

An Empirical Study on Capital Structure Decisions in Determining Risk Information Disclosure in Bursa Malaysia ACE Market

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Past studies highlight the importance of communicating potential risk occurrences to the shareholders, in line with the commitment to upholding a principle of transparency through voluntary disclosure. This study aims to examine the influence of capital structure decisions on risk information. A sample of 270 companies listed under the ACE Market in Bursa Malaysia, covering a three years' period from 2013 until 2015 is chosen. This study employs a quantitative method and content analysis to meet the objective of the study. Factors of short-term debt, long-term debt, total debt, company growth, company size and industry are examined to explain the variation in risk information disclosure. The findings observe a moderate level of risk information disclosure practice among ACE Market companies, whereby most of the companies are more inclined to disclose mandatory risk instead of voluntary risk information. Also, the multiple regression results show that only company growth and size have a significant influence on risk information disclosure. Other factors indicate insignificant results on risk information disclosure. The results discover lower debt consumption among ACE Market companies contributing to low-risk occurrences exposure that resulted in low-risk disclosure. This study highlights the importance of enhancing information disclosure among potential-to-growth companies in Malaysia on management capital structure decisions to mitigate potential risk occurrences.

Key words: Capital Structure, Risk Information



Introduction

Due to the 1997/1998 Asian financial crisis and the outbreak of US major corporate scandals, such as Enron and WorldCom, demand for better disclosure has increased particularly on the risk information as this information is much needed to ensure the accomplishment of business strategy. A number of studies have been conducted pertaining to the risk disclosure practices around the world including Malaysia (Abdelghany, 2005; Touron, Henneron & Combes-thue, 2006; Amran, Rosli, & Che Hat, 2009; Probohudono, Tower, & Rusmin, 2011; Elshandidy & Neri, 2015, and Zadeh, Zaleha, Rasid & Basiruddin, 2016).

In Malaysia, information disclosure and transparency concepts are not widely practised, although they are not new concepts (Razali & Mohd Adnan, 2012). In addition, the study by Amran et al. (2009) concluded that the companies in Malaysia are still in their infancy phase in communicating their risk information, as the risk disclosure remains a voluntary practices by Public Listed Companies (PLCs) since the amendments of the Malaysian Code of Corporate Governance (MCCG) in 2000. These were due to the current regulation on voluntary risk disclosure, less emphasised by regulatory bodies in Malaysia as compared to mandatory risk disclosure (Abdullah, Abdul Shukor, Muhammadun Mohamed & Zakiah Ahmad, 2015, Ambrose et al. 2016, Banerjee and Ofei, 2018, Bozorgian and Kanani, 2017, Bruce and Susan, 2017, Burcu Ozcan, and Ilhan Ozturk, 2019). The Malaysian standards and regulation such as Malaysian Financial Reporting Standard 7 (MFRS 7), MCCG (2012) and Recommended Practice Guide 5 (Revised), just requires companies to reveal voluntary risk information without specific details. The following study by Ali and Taylor (2014) and Zadeh et al. (2016) also indicated that the current disclosure level by Malaysian companies still at the minimal stage and insufficient for decision making (Cabedo and Tirado, 2004).

Nowadays, shareholders not only demand the information about company's financial position but also the information on what strategies would be undertaken by the company to mitigate their risks (Htay Nu, Sheila Nu & Salman, 2015). For instance, in the development of a new project, the financing method might be the choice between utilising its equity or debt or both in order to attain an optimal capital structure. Therefore, it is important to adequately determine which option provides no harm to business operation. The manager should choose the best choice of capital structure that would minimise their debt and bankruptcy risk that leads to maximising the company value (Dawar, 2014). Due to the high risk faced in financing decisions, it may lead to a reluctant of managers to disclose the relevant information and retain it as confidential information.

Furthermore, good strategies enabled companies to achieve superior performance and outperformed their competitors, thus enhance their performance. High-performance companies tend to have a lower risk of bankruptcy (Bjorklund, 2016; Bryan, Fernando &

Tripathy, 2013). Therefore, by having a good business strategy, companies are able to minimise the occurrence of the risk. Companies tend to adjust their capital structure decision according to their level of risk faced in accomplishing their goals (Rashid, 2015). Prior studies on corporate strategy had examined the relationship between the corporate decision on capital structure towards company performance, company value, company risk and corporate governance (Parsons & Chris, 2007; Salim & Yadav, 2012; Sheikh, 2015; Rashid, 2015 and Bjorklund, 2016). However, there are limited studies both internationally and in Malaysia that had been directly addressed on the link between corporate strategy and risk disclosure practice.

Thus, this study aims to examine the influence of corporate strategy of capital structure decision on the risk disclosure among Malaysian Public Listed Companies (PLCs). The capital structure is significant in corporate financing decisions, therefore it is crucial to empirically scrutinise the connection between capital structure and risk disclosure practices in Malaysia. This study is expected to enhance the understanding and create awareness among companies in Malaysia about the importance of having a sound business decision that serves as an indication of successful achievements of goals and objective of the business. This study extends the finding of previous literature, which addresses the important of disclosure information pertaining to the corporate strategy that would contribute to a positive impact on company valuation.

