# Factors on the Inclusion of Risk Disclosures Statement among Public Listed Companies in Malaysia

[1]Siti Nur Ameera Binti Shahazman, [2]Hafinaz Hasniyanti Hassan

***Abstract***--*This study emphasizes on the relationship between variables such as firm size, corporate governance, company's leverage and company's level of risk towards the inclusion of risk disclosures statement in annual reports among public listed companies in Malaysia. The variables data were extracted from the annual reports and SPSS software was used as the empirical tool for data analysis. The number of companies that had disclosed risk information in their annual reports was used as a proxy to measure the extent of risk disclosures provided by them. Time Series Analysis, Normality Test, Correlation Coefficient and Multiple Linear Regression Analysis, ANOVA and Coefficient of Determinants were used to test the influence of these four independent variables on the inclusion of risk disclosures in the companies' annual reports. The proxies used for all the independent variables include number of independent directors' company revenue for the year (firm size), number of independent directors within a company's board (corporate governance), debt-to-equity ratio (leverage) and contribution margin (level of risk). Based on the findings, it can be concluded that a positive relationship exists between all of the independent variables and the inclusion of risk disclosures in the annual reports of the public listed companies in Malaysia.*

***Keywords***--*Risk disclosures, annual report, public listed, corporate governance, Malaysia*

## I. INTRODUCTION

An annual report refers to a document that is published by companies on a yearly basis and is supposed to provide reliable information to users such as the stakeholders to help them make strategic and economic decisions. Nevertheless, since business models are constantly evolving, having only the conventional financial section in the annual report is deemed to be insufficient in satisfying the information needs of users (Wah, 2011). Risk is one of the inescapable elements of any business venture. In addition to financial risk, a company is also susceptible to business risk or changes in the overall economic climate that can adversely affect the price of its securities. Hence, it is in the stakeholders' best interest that risk be disclosed in a timely manner. Given the importance of risk disclosure and the scarcity of research done on it, there is a pressing need for this issue to be addressed.Therefore, there has been a strong demand by the users for the narrative section to be included in the annual reports of companies so that more information can be obtained through these additional disclosures (Konishi, 2011). Particularly in Malaysia, the risk management topic has been widely discussed about as of late but to a certain extent due to the shortage of

[1] *Asia Pacific University of Technology and Innovation, School of Accounting and Finance ,Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur, Malaysia,ameera.shahazman25@gmail.com*
[2] *Asia Pacific University of Technology and Innovation, School of Accounting and Finance, Technology Park Malaysia, Bukit Jalil, 57000 Kuala Lumpur, Malaysia,hafinazhassan@gmail.com*

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studies of this specific subject (Amran, 2010). Thus, this study seeks to address the limited research pertaining to risk disclosure practice among the public listed companies in Malaysia by highlighting the narrative section of the annual report alone for the period of 2007-2017.

Basically, risk management is vital in managing the internal controls and governance of companies to ensure that their long-term goals and objectives can be attained. A risk disclosure involves the inclusion of information regarding the approaches and procedures used by companies for handling risks so that opportunities can be seized, leading to the fulfilment of their objectives (Carlon, 2011). In practising risk reporting, it is important for companies to take into account the comprehensive methods in identifying, measuring as well as evaluating the risks and challenges that they might have to deal with. Besides that, preparing a risk disclosure requires companies to introduce or develop relevant models or carry out effective actions for the sake of mitigating the risks and seizing opportunities. Therefore, companies should be able to determine the risk capacity, the strategic procedures of overcoming risks and other effective activities to be conducted so that they can gain advantages from the potential risks' impacts (Combes, 2012). In addition, disclosing risk information requires companies to monitor and observe of the effectiveness of the planned actions implemented by developing a response model. Therefore, by determining and addressing the potential risks and opportunities, companies are not only able to protect their stakeholders, but also open doors for value creation for their own benefits (Combes, 2012). In Malaysia, the requirement of disclosing risk information in the annual report has been called for by the respective Accounting Standard Boards of the country (Amran, 2010). Nevertheless, risk reporting is still not widely practised by a lot of countries around the world including Malaysia hence the call for more research regarding this subject (Amran, 2010).

Most of the additional disclosures included in the Malaysian firms' annual reports have to do with social and environmental obligation as well as the intellectual property occupancies. Basically, the research of separating the prospect of voluntary information disclosure has been started since 20 to 30 years ago, but the subject of risk and risk management only get the serious concern not long ago. Thus, this study is attempting to address the shortage of studies on risk disclosure reporting among the Malaysian public listed companies. According to Eugene (2015), around 96% of companies did not provide the complete risk information, and only 4% of corporate able to give concise and complete message about the way the corporate identified, evaluated and managed risk in the annual report. Furthermore, based on the PWC report released, Malaysia business has been achieved the basic requirement of reporting, but still had room to improve in covering integrated reporting, which is an evolution of corporate reporting based on the Integrated Reporting Framework (IRF) (PwC report, 2014).

The IRF advises that company's annual report should include the following elements, for an instant, organizational overview and external environment, strategy and resource allocation, business model, opportunities and risks, governance, performance and future outlook. Based on the elements above, PWC's analysis indicates that risk disclosures are the lowest scoring among the investigated corporations in Malaysia. In addition, all investigated firms consisted a risk management statement and internal control based the Bursa Malaysia listing requirement, however, only 27% reported their principal risks (PwC report, 2014). Based on the evidence above, it showed that

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Malaysia listed companies are still lack of the awareness in risk reporting. The shortage of information in risk disclosure can misguide the investors making decision, and thus the company's performance affected (Ali, 2014).

Risk disclosures among Malaysian companies are found to primarily focus on financial risk and operational risks. Most of the annual reports of Malaysian companies from 2009 onwards lack comprehensive disclosure pertaining to risk-related information (Ali, 2014). This reveals that when additional non-regulated risk information is disclosed, it is mostly poorly provided. Despite the fact that all categories of risk disclosures could have relevance to investors and other stakeholders, it is found that companies do not structure the risk disclosure according to any consistent or comprehensive framework unlike financial report disclosures. The texts that describe relatively limited or vague information in certain risk categories without allowing annual report users to glean the potential impact of those risks can obscure important decision-modelling information for stakeholders. Therefore, the implications of the deficiency in the comprehensiveness of corporate risk disclosure in annual reports would take a toll on the assessment of the value of the firm by investors.

According to Taylor (2012), studies regarding risk disclosure have widely been conducted since the past few decades in the western countries such as the United States (U.S.), United Kingdom (UK), Canada as well as Germany, potentially due to the implementation of regulations set by the their respective Accounting Standards Board which require them to make risk disclosures. Therefore, this research paper is going to focus on the potential benefits that public listed companies in Malaysia can receive by disclosing their risk information in their annual reports. In addition, the pattern of risk disclosure practices will also be observed from the Malaysian perspective for the period of 2007-2017.

