Risk	29.7	28	14.394	0	103
Total Strategic risk	18.98	15	19.474	0	169
CEO Tenure	8.47	5	7.933	1	44
Competition	5,264.00	1,595.59	10,660.55	13	92,149
Debt governance	16.36	10.75	17.697	0	63
Size	7,256.15	2,461.06	13,654.75	139.78	10,665.40

Table 3 shows that the CEO tenure ranges from 1 year to 44 years of service. With respect to the firm's external characteristics, competition is measured by total fixed assets, the amounts are in a range of RM13 million to RM92 billion with an average of RM5 billion. With regards to debt governance, the amounts range from zero to 63% with the average of 16%.

Table 4 Duality of Board Leadership

	Frequency	Percent	Cumulative Percent
Chairman ≠ CEO	150	89.3	89.3
Chairman = CEO	18	10.7	100.0
Total	168	100.0	

Table 4 shows the frequency of occurrence of a single individual that is the CEO and also chairman is approximately 11%. Other than that, 89% does not hold dual position as CEO and chairman. Table 5 shows that the frequency of a stand-alone risk management committee in a firm is 37.5%. Meanwhile, 62.5% of the sampled firms do not have a risk management committee in their company. Table 6 shows the frequency of types of auditor who conduct audit for a particular firm. In this study, 23.8% is audited by non-big 4 firms and 76.2% audited by big 4 firms. The summary of the frequency are summarized in Table 4 whereby valid 1 refers to firms that have been audited by big 4 auditors, 0 is otherwise.

Table 5 Presence of a Stand-Alone Risk Management Committee

	Frequency	Percent	Cumulative Percent
Without RMC	105	62.5	62.5
With RMC	63	37.5	100.0
Total	168	100.0	

Table 6 Auditors' Quality

	Frequency	Percent	Cumulative Percent
Non-Big 4	40	23.8	23.8
Big 4	128	76.2	100.0
Total	168	100.0	

Table 7 Summary Statistics of Kolmogorov-Smirnov Test

Variable	Kolmogorov-Smirnov Z statistics	p-value
LN Total risk disclosure	0.838	0.484
LN CEO tenure	0.556	0.116
LN Competition	0.864	0.445
LN Debt Governance	0.378	0.089

Table 8 Correlation Analysis between Total Risk Disclosure and CEO Tenure

Variable	Total risk disclosure	
	Spearman Coefficient of Correlation (R)	p-value
CEO Tenure	-0.039	0.620
Competition	0.564	0.000
Debt Governance	0.191	0.017
Size	-0.539	0.000

** Significant at 0.01
* Significant at 0.05

The normality test is conducted to check the normality of data. A parametric test would be used if the data were normally distributed. A non-parametric test would be used if the data distribution is not normal. The analysis to determine the relationship and difference involves the use of test of significant correlation and test of significant difference. The appropriate statistical tool for this depends on the normality or non-normality of observation values. A normality test was carried out on all variables having continuous data using the One-Sample Kolmogorov-Smirnov Test.

As regression analysis requires the data to be normally distributed, the observation values were initially converted to its natural logarithmic equivalents and then subjected again to the Kolmogorov-Smirnov (K-S) Test of normality. The summary statistics of Kolmogorov-Smirnov Test are presented in Table 7. It can be seen that the K-S Z values for LN total risk disclosure, LN CEO tenure, LN competition and LN debt governance are not significant at 0.05 level ($p > 0.05$). That is, the observation values of total risk disclosure, CEO tenure, competition and debt governance in its natural logarithmic equivalents are now normally distributed, hence satisfying the assumption of regression analysis.

Table 9 Estimated Regression Equation

Variable	Coefficient	t-value	p-value
LN CEO tenure	-0.015	-0.205	0.838
LN Competition	0.211	1.597	0.113
LN Debt governance	0.125	1.715	0.088**
LN Size	0.263	2.112	0.036
Duality board leadership	-0.014	0.203	0.840
Risk management committee	-0.043	-0.625	0.533
Auditor quality	0.061	0.838	0.404
Size	-0.220	-3.153	0.002
F	9.885		0.000**
R^2	0.351		

** Significant at 0.01

Correlation analysis was carried out to determine the relationships, if any, between variables of total risk disclosure, CEO tenure, competition and debt governance. The analyses were carried out using Pearson Coefficient Correlation, a-parametric correlation tool. The summary statistics of the correlation analyses are presented in Table 8. Table 8 shows the relationship between Total Risk Disclosure with CEO Tenure, Competition, Debt Governance and Size. From the table below, it shows that Total Risk Disclosure and CEO Tenure are negatively but lowly correlated ($r = -0.039$; $p > 0.01$). That is, on the average, total risk disclosure which has a higher value have a lower value of the CEO Tenure, and vice versa. The result from Table 8 also shows that Total Risk Disclosure and Competition are positively but on average correlated ($r = 0.564$; $p < 0.01$). That is, on average, total risk disclosure that has a high value indicates high value of competition. As for the correlation between Total Risk Disclosure and Debt Governance, the result shows they are positively but on lowly correlated ($r = 0.191$; $p > 0.01$). That is, to the low extent, an increase in total risk disclosure is associated with an increase in debt governance and vice-versa.