Literature Review and Hypotheses Generation

Defining Capital Structure

Capital structure is defined as the mix of company's liabilities (long term debt and short-term debt) and equity (common stock, preferred stock and retained earnings) (Koller, Goefhart & Wessels, 2010; Nilssen, 2014). In other words, a capital structure is considered as sources of fund, which deal with how a company finances its overall business operation by utilising different sources of funds (equity or debt). Debt is the financial obligation of a company to an external party, while equity is the obligation of business towards the owner. Myers (2001) defined equity as a "residual claim" which protect the company when the value of existing debt falls by maintaining their gain, yet when the value of the company is constant. As emphasised in prior studies, capital structure is an important aspect in reducing underinvestment problem suffer by companies. This is because the company's debt and equity will direct the company's decision on investment.

Capital structure is another way for the company to raise its capital through debt financing. Sometimes companies prefer to obtain debt instead of equity due to tax advantages offered for an interest charge on debt (Chittenden, Hall & Hutchinson, 1996). Other than that, equity is quite expensive as compared to debt and also non tax-deductible expenses (dividend

payment out of equity) to get taxable income (Damodaran, 2011). However, in the long-run, drawing equity could avoid the burden of debt since no payment should be made for equity. Based on a study by Fan, Titman, and Twite (2012), it is evidenced that the tendency for bankruptcy is high for countries who consume more debt (especially short-term debt) than equity. As such, a company with better protection for financial claimants would use more equity and comparatively more long-term debt.

Currently, there is limited literature on a capital structure which emphasised on the choice of financing decision (debt or equity financing), which is known as a vital part of the decision to be considered when obtaining funds (Kochhar and Hitt, 1998). A company's choices of corporate strategy is driving the choice of capital structure (Bjorklund, 2016). Specifically, capital structure decisions usually deal with how the company manages their funding either through debt or equity financing, leverage, business risk and growth opportunities. The company should evaluate how much debt and equity are available and subsequently determine either to finance through debt or equity in pursuing their objectives (Lang Larry & Ofek Eli, 1994). Furthermore, Kochhar, Rahul and Hitt (1998) discovered that the mutual relationship exists between corporate strategy and capital structure, which emphasised on diversification and financing strategies of the company. Particularly, the company's financing decision on their capital structure choice broadly influenced by how they choose their corporate strategy (Parsons & Chris, 2007; Bjorklund, 2016). The Institute of Chartered Accountants in England and Wales (ICAEW) ICAEW, 2000 express that "risk can only be appreciated in the broader context of a company's strategy." The information pertaining to business strategy should be accounted for in risk reporting. It was evidenced in the study conducted by Beretta and Bozzolan (2004) that most of the risk reported by Italian listed companies are on business strategy and company financial structure.

The association between capital structure and agency theory has been proposed by (Jensen & Meckling, 1976). The author argues that a company with high debt financing would incur high agency cost since high debt holding increases the tendency for companies to deliver the money to a shareholder. In Malaysia, the practice or choice of capital structure decisions mainly influenced by the capital structure theory including agency theory (Ibrahim, Alias & Haron, 2012). Agency cost theory proposed that small company comparatively use less short-term liabilities as compared to long-term liabilities. This is due to an elevated risk of bankruptcy and long-term financing cost faced by small companies. Thus, they preferred to use short-term debt financing (Myers, 2001). According to Pandey (2002), agency cost theory is supported by the consumption of high debt in a company which resulted from high borrowing to finance the risky project (high cost). The company willing to obtain high borrowing cost in order to maximise their company's value simultaneously will benefit the shareholder regardless of high risks incurred.

According to the agency theory, the company needs to publish relevant risk information in the annual report to confirm they serve in the best interests of the shareholders and debt holders as well as reducing the information irregularity problem which arises from different information provided and received by the whole group of stakeholders (Healy & Palepu, 2001). However, some managers refuse to disclose the risk due to self-interest. The demand for information by an investor from a big company is much more extensive when compared to the medium and small company. This heightened the commitment of the large company to adequately publish relevant information in fulfilling the investors needs. The extensive disclosure made by a large company had reduced the agency cost as well as information asymmetries (Hossain, Tan, and Adams, 1994). Agency theory stated that a high leverage company would have a good risk disclosure practice because it can minimise the agency problems and information asymmetry.

Risk Disclosure

Risk is an essential part of the information that should be disclosed by companies for the sake of the stakeholder. Linsley and Shrivies (2006) express “risk disclosure if the reader being is informed regarding any opportunity, prospect, or of any hazard, danger, harm, threat or exposure, that has already impacted upon the company in the future or of the management of any opportunity, prospect, hazard, harm, threat or exposure,”. Basically, the risk can be viewed as any situation which brings the unpleasant event in nature either a positive or negative effect for the company. While, Beretta and Bozzolan (2004) viewed risk disclosure as the reporting of information pertaining to the company’s strategies, characteristics, operations and other outside factors which possibly affect the company’s anticipated outcome. As stated by Malaysia Financial Reporting Standard 132 (MFRS 132): Financial Instruments – Disclosure and Presentation, the company needs to report information relating to credit risk, liquidity risk, market risk and interest rate risk in the annual report.

