IC-71

RISK DISCLOSURES AND FIRM VALUE OF COMPANIES IN THE TOURISM INDUSTRY IN MALAYSIA: THE EFFECT OF COVID-19

Siti Haliza Asat[1♣]
MARA University of Technology, Kelantan, Malaysia
haliza710@uitm.edu.my

Barbara Belinda James[2]
MARA University of Technology, Malaysia
barbara@polikk.edu.my

Rosliza Bahari[3]
MARA University of Technology, Kelantan, Malaysia
liza603@uitm.edu.my

Abstract: The value of the company and its shareholders have been significantly impacted by accounting scandals and the COVID-19 pandemic, raising concerns about the risks associated with the enterprises under investigation. The COVID-19 outbreak has raised awareness of business hazards, particularly for companies in the tourism sector, who have been hardest hit. The purpose of this study is to provide insights on how much information is disclosed about risks and how the four types of risk disclosures – financial, strategic, environmental, and operational – affect firm value. The data used in this analysis was taken from the annual reports of companies in the tourism industry for the five years between 2017 and 2022, with the year 2020 excluded. This study found that operational and financial risk disclosure levels were low prior to COVID-19 but increased to a reasonable level following the pandemic. Throughout both times, there is still very little environmental and strategic risk disclosure. Additionally, this study discovered that disclosures about operational, strategic, and environmental risks significantly affected the firm value prior to the COVID-19 pandemic. The association between firm value and financial risk disclosures, however, was not significant. There is no discernible correlation between any category of risks and firm value in the post-COVID-19 period. Future research on the effects of risk disclosures by categories should be conducted so that the firm's management will understand the significance of disclosing relevant risks and how doing so affects the value of the company.

Keywords: Environmental Risk, Financial Risk, Firm Value, Operational Risk, Strategic Risk

1. Introduction

After the outbreak of COVID-19 pandemic, business operations have been more complex and uncertained compared to the time before the pandemic, where in Malaysia, Movement Control Order (MCO) was enforced for almost 2 years, starting from 18 March 2020 to 1 November 2021. Companies were faced with more challenges in conducting business as they were exposed to higher risks that restrain performance and the challenge of staying afloat since potential investors put on hold from investing in companies (Kinyar, 2020). This study is conducted in response to one of the matters highlighted by Ali (2013) and Bravo (2017), which is to what extent is risk information disclosure in annual reports and also the importance of risk disclosures to firms' value (Marta, 2021; Alsheikh et al., 2021; Abid & Shaique, 2015; Abdel-Azim & Abdelmoniem, 2015; Latif et al., 2022). Hence, the first objective is to fill the gaps in the literature by examining the level of risk disclosures of the tourism industry, specifically companies listed under the Travel, Leisure, and Hospitality Sector in Bursa Malaysia. The second to fifth objectives are to determine the relationship between four types of risk disclosures and firm value.

2. Literature Review

♣ Corresponding author: MARA University of Technology, Kelantan, Malaysia, haliza710@uitm.edu.my

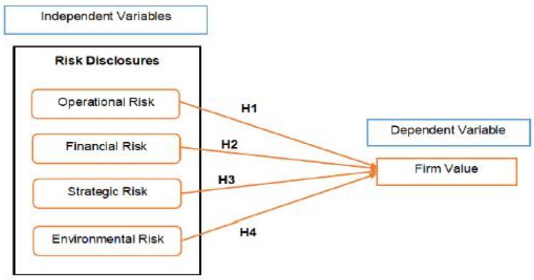
2.1. Risk Disclosures and Firm Value

Latif et al. (2022) stated that risk disclosure can increase a firm's transparency and can be used by investors and other stakeholders to value the firm. If companies can show and prove in the financial report that they are managing their substantial risks effectively, then they will be able to maximise their firm value (Savitri et al., 2020). In the United Kingdom, Marta (2021) found that risk disclosure is negatively associated with firm value. In contrast, Bravo (2017) found that the level of voluntary risk disclosure is positively related to firm value. In Egypt, Abdel-Azim and Abdelmoniem (2015) found a negative relationship between corporate voluntary disclosure and firm value and a positive relationship between voluntary disclosure and firm value. In Malaysia, Latif et al. (2022) found that risk disclosure has a significant impact on firm value. Findings by Kamaruzaman et al. (2019) stated that corporate risk disclosure has an impact on firm value but in a negative way. While a study done by Mohammad and Wasiuzzaman (2021) found that ESG disclosure has a positive relationship with firm value.

