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Liquidity Risk Disclosure: A Review Of Corporate Governance

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ABSTRACT
Liquidity risk is the potential loss arising from the inability of a company to fulfill its obligations or to fund an increase in assets at maturity without incurring unacceptable costs or losses. The purpose of this study is to analyze the corporate governance factors that influence liquidity risk disclosure. Its factors are the proportion of independent commissioners, audit committees, managerial ownership, and institutional ownership. The sampling technique used a purposive sampling method in consumer goods industrial classification companies listed on the Indonesia Stock Exchange on 2016-2018. The multiple regression uses to analyze the data. Results indicate that the proportion of commissioners and audit committees have an effect on liquidity risk disclosure, meanwhile managerial ownership and institutional ownership have no effect on liquidity risk disclosure.

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INTRODUCTION

The 4.0 industrial revolution has developed rapidly. Development of national digital infrastructure is one of the big movements in that era. There is a new pattern of disruptive technology that can be threaten the company (Hassim, 2016). In a recent time, many large companies become the fallen victim of 4.0 industrial revolution, due to their inability to provide companies' information technology needs. The impact of industrial revolution 4.0 requires investors to be more careful in choosing companies for their investment. Financial information that represent at the audited financial statements can support investor's decision, especially the company that disclose their financial risks detail in the financial statements.

The issue of financial risk disclosure starts to become a business concern when the Institute of Chartered Accountants in England and Wales (ICAEW) issued three discussion documents in 1998, 1999 and 2002 on information gaps regarding the company's business risk. ICAEW proposes the companies to disclose information about their business risks through the annual report in order to give support for company' shareholders in the decision-making process by providing flexibility in access to company' business information (Linsley and Shrives, 2005; 2006; Meilani and Wiyadi, 2017).

Risk disclosure or corporate risk disclosure is one of the good corporate governance practices (Wardhana and Cahyonowati, 2013). The company needs to disclose risk management information to present good corporate governance practices. Companies' risk disclosures must explain the business risks that arise along with actions to manage calculated risks. That risk information can support investors analysis in order to make their investment decisions.

Indonesian regulators set the rules that require the importance of reporting risk disclosure in the company annual report. It is overseen in the Statement of Financial Accounting Standards (PSAK) Number 60 concerning Financial Instruments: Disclosures (Indonesian Institute of Accountants, 2017) as the adoption of International Financial Reporting Standards (IFRS) 7, about Financial Instruments: Disclosures. This standard applies to all entities regardless of how many financial instruments they have. PSAK Number 60 requires the entities to present the information needed by users to evaluate the significance of using financial instruments to analyze financial performance; the risks according to use those financial instruments as information sources; and how the entity carries out the risk management. The entity discloses information quantitatively and qualitatively therefore the information users get an overview of the nature and the broadscope of overall risk. Financial risks are divided into three main categories: Liquidity Risk, Credit Risk, Market Risk (Cabedo and Tirado, 2004; Wibowo and Probohudono, 2017).

In Indonesia, prior research is mostly carried out all types of financial risk (Meilani and Wiyadi, 2017; Wibowo and Probohudono, 2017), meanwhile Boussanni, *et al.* (2008) concerning liquidity risk disclosure on financial companies, especially in Europe. This research focused on measurement of liquidity risk disclosure as one of the important risk disclosure to overview the long-term business continuity risk.

Liquidity risk can cause asset fire sales that impact the decreasing of company capital authorization and offer the fastest way to sell a large number of liquid assets for funding needs (Diamond and Rajan, 2001). Liquidity risk becomes the attention of professionals and researchers, after the leading on banking crisis in recent years. Liquidity risks have an effect of destroying the operations of various entities, especially banks (Diamond and Rajan, 2005). Further research on liquidity risk disclosure is became an interesting topics, especially in companies that have low return on asset ratio with high asset turnover rates (Hanafi and Halim, 2016), such as companies in the classification of consumer goods industry.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

According to Jensen and Meckling (1976), agency theory describes the relationship between one or more parties (principals) with other parties (agents) which are agreed to provide services and authority for agents to make decisions. Agency relations exist at the company in the form of contracts between the owner (principal) and

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manager (agent) to manage and control the use of company resources. The contract arranges the rights and obligations of the parties considering the overall benefits. Its existence can lead to agency conflict due to the differences of owners and managers interests.

