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RISK DISCLOSURE IN INDONESIAN BANKING: THE ROLE OF THE BOARD OF COMMISSIONERS AND POLITICAL CONNECTIONS

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Abstract

The purpose of this study was to examine the effect of political connections and aspects of good corporate governance, *namely the frequency of meetings and the competence of the board of commissioners to risk disclosure and to consider the moderating effect of the frequency of meetings and the competence of the board of commissioners on risk disclosure. This study uses a sample of conventional banks registered with the Financial Services Authority with a sample of 41 conventional banks during the 2017–2021 period. This study uses panel data regression analysis. This study reveals that the political connection variables have a negative effect on risk disclosure. The variable frequency of board of commissioners meetings has a negative effect on risk disclosure. The competency variable of the board of commissioners has a positive effect on Risk Disclosure. Meanwhile, this study can prove the role of the variable frequency of the board of commissioners meeting in weakening the negative influence of political connections on risk disclosure, while the role of the variable of competence of the board of commissioners cannot weaken the negative influence of political connections on risk disclosure.*

Keywords*: Political Connections, Frequency of Board of Commissioners Meetings, Competence of the Board of Commissioners, Risk Disclosure*

1. INTRODUCTION

In a country, companies engaged in banking are very important. Banking companies have the same goal in their operational activities as other companies engaged in services and manufacturing, namely to obtain high profits, because the ultimate goal to be achieved by a company is to obtain maximum profit or maximum profit. In addition, banking companies are required to maintain the trust of stakeholders and potential investors by how registering a company on the Indonesia Stock Exchange. Companies that have gone public or traded on the IDX are required to provide information about their activities in the form of annual financial reports (Wicaksono and Adiwibowo, 2017).

The annual financial report or annual report is required not only to provide information related to financial report data but also to contain other information that can inform stakeholder considerations when taking a decision. One of the important pieces of information that attracts interest from investors is the non-financial part – finance from the annual report (Ismail and Rahman, 2011). This is because the non-financial part of the annual report can explain information that is not disclosed in terms of financial or financial statements. Based on this information, stakeholders ' considerations are expected to be better because the information is not only limited to quantitative information in financial statements but also qualitative information in financial statements (Utomo and Chariri, 2014).

In the annual report, risk disclosure is part of the disclosure of qualitative information listed in the Notes to Financial Statements. The existence of risk in every company becomes very important information for interested parties. For companies that want to implement risk management practices, risk disclosure is the most important element, because information about risk disclosure is needed to anticipate fraudulent accounting practices. The number of cases of accounting fraud that have occurred to date makes potential investors increasingly suspicious of the disclosure of company information. The case of fraud in large companies such as Enron and Worldcom is one example (Suhardjanto, 2011). The more complex the risks faced by the company in each of its activities, the more responses there will be to prevent, avoid, or reduce the risks that arise. However, it should be noted that to do this, the company must carry out good management of risks to reduce losses. With good corporate risk management, it will certainly bring many good benefits for the company and be able to minimize risks to avoid losses as a result of the risk (Amrin and Ramadhan, 2019).

Agency theory states that when there is a separation between the owner as the principal and the manager as the agent, agency problems will arise because each party will always try to maximize its utility function (Jensen and Meckling, 1976). This delegation implies that the agent is responsible for his actions toward the principal. In applying risk disclosure, agency theory can explain the delivery of reliable information related to risk by managers to users of accounting information. The availability of reliable information by managers regarding risk to shareholders and creditors will reduce the problem of information asymmetry (Elzahar and Hussaney, 2016).

Political connections affect risk disclosure (Alshirat et. al., 2020). Political connection is a condition in which a relationship exists between certain parties and parties who have an interest in politics that is used to achieve certain things that can benefit both parties. The existence of political connections in corporate governance can cause a problem that has an impact on the disclosure of information regarding a company's risk disclosure (Leuz and Gee, 2006). Theoretically, politically connected firms have higher agency costs than unconnected firms (Khan et. al., 2016), where political connections can lead to agency problems between majority and minority owners (Schipper, 1989). In politically connected companies, political directors acting on boards tend to have their interests in mind, therefore there may be situations where their representatives fulfill their interests and agendas at the expense of shareholder wealth and company resources, leading to agency problems. (Rahman and Ismail, 2016), causing a company to disclose its company risk information with low quality (Al-dhamari and Ismail, 2015; Hashmi et. al., 2018). At the same time, managers are expected to have incentives to disclose more information about their company's risk (Healy et. al., 1999). Thus, risk disclosure is seen as an effective way to reduce agency problems, which can reduce information asymmetry problems and reduce agency costs (Abraham and Cox, 2007; Solomon et. al., 2000).