A regression model was estimated with LN total risk disclosure as the dependent variable, LN CEO tenure, LN Competition, LN Debt governance, duality of board leadership, the presence of stand-alone risk management committee and auditor quality as the independent variables and Firm Size and Industry as control variable. There are four variables noted as dummy which are duality of board leadership (1 if the CEO is the chairman, 0 if otherwise), the presence of stand-alone risk management committee (1 if there is stand-alone risk management committee in the firm, 0 if otherwise) and auditor quality (1 if the auditor of firm is from big 4, 0 if otherwise) for independent variables and industry (1 if the firm is trading and services sector, 2 if in construction industry, 3 if the firm is consumer sector,4 for industrial, 5 for plantation, 6 for properties sector, 7 if technology and infrastructure, 8 if the firm is in IPC sector and 0 if otherwise) for Control Variables. Table 9 presents the summary statistics of the estimated regression equation.

The F value is statistically significant at 0.01 (p < 0.01) which is 9.885, implying that there is an association between total risk disclosure and any or all of the independent variables. However, the R-square value being 0.351 means that the six independent variables and 2 control variables has a whole account for 35.1% of the variation in the dependent variable (total risk disclosure). That is, the effect of CEO tenure, competition, debt governance, duality of board leadership, and the presence of a stand-alone risk management committee and auditor quality as a whole on total risk disclosure is moderate. Consequently, there are other variables that may influence the total risk disclosure but are beyond the scope of this study.

Looking at the individual regression coefficient, only the coefficient of LN debt governance is statistically significant at 0.01 (p < 0.01), whereas those of LN CEO tenure, LN competition, duality of board leadership, the presence of stand-alone risk management committee and auditor quality are not. The coefficient of LN debt governance (0.125) means that an increase in debt governance has increases the total risk disclosure, whilst changes in the other five variables have no significant impact on total risk disclosure. This result is consistent with study by Oliveira et al. (2011) that there is positive relationship between debt governance and risk management disclosure in annual report. This finding also consistent with a study by Elzahar & Hussainey (2012); Mokhtar & Mellett (2013) that there is no significance influence of duality of board leadership towards risk management disclosure. Regarding the insignificant relationship between Auditor Quality and risk management disclosure, Mokhtar & Mellett (2013) highlighted even though they found a positive relationship between auditor type with mandatory risk reporting, they also found a negative relationship between auditor type and risk reporting.

Conclusion

This study provides an attempt to examine the Bursa Malaysia's listed firm nature on risk reporting disclosure and the extent to which firm risk levels in totality is being disclosed. It is also aiming to understand the influence of firm's characteristics towards risk disclosures in annual report. Therefore, the dependent variables selected to be used in this study are the total number of risk-related sentences in firms' annual report and independent variables are firm internal characteristics, namely, duality of board leadership, the presence of a stand-alone risk management committee and CEO tenure as well as firm external characteristics, namely, competition, debt governance and auditor quality with corporate risk disclosure. Hypotheses are developed based on the basis of agency theory and proprietary cost theory. This study uses agency theory to explain how does the relationship of firm internal and external characteristics might affect the level of risk disclosure due to information asymmetries that give rise to agency cost. Based on the agency theory, a CEO that has been in position longer might use his influence towards employee and influence the nature and extent of risk disclosure in annual report. However, duality of board leadership can intervene CEO's ultimate power to decide the extent of risk disclosure in annual report, where the existence of risk management committee might also be the

control mechanism to the agency problem, thus reducing information asymmetry. Besides that, this study also uses proprietary cost theory to explain the information asymmetry advantage that managers have and its reflection to risk disclosure. In a competitive market based on proprietary cost theory, the managers may be reluctant to provide sensitive risk related information to the public as the information might be used by their competitors for their advantage instead. For the nature and extent of risk disclosure, it can be seen that focus of risk disclosure is on financial risk then followed by operational risk and lesser attention is given to information processing & technology risk disclosure.

In answering the second objective of this study to see the relationship between internal characteristics and external characteristics of firm towards risk disclosure in annual report, the study found that one of the external characteristics which is competition is the only variable which has a significant relationship with corporate risk disclosure. Specifically, the results show that firms with more competition are likely to disclose more corporate risk disclosure. This is basically against the hypothesis that has been made in this study that in a high competition environment, due to proprietary cost, managers would be more reluctant to disclose more risk information that leads to high information asymmetry; hence high competition environment often has lesser risk disclosure. According to Mokhtar & Mellett (2013), based on agency theory and proprietary cost, it is suggested that competitions are among the key determinants of risk reporting practices besides other contributors such as role duality, board size, ownership concentration and auditor type. When looking at the competition as the factor that might influence the amount of corporate risk disclosures in annual report, the existence of a debt in a particular firm should be looked together. According to Orhun (2018), there is a potential of a disclosure in a highly competition market when it is observed there is a need to signal the credit market as well. In total regression result itself, if we are looking at the individual regression coefficient where it has been shown that an increase in competition increases the total risk disclosure, whilst changes in the other five variables have no impact on total risk disclosure. In other words, debt governance, duality of board leadership, the presence of stand-alone risk management committee and auditor quality are not the significant variables, and consequently, there are other variables that put forth much more influence on total risk disclosure which are apparently beyond the scope of this study. In sum, the findings of this study provide further understanding on the nature of risk disclosure of Malaysian public listed firms, thus improving their transparency and accountability to their stakeholders.

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