Based on a research by Hill (2011), the bigger the size of an organisation, the bigger the number of users or stakeholder groups will be attracted to their disclosures. The bigger organisations will normally undergo the stress of having disclose more details and there is a higher tendency that they are going to practise voluntary disclosures. Therefore, this paper will address the extent of influence of the size of organisations towards the inclusion of risk disclosures in the annual reports of the selected companies.

Corporate governance variables are also deemed to be one of integral determinants of the practice of risk disclosure among companies. It is stated that corporate risk disclosures are dependent on the perception of companies' management towards information needs of the stakeholders (Duffy, 2014). This study intends to investigate how far the number of independent directors involved will influence tendency of the selected Malaysian companies in fulfilling the stakeholders' demands for risk information in the narrative section of their annual reports from 2007 until 2017.

According to Sensarma (2010), organisations that are associated with high debt levels within their capital structures may lead to the creditors forcing them to disclose more details since they are more open to more risks courtesy of their high leverage level. However, there is also another past research that had found a positive association between the leverage level of firms and their risk disclosure practices (Atanasovski, et al., 2015). Therefore, this research paper is going to find out the influence of the leverage levels of the selected companies towards their risk reporting practice in the annual reports throughout the observed period in the Malaysian context.

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Last but not least, a research done by Miihkinen (2013) acknowledged the positive relationship between the level of risk of companies and their tendency in preparing corporate risk disclosures. Nevertheless, the conflict here is that another previous study failed to prove the positive relation between the level of risk and their tendency to disclose information that provide risk details (Linsley& Shrives, 2006). Hence, this paper intends to find out the relationship between the level of risk of the chosen listed firms and how strong their incentives are in preparing risk disclosures in their annual reports during the observed period from 2007 until 2017 in terms of the local setting.

This paper aims to determine the availability as well as the drivers or factors of the Malaysian public listed companies in preparing risk disclosures in their annual reports for the period of observation of 2007-2017. Specifically, the objectives are:

a) To determine the relationship between firm size and the risk disclosures in the annual reports of the Malaysian public listed companies.
b) To determine the relationship between corporate governance and the risk disclosures in the annual reports of the Malaysian public listed companies.
c) To determine the relationship between leverage and the risk disclosures in the annual reports of the Malaysian public listed companies.
d) To determine the relationship between level of risk and the risk disclosures in the annual reports of the Malaysian public listed companies.

## II. LITERATURE REVIEW

### Risk Disclosures

According to ElKelish and Hassan (2014), risk is referred as a set of effects arising from taking a decision that can be assigned to probabilities whereas uncertainty arises when probabilities cannot assigned to as set of outcomes. Risk disclosure is seen as the communication of information concerning firm's strategies, operations, and other external factors that have the potential to affect expected results. Risk is also the uncertainty associated with both a potential gain and loss. This definition contains both positive and negative effects, depend on diversifiable and non- diversifiable risk, and take into account the expected opportunities disclosed. The purpose of this paper is to contribute to the existing disclosure literature by examining the importance of narrative risk information in the interim reports for a sample of non- financial companies in the UK. The researchers had used the manual content analysis in determining the level of risk information in interim report narrative sections prepared by 72 UK companies. They also used the ordinary least squares regression analysis to analyse the association between firm- specific characteristics as well as the availability of corporate governance mechanisms towards narrative risk disclosures.

A past research by Hussainey (2014) stated that the awareness regarding importance of making risk disclosures is driven by the growing needs of the present and future investors in obtaining relevant information which can be helpful for making various strategic decisions. In addition, risk disclosures provide the users with information which allows them to evaluate the risks that may potentially take a toll on the economic performances

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of organisations. Besides that, risk disclosures can help with the transparency of financial reports as well as enhancement of the quality of annual reports which are vital in practising good corporate governance. One of the benefits of making risk disclosures is that it informs the investors, stakeholders and other users about the uncertainties revolving around a company that can later be referred back to in making more economic decisions. This study observed how risk disclosure can be associated with interest rates, rates of foreign currency exchange as well as the raw materials' prices in the United States (U.S.) setting. The findings of this study prove positive results pertaining to the importance of risk disclosure to the U.S. investors. It was learnt that risk disclosure, in fact, was able to reduce the investors' doubts and different perceptions regarding the valuation of market among the U.S. organisations. In this study, there were 100 U.S. public listed companies' annual reports being reviewed to observe the relationship between these variables through the content analysis method.

According to Mellet (2013), if the risk disclosures are adequate, the problem of having asymmetric information between managers and users such as investors can be reduced thus preventing the presence of conflict of interest and high agency costs due to the high-quality and verifiable information which can be helpful for shareholders in monitoring the managers effectively. On top of that, the concept of investors protection can also be achieved since the risk-related information provides them with insights regarding the issues and challenges dealt by the company by giving early warnings and at the same time enables the investors to enhance their management skills of self-risks. According to the researcher, a risk disclosure serves as a tool for enhancing the risk management of an organisation. This research examined a sample involving 100 non-financial organisations listed in the ordinary market on the Italian Stock Exchange of the period of observation from 2005-2013 by using an OLS model and the regression method in measuring the disclosure index quantity. The findings reported a strong demand for corporate risk management disclosure in enhancing investment decisions among the U.S. institutional investors.

**Firm Size**

A study conducted by M.G.H Meiijer (2011) stated that there is a significant positive relationship between the quantity of risk disclosures in the annual reports of Dutch listed companies and company size in the period 2005-2006 and in the period 2007-2008. This past research had focused on Dutch listed companies which was found to be significantly higher in the period 2007-2008 then in the period 2005-2006. The rationale for these hypothesis is the increasing regulation and the increasing demand of stakeholders. The author had undertaken content analysis to measure the quantity of risk disclosures as well as the content of risk disclosures. To measure the content, different risk categories were identified – market risk (currency risk, interest rate risk and other price risk), credit risk, liquidity risk, strategic risk, operational risk, legal and regulatory risk and financial reporting risk. A disclosure index was carried out in this research to measure the quality of risk disclosures. The results support the hypothesis that there exists a positive correlation between the quantity of risk disclosures and company size for the period 2005-2006 and 2007-2008 among a sample of Dutch listed companies.

Another study carried out by Muturi Wachira (2018) indicated that that the level of risk disclosure is positively affected by the size of the company. The main objective of this study was to examine the relationship between risk disclosure and firm characteristics of companies quoted on the Nairobi Securities Market. The study

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involved all firms that were listed on the NSE between years 2010 and 2016, except the financial institutions. Annual reports were used to determine the variables. A regression analysis was conducted using the random effect model to determine the relationship between the disclosure index and firms' characteristics. In addition, an independent evaluator was used to test the reliability of the disclosure index. Where the results obtained by the study were compared with the results of the independent evaluator. Additionally, accountants from the companies were asked about the accuracy of the index until they agreed that it properly reflected the risk disclosure for their companies.