Jensen and Meckling (1976) suggest that one of the efforts to reduce agency conflict is monitoring manager' behavior (agent behaviour). There are two mechanisms that can be used to align the interests of owner and manager; first, adopting the audit function and other mechanisms in corporate governance. Second, provide incentives and rewards for agents who can act in accordance with the principal interests (Falendro, *et al.*, 2018).

Signaling Theory

Agency conflicts can caused the asymetrical information within principal and agent. Signaling theory is used by the companies to provide information that become positive signal and negative signal, in order to reduce the existence of information asymmetry. Management provides information regarding the company financial risk disclosures through financial statements. It shows management' financial transparency and prevents fraud or fraudulent actions. Companies use signaling theory as good corporate governance implementation, in order to create a good reputation that can increase the firm values (Sulistyaningsih and Gunawan, 2016). One of the signals in the implementation of corporate governance issue is liquidity risk disclosure. Disclosure of company financial risks describe company' transparency related to the financial statements.

Liquidity Risk Disclosure

According to PSAK Number 60 concerning Financial Instruments: Disclosures (Indonesian Institute of Accountants, 2017) as the adoption of IFRS 7, Financial Instruments: Disclosures, liquidity risk is the risk that an entity faces difficulties in fulfilling the obligations related to its financial liabilities using cash or other financial assets.

The principles of risk management guide from Islamic Financial Services Board (IFSB, 2005), explaine that liquidity risk is the potential loss arising from company' inability to fulfill its obligations or to fund an increasing of assets at the payment due date without incurring unacceptable costs or losses. Liquidity risk arises when liabilities payment due date is shorter than assets (Oldfield and Santamero, 1997; Ariffin, 2012).

Corporate Governance

The National Committee on Corporate Governance (KNKG) in 2008 regulated the corporate governance issues in Indonesia by implementing good corporate governance practices. This perspective intends to resolve agency problems faced by companies with scattered shareholders. The company's needs for diverse governance are basically believed that companies that have good corporate governance can withstand shocks in unstable macroeconomic conditions, the issue of implementing Good Corporate Governance (GCG) is still warm and attracts the attention of economists and business people in Indonesia is currently in an effort to create sustainable corporate value. There are several measurements in corporate governance that can be used as the proxies: proportion of independent commissioners, size of audit committees, managerial ownership, and institutional ownership.

Proportion of Independent Commissioners

Board of commissioners consist of independent commissioners who have no family or business relationship with other board commissioners' members, company management or controlling shareholders. The existence of independent commissioners are important to ensure that the board of commissioners act independently on behalf of investors nor in the company interests (Abeysekera, 2010; Wibowo and Probohudono, 2017).

Companies are necessary deemed to provide information about proportion of independent commissioners, because companies with high proportion of independent commissioners are demanded to provide more information that balance to the level of their personal reputation risk. Companies with higher proportion of independent commissioners are expected to inform higher level of disclosure. Therefore, the disclosures tend to reduce agency costs (Oliveira, et al., 2011; Wardhana and Cahyonowati, 2013).

H_1: Proportion of independent commissioners effect the liquidity risk disclosure.

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Audit Committees

The audit committee is a committee formed by the board of commissioners to achieve audit objectives within the company. According to the Decree of the Chairperson of BAPEPAM No. Kep-29/PM/2004, audit committee consists of at least one independent commissioners and other two members from outside the issuer or public company. Three commissioners are the minimum number of audit committee members (Yatim, 2009; Syaifurakhman and Laksito, 2016).

The performance of supervision by board of commissioners are better if its supported by good monitoring of the audit committee. The greater size of audit committee are expected to carry out more oversight monitoring on the extent of information that disclosed in annual report (Utomo and Chariri, 2013).

H_2: Audit committee effect liquidity risk disclosure.

Managerial Ownership

Managerial ownership represent share ownership by company management. In this case, management acts as manager of the company's business continuity and shareholders at once. They are responsible for all business activities by making disclosures in the company's financial statements. Higher managerial ownership in a company need higher risk disclosure regarding managements responsibility and the decision that they made (Sulistyaningsih and Gunawan, 2016).