2.2. Conceptual Framework

Figure 1 below is the conceptual framework of this study. Independent variables are the four types of risk disclosures, which include operational risk, financial risk, strategic risk, and environmental risk, while firm value is the dependent variable.

Figure 1: Conceptual Framework of the Study



3. Research Methodology

3.1. Research Approach and Study Design

This study is a quantitative research approach based on the content analysis technique to analyse the relationship between risk disclosures and firm value. A list of companies related to the tourism industry available in the main market was collected from Bursa Malaysia's website, where data were collected from annual reports of a selected firms for 5 years, starting from 2017 to 2022, excluding the year 2020.

3.2. Population and Sampel Size

The population of this study is taken from the Consumer Products and Services Companies sector listed in Bursa Malaysia, and specifically from the sub-sector of travel, leisure, and hospitality firms because these are the firms that can be related to the tourism industry in Malaysia. The total sample selected for this study was 90 annual reports.

Table 1: Samples Examined According to Periods

Period	Pre Covid-19 (N=54)			Post Covid-19 (N=36)	
Year	2017	2018	2019	2021	2022
Total Annual Reports	18	18	18	18	18
Total N = 90					

3.3. *Data Collection Procedures*

The data collected for this study are dependent and independent variables. Content analysis was used to extract independent variables, which were risk disclosure information that include operational risk, financial risk, strategic risk, and environmental risk disclosure, while the dependent variable was the firm value, where the data needed to calculate Tobin's Q were collected from financial statements of the firms and the share price was taken from the ShareInvestor (2023) database.

4. Results and Discussion

4.1. *Level of Risk Disclosures*

As presented in Table 2, the most reported risk categories were operational risk and financial risk, where the total number of sentences disclosed in the annual reports increased over the years, except for 2022. For strategic risk and environmental risk, it also shows an increase in the number of sentences from 2017 to 2022.

Table 2: Total Number of Sentences Disclosed for every Category of Risk from 2017 to 2022

RISK DISCLOSURES	2017 (N=18)	2018 (N=18)	2019 (N=18)	2021 (N=18)	2022 (N=18)	TOTAL RISK
Operational Risk Disclosure (ORD)	902	914	937	1122	1156	5031
Financial Risk Disclosure (FRD)	802	876	964	1078	1060	4780
Strategic Risk Disclosure (SRD)	110	111	139	176	167	703
Environmental Risk Disclosure (ERD)	94	106	142	217	214	773

4.2. *Inferential Analysis*

Table 3 shows the value of Pearson Correlation, which is the correlation coefficient, and the p value, which is the Sig. (2-tailed) for the pre-COVID-19 period.

Table 3: Correlation Matrix of Risk Disclosures and Firm Value in 2017, 2018 and 2019

		ORD	FRD	SRD	ERD	FV
ORD	Pearson Correlation	1				
	Sig. (2-tailed)					
FRD	Pearson Correlation	**0.322***	1			
	Sig. (2-tailed)	0.018				
SRD	Pearson Correlation	**0.518****	**0.493****	1		
	Sig. (2-tailed)	0.001	0.001			
ERD	Pearson Correlation	**0.395****	**0.604****	**0.389****	1	
	Sig. (2-tailed)	0.003	0.001	0.004		
FV	Pearson Correlation	**0.456****	0.197	**0.336***	**0.281***	1
	Sig. (2-tailed)	0.001	0.153	0.013	0.039	
**. Correlation is significant at the 0.01 level (2-tailed)						
*. Correlation is significant at the 0.05 level (2-tailed)						

The results indicate that there was a positive relationship between operational risk disclosure (ORD) and firm value (FV), and it was statistically significant at 1%. Hence, hypotheses H1 can be confirmed. It means that the higher the ORD in annual reports, the higher will be the FV. For financial risk disclosure (FRD), the result indicated a positive relationship between FRD and the firm's value in the pre-COVID-19 period. It means that the higher the FRD in the annual report, the higher the FV. However, the coefficient for FRD was not statistically significant. Therefore, hypothesis H2 can be rejected. Strategic risk disclosure (SRD) was positively related to the firm's value in the pre-COVID-19 period, and the relationship was statistically significant at 5%. It indicates that firms with higher SRD will have a higher FV. Therefore, hypothesis H3 can be confirmed. Environmental risk disclosure (ERD) was positively related to FV in the pre-COVID-19 period, and the relationship was statistically significant at 5%. It indicates that firms with higher ERD will have a higher FV. Therefore, hypothesis H4 can be confirmed.