Based on a study conducted by Abraham and Cox (2010), firm size indicates certain business characteristics like competitive advantages as well as the firm's ability in incurring production costs and conveying finance-related information. Bigger firms are more likely to incur more costs supporting production, distribution and information. Thus, compared to the smaller firms, they tend to be more informative and have better quality of risk disclosures courtesy of their wider financial resources which allow them to improve the overall disclosures. This research acknowledged a positive association between the size of organisations and the availability of risk disclosures among the big public listed organisations in Spain. The authors used sample selection as their research design in selecting 35 public listed firms in Spain from the IBEX 35 or Spanish Exchange Index from the period 2001-2010.

According to Santomero (2010), bigger firms are also more likely to be able to support the competitive harm costs that may arise from expanding their disclosures. Thus, this could result the smaller firms being reluctant to expand and enhance the quality of their disclosures that could affect their competitive advantages. Since the bigger firms have higher tendency to attract interest of the stakeholder groups, they are more susceptible to being paid attention to by the authorities which are in charge of monitoring them in terms of price controls, social responsibility and others. Besides that, bigger organisations are also prone to information asymmetry and higher agency costs issues compared to the smaller firms. This study indicated that there is a significant relationship between the size of firm and the growth of risk disclosure level for period of 2000-2010 among the commercial banks in the United States. The author had used content analysis in assessing the risk-related disclosures of consolidated annual reports of the selected American commercial banks.

Moreover, based on another past study by Ali Uyar et al. (2013) acknowledged that there is a positive association between firm size and the level of voluntary disclosure. Basically, this past research revolves around an empirical study on the factors that impact voluntary information disclosure level of Turkish manufacturing companies listed in the Borsa Istanbul (BIST). The data collection methodology of the study is content analysis of annual reports of the corporations listed on the BIST for the year 2010. In order to analyse the results, we employed Ordinary Least Square (OLS) and Two-Stage Least Squares (2SLS) regressions to examine the association between the explanatory variables and voluntary disclosure level. According to the authors, since bigger firms are more exposed to public scrutiny than smaller firms, they are inclined to disclose more information (Alsaeed, 2006). Large firms are likely to be more complex and complexity requires more disclosure. In this study, they had used Ordinary

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Least Square (OLS) and Two-Stage Least Squares (2SLS) regressions to examine the association between the explanatory variables and voluntary disclosure level.

Based on those past findings, the following hypotheses are derived:

$H_o$: There is no relationship between firm size and risk disclosures.

$H_1$: There is a relationship between firm size and risk disclosures.

**Corporate Governance**

Khaled Aljifri et al. (2014) provides empirical evidence in their study on the impact of firm specific characteristics on corporate financial disclosures amongst UAE companies. A total of 153 public joint-stock companies, listed and unlisted, were incorporated at the time of study. Both descriptive statistics and multiple regression analyses were used to test the relationship between the characteristics of UAE firms and the extent of their financial disclosure. According to the researchers, having a higher proportion of outside non-executive directors on the board may result in better monitoring of the behaviour of management by the board and limit managerial opportunism. This study had found a positive association between the proportion of outside directors and the level of disclosure made by UAE firms.

A past study by Ashfaq et al. (2016) was carried out to examine the determinants of quantity as well as quality of the risk disclosures in annual reports of banking sector of Pakistan. The paper employs the word count approach to measure the quantity of risk disclosures in annual reports whereas to measure the risk disclosure quality (RDQ), RDQ index is adapted from the study by Barakat et al. (2013) after making some changes. The researcher selected a data sample on desired variables for a period of 7-year (2008-2014) through 31 scheduled banks (excluding 7 Foreign Banks) and run generalized least square as the researcher supposed there was an effect of endogeneity in the model. The finding of this study found confirmation that, banks with a higher proportion of independent non-executive within the board of directors (BOD) tend to present to their stakeholders a higher degree of risk disclosure in terms of volume of information as well as quality of the disclosure. According to the researchers of this study, a higher ratio of outside independent directors on the board is expected to help achieve better monitoring and a greater level of transparency in the firm.

Furthermore, Al-Shammari (2014) investigated the association between corporate governance mechanisms and corporate risk disclosure (CRD) in the annual reports for a sample of 109 Kuwaiti listed non-financial companies in 2012. The study used a manual content analysis to measure risk disclosure by counting the number of risk-related sentences in annual reports. A multiple regression analysis was used to test the impact of board size, non-executive directors, percentage of family members on board, role duality, and audit committee on CRD. The quantity of risk disclosures in the Kuwaiti companies' annual reports was very limited. The results showed that the larger board size has a positive impact on CRD. In this past research study, the authors argued that a board with a higher proportion of non-executive directors is more likely seen to monitor management and to limit the opportunistic behaviour of the CEO as they may be less aligned to management. As a consequence, Kuwaiti companies are expected to disclose more CRD to reduce agency costs and to assure shareholders that they are

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willing to act in accordance to the shareholders' interests. Based on these reasons, a hypothesis was developed which is companies with a higher proportion of non-executive directors on the board are more likely to have a higher CRD.

According to Madrigal et al. (2010), corporate governance is one of the drivers of risk reporting practices especially in developed and developing countries like Spain and Malaysia. This is because, corporate risk disclosures are dependent on the perception of the company's management regarding how important it is to fulfil their stakeholders' information needs. In addition, independent directors are highly likely to have higher sensitivity towards the fulfilment of the stakeholders' information needs. The independent directors which act as the outsiders serve as measuring tool for the quality of corporate governance practice and are able to reduce the agency problems. The findings of this study concluded the BOD needs more independent directors for controlling and monitoring the managers' operations thus requiring more risk disclosures from the big Spanish companies. The results also indicated that there is an association between the number of independent directors of an organisation and risk disclosures among the big Spanish listed firms. Sample selection was used in this study which concentrated on the firms quoted in the IBEX 35 index during the first semester of 2010 for 30 most liquid Spanish stocks traded in the continuous market from the Spanish market stock index. All the Spanish companies listed on the New York Stock Exchange (NYSE) belong to the IBEX-35 index.

A study by Michael Duffy (2014) reported that when it comes to risk reporting, the number of executive and independent directors is one of the determinants in influencing the availability of risk disclosures in Australia. On top of that, the findings of this study also claimed that board of directors (BOD) play an important role and serve as a shielding tool in the corporate governance practice of an organisation in relation to the decision-making as well as the monitoring process of their operations among the Australian listed companies. Nevertheless, it was reported that another underlying assumption developed in this research was that not all the board of directors' groups are capable of improving accountability and expanding disclosure. The BOD consists of corporate insiders and outsiders with different views on risk disclosures that have to be taken into account. The result of this study showed a positive association between the number of independent directors of the Board and the extent of risk disclosure among the Australian listed companies. The researcher of this study investigated the factors that determine the extent to which a sample of 30 Australian public listed firms in disclosing their risk-related information. This study focused on the risk disclosures made in the corporate governance reports during the year 2010 by using the content analysis technique and an index that was developed for assessing the amount and quality of the risk information disclosed by the selected Australian companies.

The following hypotheses are derived as a result from the past findings:

$H_o$: There is no relationship between corporate governance and risk disclosures.