The influence of political connections on the corporate governance structure of the company can also cause the corporate governance structure itself to become weaker (Fan et. al., 2007; Lara et. al., 2007; Nee et. al., 2007; Wang et al., 2007). al., 2008) or stronger (Laela and Momon, 2020), because the presence of political connections in a company will make the level of information disclosure better or worse because politically connected board members facilitate the interests of the bureaucracy or politicians. The existence of political connections can weaken or strengthen the corporate governance mechanism of a company and can have an impact on the quality of financial reporting as a whole so political connections can strengthen or weaken the influence of board activities on the quality of the company's financial statements.

Agency theory states that in joint stock companies, the interests of the manager may conflict with the interests of the principal (owner) (Jensen and Meckling, 1976). The most appropriate method to manage agency conflicts and problems that may occur between managers and shareholders and neutralize managerial power is good corporate governance (Abraham and Cox, 2007; O'Sullivan, 2000). The corporate governance mechanism not only acts as a monitoring instrument for agent behavior but also monitors the company's overall performance, which includes financial reporting quality assurance and increasing disclosure levels. For the financial risks contained in the company's annual report to be disclosed under applicable regulations and meet the information needs of its users, good corporate governance practices are needed. With the implementation of good corporate governance, it is expected to improve the performance of a company, so that the company is more transparent in conveying the information needed by its users. (Arcaya & Vazquez, 2005).

One component of corporate governance is the board of commissioners. According to the National Committee on Governance Policy (KNKG 2006), the board of commissioners is defined as a corporate organ that functions and is collectively responsible for supervising and providing advice to the board of directors and ensuring that a company has implemented good corporate governance, but the board of commissioners is not allowed to participate in making decisions. According to Krus and Orowitz (2009), the board of commissioners has a role in overseeing the implementation of effective risk management. The Board of Commissioners is part of the company structure that supervises risk management. The task of supervising risk management is fairly heavy. The company's operational activities and risks must be understood thoroughly so that the function of monitoring risk management activities can be carried out properly (Istorini and Handoyo, 2014), to produce risk disclosure reports with better quality and complete. In agency theory, the board of commissioners is considered the highest internal control mechanism, which is responsible for monitoring the actions of top management (Rusdianto, 2013). In this study, the board of commissioners is represented by the frequency of meetings and the competence of the board of commissioners.

The frequency of board of commissioners' meetings is widely used as a measurement to assess the activities of the board of commissioners, the higher the frequency of meetings held by the board of commissioners, the more effective it will be. This is because the higher the meetings held by the board of commissioners, will maximize the disclosure of information which will ultimately reduce the level of asymmetric information (Laela and Momon, 2020). According to Brick and Chidambaran (2007), the higher the number of board of commissioners meetings, the higher the company's performance. Increasing performance can encourage companies to provide wider risk disclosures in the company's annual report (Utomo and Chariri, 2014).

Furthermore, the factor that can affect the risk disclosure of a company is the competence of the board of commissioners. The competence possessed by the members of the board of commissioners is an important factor in the realization of an effective board of commissioners. The competencies possessed by the board of commissioners will influence the board of commissioners in carrying out their functions in carrying out optimal supervision (Wati, 2016). The board of commissioners who have competence in accounting, finance, and business can better monitor, so they can be more effective in improving the quality of financial reports (Lanfranconi and Robertson, 2002; McMullen and Raghunandan, 1996; Rose and Rose, 2008), so that the more The competence of the board of commissioners, the better the company's financial statements are produced, one form of reporting is the company's risk disclosure report.

This study examines the effect of political connections on risk disclosure with the frequency of meetings and the competence of the board of commissioners as moderating variables. This study develops on the research conducted by Alshirat et. al. (2021) which examines the Effect of Political Connections on Corporate Risk Disclosure. The development carried out is by adding the frequency of meetings of Suhardjanto et . al. (2012) and the competence of the board of commissioners (Wati, 2016) as independent variables and moderating variables. The period in this study is from 2017 to 2021. The sample used in this study is banking sector companies registered with the Financial Services Authority (OJK).

2. LITERATURE REVIEW

Agency Theory

Agency theory is a theory that explains the relationship between the principal and the agent. Jensen and Mackling (1976) define an agency relationship as a contract in which one or more principals (owners) use another person or agent (manager) to manage a company which involves the delegation of some decision-making authority from the principal to the agent. In a company, the agent is the management of the company, while the principal is the owner of the company or shareholder (Wicaksono and Adiwibowo, 2017).

Agency theory with risk disclosure is interrelated, where risk is generally associated with uncertainty, Here agency theory can be used as a basis for understanding risk disclosure. The information held by the agent is information that covers the entire condition of the company and is more accurate than stakeholders, even though the information is needed by stakeholders in making decisions. The agent should provide complete and accurate information regarding the risks faced by the company. If the stakeholders do not get overall information, then the decision-making will be different, and it is likely to have a bad and detrimental impact on all related parties (Rifani and Astuti, 2019).