In Malaysia, the growing interest focuses on risk reporting, among Malaysian researchers, begin after the financial crisis in 1997. Based on the research done by Zadeh et al. (2016), they notice that there is a development in risk disclosure practices in Malaysia over the period of 2001 until 2011. It shows a positive trend that shows that Malaysian companies are currently good at practising risk disclosure. At the international level, Glaum and Street (2003) discovered the problem with disclosure practice among companies listed on Germany’s New Market. The result showed that companies who comply with International Accounting Standard (IAS) in preparing their financial statements face compliance problem with regards to certain disclosures relating to leasing, pensions, earning per share and financial instruments. Their findings reveal that only 30% of disclosure pertaining to credit risk is being published. The problems also occur when the company does not comply with United States General Accepted Accounting Principles (US GAAP) for certain disclosure on

financial instruments, relating to credit risk, whereby the result indicated only 50% of credit risk information is being published (Glaum & Street, 2003). The following study identifies that the risk disclosure made by the company is also motivated by their aim to reduce the cost of capital. The level of risk disclosure would be high for companies that intend to increase their capital through stock market listings (Basam & Morisson, 2009).

Risk disclosure could be mandatory or voluntary information about the company's risks faced in the current or future condition. A company is required to report the information that has been specified by regulation (Securities Commission's rules and regulations) and standards (Malaysian Financial Reporting Standards) including information which is voluntary in nature. Mandatory risk disclosure is compulsory information as stipulated by MFRS to be reported by Public Listed Companies (PLCs), through the enforcement of MFRS 7 Financial Instruments: Disclosure (Abdullah et al., 2015). While voluntary risk disclosure is not subject to compulsory requirements, however, the extensive voluntary disclosure is necessary because it has a possibility to affect business events, business risks and useful for investors to assess the company's decisions on various aspects. Additionally, non-mandatory risk hypothetically could provide a detailed explanation of uncertain business events (Amran et al., 2009; Linsley & Shrides, 2006; Dumay & Hossain, 2019).

Several studies examined that the company's choice of disclosure is closely related to company risk and the cost of debt. Normally big companies have lower debt consumption, therefore less burden of risk (Nikolaev & Lent, 2005). Further, Al-Shammari (2014) discovered that a high level of debt companies would disclose more risk information in order to attract more investor to invest in their company. They also believe that by exposing detail risk information, it discloses their ability to meet debt obligations. In contrast, Eng and Mak (2003) observed that companies with low debt consumption would probably not reveal their risk information since debt is considered as an alternative in coping with the free cash flow problem. The above arguments show that there is an association between the level of debt and risk disclosure. As a result, it is vital for companies to effectively manage their capital structure (leverage) decisions since it may influence the company's decisions on risk disclosure.

Mandatory risk disclosure becomes an essential part of the regulatory device that should be published to allow the users of financial statement to gather the risk information in the annual report without restraint from the management action (Brown, Goetzmann, Liang & Schwarz, 2008). It is compulsory for all public listed companies in Malaysia to publish their mandatory risk information which is set by the standards (MFRS). The requirement of mandatory risk disclosure is triggered by the existence of legal or statutory provisions, capital markets and stock-exchanges commissions (Adina, 2001). In general, mandatory risk disclosure is the statement of a company's financial information. It is referred to "risk information that

company exhibit within or above but still related to risk regulation that set minimum requirement” (Elshandidy, Fraser & Hussainey, 2014). It was proven from the past study, whereby the changes in mandatory disclosure would influence the level of voluntary disclosure (Yang & Yang, 2015).

The disclosure of mandatory risk information alone in an annual report is inadequate for an investor in assessing the risk information for an effective investment decision. Hence, the need for additional information voluntarily disclosed by company is precious for investor and another stakeholder. Mandatory information provided motivated investors to demand more information from companies like information on their long-term strategies and performance (Boesso & Kumar, 200; Elshandidy, Shrivess, Bamber & Abraham, 2018). Even though voluntary information disclosure is not compulsory to be reported by the company, disclosing it could enhance the degree of confidence for decision performed by the whole stakeholder. Voluntary disclosure is important for the company in managing their corporate image, reducing litigation risk and maintaining investor relation (Hieu et al., 2015). Voluntary disclosure consists of non-financial information of the company. Among the information voluntarily disclosed by the company are such as expected or projected cash flow like asset values, earnings’ forecasts, expenses reduction or assets acquisitions and sales projections (Cheynel, 2013). The disclosure of information voluntarily usually influenced by the factor such as company size, profitability, leverage, state ownership, managerial ownership, foreign ownership, board independence, role duality, and type of external auditors (Hieu et al., 2015).

Voluntary risk disclosures are known as other risk information located on narrative sections in annual reports which is not mandatorily to be published in annual reports (Elshandidy et al., 2014). According to MFRS, voluntary risk disclosure includes information on strategic risk, operational risk, environmental risk, empowerment risk, information processing and technology risk, integrity risk, business risk and others non-financial information. Most of the past literature measured both mandatory risk and voluntary risk disclosure by the number of sentences providing risk information, calculated using automated textual content analysis (Kearney & Liu, 2014). Financial Accounting Standard Board (FASB) states voluntary risk disclosure is worthy for better investment, credit and resource allocation (Cheynel, 2013). Besides, the extra information disclosed had improved the transparency through quality disclosure as well as reduced information irregularity (Adelopo, 2011). Additionally, if the company are aware on non-mandatory disclosure, they will become more straightforward and precise in reporting of their risk information subsequently will enhance the accuracy of information disclose and free from their own manipulation (Ball, Jayaraman & Shivakumar, 2012).