$H_1$: There is a relationship between corporate governance and risk disclosures.

**Leverage**

A previous study by Afroze et al. (2017) carried out an empirical study, through investigation of the existing risk disclosure requirements and extent of risk disclosure by non-financial listed companies in Bangladesh,

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tries to find the correlation between company specific characteristics and risk disclosure of the selected companies. A content analysis of the annual reports of 32 non-financial firms across seven sectors was conducted to determine level of risk related disclosure quantity and quality. It was found that the capital structure of a firm may have an impact on the level of disclosure. Highly levered companies tend to provide more information because they are monitored by debt-holders. The selected companies attempted to reduce monitoring cost by disclosing more in their annual reports. Hence, the finding of this study confirmed an association between leverage and risk disclosure. However, Elzahar et al. (2012) had examined interim reports of UK non-financial companies to measure the level of risk information. They took a sample of 72 companies and looked for possible determinants of narrative risk disclosure. The study found positive association between industry type (sector) and risk disclosure. Unfortunately, no significant association between leverage and level of risk disclosure was found.

Atanasovski, et al. (2015) conducted a research about the factors that influence the quality of disclosures related to risks arising from financial instruments provided by Macedonian listed companies in their financial statements prepared in accordance with International Financial Reporting Standard (IFRS). The researchers had constructed a disclosure index for each listed company based on IFRS 7 requirements. The regression analysis included variables representing some characteristics of listed companies investigated, such as their size, industry, type of auditor engaged, ownership concentration, profitability and leverage. The outcome of the results had proven that the level of compliance with risk disclosure requirements is positively associated with firm's leverage. The researchers argued that firms which are more in debt are influenced by higher agency costs. Managers have an incentive to reduce these agency costs and therefore they disclose more information to satisfy the needs of debtholders.

On the other hand, Mirela, et al. (2016) investigated whether the accounting services entities disclose risk information in their financial statements. The research used a regression model for the assessment of the relationship between the size, profitability, leverage ratios and risk reporting by the accounting and taxation services providers in Romania during the period 2009-2013. The research analysed the relationship between company size, financial and economic profitability and risk reporting, using the regression model. The selection of companies in the sample was based on the availability of data. The study excluded financial and insurance firms because they are subject to specific disclosure requirements, so their annual reports cannot be considered as voluntarily determined. The source of the data sample is doingbusiness.ro. The study was based on a sample of 25 companies, classified by doingbusiness.ro as large companies; the doingbusiness.ro website uses the Ernst & Young (E&Y) methodology in order to classify entities into small, medium-sized and large. The formula proposed by E&Y includes quantitative and qualitative variables. The Romanian accounting services market is in the amount of approximately EUR 400 mil. The results indicated that leverage is a measure that strongly correlated with risk reporting. The indicator recorded positive values in in 2009, 2010 and 2013 negative values in 2011 and 2012. This phenomenon may be explained by the fact that the companies in the sample are not listed on the stock exchange and therefore there are no compulsory reporting requirements and the debtors share private information between them. This study found an association between leverage and risk reporting.

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AzlanAmran et al. (2010) indicated that leverage was used as the main proxy for risk disclosure related research. The researcher acknowledged the stakeholder theory whereby the Malaysian firms are encouraged to provide risk disclosures in their annual reports so that information and explanation regarding the events happening within these firms can be justified. According to him, when firms are associated with high level of debts within their capital structure, the creditors will be requiring them to disclose more information. For firms that have higher ratio of leverage, they are open to more risk hence the requirement for risk disclosures from them. The researcher of this study investigated the availability of risk disclosures in the annual reports of the Malaysian companies from the period of observation of 2000-2009. The sampled companies' characteristics were empirically tested and were compared against the levels of risk faced by these companies with the disclosures made. The method used in this study was content analysis. There were 100 listed companies' annual reports were analysed for tracing the extent of risk disclosure and the relationship against firm characteristic and diversification strategy were tested. The findings indicated that there is a significant relationship between firm leverage and the availability of risk disclosure in the financial segment of the annual reports of the Malaysian companies during the period of observation.

These past results give rise to the hypothesis that:

$H_o$: There is no relationship between leverage and risk disclosures.

$H_1$: There is a relationship between leverage and risk disclosures.

**Level of Risk**

A past research study by Baroma (2014) was conducted to investigate and analyse the relationship between specific firm characteristics in Egypt and the level of risk disclosure in the annual reports of Egyptian firms listed on the Egyptian Stock Exchange. This study used a list of risk keywords to determine the differences in the level of risk disclosure between firms in different sectors. The sample uses in this study contains annual reports for non-financial 49 companies listed and non- listed in Egyptian stock exchange. These companies represent different sectors (industries, cement, construction, petrochemicals, and services) for three years (2008, 2009 and 2010). The choice of firms was based on the availability of data. The study failed to gather data from the annual reports in the year of 2011 because there were problems and setbacks in the Egyptian Stock Exchange due to the Egyptian revolution. The study excluded financial and insurance firms because they are subject to specific disclosure requirements, so their annual reports do not be considered as voluntarily disclosure, and it used cross-sectional regression (Ordinary Least Square (OLS) regression and multiple regressions) using Minitab programming to test and analysis the hypotheses and regression variables collected from the annual reports. Statistical analysis was implemented using a multiple linear regression analysis. The results, however, found to be insignificantly correlated to the level of risk disclosure in all the three years ($P>0.05$). But positively in the year 2008, and negatively in other years 2009 and 2010. This may be clarified by the fact that creditors may share private information with their debtors (Alsaeed, 2006). In addition, the output can be justified on the basis that Egyptian companies actually favour equity to debt in financing their assets.

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Hassan (2009) investigated the association between the UAE corporations-specific characteristics and one of them is the relationship between level of risk and level of corporate risk disclosure (CRD). Since the UAE is an emerging capital market, the paper relies on the positive accounting and the institutional theories to generate testable hypotheses and explain the empirical findings. The paper draws results depending on a sample of 41 corporations. A risk disclosure index which was based on accounting standards, prior literature, and the UAE regulatory framework, was developed and calculated for each corporation in the sample. The relationship between the level of CRD and corporations' characteristics is examined using multiple regression analysis. The paper had taken a sample of 49 corporations listed in either Dubai Financial Market or Abu Dubai Security Market. However, this sample does not represent all corporations listed in the UAE financial markets, yet the researcher incorporated those corporations that had their annual reports published at the time of conducting this research. Annual reports of the sample corporations for year 2005 were analysed. The researcher wanted to investigate whether the level of risk within the selected companies which in this study would strongly influence the level of CRD. Hence, the finding confirmed that risky corporations are expected to have higher levels of CRD than less risky corporations.

