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**DOES THE RISK DISCLOSURE DECREASE COST OF DEBT?
(EMPIRICAL STUDY ON CONSUMPTION SECTOR COMPANIES LISTED ON
THE INDONESIA STOCK EXCHANGE FOR THE PERIOD OF 2019 TO 2022)**

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Abstract. This research aims to find out whether Risk Disclosure can reduce debt costs for public companies in Indonesia, especially for consumption sector companies. The period in this research is 2019 to 2022. Risk Disclosure is measured using content analysis. The hypothesis was tested using panel data regression analysis with a Random Model and adding control variables consisting of Return On Equity, Leverage, Firm Size, and proportion of independent commissioners. The results of this research indicate that risk disclosure has a positive effect on the cost of debt. This means that the higher risk disclosure does not reduce the cost of debt, but even increases the cost of debt. This finding is contrary to the hypothesis which states that risk disclosure has a negative influence on the cost of debt. The control variables that influence the cost of debt are Company size and the proportion of independent commissioners, while Return On Equity and Leverage do not influence the cost of debt. These findings provide a reference about the consequences of risk disclosure on the Company's cost of debt. Research on the cost of debt is very relevant in Indonesia because many companies still rely on creditors for funding.

Abstrak. Penelitian ini bertujuan untuk mengetahui apakah Pengungkapan Risiko dapat mengurangi biaya utang pada perusahaan publik di Indonesia, khususnya pada perusahaan sektor konsumsi. Periode dalam penelitian ini adalah tahun 2019 hingga 2022. Pengungkapan Risiko diukur menggunakan analisis konten. Hipotesis diuji menggunakan analisis regresi data panel dengan Random Model dan menambahkan variabel kontrol yang terdiri dari Return On Equity, Leverage, ukuran perusahaan, dan proporsi komisaris independen. Hasil penelitian ini menunjukkan bahwa pengungkapan risiko berpengaruh positif terhadap biaya utang. Artinya semakin tinggi pengungkapan risiko tidak menurunkan biaya utang, namun malah meningkatkan biaya utang. Temuan ini bertentangan dengan hipotesis yang menyatakan bahwa pengungkapan risiko mempunyai pengaruh negatif terhadap biaya utang. Variabel kontrol yang berpengaruh terhadap cost of debt adalah ukuran perusahaan dan proporsi komisaris independen, sedangkan Return On Equity dan Leverage tidak berpengaruh terhadap cost of debt. Temuan ini memberikan referensi mengenai konsekuensi pengungkapan risiko terhadap biaya utang Perusahaan. Penelitian mengenai biaya utang sangat relevan di Indonesia karena banyak perusahaan yang masih mengandalkan kreditor sebagai sumber pendanaannya.

INTRODUCTION

Information asymmetry occurs between management and parties outside the company. External parties want information from management to reduce information asymmetry, to reduce uncertainty, and risk (Watts & Zimmerman, 1986). Disclosure has a very important role for investors and stakeholders as the external parties. The failure of the securities issuers to provide signals to investors regarding the existence of business risks and financial risks is suggested to be one of the causes of the emergence of a financial crisis in the capital market. The business community demands Risk Disclosure to help predict the company's risk level (Alshirah & Alshira'h, 2023). Currently, risk management has become an important part of Corporate Governance, and a basic element of business management (Azarberahman, et al., 2021). Transparent risk disclosure is expected to provide benefits for shareholders and other stakeholders in obtaining accurate and reliable information to assess the company's risk conditions. Disclosure of risk also helps increase market confidence in the Company and can have a positive impact on the company's access to capital markets. The benefits of risk disclosure have been demonstrated by previous researchers. Elshandidy & Neri (2015) showed that RMD can increase market liquidity; Meanwhile, Nahar et al., (2016) stated that RMD can reduce the cost of capital. Research in Indonesia shows that risk disclosure influences profitability and company value (Supriyadi & Setyorini, 2020); Risk disclosure affects the cost of capital and bank performance (Utami & Ratmono, 2019). Risk Disclosure affects the cost of equity capital (Riskanah & Juliarto (2019). Different from previous research, this research wants to know the effect of risk disclosure on the cost of debt.