Short-term debt

Short-term debt is a component of the company's current liability since the obligation to pay back is active within a year. The study on short-term debt mostly discovered the financing choice practice across the country as well as their effect on investment decisions, company value and risk-taking. According to Garcia-Teruel and Martinez-Solano (2007) the companies with high financial strength, high growth option and greater financial flexibility are more frequent in obtaining short term debt. Also, the size of companies correspondingly influences the level of short-term debt where the debt consumption is high for smaller companies (Garcia-Teruel & Martinez-Solano, 2007). The excessive growth on short-term debt financing enhanced the risk faced by the borrower when they are unable to meet their obligation (Dadush, Dasgupta & Ratha, 2000). Normally, companies with high short-term debt would disclose more risk information because the cost incurred is low due to low commitment accompanied in short term debt (Flannery, 1986). Contrary to Yu (2005) who predict that low short-term debt companies would have a quality disclosure. The finding by Irani and Oesch (2016) indicated there is a significant association between short-term debt and disclosure. However, Nikolaev and Lent (2005) and Yu (2005), did not detect any significant relationship between short-term debt and disclosure. Based on the above argument, it is safe to say that short-term debt may significantly influence the need for disclosure. Hence, the following hypothesis is to be tested:

H1: There is a significant positive relationship between short-term debt and risk disclosure.

Long-term debt

Debt is classified as long term if it is not to be settled within a year. Long-term debt is treated as part of the company's non-current liability in the financial statement. In the other view, long term debt also being treated as a part of firm debt capacity that encompassed of intangible assets, which referred to asset structure (Sheikh, 2015). Based on the previous study Nikolaev and Lent (2005) it was concluded that companies' decision on disclosure relatively related to the company's default risk and cost of debt. According to the study done by Dalbor (2002), the high growth companies with significant investment opportunities utilise less long-term debt. Moreover, for big companies and lower quality companies which are those with higher potential of bankruptcy would utilise more long term debt. As stated by Amran et al. (2009) company with a higher level of debt would likely be expanding their disclosure to satisfy the demand of information from the creditors. Supported by Guo (2002) that indicated there is an insignificant positive relationship exists between the bond default risk and costs of debt capital with risk disclosures. Inversely, Flannery (1986) examined that the high long-term debt consumption would minimise the disclosure level due to high cost. It is, therefore hypothesised that:

H2: There is a significant positive relationship between long-term debt and risk disclosure.

Total debt

In general, debt is a part of the company's liability. It refers to amount due or owed that should be repaid to the third party (lender) including bank and creditors. Fan et al. (2012) defined total debt as the "book value of short-term and long-term interest-bearing debt". Debt comprises of long-term debt (amount of debt that cannot be repaid within a year) and short-term debt (amount of debt which can be repaid less or within a year). Several studies have identified the positive connection between debt and risk disclosure (Adelopo, 2011; Al-Shammari, 2014; Tauringana, Venancio & Lyton, 2016). As perceived by Al-Shammari (2014), the companies with a high amount of debt tend to disclose more risk information because of they able to attract investor and by showing their ability to finance their debt obligations as well as shrinking the monitoring cost of borrowing (Adelopo, 2011). A creditor may demand more risk information from companies with high debt proportion which in turn motivate them to extent their risk disclosure in their annual reports (Amran et al. 2009). In contrast, the other study by Bertomeu, Beyer, and Dye (2009), Atan, Sutan Marahun, Wan Abdul Kadir, and Jusoff (2010), Troberg, Kinnunen, and Seppänen (2010), Dobler, Lajili, and Ze (2011) and Miihkinen (2013) did not discover any significant relationship between total debt and level of risk disclosure. It argues that highly debt companies refuse to become transparent in reporting their debt commitment since it could add to the risk of bankruptcy. Accordingly, the following hypothesis is tested:

H3: There is a significant positive relationship between company total debt and risk disclosure.

Company growth

Company growth is an important contributor to company performance (Salim & Yadav, 2012). It was evidenced that the fast-growing company will have high profitability in view of the fact that they experienced continuous growth in business continued existence (Carrizosa, 2007). Growth is one of the factors which influenced the management decision on risk disclosures (Miihkinen, 2012). Growth companies tend to provide extensive risk information in their annual reports. Miihkinen (2012) noticed that a high level of risk disclosure was pressured by the need to meet the expectation from investor's demand for high growth companies. Hyytinen and Pajarinen (2005), Khurana, Pereira and Martin (2006) and Karamanou and Nishiotis (2009) discovered a significant relationship between company growth with the level of risk disclosure. Different from Glaum and Street (2003) and Eng and

Mak (2003) who examined that there was no significant relationship that presents between company growth and risk disclosure made by companies. Based on the above argument, the hypothesis is tested as follows:

H4: There is a significant negative relationship between company growth and risk disclosure.