In addition, a past research by Linsley, et al. (2006) was carried out to address the gap in the literature and explores risk disclosures within a sample of 79 UK company annual reports using content analysis. A sample of UK companies comprising 79 non-financial firms listed within the FT-SE 100 Index as at 1 January 2000. The researchers argued that companies with higher levels of risk will not necessarily disclose greater amounts of risk information as it means the burden is put on the directors' shoulders as they are going to be responsible in explaining the causes of this higher risk thus making them feel pressured. The findings of this study had found a negative association between the number of risk disclosures and level of environmental risk as measured by risk rating index. The paper was also conducted to focus on the nature of the risk disclosures made by the sample companies specifically analysing their time orientation, whether they are monetarily quantified and if good or bad risk news is disclosed.

According to a study by Dobler (2011), the higher the level of risk, the higher the tendency of firms to make risk disclosures in their annual reports which leaves the managers with a responsibility to explain the reasons behind the high risk faced by these firms. Furthermore, firms that are associated with high level of risks have a higher incentive in disclosing more risk-related information, providing a justification and explanation on the way they handle their risks (Dobler, 2011). This study also concluded that manufacturing firms that have a high risk level are being paid more attention by the stakeholders in terms of their activities and operations thus pressuring them to disclose more information regarding risks faced by them in their annual reports. This study examined of the extent of comprehensive corporate risk disclosure. Based on a detailed content analysis of 160 annual reports, the researcher analysed the attributes and the quantity of risk disclosure and its association with the level of firm risk in the United States (U.S.), Canada, United Kingdom (UK) as well as Germany. The results found a consistent pattern where risk disclosure is most prevalent in management reports, concentrates on financial risk categories, and comprises little quantitative and forward-looking disclosure across sample countries. In terms of risk disclosure quantity, the U.S. firms generally dominate, followed by German firms. Cross-country variation in risk disclosure attributes can only partly be linked to domestic disclosure regulation, suggesting that risk disclosure incentives play

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an important role. The results showed that risk disclosure quantity is positively associated with the firm risk proxies in the North American settings.

Höring and Gründl (2011) indicated firms that include risk disclosures in their annual reports will provide the marketplace with a better understanding regarding the level of risk these firms are at and it is expected that they are exposed to lesser risks compared to before. According to the researchers, firms with a higher risk level are expected to disclose their risk information and the responsibility of justifying the causes to such risks lies within the company directors. Besides that, firms with a strong incentive in preparing a risk disclosure in their annual reports to provide the stakeholders with information pertaining to their strategic approaches in managing the risks often leads to higher quality of risk disclosures. This study observed the practices of risk disclosure in the annual reports of the primary insurers around Europe by referring to the Stoxx Europe 600 Insurance Index throughout the observed period from 2005 until 2009. The researcher of this study designed a risk disclosure index in measuring the association between the risk disclosure extent against the characteristics of the European insurance companies' such as in terms of as size, risk, profitability, ownership structure, cross-listing, home country and type of insurance sold, to draw inferences regarding motives for enhanced risk disclosure based on positive accounting theory. The findings reported a positive relationship between insurer level of risk measured by book-to-market ratio and extent of risk disclosure.

These past findings give rise to the following hypothesis:

$H_o$: There is no relationship between level of risk and risk disclosures.

$H_1$: There is a relationship between level of risk and risk disclosures.

## III. RESEARCH METHODOLOGY

Secondary data are used in this study whereby the researcher gathered the data mainly from annual reports of selected 15 public listed companies in Malaysia which are available on both Bursa Malaysia website and the official portals of the companies. In this study, the risk disclosures of companies are assessed by analysing the number of companies that disclosed risk information in the annual reports and these risk information are extracted mostly from (1) the statement on Corporate Governance of the company, (2) the statement on the internal control, risk control and risk management, and (3) the chairman statement that discusses the overall achievement and condition of a specific company. Statistical Package for the Social Science (SPSS) software will be employed in this study in order to analyse the relationship between the independent variables (IV) and the dependent variable (DV) for testing the hypotheses and validating the findings. In this study also, time series analysis is used to analyse quantitative data that is secondary data from a longitudinal study. A longitudinal study refers to a methodology employed for this study to examine variables which include firm size, corporate governance (proportion of independent directors), company leverage and company level of risk over a long period of time which, in this case for 11 years from 2007 until 2017

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The list of all the 15 Malaysian public listed companies is shown in Table 1. The companies are chosen from three different sectors which are oil and gas sector, construction sector, and property investment and development sector.

**Table 1** List of the Selected Companies

| No. | Company Name |
|---|---|
| 1 | Perdana Petroleum Berhad |
| 2 | Perisai Petroleum TeknologiBerhad |
| 3 | Borneo Oil Berhad |
| 4 | Scomi Group Berhad |
| 5 | Petra Energy Berhad |
| 6 | GamudaBerhad |
| 7 | YTL Corporation Berhad |
| 8 | IJM Corporation berhad |
| 9 | Malaysian Resources Corporation Berhad |
| 10 | WCT Holdings Berhad |
| 11 | Landmarks Berhad |
| 12 | Berjaya Land Berhad |
| 13 | Atrium Real Estate Investment Trust |
| 14 | Mah Sing Group Berhad |
| 15 | S P Setia Berhad |

The measurement methods for all the variables in this research are shown in Table 2 below:

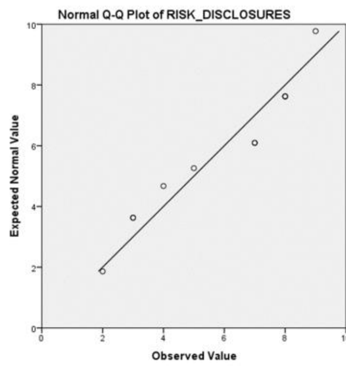
**Table 2** Measurement methods

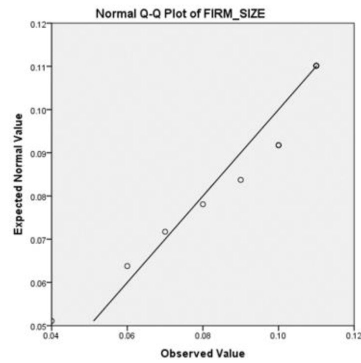
| Variables | Measurement |
|---|---|
| **Dependent Variable:**<br>Risk Disclosure | Number of companies disclosing risk information |
| **Independent Variables:**<br>1. Firm size | Company revenue for the year |
| 2. Corporate governance | Number of independent directors within company board of directors (BOD) |
| 3. Leverage | Debt-to-equity ratio |
| 4. Level of risk | Contribution margin ratio |