Table 4 shows the value of Pearson Correlation. The results presented indicate that in the post COVID-19 period, correlations between risk disclosures and firm value were not significant. This could be because of COVID-19 on the economy, and especially on the Tourism Industry, where even though the number of risk disclosures increases, the firm value of most of the firms that has significantly dropped during the COVID-19 were still at a low value. This result is supported by Widiastuti et al. (2022) who found abnormality in the accounting numbers during and after the outbreak of Covid-19.

Table 4: Correlation Matrix of Risk Disclosures and Firm Value in 2021 and 2022

		ORD	FRD	SRD	ERD	FV
ORD	Pearson Correlation	1				
	Sig. (2-tailed)					
FRD	Pearson Correlation	0.200	1			
	Sig. (2-tailed)	0.242				
SRD	Pearson Correlation	**0.531****	**0.350***	1		
	Sig. (2-tailed)	0.001	0.037			
ERD	Pearson Correlation	**0.650****	0.326	**0.553****	1	
	Sig. (2-tailed)	0.001	0.053	0.001		
FV	Pearson Correlation	0.192	0.247	0.206	0.079	1
	Sig. (2-tailed)	0.261	0.147	0.229	0.646	
**. Correlation is significant at the 0.01 level (2-tailed)						
*. Correlation is significant at the 0.05 level (2-tailed)						

4.3. Inferential Analysis

Table 5 shows Model 1 Summary and ANOVA, which refers to the pre-COVID-19 period. The value of R2 of 0.230 indicates that about 23% of the variation in the firm value can be attributed to the changes in ORD, FRD, SRD, and ERD. The regression model of the ANOVA shows that the F-value was statistically significant to predict the dependent variable, as the significant value (p-value) was 0.011, which is less than the common significance level of 0.05, and the F-ratio was F (4,49) = 3.669, which means that the regression model is a good fit of the data.

Table 5: Model 1 Summary and ANOVA

Model		R	R Square	Adjusted R Square	Std Error of the Estimate	
1		0.480[a]	0.230	0.168	0.44292	
		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.879	4	0.720	3.669	0.011[b]
	Residual	9.613	49	0.196		
	Total	12.492	53			
a. Dependent Variable: Firm Value (Tobin's Q)						
b. Predictors or R: (Constant), Operational Risk Disclosure, Financial Risk Disclosure, Strategic Risk Disclosure, Environmental Risk Disclosure						

Table 6 shows the Coefficient Model for 1 regression in the pre-COVID-19 period. The general form of the equation to predict the FV from ORD, FRD, SRD, and ERD is presented as:

Model 1: Firm Value = 0.450 + 0.011(ORD) - 0.002(FRD) + 0.018(SRD) + 0.014(ERD)

4.4. *Discussion of Results*

For the first objective, this study found that the level of risk disclosures for all categories of risk has increased in the post-Covid-19 period, where in 2021 and 2022, the total ORD and FRD were more than 1000 sentences, compared to the pre-Covid-19 period, where both disclosures were less than 1000 sentences. For the SRD, the total disclosures in the post-Covid-19 periods were more than 150 sentences. The ERD also shows great improvement in the disclosures by firms, where in the post-Covid-19 period, the total disclosures were more than 200 sentences, as compared to 2017 to 2019.

For the second objective, this study found that there was a significant positive relationship between ORD and FV in the pre-COVID-19 period. For the third objective, this study found that there is no significant relationship between FRD and FV in the pre-Covid-19 period. For the fourth objective, this study found that SRD is positively related to the FV in pre-Covid-19. And finally, for the fifth objective, this study found that ERD is positively related to the FV in pre- COVID-19. This study’s findings differ for pre- and post- COVID-19. The significant findings in the pre- COVID-19 period were similar to most of the prior research and support the signalling theory. The results for the relationship between risk disclosures and the FV in the post-Covid-19 period show no significant relationship. This may be due to COVID-19, where the firms were unable to operate their business as the Movement Control Order (MCO) was implemented during the pandemic to prevent the spread of COVID-19 in Malaysia. .

5. Conclusion

Table 6 shows the summary of the risk disclosure level of the firms. The risk disclosure level for ORD and FRD were improved in the Post Covid-19 period with a moderate level of disclosure. Meanwhile, the disclosure level for SRD and ERD is still at a minimal level in both periods. This study found that the firms are focusing more on the ORD and FRD, compared to SRD and ERD.