Size

Most of the study on risk disclosure choose company size as a variable because the company's size comes to be dominant contributors that induce for the extensive level of voluntary disclosure (Hieu, Thi & Lan, 2015). A body of research examined the significant and positive association of companies size with risk disclosure study (Beretta & Bozzolan, 2004; Linsley & Shrivess, 2006; Amran et al., 2009; Adelopo, 2011; Elshandidy & Hussainey, 2013; Al-Shammari, 2014; Hieu et al., 2015). It was evidenced that the company's size is the main variable to be employed in clarifying the discrepancy in disclosure studies. The size was included in the study either as interest or control variable. In theoretical aspects, agency theory stated that a big company would expand its risk disclosure in order to minimise agency cost as well as reducing information asymmetry (Inchausti, 1997). Sufficient amount of resources available has enabled the large companies to bear the cost for extensive disclosure as compared to smaller size companies (Adelopo, 2011). However, several studies found an inverse connection between the size and corporate risk disclosure (Glaum & Street, 2003; Basam & Morisson, 2009; Hassan, Romilly, Giorgioni & Power; 2009). Accordingly, the following hypothesis being tested:

H5: There is a significant positive relationship between the size of companies and the risk disclosures.

Industry type was selected as the control variable for this study because the way of risk information being reported differs among industries. According to Gray, Meek, and Roberts (1995), the influence of industry is different for sensitive and non-sensitive industries because the company's decision on risk information to be disclosed depending on the nature of business and the level of risk that may face by them. As noted by Arcay and Vazquez (2005), high-risk industries like the oil and gas industry would have a better disclosure as they may be subject to scrutiny by government and related bodies. Normally, the companies that operate in sensitive and highly regulated industries are under surveillance of government and related bodies. Thus they would have greater public visibility (Arcay & Vazquez, 2005).

Amran et al. (2009) observed that companies with different type of industries would experience a different type of risks. The levels of risk exposure among companies are influenced by the nature of the industry which may subject to special regulations. This is

evidenced by Berretta and Bozzolan (2004) who proposed that the effect of industry on risk disclosures level could be further emphasised due to technological and market constraints imposed by the competition are substantially affecting the risk of companies. Several studies do not detect any significant association between industry and risk disclosure (Berretta & Bozzolan, 2004; Ali & Konishi, 2007; Aljifri & Hussainey, 2007; Atan et al., 2010). Contrarily, the study conducted by Hackston and Milne (1996) and Boesso and Kumar (2007) had observed a significant link for industry and risk disclosure.

Methodology

Sample and Data Collection

The sample used for this study is selected from the companies listed under the ACE Market in Bursa Malaysia. ACE Market stands for 'Access, Certainty, Efficiency' which formally known as Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) market. MESDAQ is technology-based companies which seek to provide a proper channel for technology-based companies that have high potential growth to boost up their capital. Technology-based companies covered the companies which imposed in advanced electronics, information technology, telecommunications, automation manufacturing systems, biotechnology and genetic engineering, healthcare, advanced material, energy, aerospace, transportation and other emerging technologies.

Majorities of the companies listed under ACE Market come from a company that has growth opportunities and potential for success in the marketplace. It was evidenced that companies with potential growth opportunities, would provide quality disclosure as an alternative to meet the risk of the incapability in rising their funding through external financing (Sulong, Gardner, Hussin, Mohd Sanusi, & McGowan, 2013; Hyytinen & Pajarinen, 2005). Although risk disclosure would incur a high cost, companies with scarce financial resources would use extensive disclosure as an option to portray that they also possess future growth opportunities. Besides, there were limited studies conducted in Malaysia context that uses ACE Market companies as their sample. The period covers are three years starting from 2013 until 2015. The sample was taken from the ACE Market companies listed in Bursa Malaysia which consist of 118 companies, however, in the end only 90 companies were selected as the sample because of the lack of information obtained from annual reports, companies delisted from ACE Market listing and there are new companies that are listed on the ACE Market's Bursa Malaysia.

This study relies on financial data that was obtained from Osiris data provider and annual reports of ACE Market public listed companies which were downloaded directly from Bursa Malaysia's website. Financial data and annual reports are collected for the period of 2013 to 2015, which consist of 270 companies cover three (3) years period as a final sample. Data for

independent variables (total debt, long-term debt, short-term debt, company growth, company size) were acquired through Osiris financial database and annual reports. While the information for control variable which is industry was assessed from Bursa Malaysia website in order to determine the type of industry or sector for each company. Next, the information on risk disclosure for both voluntary and mandatory risk information disclosure was extracted directly from annual reports based on content analysis.

Table 1: Derivation of sample selection

Total company	Total company
Bursa Malaysia ACE Market Companies for the year 2013, 2014 and 2015.	342
Less: Companies with incomplete data (unavailable 2013, 2014 and 2015 annual report)	72
Final sample	270

A Content Analysis

Most of the prior studies on risk disclosure used content analysis as an approach to gathering the risk information in annual reports. Ali and Taylor (2014) defined content analysis as a process of collecting and gathering the documents and texts either printed or visually to search for their contents and minimised the collected information into “pre-defined or pre-determined categories” in an organised and replicable manner. While Weber (1990) as quoted in Ali and Taylor (2014) stated the content analysis as “a method of codifying and categorising the qualitative and quantitative information (text or content) of a piece of writing into various groups or categories depending on selected criteria”. Through content analysis, the text will be coded by word or sentences or another measurement method accordingly to relevant categories of risk that had been specified and the frequency of the text indicates the significance of particular subject (Krippendorff, 2004).