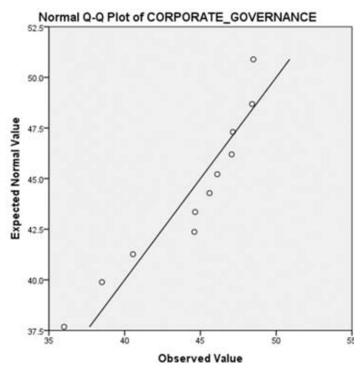
# IV. RESEARCH ANALYSIS

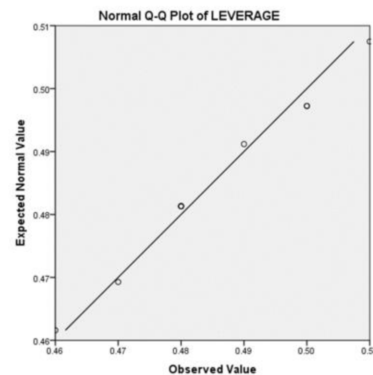
### Normality Test

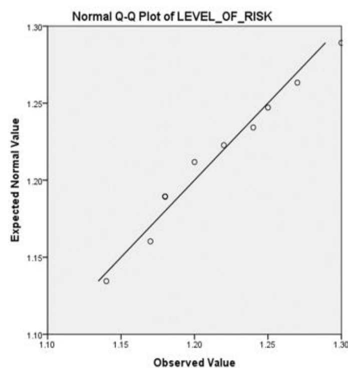
Q-Q plot is employed which is used to measure the assumption of normality, linearity as well as homoscedasticity. It can be examined through the data plotting of the empirical quantiles against the normal distribution's corresponding quantiles. When the data is normally distributed, the data's quantiles will tightly match the normal quantiles and the dots will fall close to the diagonal line. These dots are the representation of the actual data. Hence, the assumption of normality of the actual distribution can be determined by employing a Normal Q-Q Plot. Based on the five respective Q-Q charts below, most of the plotted points lie near the diagonal line. This indicates that the tendency in the plot is approximately linear. Thus, the data distribution for all variables are seem to be normal distributed.

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**Pearson Correlation Analysis**

Correlation coefficients reveals the relationship's direction which refers to positive or negative and the strength of the relationship between two variables. The correlation matrix for the Dependent Variable (DV) and Independent Variables (IV) that are being used in this research study can be seen from Table 3 below. The first IV, firm size is observed to have strong a positive relationship with the level of risk disclosures in the annual reports of the selected 15 public listed companies in Malaysia. Besides that, the linear relationship exists between both of these variables is considered strong since the correlation coefficient value of firm size is equivalent to (r = .774) which is almost close to 1, falling between the range (.70 to .90) Thus, it can be implied that firm size is strongly related with the extent of risk disclosures.

Secondly, it can be seen that corporate governance based on the average number of independent directors within these 15 Malaysian public listed companies also has a positive linear correlation with the level of risk disclosures and it is deemed moderate. This is because, corporate governance has a correlation coefficient value of (r =.525) that is between the range of (.50 to .70) Therefore, it can be deduced that corporate governance has a moderate correlation with the extent of risk disclosures.

On the other hand, the third IV, leverage, is seen to have a negative linear relationship with the level of risk disclosures. This is due to the fact that the correlation coefficient value between leverage and the extent of risk disclosures is -.394. Hence, since the correlation coefficient value of leverage is within the range of (−.30 to −.50), it is concluded that leverage has a weak correlation with the extent of risk disclosures among all these 15 companies.

Last but not least, as for level of risk, the final IV in this research study, it can be observed that it has a positive linear relationship with the extent of risk disclosures. This can be proven as the correlation coefficient value between both of these variables is .458 which is within the range of (.30 to .50). Therefore, it can be deduced that level of risk has a weak correlation with the extent of risk disclosures of all these 15 public listed companies in Malaysia. All in all, these four independent variables are indicated to be correlated with the extent for risk disclosures since they have shown correlation values that lie between the range of negative 1 (-1.00) and positive 1 (+1.00).

**Table 3**Pearson's Correlation Coefficient between the Variables

| | | **Firm Size** | **Corporate Governance** | **Leverage** | **Level of Risk** | **Risk Disclosures (%)** |
|---|---|---|---|---|---|---|
| **Firm Size** | Pearson Correlation | 1 | | | | |
| **Corporate Governance** | Pearson Correlation | .892** | 1 | | | |
| **Leverage** | Pearson Correlation | -.220 | -.285 | 1 | | |

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| **Level of Risk** | Pearson Correlation | -.214 | -.126 | .202 | 1 | |
|---|---|---|---|---|---|---|
| **Risk Disclosures (%)** | Pearson Correlation | .774** | .525 | -.394 | .458 | 1 |
| **. Correlation is significant at the 0.01 level (1-tailed). | | | | | | |
| *. Correlation is significant at the 0.05 level (1-tailed). | | | | | | |

Source: SPSS Software

**Multiple Regression**

Multiple regression is one of the methods that can be used to test the hypotheses developed in this study. The general purpose of multiple regression is to examine further about the relationship between the independent variables and the dependent variable of this research. In this study, multiple regression is used as the second test in supporting the result obtained from the Pearson's Correlation method.

**Table 4**Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .968[a] | .936 | .894 | .80920 |
| a. Predictors: (Constant), LEVEL OF RISK, CORPORATE GOVERNANCE, LEVERAGE, FIRM SIZE | | | | |

***Source: SPSS Software***

Based on Table 4 above, the value for R is 0.968 which is high, indicating there is a strong relationship between the independent variables (IV) and the dependent variable (DV). Next, the value of the R square ( $r^2$) as shown from the table is 0.936. Based on the model summary, 93.6% of the extent of risk disclosures can be explained by the four independents variables. The independent variables of this research study comprises four components; firm size, corporate governance, leverage and level of risk. On the other hand, the overall adjusted R square's result shows the value of .894. Hence, this explains that the remainder which is 10.6 percent (1.00 – .894) of the variation in the extent of risk disclosures (DV) can be explained by the four independent variables (IV) after eliminating the effect of the insignificant explanatory variables.

ANOVA is a test that is used to check whether the regression is significant or the other way around. ANOVA plays a role as an indicator to analyse the significance value in the table which is P-value. In other words, ANOVA helps figure out if the researcher needs to reject the null hypothesis or accept the alternate hypothesis.

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**Table 5:** ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 57.708 | 4 | 14.427 | 22.032 | .001[b] |
| | Residual | 3.929 | 6 | .655 | | |
| | Total | 61.636 | 10 | | | |
| a. Dependent Variable: Risk Disclosures | | | | | | |
| b. Predictors: (Constant), Level Of Risk, Corporate Governance, Leverage, Firm Size | | | | | | |

**Source: SPSS Software**

Based on Table 5 as shown above, the P-value of the result is .001 which appears to be less than .05, therefore the test is significant. As a matter of fact, the $r^2$ value obtained is significantly greater than 0. This means, all the independent variables (IV) in this study are positively related to the dependent variable (DV). Since the result of the P-value is .001 which is lesser than 0.05, $H_0$ will be rejected. Therefore, it can concluded that there is a relationship between all the independent variables and the dependent variable (DV). This also shows that the regression model is positively significant.