The cost of debt (COD) is the rate of return expected by creditors or debt providers. Debt is an alternative source of funding, besides equity. Creditors should consider the risk of the company when they want to buy debt securities or provide loans to the company. This risk will then determine the level of return expected by the creditor. Based on investment theory, risk is directly proportional to the expected return. When fund owners face high uncertainty (risk), they will demand a high rate of return, and vice versa. One piece of information that can reduce uncertainty for creditors is risk disclosure made by the securities issuers. Thus, disclosure is one of the management decisions that can provide benefits for companies to obtain funds at lower costs. Management's success in obtaining debt at low costs can also reflect management performance that needs to be rewarded. COD can also affect financial performance, such as profitability or Economic Value Added. This performance will then maximize firm value which will maximize shareholder welfare.

This research is more interested in the problem of cost of debt, compared to the cost of equity capital. Researchers give two reasons for this. Firstly, the expenditure to pay debt obligations is a more real and certain obligation than equity capital expenditure which is more hypothetical. Expenditures related to debt directly affect the company's cash flow and affect the company's profit and loss, thereby influencing assessment of management performance. The second reason is that the burden that the company must bear due to debt decisions also influences the risk of company bankruptcy so the negative impact caused by errors in debt policy can cause serious problems for the company's sustainability. This is also reinforced by the fact about the bankruptcy of several companies in Indonesia caused by debt, for example, Nyonya Meneer and PT Sari Wangi. This condition shows how important an analysis of the cost of debt is.

Several studies abroad have examined the cost of debt, which is linked to integrated reporting, for example, Gerwanski (2020); Muttakin et al, (2020), and Raimo et al, (2021). Their research results showed that the quality of integrated reporting can reduce the cost of debt. However, to the best of our knowledge, there has been no research that has looked at the relationship between risk disclosure and the cost of debt, either abroad or in Indonesia. Based on the description above, this study proposes the following research question: Does the risk disclosure decrease the Cost of Debt? This research question was answered by conducting a regression

test with the dependent variable Cost of Debt, and the independent variable risk disclosure. This research also includes several control variables that show company characteristics that can influence the cost of debt. The control variables used are company size (SIZE), firm leverage (LEV); Profitability (ROE), and Proportion of Independent Commissioners (IC). This research uses data on the consumption sector, for the research period 2019 to 2022. The consumption sector is a sector that is not too affected by bad economic conditions due to the pandemic situation not yet recovering, because it produces primary needs goods, so demand for this product is relatively stable compared to non-primary products.

The article will be carried out systematically as follows: Literature review, Hypothesis Formulation, Research Methods, Results and Discussion, and Conclusion.

LITERATURE REVIEW

Agency Theory and Signal Theory

The two theories most often used to explain disclosure at the company level are agency theory and signaling theory. Agency theory explains that there is a conflict of interest between owners and agents in managing company assets (Jensen & Meckling, 1976). When information asymmetry appears between management and external owners, it can result in managers behaving opportunistically as a result of moral hazard and adverse selection (Watts & Zimmerman, 1986). Realizing the existence of information asymmetry, management tries to give signals to external parties, to provide confidence that they have implemented good corporate governance. This signal is manifested in the form of various types of disclosure, both financial and non-financial. Diamond & Verrecchia (1991) stated that extensive disclosure can reduce information asymmetry. Disclosure is part of company information related to governance Company, so it becomes a positive signal because through this information investors can assess the prospects of a company. According to signal theory, extensive disclosure can give a signal to the market to improve the company's image (Verrecchia, 1983). According to Leuz & Verrecchia, (2000), and Cormier et al., (2011), corporate disclosures tend to reduce information asymmetry. Core et al (2015) suggested that corporate disclosures tend to reduce the cost of capital. The positive signal given by management with disclosure, external parties are expected to respond positively by making it easier for the Company to obtain capital at low costs.

Risk disclosure

There has been much discussion about the benefits of disclosure. This discussion not only involves researchers but also involves managers and decision-makers. The benefits of disclosure in reducing the cost of capital have been shown by several previous researchers (Diamond & Verrecchia, 1991; Easy & O'Hara, 2004; Khlif & Souissi, 2010; Botosan, 1997; Gietzmann & Ireland, 2005; Zhang & Ding, 2006; Lopes & de Alencar, 2010).

Risk disclosure is a disclosure of the risks that the company manages to minimize future risks. Risk disclosure can be used as a strategy to ensure to maintenance of relationships with stakeholders. It is hoped that this risk disclosure can help stakeholders make decisions. Risk disclosure carried out by the company can provide information to stakeholders in decision-making, reduce asymmetric information, and improve the quality of the company's financial reports. Risk is defined as the possibility of several events occurring that could result in loss. The previous research indicated that risk disclosure can reduce the level of agency problems and information asymmetry (Salomon et al., 2000; Alshirah et al, 2021). Risk disclosures can help stakeholders obtain the information needed to understand the risk profile and how management manages risk. Information regarding company risk disclosure is contained in the company's annual report. In signaling theory, it is said that to make an investment decision, investors need good information from the capital market as an analytical tool. The information

published becomes an announcement that will provide a signal for investors to make investment decisions.