Based on prior research, both types of risk disclosures uses content analysis, however only voluntary risk disclosure employed disclosure index to capture risk information disclosed in annual reports (Abdullah et al., 2015; Ali & Taylor, 2014). The location of voluntary risk information is identified in narrative sections in annual reports such as Chairman’s Statement, CEO’s Management Operational Review or Review of Operations, Risk Management Statement or Management Discussion and Analysis, Corporate Governance Statement and Internal Control Statement. However, the information for mandatory risk disclosure is extracted by referring to the financial instrument items located under notes to the account section in the financial statement.

Since the information pertaining to risk disclosure is subjective judgments in assessing the text relevant risk disclosure, the coding method was used in drawing a valid conclusion (Linsley & Shrivies, 2006). Several pre-defined keywords had been set in assessing the existence of risk information in the annual reports such as *uncertainty*, *outlook*, *loss* and *opportunity* in assessing the voluntary risk disclosure. The use of verses related to risk categories would give clearer meanings and more precise than the use of key words solely. This method is more relevant than the units of analysis (Ali & Taylor, 2014). The “Find” option in Adobe PDF was used in searching the keywords stated in each category. Next, the sentences which appeared after keywords entered are read and assigned according to risk category on the worksheet provided in Appendix B2.

Then, the sentences which were closely related to risk category are coded as “1” for disclose and coded as “0” if the sentences were not related or non-disclose. As well as the mandatory risk, it will be coded “1” if there is information disclosed while the “0” will be encoded if the information is not unveiled. The voluntary risk information is extracted from narrative sections of annual reports such as the Chairman Statement, Statement on Corporate Governance, Statement on Internal Control, Notes to the Accounts (for mandatory or financial risk disclosure) and Operations Review (Ali & Taylor, 2014) including Management Discussion and Analysis or Risk Management Statement (Abdullah et al., 2015). The analyses are carried out by using the Statistical Package for Social Science (SPSS) version 23.0. Descriptive analysis and inferential analysis were employed to meet the objectives that had been set for this study.

Measurement of variables

The measurement of independent variable was adopted from the study conducted by Zabri (2012), Salim and Yadav (2012), Sheikh (2015) and Alipour (2015). Capital structure is closely related to the company’s mix debt and equity financing which may dictate their growth option. Therefore, the total debt ratio, long-term debt, short-term debt, growth and size were employed for measuring the capital structure.

While, the dependent variable of risk information is categorised into two, which are the mandatory and voluntary risk information. There are six categories of mandatory risk disclosure in this study, which comprises of credit risk, liquidity risk, interest rate risk, market risk, foreign currency exchange risk and price and commodity risk (Ali & Taylor, 2014). Mandatory disclosure is related to financial risk information (MFRS 132) disclosed in annual reports which is normally found in notes to the account section of financial statement. The keyword such as “currency, derivatives, liquidity, financial risk, credit risk and instruments” were identified to indicate mandatory risk information. If the information related with mandatory risk disclosure is disclosed it will be coded as 1, or 0 if not disclosed.

There are five categories of voluntary risk disclosure was chosen for this study such as operational risk, strategic risk, integrity risk, empowerment risk and information processing and technology risk which adopted from ICAEW (1998). These risk model developed by ICAEW (1998) had later being employed by (Linsley & Shrives, 2006). Commonly, most of risk disclosure study used sentences as a basis for coding instead of using the word. The former study by Milne and Adler (1999) suggested using sentences as a coding basis as it is more reliable than a word. This is because by using word or areas of the page, the measurement of risk information will be more complicated and not reliable. Additionally, Milne and Adler (1999) and Linsley and Shrives (2006) discovered that words also unable to transmit any meaning and also difficult to determine which words are classified as risk disclosure (Linsley & Shrives, 2006). Further, Linsley and Shrives (2006) suggested that the sentences to be considered as risk disclosure if the information provided allow the reader to identify the companies' operations and management risks but the reader cannot determine whether it has a positive or negative impact on companies. Thus, this study identifies voluntary risk information through sentences. The sentences related to any of voluntary risk disclosure categories will be compared with the risk factors listed under each risk categories.

This study uses two dichotomous scores in capturing risk disclosure information in annual reports. The dichotomous technique is used to give the scores of amount of disclosure made despite its importance. The unweighted index was used to evade subjectivity that exists in weighing the risk information (Atan et al., 2010). Voluntary risk information which was extracted from the annual reports will be matched with the risk factors listed in the risk categories and coded accordingly (Linsley & Shrives, 2006). If information pertaining to risk is disclosed, it will be coded as 1 and 0 if the risk information was not disclosed.

In total, there were eleven (11) types of risk categories for both mandatory (liquidity risk, credit risk, foreign currency risk, interest rate risk, market risk, price and commodity risk) and voluntary (strategic risk, operational risk, empowerment risk, integrity risk, information processing and technology risk) categories of risk being assessed as total risk disclosure in this study. Thus, the maximum score is 11 (100% disclosure made), while (0%) for minimum disclosure made.

The following Table 2 is the summary of measurement for independent, control and dependent variables that used in this study.