**Table 6**Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 36.033 | 13.415 | | 2.686 | .036 |
| | FIRM SIZE | 198.158 | 27.947 | 1.837 | 7.091 | .000 |
| | CORPORATE GOVERNANCE | -.795 | .161 | -1.281 | -4.926 | .003 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| | LEVERAGE | -73.487 | 21.638 | -.411 | -3.396 | .015 |
| | LEVEL OF RISK | 19.125 | 6.348 | .361 | 3.013 | .024 |

a. Dependent Variable: RISK DISCLOSURES

**Source: SPSS Software**

The function of coefficient in the above Table 6 is to determine if the independents variables (IV) are affected by the dependent variable (DV) of the study conducted. In a case where the P-value is lower than .05, it can be deduced that the independent variables (IV) are affected by the dependent variable (DV). Thus, $H_1$ is accepted. However, if the P-value is above .05, it implies that the independent variables (IV) are not affected by the dependent variable (DV). Hence, $H_1$ will be rejected. Since all of the significant values for the four independent variables (IV) are below .05, it can be concluded that each of them has a relationship with the dependent variable (DV) or in this study, risk disclosures.

## V. RESEARCH FINDINGS

### The relationship between firm size and risk disclosures

Based on the result, firm size is found to have a significant association with the extent of risk disclosures between all the selected 15 public listed companies in Malaysia. Hence, the result is proven to be consistent with the finding of M.G.H Meiijer (2011) as the researcher also found a significant positive relationship between the quantity of risk disclosures in the annual reports of Dutch listed companies and company size in the period 2005-2006 and in the period 2007-2008. The rationale to explain this finding is because of the increasing regulation and the increasing demand of stakeholders. As stated in the literature review, the problems of information asymmetry, agency costs as well as the cost of capital expected return for the shareholders will become greater as the size of a company increases. Receiving more attention from the stakeholders means having to provide more transparency to attract capital and reduce the information asymmetry and agency cost. More and better risk disclosure measures will be able to help enhance the transparency and shareholder value of an organisation.

Another study by Santomero (2010) indicates that the bigger an organisation is, the higher the tendency of the organisation to be scrutinized by the stakeholders compared to the smaller organisations. Furthermore, the number of stakeholders is highly likely to grow when size of an organisation gets larger. Therefore, this is consistent with the stakeholder theory which emphasizes that bigger companies tend to be put under greater stress by the stakeholders in disclosing information in their annual reports. As a result, the bigger companies are more likely to disclose risk related information specifically as opposed to the smaller companies. On top of that, disclosing risk information in the annual reports of companies can help strengthen their transparency which may be beneficial for the stakeholders and at the same time provide better assistance and more informed guidance when it comes to improving the decision making processes of companies thus leading the company performance to be more enhanced. Hence, supported by these findings by the past research studies, it can be concluded that there is a relationship between firm size and the risk disclosures in the annual reports of public listed companies in Malaysia.

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**The relationship between corporate governance and risk disclosures**

The outcome pertaining to corporate governance based on board independence shows that there is a significant association with the extent of risk disclosures among the public listed companies in Malaysia. This result is aligned with the finding of a past research study by Madrigal et al. (2010) who concluded the number of independent directors within the board of directors will significantly influence the availability of risk disclosures of the public listed companies in which the average percentage of number of independent directors within the board of directors of all selected companies was used to measure the level of risk disclosures among the selected companies. The finding of this past research study has acknowledged the positive relationship between board independence and the level of risk disclosures. According to the researchers, corporate governance plays one of the most important roles in terms of the development of risk reporting practices of companies as it determines how serious the management of a company is in terms of ensuring the stakeholders' information needs can be fulfilled and attended to. Another underlying assumption by this study includes independent directors are more likely to take the sensitivity of meeting stakeholders' information requests very seriously since most of them are usually highly experienced business individuals who have the capacity in making positively impactful contributions to board activities. Hence, in conclusion, it is indicated that a higher number of independent directors within the BOD of a company may greatly influence the provision of risk disclosures in the annual reports of companies.

Moreover, another past research study by Khaled Aljifri et al. (2014) concluded that the existence of independent directors in a company will greatly determine directors and the level of disclosure within firms. According to the study, independent non-executive directors are associated with offering utmost important supervision necessary to improve the effectiveness of a board in advising, monitoring and disciplining top management. Thus, the independent non-executive directors have greater incentives to demand transparency and accountability from top management, due to higher risk of their personal reputation.

In addition, according to Ashfaq et al. (2016), the quality of risk disclosures may be further enhanced with the higher presence of independent directors on the BOD of a company as they help foster the fulfilment of the compulsory requirements thus allowing investors to get thorough and transparent information on the company BOD's affairs. Therefore, this is consistent with the agency theory which indicates that a higher proportion of non-executive directors on the boards can help improve the board's effectiveness and reduce the various agency problems by monitoring and controlling the opportunistic behaviour of management and focusing on fulfilling shareholders' interests. Michael Duffy (2014) suggested that non-executive directors are viewed as providing the necessary checks and balances needed to enhance board effectiveness thus acknowledged that a larger pool of non-executive directors on the board may lead to enhanced monitoring of financial disclosure quality and reduce incentives to withhold information. Therefore, having supported by both of these past research studies, it can be deduced that there is a relationship between corporate governance and the risk disclosures in the annual reports of Malaysian public listed companies.

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**The relationship between company leverage and risk disclosures**

In terms of company leverage, it is found to have an association with the extent of risk disclosures among all the selected 15 public listed companies in Malaysia. Hence, the result is proven to be consistent with the finding of a past research by AzlanAmran et al. (2010) whose research has acknowledged the positive relationship between company leverage and the extent of risk disclosures among 100 Malaysian listed companies in which the ratio of total liabilities to the total shareholders' equity was used as a measurement for examining the level of risk disclosures. An underlying assumption developed by him was that the higher the leverage ratio of the listed companies in Malaysia, the higher the agency costs will be. The debt-holders of firms with high leverage tend to introduce covenants that are highly restrictive in a debt agreement contract which are more likely to result a rise in the agency as well as the monitoring costs.

Another past research study by Atanasovski, et al. (2015) also found that the level of compliance with risk disclosure requirements is positively associated with firm's leverage. The underlying explanation to support this finding is that as the higher the leverage of a company, the higher the request for additional information needed by creditors will be. This is because, it is highly likely that these creditors will want to find out how far the presence of both financial and non-financial risks within a company are going to affect its ability in meeting the financial obligations. In the perspective of stockholders, risk disclosures can be used as a mechanism in monitoring a company's management quality as well as its overall operational health. Therefore, this is consistent with the stakeholder theory which implies that organisations are expected to provide complete risk disclosures so that they are able to give justification and provide a holistic view of the circumstances they are in. Hence, when organisations have a higher level of leverage, it will most likely put them in a critical position to provide further disclosures beyond the financial risk information.

Therefore, supported by both of these past research studies, the outcome of the finding of this study can be concluded that the level of company leverage may significantly determine the extent of risk disclosures in terms of both financial and non-financial risk information among the 15 public listed companies. Hence, the conclusion is that there is a relationship between leverage and risk disclosures in the annual reports of the Malaysian listed companies.