Cost of Debt

Botosan (1997) defines the cost of capital as the minimum rate of return expected by investors who are willing to provide their funds to the company. Fund providers can come from investors (shareholders) and creditors. The financial costs paid to investors are referred to as the cost of equity; while the costs paid to creditors are called the cost of debt. Thus, the cost of debt is the real cost incurred by the company to obtain funds from creditors. Financing through debt is funding that comes from external parties. Creditors are willing to provide funding to the company in the hope of receiving appropriate rewards. This return is a representation of the risks borne by creditors because they have provided funds to the company (debtor). From the company's side, these rewards are the costs that must be incurred to obtain this funding. In the concept of financial management, this cost is called the cost of debt.

An investment with a rate of return above the cost of capital can increase the value of the Company, and conversely, an investment with a rate of return below the cost of capital will reduce the value of the Company. The definition of the rate of return can be seen from two sides. From the investor side, the level of company profits is influenced by the level of risk, assets owned, and capital structure, as well as other factors such as the quality of management. From the perspective of a company that needs funds, the high or low level of profit requested by creditors or debt securities holders is a cost that must be incurred to obtain the debt funds and is referred to as the cost of debt.

Hypothesis Development

The Risk Disclosure is a signal that management has been able to identify, manage, and anticipate risks well so that the chance of events occurring that endanger the company becomes lower. This is a positive signal that will increase creditor confidence. If creditor confidence is high, then they will be willing to provide loans at lower costs. The higher the quality of risk disclosure, the lower the cost of debt. Several studies have demonstrated the benefits of presenting quality risk disclosure. Nahar et al (2016) state that a company's cost of capital becomes lower if the quality of risk disclosure is better. Other research shows that social disclosure reduces the cost of debt (Najah & Jarbou, 2013); Financial disclosure reduces the cost of debt (Amrah & Hashim, 2020); Environmental disclosure reduces the cost of debt (Luo et al., 2019); Integrated disclosure reduces the cost of debt (Raimo et al., 2021). Based on signal theory and referring to several previous studies, this research proposes the following hypothesis:

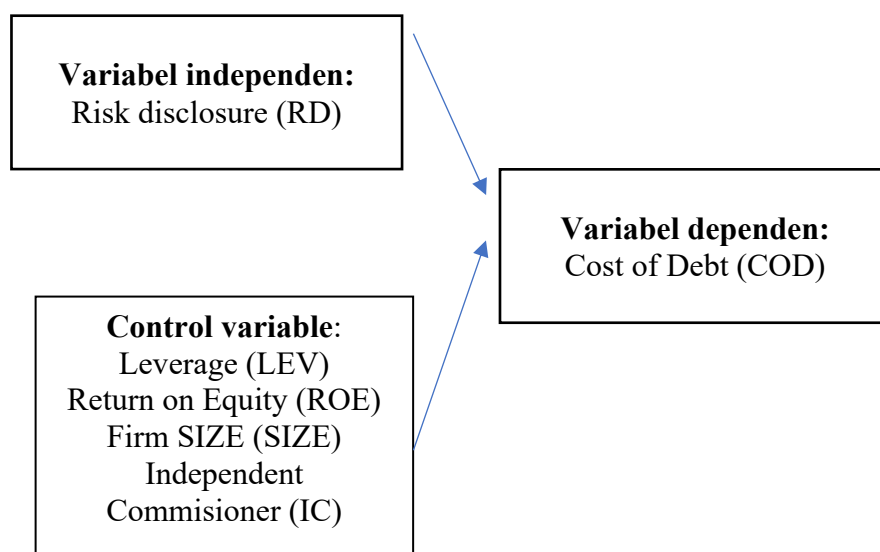
H1: Risk disclosure has a negative influence on the cost of debt.

Control Variables

This research uses control variables for econometric analysis. to be better (Eliwa et al., 2019; Raimo et al; 2021). The control variables used are Return On Equity (ROE), Firm Size (SIZE), Leverage (LEV), and Independent Commissioner (IC). COD is predicted to have a positive relationship with LEV, and a negative relationship with ROE, SIZE, and IC. The higher the company's profitability, the cheaper the funds will be, because investors perceive that a company with high profitability will have little risk. The larger the size of the company, it is hoped that it will gain easier and cheaper access to funding. So, SIZE has a negative influence on COD. The greater the proportion of independent commissioners is considered to have more effective supervision, so they can obtain cheaper funds. Companies with high leverage are identified with a higher risk of bankruptcy, so obtaining funds at higher costs.