Table 2: Summary of Variables Measurement

Variables	Measurement	Formula	Variables Acronym	Sources	References
Independent Variable (Capital Structure Decisions)	Long Term Debt	Long Term Debt divided by Long Term Debt plus Total Equity	LTD/(LTD + TE) SIZE	Osiris Database, Annual Reports (Bursa Malaysia)	Zabri (2012), Salim & Yadav (2012), Sheikh (2015), Alipour (2015)
	Short Term Debt	Current Liabilities over Total Asset	CL/TA		
	Total Debt	Total Debt (Short term debt + Long Term Debt) divided by Total Asset	TD/TA		
	Company Growth	Percentage of Total Asset (changes in total asset) $\frac{TAp_y - TAcy}{TAcy}$ *py =previous years *cy = current year	GROWTH		
	Company Size	Natural Logarithm of Total Asset	SIZE		
Control Variable (Industry)	Industry	Dichotomous Score:- 1: High risk industry (eg; Technology, banking, property,	INDUSTRY	Bursa Malaysia website (http://www.bursamala)	Deumus (2008)

		construction) 0: Otherwise (eg; Consumer, trading and services)		ysia.co m	
Dependent Variable (Risk Disclosure)	-Voluntary Risk Disclosure -Mandatory Risk Disclosure	Content analysis of annual reports. A dichotomous score of: 1- if disclose 0- if not disclose	RISK.DIS C	Annual Reports (Bursa Malaysi a)	Malaysian Financial Reporting Standards (MFRS 7), Amran et al., (2009), Ali & Taylor (2014)

Results and Discussions

Descriptive Statistics

Similar to the past literature, this study defines the level of risk disclosure based on a mean percentage (Ismail, Rahman & Ahmad, 2013). As shown in Table 3, the overall mean score for risk disclosure for both mandatory and voluntary was 78.4% and 52.07% as compared to result obtained by Ismail et al. (2013) that only fit to 50%.

Table 3: Mean score for Voluntary and Mandatory Risk Disclosure

	N	Mean	Std. Deviation
Mandatory Risk	270	.7840	.17668
Voluntary Risk	270	.5207	.19304

According to Table 4 below, the most reported risk disclosure based on mean percentage was mandatory risk disclosure with maximum disclosure 98%, while 85% for voluntary risk disclosure. This is quite common since the mandatory or financial risk disclosure is highly and compulsorily mandated by MFRS 132 under financial instrument disclosure. Therefore the disclosure level could be high. The legal implication imposed for noncompliance also caused a high disclosure for mandatory risk information among companies (Atan et al., 2010).

Table 4: Descriptive Statistics for Risk Disclosure

Risk Categories	Disclose	Not Disclose	Total
Operation Risk	83.3	16.7	270
Strategic Risk	84.8	15.2	270
Integrity Risk	54.8	45.2	270
Empowerment Risk	22.6	77.4	270
Internet and Technology Risk	14.8	85.2	270
Currency Risk	98.1	1.9	270
Liquidity Risk	97.8	2.2	270
Interest Rate Risk	95.6	4.4	270
Foreign Currency Risk	90	10	270
Market Risk	48.5	51.5	270
Price and Commodity Risk	40.4	59.6	270

The highest level for mandatory risk disclosure is on liquidity and credit risk with 98% which almost 100% of risk information being disclosed in the annual report. Follow by interest rate risk and foreign currency risk with 96% and 90% respectively. While the lowest level of mandatory risk disclosure is market risk 49% and 40% for price and commodity risk. This would be due to the least engagement in hedging market risk and forwards contracts which usually used to reduce market risk (Othman & Amir, 2009). In addition, the author also discovered that the nature of market risk disclosure was found to be different among companies. The liquidity risk and credit risk were the most favoured to be disclosed by Ace Market companies. This finding is similar with Ismail et al. (2013) who also reported the highest of credit and liquidity risk among Malaysian banking sector listed under the Main board in Bursa Malaysia. The highest disclosure reported for both liquidity and credit risk because it may affect the performance of companies since the investor very particular with that information in making their investment decision. Moreover, it also shows the ability of companies to meeting their financial obligation (Htay Nu et al., 2015).

The result confirmed that most companies comply with the requirement stipulated by MFRS. The overall report shows that mandatory risk disclosure practised among ACE Market was 78.4% which indicated that ACE Market companies highly committed to reporting risk information although the disclosure level less than 80%. This probably due to the least disclosure made for market and price and commodity risk. Conclusively, the results suggest that the mandatory risk disclosure practice among companies is quite good and not relatively low. As prescribed in Table 4.3 above, the overall result shows the level of disclosure made for voluntary risk only at an average of 53%. The lack of report may due to the information is not highly emphasised and prescriptively specified by the regulatory body in Malaysia.

Accordingly, the most reported was a strategic risk with 85% and operations risk with 83% respectively. Meanwhile, 55% for integrity risk, followed by empowerment risk 23% and lowest disclosure was information and technology risk with only 15%.

Strategic and Operations risk was favoured among other voluntary risk reporting. Despite operational risk not mandated as mandatory risk, but it highly encouraged by MCCG through Bursa Malaysia Listing Requirement (BMLR) to include it in the statement of internal control (Ali & Taylor, 2014). Both strategic and operations risk considered as common reported information to be published in the annual report since it is closely related with the business strategy, currents and future business condition, the unusual business event also expected a performance that would provide a significant impact to the whole stakeholders.

Parallel with past studies by Linsley and Shrivies (2006), Amran et al. (2009), Ali and Taylor (2014) and Abdullah et al. (2015) which most reporting of risk also dominant by Strategic and Operations risk. Highly reported of both risks' categories mainly due to the fact that revealing of such risk information could prove their effort in maintaining the sustainability and survival of business operation which important for their reputation (Beasley, Clune & Hermanson, 2005). Further, by disclosing more risk information, it would enable the companies to attract their shareholders as well as to expose their shareholders on how their business analysis (e.g.; SWOT analysis) being managed to safeguard their remunerations and achieved targeted bonus (Healy & Palepu, 2001).