**The relationship between level of risk and risk disclosures**

Based on the results obtained, it is indicated that there is a significant association between level of risk and the extent of risk disclosures. This outcome can be further backed up with the finding of a past research by Hassan (2009) who conducted a study to investigate the association between the UAE corporations-specific characteristics and one of them is the relationship between level of risk and level of corporate risk disclosure (CRD). The finding of this study confirmed that risky corporations are expected to have higher levels of CRD than less risky corporations. This study explains that that the higher the risk level of an organisation, the higher the pressure of the organisation in preparing transparent risk disclosures to be included in its annual report in order to justify the potential reasons on why the organisation is facing greater level of risk. On top of that, organisations which are associated with crucial

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risk level have a higher tendency to include more in-depth risk information so that they are able to provide details on the approaches or strategies taken on by them in dealing with their risks.

According to Höring and Gründl (2011), companies with higher levels of risk have a higher tendency to disclose risk information as the directors have a greater need to explain the reasons behind the existence of high level of risk. In addition, these directors could have a strong incentive to detail to shareholders and the wider stakeholder community how they are managing these risks and this would also result in higher levels of risk disclosure. Therefore, a positive association between risk disclosures and risk levels would exist. Thus, organisations with a greater risk level are more anticipated to prepare further risk disclosures so that they can fill the stakeholders in with information that involves their strategic actions and solutions in mitigating the risks which may contribute further enhancement of the risk disclosures prepared by them. Therefore, the outcome of this study's finding can be supported by the stakeholder theory which stresses that the demand for risk disclosures from the prominent stakeholders, for example investors and creditors, may greatly influence the extent of risk information disclosed by organisations that face bigger risk level. However, this result might be somewhat biased since the sample of 15 Malaysian public listed companies chosen for this study are those operating within a few non-financial sectors which include oil and gas sector, construction sector as well as property investment & development sector. Generally, companies coming from these sectors are not only associated with intense risk level but are also tied to rigorous risk reporting requirements which would determine the extent of risk information disclosed by them. In conclusion, based on the results obtained and the explanation provided by these past research studies, it can be justified that there is a relationship between level of risk and risk disclosures in the annual reports of the Malaysian public listed companies.

## VI. RECOMMENDATIONS AND CONCLUSION

Based on the previous study research pertaining to risk disclosures, firm size is regarded as one of the important determinants in analysing the risk disclosure extent in the annual reports of companies. In general, there are many ways that researchers can use to measure the size of an organisation. Some of them include total number of employees, total revenue, total assets, total sales volume or sales turnover, market share, capital size, level of technology, ownership structure and many others. However, most of the previous research that covered about risk disclosures had either used total revenue, total number of employees or total sales volume or sales turnover as a measurement to determine the company size. So far, no past research studies have found a negative relationship between company size and level of risk disclosures.

In addition, a study by Linsley and Shirves (2006) found that using two methods in measuring the company size and finding the relationship with the level of risk disclosure produced different outcomes. Another study by Kajüter (2006) also did not find any similar results for the various ways he measured the firm size for samples from Germany. However, similar results were obtained between two methods of measurement of firm's size by Mohobbot (2005) for samples from Japan not unlike the results obtained from a study by Linsley and Shirves (2006) which was carried out in England. Hence, it can be concluded that the findings as well as the demographic of a research study will be based upon the specific method(s) used for measuring the company size and there is no assurance that the

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results for one country will be similar to another. Therefore, it is recommended that the future research studies use other methods besides the commonly used ones as mentioned earlier to see whether or not significance still exists between these two variables.

Secondly, in terms of corporate governance, a higher number of independent directors within the BOD can help contribute a positive effect towards not just the level of risk disclosures but also the firm performance as a whole. This is because, they act as supervisors who are responsible in carrying out effective monitoring mainly towards risk management, internal control systems as well as other matters that are related to corporate governance in general (Carlon, 2011). The board is ultimately responsible for ensuring sound risk management and internal control systems are in place within an organisation. The board's Non Executive Directors (NEDs), particularly those who sit on the audit committee, play a key role in challenging the organisation on its management of risk, as part of their corporate governance responsibilities (Ali, 2014). However, measuring the extent of risk reporting practice by just examining the number of independent directors within the board is insufficient. The majority of the past research had mostly looked only into this particular area which is the proportion of independent directors when determining the level of risk disclosures within the companies that they were investigating in their studies. Therefore, it is recommended that the future research that will be covering about risk disclosures include other components of corporate governance such as the board size, board activity (e.g. board meeting), presence of external directors, ownership concentration, availability of incentive compensation by Chief Executive Officer (CEO), managerial ownership and others. This way, the influence of corporate governance towards the extent of risk reporting can be more clearly defined and is not limited based on the perspective of only a single component; total number of independent directors from the company BOD.

Thirdly, in terms of leverage, it has been found that the higher the ratio of leverage, the higher the tendency of companies in disclosing information about the risks faced by them in their annual reports. However, measuring leverage by using the debt-to-equity ratio has been widely used in most of the past research studies and all of them had obtained similar. Hence, it is recommended that the future research studies focusing on the subject of risk disclosures measure the company leverage by exploring the other types of proxies such as debt-to-capital ratio, asset-to-equity ratio, debt-to-assets ratio, return on equity (ROE) and others. This way, the results from using different measurements can be obtained and compared with one another to get a more accurate conclusion in terms of the extent of influence leverage contributes towards the preparation of risk information in the annual reports of companies.

Last but not least, when it comes to measuring level of risk, a lot of the past research had used either gearing ratio, asset coverage ratio or beta coefficient. These first three proxies have been extensively used by the majority of past research studies in assessing the risk level within the individual companies despite the fact that the results may be vary for different industries. For future research, it is recommended that other forms of measurements are used to further examine the influence of level of risk in determining the extent of risk reporting within companies' annual reports. For instance, future researchers may want to consider using book-to-market ratio, QuiScore and EcoValue'21TM Rating Model. Another good suggestion to be recommended for future research in

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terms of measuring level of risk would be to use Value at Risk (VaR) as one of the tools in measuring risk-exposure for financial and non-financial organisations. In addition, combined leverage ratio (CLR) is also a good measurement which has very rarely been used by the previous studies. This means, instead of calculating operating leverage and financial leverage individually, the future research may consider calculating the combined effect for these two components (leverage + financial leverage) with the help from combined leverage ratio. Basically, it can be calculated by multiplying the operating leverage ratio that is mainly used for measuring business risk, with the financial leverage ratio which is aimed for measuring financial risk (Staden, 2011). This way, combined leverage can be achieved, which is equivalent to total risk. Therefore, when CLR value is high, it can be concluded that the level of risk within the organisation is also high in terms of both business risk and financial risk. The greatest type of risk faced by an organisation can be studied by analysing the level of each of the two ratios.

All in all, due to the increasing demand of the risk information by the group of stakeholders, the Malaysian government, by using various responsible parties or authorities, should find strategic ways to enhance companies' risk disclosures in their annual reports.

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