Politically connected firms potentially have higher agency costs than unconnected firms (Khan et al., 2016), where political connections can lead to type II agency problems between majority and minority owners (Schipper, 1989). In politically connected companies, political directors acting on the board tend to have their interests in the company (Rahman and Ismail, 2016) resulting in low-quality disclosure of risk-related information (Al-dhamari and Ku Ismail, 2015; Hashmi et al, 2015). 2018).

The ongoing agency problems can be handled by implementing good corporate governance. The good corporate governance mechanism in this study uses the frequency of meetings and the competence of the board of commissioners plays an important role in supervising and ensuring that the management of the company is carried out in compliance with various applicable rules and regulations. In addition to the implementation of good corporate governance, the prevention of agency problems is by disclosing actual risks in the company's annual report. Jensen and Meckling (1976) stated that risk disclosure and good corporate governance that are implemented better when carrying out company operations can minimize agency problems that arise from differences in interests between shareholders and management (Ghozali and Kusumastuti, 2020).

The Effect of Political Connections on Risk Disclosure

Agency theory can be used as a basis for understanding risk disclosure practices. This practice should be carried out by parties who have more information about the company, namely agents. The principal will consider information about the risks associated with the company's position in the future. With the practice of risk disclosure, it will anticipate the existence of information asymmetry between the principal and the agent. To consider decisions and avoid conflicts of interest between principals and agents, risk disclosure practices are needed for the survival of the company (Syaifurakhman and Laksito, 2016).

The presence of political influence in the company can encourage managers to selectively disclose information in financial annual reports (Watt and Zimmerman, 1990). The influence of the presence of politicians on the board of directors/commissioners on disclosure (in general) has been examined by several studies (Chaney et . al., 2011; Habib et. al., 2018; Hashmi et. al., 2018; Scher et. al., 2017; Wahab et al., 2011). Wahab et. al. (2011) argues that companies that have political connections tend to be riskier because they can have a bad impact on the quality of financial reporting. (Alshirat et. al., 2020) said that politically connected companies have less tendency to disclose risk disclosures, compared to politically connected companies. This finding supports the agency theory argues that the involvement of government and politicians in the company's board of directors can play an important role in maximizing agency problems between majority and minority shareholders by reducing the level of information risk. Based on this description, the hypotheses proposed in this study are as follows:

H1: Political connection has a negative effect on risk disclosure

Influence of the frequency of Board of Commissioners Meetings on Risk Disclosure

the company incurring agency costs. Agency theory states that conflicts of interest and information asymmetry that arise can be reduced by proper oversight mechanisms to align the interests of various parties in the company. The supervisory mechanism referred to in agency theory is to implement a corporate governance mechanism.

The board of commissioners is a corporate organ that plays an important role in the corporate governance mechanism of the company and is responsible for carrying out the supervisory function. This requires the board of commissioners to hold regular meetings to evaluate and discuss important matters related to the company's performance and the policies set by the company (Syaifurakhman & Laksito, 2016).

Suhardjanto et . al. (2012) stated the more frequent meetings held by the board of commissioners, the company's performance will increase when the company's performance increases it will encourage companies to make wider disclosures in terms of risk disclosure in the company's annual report. Based on this description, the hypotheses proposed in this study are as follows:

H2: The frequency of board of commissioners meetings has a positive effect on risk disclosure.

The Influence of the Competence of the Board of Commissioners on Risk Disclosure

Competent members of the board of commissioners are members of the board of commissioners who have educational backgrounds and work experience in the fields of economics and business. According to their capacity as supervisory and advisory boards, the effectiveness of the board of commissioners is strongly influenced by the competence of the board of commissioners themselves (Mulianingsih and Darsono, 2021).

Agency theory views that management as an agent cannot be trusted to act as well as possible for the public interest in general and shareholders as principals in particular. This is due to the agency problem. The board of commissioners plays a role in controlling a company so that it can run well and can represent all internal mechanisms so that it broadly has a role in corporate governance. According to Nuryaman and Rusmini (2010), the competence of the board of commissioners has a positive relationship to the disclosure of a company, therefore this study suggests that the presence of members of the board of commissioners who have expertise in business economics and finance and who have work experience in the field of business economics and finance can increase the board's oversight of management in the practice of transparency and risk disclosure in the annual financial statements.

The bigger the board of commissioners who have expertise in business economics and finance and who have work experience in business economics and finance, the better they are in responding to stakeholder demands to provide higher-quality risk disclosures (Octosiva, 2018). With a competent board of commissioners, it will be more likely that the board of commissioners can identify relevant risks and improve the quality of risk disclosure of a company (Abraham and Cox, 2007; Barakat and Hussainey, 2013; Ntim et. al., 2013). Based on this description, the hypotheses proposed in this study are as follows:

H3: The competence of the board of commissioners has a positive effect on risk disclosure.

The Influence of Frequency of Board of Commissioners Meetings in Strengthening the Effect of Political Connections on Risk Disclosure

The high frequency of meetings held by the board of commissioners shows that the board of commissioners performs its role well, namely in the function of supervising and evaluating the company. Issues related to information that need to be disclosed became one of the topics of discussion in the board of commissioners meeting. The information disclosed is important to discuss to reduce information asymmetry between stakeholders and management (Agustin et. al., 2019).