Research framework

Based on the explanation above, the framework for this research is as follows:



RESEACH METHODS

Population and Sample

This research is a quantitative study that examines the effect of Risk disclosure on the Cost of Debt. The population in this research is consumption sector companies listed on the Indonesia Stock Exchange for the period 2019 to 2022. The research sample was selected using purposive sampling with the criteria of having complete research data for all variables during the research period. This research obtained 32 samples of consumption companies, over 4 years, so 128 observations were obtained and analyzed.

Variable

The dependent variable in this research is the cost of debt (COD); and the independent variable is Risk disclosure (RMD); Control variables are Return on Equity (ROE), Leverage (LEV), Firm Size (SIZE), and Independent Commissioner (IC).

Cost of Debt

The cost of debt is the interest cost borne by the debtor in connection with the debt they have. This variable is measured by interest expense divided by total debt multiplied by (1-Effective Tax Rate), or written as follows (Azarberahman, et al, 2021):

$$COD = (Interest\ expense \div Total\ Liabilities) \times (1 - ETR)$$

Risk disclosure (RD)

RMD is the level of risk disclosure presented by the company. This variable is measured by the percentage of risk disclosure to the maximum disclosure items required. Risk disclosure is known through content analysis sourced from the annual report. This risk disclosure is grouped into 6 (six) types of risk, namely (1) Financial Risk; (2) Operating Risk; (3) Empowerment Risk; (4) Information, Processing, and Technology Risk; (5) Integrity Risk, and (6) strategy Risk. Each risk group has several items (components), and in total 41 items must be disclosed by the company. Researchers will give a score of 1 for each item that is disclosed, and a score of 0 for items that are not disclosed. The total score disclosed is then divided by the total number of items required, namely 41 items, to obtain the disclosure percentage score. The calculation of the risk disclosure score in this research follows previous researchers, namely Linsley & Shrivs (2006), Puspaningrum & Taswan (2020).

$$RD = \frac{\text{number of items disclosed}}{\text{Total item required}} \times 100$$

Control Variables

The control variable in this research is Return on Equity (ROE), namely the ratio between Net income and Total Equity; Firm Size (SIZE), which is measured using the natural logarithm of Total assets; Firm leverage (LEV) is measured using the ratio of total debt to total assets; Independent Commissioner (IC), namely the ratio of the number of independent commissioners to the total board of commissioners.

Research Analysis Tools

Hypotheses were tested with panel data regression, and using EVIEWS. The regression equation is as follows:

$$COD = C + \beta_1 RD + \beta_2 ROE + \beta_3 LEV + \beta_4 SIZE + \beta_5 IC + \epsilon_{it}$$

Panel data regression testing can be carried out with 3 alternative types of models, namely Common Model (CM), Fixed Model (FM), or Random Model (RM). To determine the best testing model, it is necessary to carry out the CHOW test and the Hausman test. The CHOW test is used to determine whether the Fixed Model (FM) is better than the Common Model (CM). The Hausman test is used to test whether the Random Model (RM) is better than the Fixed Model (FM). Decision-making criteria are as follows: If the CHOW test results show at the sign level <0.05 , then the FE model is better than the CM model. In the Hausman test, if the sign <0.05 , then FE is better than RM. Table 1 displays the test results to select the best model. Based on the test results, It was concluded that RM best suited the existing panel data, so this research used regression with RM.

Table 1. Test results for selecting a panel data regression model

Model testing	Statistics	P-value	Result
F (CHOW) Test	72, 5364	0,0001	P value $<0,05$; FE is better than CM
Hausman Test	0,8084	0,9765	P value $>0,05$; RM is better than FE
Conclusion	The Random Model best fits the existing data		

RESULT AND DISCUSSION

Table 2
Result of Regression

Random Effect Model					
Dependent Variable: Cost of Debt (COD)					
Variable	Sign Predicted	Coefficient	t-Statistic	Prob	Result
C		0.0303	1.9636	0.0519	
RD	Negative	0.0978	2.4666	0.0150*	Significant Positive
ROE	Negative	0.0001	0.0396	0.9685	Not Significant
LEV	Positive	0.028528	1.5959	0.1131	Not Significant
SIZE	Negative	-0.0004	-2.1716	0.0318*	Significant Negative