Table 6: Summary of Level of Risk Disclosure for both Periods

	Pre Covid-19	Post Covid-19
ORD	Low	Moderate
FRD	Low	Moderate
SRD	Minimal	Minimal
ERD	Minimal	Minimal

The summary of the findings of this study is that ORD, SRD and ERD were found to have significant positive relationship with FV in the Pre-COVID-19 period, and FRD was found to have no significant impact on FV. Meanwhile, in the Post Covid-19 period, there was no significant relationship between risks and FV.

Several limitations need to be taken into consideration. Firstly, the periods chosen to conduct this study were the periods when all firms were having difficulties in operating their businesses and, most importantly, generating revenues. Secondly, the measurement used for the risk disclosures was on the quantity of disclosures, which is sentences count, but not on the quality of the risk disclosures. Thirdly, the firms chosen to be examined in this study are only the firms under the tourism industry, which is among the most affected industries due to the outbreak of COVID-19.

There are a few suggestions for future researchers in this area of study. Firstly, the period chosen should be the time when there is no extraordinary event happening in the economy or the country. Secondly, future researchers should develop a method of scoring or measurement for both the quantity and quality of risk disclosures in annual reports. Thirdly, future research may also include a qualitative approach to get more in-depth information about risk disclosures, such as using interviews and case studies to probe into arising issues that exist in the firms. Fourth, future research on risk disclosures' impact on FV should be conducted in a bigger industry, not just in the tourism industry.

6. References

Journal Articles:

Abdel-Azim, M. H. & Abdelmoniem, Z. (2015). Risk Management and Disclosure: The Case of Egypt. International Journal of Business, Accounting & Finance, 9(1), 1-14.

Abdullah, M., Shukor, Z. A., Mohamed, Z. M. & Ahmad, A. (2015). Risk Management Disclosure: A Study on the Effect of Voluntary Risk Management Disclosure Toward Firm Value. Journal of Applied Accounting Research, 16(3), 400-432.

Abid, A. M. & Shaique, M. (2015). A Study of Risk Disclosures in the Annual Reports of Pakistani Companies: A Content Analysis. Research Journal of Finance and Accounting, 6(11), 14-24.

Alsheikh, A., Hassan, M. S., Mohd-Saleh, N., Abdullah, M. H. & Alsheikh, W. (2021). Firm's Size, Mandatory Adoption of IFRS and Corporate Risk Disclosure Among Listed Non-Financial Firms in Saudi Arabia. Asian Academy of Management Journal of Accounting and Finance, 17(2), 1-28.

Bravo, F. (2017). Are Risk Disclosure an Effective Tool to Increase Firm Value? Managerial and Decision Economics, 38(8), 1116-1124.

Kamaruzaman, S. A., Ali, M. M., Ghani, E. K. & Gunardi, A. (2019). Ownership Structure, Corporate Risk Disclosure and Firm Value: A Malaysian Perspective. International Journal Managerial and Financial Accounting, 11(2), 113-131.

Latif, R. A., Mohd, K. N. T. & Kamardin, H. (2022). Risk Disclosure, Corporate Governance and Firm Value in an Emerging Country. Asian Economic and Financial Review, 12(6), 420-437.

Marta, T. (2021). Risk Disclosure and Firm Value: Evidence from the United Kingdom. Central European Economic Journal, 8(55), 15-24.

Savitri, E., Gumanti, T. A. & Yulinda, N. (2020). Enterprise Risk-based Management Disclosures and Firm Value of Indonesian Finance Companies. Problems and Perspectives in Management, 18(4), 414-422.

Widiastuti, H., Utami, E. R. & Purnamasari, E. (2022). Forward-Looking Information Disclosure and Firm Value in the Pandemic Era. Jurnal Riset Akuntansi Kontemporer, 14(2), 261-269.

Doctoral dissertation or Master's thesis:

Ali, M. M. (2013). *Corporate Risk Disclosure, Upper Management Characteristics, Ownership Structure and Firm Value: Malaysian Evidence* (Unpublished doctoral dissertation). RMIT University, Australia.

Kinyar, A. (2020). *The Effect of the Adoption of Enterprise Risk Management on Firm Value: Evidence from North American Energy and Natural Resources Sector* (Unpublished doctoral dissertation). University of Wales Trinity Saint David, UK.

Internet documents/webpages:

ShareInvestor. (2023). *Stock Prices*. Retrieved November 13, 2023, from https://www.shareinvestor.com/prices/stock_prices.html. Retrieved from www.shareinvestor.com