Political connections within the company can make a company's corporate governance mechanism weaker and the quality of financial reporting to decline overall (Laela and Momon, 2020). With the many meetings held by the board of commissioners, they can use the meeting to discuss their interests regarding their presence in politics and not discuss what they should disclose in disclosing corporate risk. The results of this study support previous researchers (Fan et al., 2007; Lara et. al., 2007; Nee et. al., 2007; Wang et. al., 2008) who stated that corporate governance should function as a control mechanism. , unable to carry out its obligations properly due to political interference, thus leading to a weak governance structure that is more accommodating to bureaucratic and political interests, so that the meetings held by the board of commissioners become ineffective and result in poor quality risk disclosure reports on their companies (Laela and Momon, 2020). Based on this description, the hypotheses proposed in this study are as follows:

H4: The frequency of board of commissioners meetings can strengthen the negative relationship between political connections and risk disclosure.

The Influence of the Competence of the Board of Commissioners in Strengthening the Effect of Political Connections on Risk Disclosure

The competence of the board of commissioners is a very important factor because the board of commissioners who have a good understanding of business operations can review financial statements effectively (Lanfranconi and Robertson, 2002). Competence can affect the ability of the board of commissioners in carrying out their duties to carry out optimal supervision. The educational background and experience of the board of commissioners can affect the effectiveness of the supervisory role of the board of commissioners on the quality of financial statement disclosures, including risk disclosure (Anggraini et al, 2019).

Research conducted by (Bushman et. al., 2004; Leuz & Oberholzer-Gee, 2006) states that the presence of political connections within a company can weaken corporate governance and weak corporate governance will have an impact on the quality of financial reporting. low (Wright, 1996; Shen & Chih, 2007; Lara et. al., 2007). The governance of a company cannot carry out its functions as desired because it accommodates the interests of the government or politicians (Nee et. al., 2007; Wang et. al., 2008; Salleh and Bin, 2009; Bliss et. al., 2011; Wati, 2017). The existence of political connections within the company can lead to conflict and agency problems, which will then have a negative impact on the decisions of managers who should act as control/supervisory mechanisms. The existence of the competence of the board of commissioners as a politically connected control/supervisory mechanism has a negative impact on the quality of financial reports because they take advantage of their competence to cheat and reduce the information in reporting company risk disclosures so that the existence of a competent and politically connected board of commissioners has an impact negative on the quality of financial statements. Based on this description, the hypotheses proposed in this study are as follows:

H5: The competence of the board of commissioners can strengthen the negative relationship between political connections and risk disclosure.

3. METHODOLOGY

3.1 Population and Sample

The population used in this study are companies registered with the OJK. While the sample used is a conventional bank company registered with the OJK in 2017-2021 with a sampling technique using a purposive sampling technique. The criteria used are 1) Banking companies registered at www.ojk.go.id in 2017-2021, 2) Banking companies that issue financial reports, and 3) Companies that provide required and complete information related to the variables in the study. this. Based on the sample criteria that have been selected in this study, the research sample obtained is 41 companies for each year and the period used in this study is 2017 – 2021.

3.2 Operational Definition and Measurement of Variables

Risk Disclosure

Disclosure of risk is an important aspect needed by every company Linsley and Shrives (2006). A company that can be said to have carried out risk management is a company that discloses its risk reporting in its annual financial statements.

Risk disclosure is measured by using the content analysis method with an unweighting disclosure index approach. Measurement with an unweighted index approach will give a score of 1 if the company discloses risk item information and 0 if it is not disclosed.

Table 1
Risk Disclosure Items

Risk Category	Component
Financial Risk	1) Interest Rate 2) Exchange Rate 3) Commodity 4) Liquidity 5) Credit
Operational Risk	6) Customer satisfaction 7) Product Development 8) Performance and efficiency 9) Source 10) Inventory Obsolescence Rate 11) Product/Service Failure 12) Environment 13) Work safety 14) Product Brand Downgrade

Empowerment Risk	15) Leadership and Management 16) Outsourcing 17) Work Incentives 18) Availability Changes 19) Communication
Technology and Information Processing Risk	20) Integrity 21) Access 22) Availability 23) Infrastructure
Integrity Risk	24) Risk Management Policy 25) Illegal Action 26) Reputation
Strategic Risk	27) Environmental Scan 28) Industry 29) Business Portfolio 30) Competitor 31) Pricing 32) Valuation 33) Planning 34) Life cycle 35) Work Measurement 36) Arrangement 37) Sovereignty and Politics

Source: Linsley and Shrives (2006)

$$Risk\ Disclosure = \frac{Risk\ disclosure\ items\ by\ the\ company}{Total\ risk\ disclosure\ items}$$

Political Connection

Wati et . al. (2019) define that political connection as if one of the owners of the company is a shareholder with minimum ownership of 10%, and or is the head of a company such as the board of directors or board of commissioners (two-tier system) as a member of parliament or former member of parliament (DPR RI). , DPD RI), as an official or former state official including executive bodies (state ministries, departments, non-departmental government agencies, and other central government organizations), legislative and judicial bodies, leaders of political parties, and parties who have close relationships with state officials. The inclusion of former high-ranking state officials because they are considered to still have the power to relate to the government.