IC	Negative	-0.0680	-2.2530	0.0260*	Significant Negative
F-Statistic		4.5808			
Prob F-Statistic		0.0007			
R-squared		0.1581			
Adjusted R-squared		0.1236			

Source: Data analyzed, 2024

** . significant at the 0.01 level

* . significant at the 0.05 level

The results of hypothesis testing using panel data regression show that the coefficient for risk disclosure on debt costs is 0.0978 in a positive direction with a probability level of 0.0150 (<0.05). Thus, these results show that the higher risk disclosure has an impact on the higher cost of debt. The results of this analysis are not in line with the proposed hypothesis, which states that the level of risk disclosure has a negative influence on the cost of debt, so the research hypothesis is rejected. The results of this research are also not in line with most previous research, which generally showed that the level of disclosure has a negative influence on the cost of debt. For example, Raimo et al (2021) showed that the quality of Integrated disclosure influences COD negatively; Voluntary disclosure has a negative influence on COD (Lopes & de Alencar, 2010; Abdi & Omri, 2020); Financial disclosure has a negative influence on COD (Muttakin et al., 2020; Amrah & Hashim, 2020); sustainability disclosure has a negative influence on cod (Eliwa et al., 2019; Shad et al., 2020). Results that do not support this hypothesis are interesting for deeper analysis. The positive direction of the coefficient indicates that the higher the level of disclosure, the higher the cost of debt. Based on the results of this analysis, several interpretations can be explained. Fund owners, especially creditors, consider that companies that display increasingly extensive risk disclosures are considered to have a higher risk. This will increase the worries of fund owners, so they require a higher rate of return, which can make the higher COD. In addition, it should be noted that there may be other factors that can influence the relationship between risk disclosure and the cost of debt, for example, economic conditions. This research period was carried out in a period that was still affected by the pandemic, so it could influence the relationship between variables. In crisis conditions such as a pandemic, it will increase uncertainty for fund owners, so that they are less likely to trust the results of their decisions to the information provided by the Company, instead, they rely more on macro conditions in predicting business risks.

The test results show that the control variables SIZE and IC have a negative influence on COD, so these results are in line with expectations. Companies with high SIZE indicate that the larger the company size, the greater the possibility of obtaining debt at lower costs because it is considered more stable and stronger in facing a crisis. The IC variable also has a negative influence on COD. The higher the proportion of independent commissioners, the creditors interpret as a company with a tighter level of supervision, so the risk of failure is lower. This will result in creditors being willing to accept a lower return on the funds handed over because they face a lower risk of failure. The profitability measured by ROE does not affect COD, which is not in line with expectations. In bad economic conditions (due to the pandemic), companies with high profitability do not provide enough optimism for creditors, so high profitability does not influence the cost of debt. The impact of the pandemic has not yet fully recovered, causing global economic uncertainty, and creditors may be more careful in assessing risks. Even though a high ROE indicates good performance, creditors may focus more on macroeconomic risks that can affect the Company's risk. The same reason also applies to the Company's Leverage (LEV), where LEV information is not considered when determining the expected return for creditors, so information about LEV does not affect COD.

CONCLUSIONS

Based on the results of this research, risk disclosure does not negatively influence the company's cost of debt, but shows the opposite result, namely risk disclosure has a positive effect on the cost of debt. Companies with wider risk disclosure will increase their debt costs because creditors assess them as companies with higher risk.

The research results show that the influence of the control variables, SIZE and IC on COD is in line with expectations, where SIZE and IC significantly negatively affect COD. The larger the company's size, the greater the possibility of obtaining debt at lower costs, because it is considered more stable and stronger in facing a crisis. The IC variable also has a negative influence on COD. The higher the proportion of independent commissioners, the more creditors interpret as a company with a strict level of supervision, so the risk of failure becomes lower. This will result in creditors being willing to accept a lower return on the funds handed over because they face a lower risk of failure. The control variables ROE and LEV do not affect COD. This means that information on the Company's profitability and the Company's leverage level are not taken into consideration by creditors in determining the cost of debt.

This research provides implications for companies to be able to use a balanced approach in presenting risk disclosures, so as not to increase excessive anxiety for creditors which will have an impact on increasing debt costs. Risk disclosure must also be accompanied by good communication with creditors about how the company manages risks that may occur. Future researchers should control or include context factors, such as economic conditions, government policies, or industrial sectors, in examining the relationship between disclosure and the cost of debt. Future research can use different periods to confirm whether economic conditions or stability influence investor confidence in company data.

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