H_3: Managerial ownership effect liquidity risk disclosure.

Institutional Ownership

Institutional ownership is a solution to reduce agency costs. Ownership originating from external sources tends to have tighter monitoring and discipline the managers, wheares the suitable relations occur between managers and shareholders (Lestari and Juliarto, 2017). Institutional ownership affect company management in managing the company's internal affairs. The institution which has large percentage of share ownership, effect the company's internal management intensively to secure its investment assets. Institutional ownership has authority to control management through effective monitoring process, thereby reducing management actions to manipulate information about the risks disclosure. Using institutional ownership mechanisms, the effectiveness of corporate risk management is expressed through market reactions on risk disclosure in the company's financial statements (Mubarok and Rohman, 2013).

Companies with concentrated ownership structures, according to agency theory are usually lower monitoring and controlling than in diffuse structures that include outside ownership (Jensen and Meckling, 1976). Shareholders with greater ownership make active role in monitoring and controlling of the company. Its require a less size of risk disclosure. Agency costs can be reduced by actively participating in the company (Mubarok and Rohman, 2013).

H_4: Institutional ownership effect liquidity risk disclosure,

RESEARCH METHODS

Population, Sample and Research Data

The population in this study are all companies listed on the Indonesian Stock Exchange (IDX) in 2016-2018. It is a type of quantitative research, using secondary data sourced from the company's annual financial statements (annual report) from the official website of the Indonesia Stock Exchange www.idx.co.id. The sample of this study are manufacturing company, classified as consumer goods industry. The sampling techniques use purposive sampling method. Criteria in selecting samples are:

Table 1. Sample Selection Process

No.	Criteria	N
1.	Consumer goods companies listed on the Stock Exchange in 2016-2018	39
2.	Companies that do not publish annual report in 2016-2018 completely	(4)
	Sample companies that meet the criteria	35
	Total sample = 35 companies x 3 years	105
	Outliers	(25)
	Total Sample	**80**

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VARIABLES AND VARIABLE MEASUREMENTS

Liquidity Risk Disclosure

Liquidity Risk Disclosure is one of financial risk disclosure (FRD) categories as the dependent variable in this study. Financial risk disclosure index (FRDI) is the measurement to assess liquidity risk disclosure (Wibowo and Probohudono, 2017; adapted from Atanasovski et al., 2015; Oorschot, 2010 and IFRS 7). FRDI for liquidity risk disclosure consists of five disclosure items:

1. Objects that are vulnerable to risks and how these risks arise.
2. Objectives, policies, and processes for dealing with risks and the methods used.
3. Changes in risk exposure, objectives, policies, risk management and methods used.
4. Analysis of financial liabilities maturity indicated the remaining contract due.
5. Description of how to manage default liquidity risk.

Each item of liquidity risk disclosure is scored using dichotomy scale. That is score 1 for item liquidity risk disclosed or score 0 for undisclosed item of liquidity risk. Disclose items are summed to obtain the overall index of each company's liquidity risk disclosure and compared to the total index. Information regarding liquidity risk disclosure is obtained from company's annual reports and official websites.

Proportion of Independent Commissioner

Board of the independent commissioners is measured using the proportion of independent commissioners board' members compared to the board of commissioner' total members (Wardhana and Cahyonowati, 2013).

Audit Committee

The audit committee is a committee formed by the board of commissioners to achieve audit objectives within the company. The audit committee is measured using the number of audit committee members (Syaifurakhman and Laksito, 2016).

Managerial Ownership

Managerial ownership is measured using the percentage of shares held by company' management (Sulistyaningsih and Gunawan, 2016).

Institutional Ownership

Institutional ownership is measured using the percentage of shares held by institutional parties compared to the total number of the company' shares (Mubarok and Rohman, 2013).