In this study, the measurement for political connections uses a reference from Iswari et. al. (2019) where the number of politically affiliated boards of commissioners is divided by the total number of commissioners in the company.

$$Politic\ Connection = \frac{Politically\ affiliated\ board\ of\ commissioners}{total\ board\ of\ commissioners}$$

Frequency of Board of Commissioners Meeting

Board of Commissioners meetingsares required to be held regularly, at least four times a year and physically attended at least twice a year (Suhardjanto et. al., 2012). All decisions made in the meeting of the board of commissioners are binding. Decision-making is done by deliberation and consensus. However, if consensus deliberation does not occur, then the decision is made based on the majority vote.

The frequency of meetings can be calculated by looking at the number of internal meetings held by the board of commissioners of a company during one year. This study is in line with research conducted by Brick and Chidambran (2007) that information on the frequency of board of commissioners meetings can be known by looking at the annual financial statements in the corporate governance section.

$$Meeting\ Frequency = \Sigma\ Board\ of\ commissioners\ internal\ meeting\ in\ 1\ year$$

Competency of the Board of Commissioners

The competence of the board of commissioners is a very important factor in the realization of an effective board of commissioners. Research conducted by Beasley (1996), states that the competence of members of the board of commissioners is influenced by experience, knowledge, and understanding of financial statements and other company financial information.

In this study, the competence of the board of commissioners can be measured by using the number of board of commissioners with educational backgrounds or having economic and business work experience to the total board of commissioners (Prastiti, 2013).

$$Competency = \frac{BOC\ with\ educational\ background\ or\ Have\ experiences\ in\ economics\ and\ business\ work}{Total\ board\ of\ commissioners}$$

3.3 Data Analysis Techniques

This study uses a panel data regression analysis model. According to Gujarati & Porter (2009), research using panel data should be tested with panel data regression models. Panel data analysis consists of a collection of ordinary least square regression models, fixed effects models, and random effects models. In this study, The Breusch and Pagan Lagrangian were used to test the ordinary least square model versus the random effect regression model. Meanwhile, the likelihood test is used to test the fixed effect model versus the ordinary least square regression model and the Hausman test is used to find the fixed effect regression model and the random effect regression model. In this study, one equation model was used to evaluate the assumptions.

Model (1) is used to examine the effect of political connections, meeting frequency, and the competence of the board of commissioners on risk disclosure:

$$\mathrm{RD} = \alpha + 1\mathrm{PC} + 2\mathrm{Meeting} + 3\mathrm{Competency} + \varepsilon \ldots (1)$$

Model (2) is used to examine the effect of meeting frequency and the competence of the board of commissioners istrengtheningen the relationship between political connections and risk disclosure:

$$\mathrm{RD} = \alpha + \beta 1\mathrm{PC} + \beta 2\mathrm{Meeting} + \beta 3\mathrm{Competency} + \beta 4\mathrm{PC} * \mathrm{Meeting} + \beta 5\mathrm{PC} * \mathrm{Competency} + \varepsilon \ldots (2)$$

Information

RD	: Risk Disclosure
α	: Constant
β	: Regresion Coefficient
PC	: Political Connection
Meeting	: Board of Commissioners Meeting Frequency

Compency : Competency of the Board of Commissioners
ε : Error or residual

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics are used to provide a description or description of data that can be seen from the average value (mean), standard deviation, variance, maximum, and minimum (Ghozali, 2016). Variable RD (Risk Disclosure or Risk Disclosure) has a mean value of 0.5964878, meaning that the average banking company discloses risk disclosure information on their company is quite large, namely 59.64% or a total of 22 disclosure items out of a total of 37 items that should be disclosed by their company. While the PC variable (Politic Connection) has a mean value of 0.2975884, meaning that on average there is 1 board of commissioners connected to politics in the company from 4 average commissioners in banking companies. On the other hand, the average value of the frequency of the board of commissioners' meetings is 12,58537, meaning that there are 12 meetings held by the board of commissioners in discussing the disclosure of their company's risk. According to OJK regulation No. 57/POJK.04 in article 27 states that the board of commissioners is required to hold a meeting at least 1 (once) time in 3 (three) months, from this regulation the board of commissioners is sufficient in carrying out a minimum meeting every year because every year the board of commissioners is obliged meeting 4 times. The average value of the competence of the board of commissioners is 0.968279, which means that out of the 4 average number of members of the board of commissioners in banking companies, there are 96.82% or 3 boards of commissioners who have competencies by their education and experience. Overall, the descriptive statistics of each variable can be seen in the table below:

Table 2
Descriptive Statistical Test

Variable	mean	Std. Dev.	Min	Max
RD	0.5964878	0.1092863	0	0.81
KP	0.2975884	0.2509091	0	1
Meet	12.58537	12.53813	2	62
Competence	0.968279	0.1535211	0	1

4.2 Premilinary Test (Breusch and Pagan Lagrangian Multiplier Test, Chow Test, and Hausman Test)

Table 3
Breusch and Pagan Lagrangian Multiplier Test Results

	Model 1	Model 2
Chibar2 (01)	30.13	28.90
Prob > chibar2	0.0000	0.0000

First, the Breusch and Pagan Lagrangian tests (table 2) were used to test the ordinary least square regression model against the random effect regression model. The assumptions of the hypothesis are as follows:

Zero hypotheses : ordinary least square is more suitable ($p > 0.05$)

Alternatie hypothesis : The random effect model is more suitable ($p < 0.05$)

Based on the table, the test value of the Breusch and Pagan Lagrangian Multiplier Test in model 1 is 30.13 with a probability value of 0.0000 and in model 2 it is 28.90 with a probability value of 0.0000. As a result, the null hypothesis is rejected at the 5 percent significance level. The results of these two models show that the ordinary least square model is not suitable for evaluating the effect of the main independent variables, namely political connections, the frequency of board of commissioners' meetings, the competence of the board of commissioners and moderating variables of the frequency of meetings and the competence of the board of commissioners on risk disclosure. This shows that the random effect model is more suitable.

Table 4
Chow Test Results

	Model 1	Model 2
F	13.04	8.37
Prob > F	0.0000	0.00000

Second, the Chow test (table 3) is used to test the fixed effect model versus the ordinary least squares model regression. The assumptions of the hypothesis are as follows:

Zero hypotheses : ordinary least square is more suitable ($p > 0.05$)

Alternativ hypothesis : The fixed effect model is more suitable ($p < 0.05$)

Based on the table, the chow test value in the chi-square statistic in model 1 is 13.04 with a probability value of 0.0000 and in model 2 it is 8.37 with a probability value of 0.0000. As a result, the null hypothesis is rejected at the 5 percent significance level. The results showed that the ordinary least square model was not suitable for evaluating the effect of the main independent variables, namely political connections, the frequency of board of commissioners' meetings, the competence of the board of commissioners, and moderating variables of the frequency of meetings and the competence of the board of commissioners on risk disclosure. These results indicate that the fixed effect model is preferred, and can be used to measure the appropriate model 1 and model 2.

Table 5
Hausman Uji Test Results

	Model 1	Model 2
Chi2	7.66	9.25
Prob > chi2	0.0536	0.0994

Third, the Hausman test was conducted to check the suitability of the model selection to choose the best model between the fixed effect model and the random effect model. The assumptions of the hypothesis are as follows:

Zero hypotheses : The random effect model is more suitable ($p > 0.1$)

Alternativehypothesis : The fixed effect model is more suitable ($p < 0.1$)

The table shows that the value of the Hausman test for model 1 is 7.66 with a probability value of 0.0536 and in model 2 of 9.25 with a probability value of 0.0994. This result shows significance ($p < 0.1$). Therefore, the alternative hypothesis is accepted at a significance level of 0.1. The results report that the model for fixed effects is more appropriate in this situation. Based on the three tests above, this study will use a fixed effect model to examine the relationship between variables.

4.3 Diagnostic Test of Heteroscedasticity and Serial Correlation

After testing heteroscedasticity and serial correlation, the STATA command can then be selected which can adjust to the heteroscedasticity or serial correlation problem that occurs. Hoechle (2007) and Torres-Reyna (2007) explain that if there is a heteroscedasticity problem in the fixed effect or random effect model, the standard error white can be used to make the standard error model more resistant to heteroscedasticity. Whereas in models that are affected by heteroscedasticity and serial correlation simultaneously for the fixed efect model , the Discroll Kraay standard error can overcome this problem, making the standard error of the model strong against heteroscedasticity and serial correlation disorders

The results of this study used a fixed effect model to test the diagnostic heteroscedasticity and serial correlation in model 1 and model 2. The results of the heteroscedasticity test in model 1 had a Prob > Chi2 value of 0.0000. This means that the model has heteroscedasticity symptoms and the results of the heteroscedasticity test in model 2 have a Prob> Chi2 value of 0.0000 meaning that the model has heteroscedasticity symptoms. The results of the Serial Correlation test in model 1 have a Prob > F value of 0.0001. This means that in the model there is a serial correlation symptom and the results of the Serial Correlation test in model 2 have a Prob > F value of 0.0001. This means that in the model there is a serial correlation symptom.