Data Analysis Method

Data analyze using multiple regression. The equition of liquidity risk disclosure models in this study is:

$$\mathbf{LRD = a + b_1PI + b_2AC + b_3MO + b_4IO + e}$$

Where:

LRD = Liquidity Risk Disclosure
a = Constant
b = Regression Coefficient
PI = Proportion of Independent Commissioner
AC = Audit Committee
MO = Managerial Ownership
IO = Institutional Ownership
e = Error

RESULTS AND DISCUSSION

The results of this study is obtained a determination coefficient of 0.311, which means that 31.1% is explained by the independent variable the regression equition model. The Kolmogorov-Smirnov normality test results of 0.490 that is greater than the 0.05 significance value, which means that data are normally distributed. The multicollinearity test indicate the Value Inflation Factors (VIF) between 1.106 to 2.324 (below 10) and tolerance value between 0.425 to 0.904 (below 1), which conclude that there is no multicollinearity problem in the regression equation. The heteroscedasticity test results using the scatterplot graph show that the points spread above and below zero, which means the data have no heteroscedasticity problems. The results of the autocorrelation test with Durbin-Waston obtained a value of 2.250 between du<**dw**<4-du which is 1.7430< **2.250**<2.570, means that the variables of this study have no autocorrelation problem.

The multiple regression analysis results for hypothesis testing are presented in this table below:

Table 2. Multiple Regression Test Results

Variables	B	Sig.	Description
Proportion of Independent Board of Commissioner	-0,723	0,000	H_1 is accepted
Audit Committee	0,112	0,005	H_2 is accepted
Managerial Ownership	-0,004	0,078	H_3 is rejected
Institutional Ownership	0,002	0,071	H_4 is rejected

Source: Sari & Sholikhah, 2019

The hypothesis test for Proportion of the Independent Commissioner is obtained a regression coefficient of -0.723 with 0,000 significance level that is less than 5%. It means H_1 is accepted and the proportion of independent commissioners effect liquidity risk disclosure. The results of this study support Wardhana and Cahyonowati (2013), but have different results with Wibowo and Probohudono (2017). The study results that the existence of an independent board of commissioners in the company is become an important part for supervising company management in accordance with the regulations which apply in capital markets. Regardless the small proportion of independent commissioners, They are still able to supervise the disclosures of liquidity risk.

The Audit Committee hypothesis testing result has a regression coefficient of 0.112 with a significance level of 0.005. It means H_2 is accepted because the significance value is less than 5%. According to the result, audit committee effect liquidity risk disclosure. This study supports Syaifurakhman and Laksito (2016), but has different result with Utomo and Chariri (2013). The results of this study provide empirical evidence that greater size of audit committee is carried out greater oversight on the broad information in liquidity risk disclosed.

Based on hypothesis testing for managerial ownership is obtained the regression coefficient value of -0.004 with a significance level of 0.078 that more than 5%. It means H_3 is rejected and managerial ownership has no effect on liquidity risk disclosure. The study are consistent with Sulistyaningsih and Gunawan (2016). Small number of managerial ownership can decrease pressure on management to disclose all the decision that they made.

Hypothesis testing of institutional ownership obtains a regression coefficient of 0.002 with a significance level of 0.071 and H_4 is rejected. This means that institutional ownership has no effect on liquidity risk disclosure. The result is consistent with Mubarok and Rohman (2013). This study indicate that based on the regression coefficient, greater institutional ownership is able to control management for securing investment assets while maintaining the company's liquidity risk.

CONCLUSION

The results of this study prove that the proportion of independent commissioners and audit committee effect liquidity risk disclosure, meanwhile managerial ownership and institutional ownership have no effect on liquidity risk disclosure. Companies listed in Indonesia stock market, especially companies of the consumer goods industrial classification with high fixed asset turnover have implemented good governance. The board of commissioners and audit committees is able to carry out the supervisory function of the company's liquidity risk disclosure. That active fuctions can represent that in short-term period, the company is still able to maintain its business continuity.

This study is conducted to review the company liquidity risk disclosure that represent the company activity in short-term period. Futher study can be done to make complate review of liquidity risk disclosure as contained in PSAK number 60 or IFRS 7 with longer research. Furthermore,

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continuous study can be done to explore the determinants factors that effect liquidity risk disclosures, such as company characteristics and quantitative financial performance measurement. Other review can be more focused on companies categorized as liquid shares on the stock market or even making comparisons between countries.

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