Table 6
Heteroscedasticity Test Results and Serial Autocorrelation

	Model 1	Model 2
Full Sample		
Heteroscedasticity		
Chi2 (41)	190000.04	14642.70
Pros > Chi2	0.0000	0.0000
Serial Correlation		
F(1, 40)	20,134	20,276
Prob > F	0.0001	0.0001

The findings of the heteroscedasticity test and autocorrelation test were used to make decisions on the use of the fixed effect model with Driscoll Kraay standard error so that the regression model used was the fixed effect model with DDriscollKraay standard error, o that the standard error in the fixed effect model was not disturbed by heteroscedasticity and autocorrelation problems.

4.4 Hypothesis Test Results

Table 7
Hypothesis Test Results Model 1

Independent Variable	Dependent Variable			
	Coefficient	Std. Err.	t	P > t
KP	-0.1219745	0.0402175	-3.03	0.039*
Meet	-0.0017445	0.0001978	-8.82	0.001*
Competence	0.3412859	0.067333	5.07	0.007*
_ Cons	0.324281	0.0764033	4.24	0.013
R – square within	0.1955			
F	3.23			
Prob > F	0.0014*			
No. Observation	205			
* 5% significance				

Table 8
Hypothesis Test Results Model 2

Independent Variable	Dependent Variable			
	Coefficient	Std. Err.	t	P > t
KP	0.5177344	0.2556804	2.02	0.113
Meet	- 0.0030405	0.0004032	- 7.54	0.002
Competence	0.3594046	0.0694904	5.17	0.007
Pol_Meet	0.0039783	0.0010403	3.82	0.019*
Pol_Comp	- 0.7048859	0.2551167	- 2.76	0.051*
_ Cons	0.3215079	0.772561	4.16	0.014
R – square within	0.2084			
F	3.20			

Prob > Chi 2	0.0016*			
No. Observation	205			
* 5% significance				

Hypothesis Test Results 1

Hypothesis 1 testing aims to examine the influence of political connections on risk disclosure. As shown in table 7, the test of Hypothesis 1 shows that there is a negative relationship between political connections to risk disclosure with a coefficient of -0.1219745 at a significance level of 5%. This proves that politically connected firms disclose less risk information than non-connected firms. Therefore, hypothesis 1 which states that there is a negative effect of political connections on risk disclosure is supported at the significance level = 5%.

Acceptance of hypothesis 1 proves that politically connected firms disclose less information about the risk disclosure of their firms. From the descriptive statistics of the political connection variable, it can be seen in table 1 that the average value is 0.2975884, which means that on average there is 1 board of commissioners connected to politics in the company from 4 average commissioners in banking companies.

This supports the agency theory argument that politicians acting on board members tend to have their interests in the company. As a result, they can encourage managers to choose the information disclosed in the annual report that aligns with their interests, and ultimately affects the level of risk disclosure in the company's annual report (Alshirah et. al., 2021).

This study is in line with research conducted by Alshirah et. al., 2021. In his research, he showed that politically connected firms disclose less risk information than unconnected ones. On the other hand, Belkaoui (2004) shows that firms dominated by political influence are more likely to report low-quality earnings to avoid legal and outside intervention.

Hypothesis Test Results 2

The second hypothesis testing aims to test the hypothesis of the effect of the frequency of board of commissioners' meetings on risk disclosure. As shown in table 7, testing hypothesis 2 shows that there is a negative relationship between the frequency of board of commissioners' meetings on risk disclosure with a coefficient of -0.0017445 at a significance level of 5%. This happened because the meetings held by the board of commissioners were less effective and the votes were dominated by the members of the board of commissioners. Therefore, hypothesis 2 which states that there is a positive effect on the frequency of board of commissioners' meetings on risk disclosure is rejected.

Acceptance of hypothesis 2 proves that the frequency of board of commissioners' meetings is less effective in discussing risk disclosure so the number of meetings held by the board of commissioners does not affect the disclosure of a company's risk. From descriptive statistics on the variable frequency of board of commissioners meetings, it can be seen in table 1 that the average value is 12,58537, which means that there are only 12 meetings held by the board of commissioners discussing the disclosure of a company's risk. According to OJK regulation No. 57/POJK.04 in article 27 states that the board of commissioners is required to hold a meeting at least 1 (once) time in 3 (three) months, the board of commissioners is quite sufficient in carrying out a minimum meeting every year because every year the board of commissioners is required to hold as many meetings as 4 times.

The results of testing the second hypothesis are in line with research conducted by Indah and Handayani (2017) that the frequency of board of commissioners' meetings has a negative effect on information disclosure of a company because the meetings conducted by the board of commissioners are less effective and there is a dominance of the votes of the members of the board of commissioners. The domination of votes from members of the board of commissioners who prioritize their personal or group interests to override the interests of the company (Muntoro, 2006).

Hypothesis Test Results 3

The third hypothesis testing aims to test the hypothesis of the influence of the competence of the board of commissioners on risk disclosure. As shown in table 7, testing hypothesis 3 shows that there is a significant positive relationship between the competence of the board of commissioners on risk disclosure with a coefficient of 0.3412859 at a significance level of 5%. This proves that the board of commissioners who have certification, experience, and education in economics and finance can increase management's supervision in the practice of transparent risk disclosure of a company. Therefore, hypothesis 1 which states that there is a positive effect of the competence of the board of commissioners on risk disclosure is supported at a significance level of 5%.

Acceptance of hypothesis 3 proves that the competence of the board of commissioners can increase the risk disclosure of a company. From the descriptive statistics on the competence of the board of commissioners, it can be seen in table 1 that the average value is 0.968279, which means that from the 4 average number of commissioners in banking companies there are 96.82% or 3 commissioners who have competence under education and experience.

The results of testing the third hypothesis prove that the competence of the board of commissioners affects the disclosure of a company's risk. The competencies possessed by the board of commissioners are supported by an educational background or experience in economics and business commissioners (Prastiti, 2013). The results of this study are under Buckby et. al. (2015) and Alshirah et. al. (2019) which prove that the expertise of the board of commissioners has a positive influence on the disclosure of a company's risk.

Hypothesis Test Results 4

The fourth hypothesis testing aims to test the hypothesis of whether the frequency of board of commissioners' meetings can strengthen the negative relationship between political connections and risk disclosure. As shown in table 8, summarizes the findings of the overall hypothesis testing of this study. Testing this hypothesis 4 shows that the frequency of board of commissioners meetings strengthens the negative relationship between political connections and risk disclosure, with a coefficient of 0.0039783 at a significance level of 5%. Therefore, this fourth hypothesis states that the frequency of board of commissioners meetings can strengthen the negative relationship between political connections and risk disclosure, supported by a significant level of = 5%.

The results of testing the fourth hypothesis support agency theory which explains that supervision aims to align the interests of shareholders with managers and reduce conflicts of interest and opportunistic behavior. Board meetings play an important role in an effective board process (Zahra and Pearce, 1989). However, frequent board member meetings cost a lot of money (Vafeas, 1999). The limited time spent in meetings may not be sufficient for healthy discussion among the board of directors (Jensen, 1993), although, in the frequent meetings held among commissioners, the most relevant issues address issues of corporate direction and strategy, evaluation of policies has been taken or carried out by management, and resolve conflicts of interest. The existence of a politically connected board of commissioners creates a weak corporate governance structure, which is more accommodating to the interests of the bureaucracy or politicians. Politically connected companies can weaken corporate governance mechanisms and cause meetings held by the board of commissioners to be not optimal, and the meetings held by them tend to discuss only the interests of their politicians and do not discuss what they should disclose in reporting corporate risk disclosures (Laela and Momon, 2020).

Hypothesis Test Results 5

The fifth hypothesis testing is to test whether the competence of the board of commissioners can strengthen the negative relationship between political connections to risk disclosure. Table 8, summarizes the findings of the overall hypothesis testing of this study. Testing on hypothesis 5 shows that the competence of the board of commissioners cannot strengthen the negative relationship between political connections and risk disclosure, with a coefficient of -0.7048859 at a significance level of 5%.

The results of testing the fifth hypothesis state that the competence of the board of commissioners does not strengthen the negative relationship between political connections and risk disclosure. The existence of political connections can weaken or strengthen a company's corporate governance mechanism, one of which is the board of commissioners. The competence of the board of commissioners should not empower them with the political connections they have, but rather be wiser in sorting out the information to be reported in disclosing the risks of their company, and be able to make good use of the political connections they have.

This finding supports the argument of the type of adverse selection agency theory, a condition where the agent understands more information related to the state and prospects of a company. However, there is a possibility that the agent has information that can influence the principal in the decision-making process, but the information is not conveyed properly by the agent to the principal. Arrow (1985). However, with the existence of a competent board of commissioners, it is hoped that they will not take advantage of the privileges they have in politicians to produce low-quality corporate risk disclosure reports, due to the function of the board of commissioners themselves as a company organ that carries out general and or special supervision with the articles of association and provides advice. to the board of directors in running the company (Limited Company Law Number 40 of 2007).

In carrying out its duties, the board of commissioners is required to be independent and always pay attention to the interests of the company, and other stakeholders above personal or group interests.

5. CONCLUSION

The results of empirical evidence show that Political Connections have a negative effect on Risk Disclosure. Size of the Board of Commissioners' Meeting Frequency had a negative effect on Risk Disclosure. Competence of the Board of Commissioners has a positive effect on risk disclosure. The frequency of the Board of Commissioners' Meetings played a role in weakening the negative influence of Political Connections on risk disclosure. And than the competence of the Board of Commissioners could not strengthen the negative influence of the Political Connection of Risk Disclosure.

Suggestions that can be given are that further research is expected to be able to research in various sectors. Through this research, it is hoped that it can be used as a reference for information and understanding related to risk disclosure to help improve risk disclosure practices in a company.

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