On the other hand, the information on integrity, empowerment and IT risks are classified as medium to low risks disclosure areas from the findings. Acknowledgeable, integrity risk is the information pertaining the illegal acts related management and employee fraud. Hence, it was moderately disclosed since it relatively subjective, sensitive and confidential to be shared publicly. Meanwhile, the minimum level of IT risks reporting because of no extensive "international networking system" to acknowledge the occurrence of risks and the nature of government policy in Malaysia which yet controlling the networking among Malaysian companies (Malaysian Communications and Multimedia Commission, 2015).

Overall, there is not much difference in terms of risk disclosure practice between the Main Market and the ACE Market companies listed in Bursa Malaysia (Azlina, Ruhaya & Amrizah, 2011). The overall result of this study is consistent with the prior study conducted by Amran et al. (2009), Atan et al. (2010), and Ismail et al. (2013) who also discovered the medium level of risk reported among Malaysian companies listed under the Main board. Predominantly, most of the companies listed under the Main Market and ACE Market are more concern on mandatory risk reporting as compared to voluntary risk. For instance, the finding from the study done by Atan et al. (2010) and Ismail et al. (2013) revealed that the average for mandatory risk disclosure is around 75% to 85%, while 35% to 55% for

voluntary risk disclosure. This result is aligned with this study which reported 78.4% for mandatory risk and 52.07% of the voluntary risk. The finding by Amran et al. (2009), Ismail et al. (2013) and Ali and Taylor (2014) also discovered that the operational risk and strategic risk were the most favoured of voluntary risk categories to be reported by Main Market companies.

As mentioned earlier there are five independent variables namely short-term debt, long term debt, total debt, company growth and company size. Table 5 below exhibit the summary of descriptive statistics for capital structure decision measurement used in this study.

Table 5: Descriptive Statistics for Capital Structure Decisions

Variables	N	Minimum	Maximum	Mean	Std. Deviation
STD	270	.0000	3.2911	.243090	.2959460
LTD	270	-.0221	.9919	.085604	.1223616
TD	270	.0000	3.2911	.301654	.3008189
GROWTH	270	-.9990	49.3646	.419091	3.0908242
SIZE	270	.0000	9.1206	7.657245	.6863528

As exhibit in the table 5, the mean for short term debt (STD) was 0.24, long term debt (LTD) 0.085, total debt (TD) 0.30, growth 0.41 while size 7.65 respectively. From the result, it indicated that Ace market companies spend 30% of the debt, which is less than 50% to finance their assets. From the proportion of total debt, they more prefer to utilise their short-term debt instead of long-term debt to meet their financial obligation. This considered that they are in a safety zone since their risk is lower due to minimum consumption on debt (Salim and Yadav, 2012). Besides, to minimise the occurrence of the risk, they spend less on debt in order to acquire more new investment opportunities (Johnson, 2003). They more prefer short-term debt because of the high cost and long timing consumption in bearing the commitment of long-term debt. Viviani (2008) discovered that healthy growth company more prefer short-term debt, which resulted in high borrowing cost and simultaneously increased their leverage.

Overall, the debt consumption among ACE Market companies is quite high compared to Salim and Yadav (2012) result for PLCs which approximately 14%. As proposed by Salim and Yadav (2012) more consumption of debt able to increase the company's value. The study on Small Medium Enterprise (SME) companies by Zabri (2012) found that they more depend on debt over equity with the proportions of debt with 28% and 29% for short term and long-term debt. The consumption of short-term debt is quite consistent with this study, which is less than 30%. Due to financial constraint and high transaction costs, small company unable to expand their external financing compared large firms (Ibrahim et al., 2012).

Multivariate Analysis

In this study, a multiple regression analysis is used to test the linear relationship since there are more than one of the independent variables. The multiple regression coefficient analysis was performing in describing and explaining further on the relationship between one dependent variable with two or more independent variables. Particularly, the data should be normally distributed before multiple regression analysis is conducted. However, Pallant (2007) argues that the violation of the normality assumption is not considered as a major problem for the data if the sample size used is greater than 30. Therefore, based on that argument, the multiple regression analysis is carried on after the correlation analysis is conducted for this study. The model used for multiple regression analysis is presented below:

$$\text{Risk disclosure} = \beta_0 + \beta_1 \text{STD} + \beta_2 \text{LTD} + \beta_3 \text{TD} + \beta_4 \text{GROWTH} + \beta_5 \text{SIZE} + \beta_6 \text{INDUSTRY} + \varepsilon$$

Where:

β_0 = the slope of the independent variable

STD = short term debt

LTD = long term debt

TD = total debt

GROWTH = company growth

SIZE = company size

INDUSTRY = the type of industries

ε = represents error term for the relationship

The results obtained from multiple regression analysis between dependent and independent variables are illustrated in Table 6 below which represents the correlation among the predicted and observed values of the outcome. The large value indicates the large correlation exists between variables.

Table 6: Multiple Regression Analysis

	Standardized Coefficients Beta	t-statistics	Sig. (p-value)
Constant		2.883	.004
STD	-.123	-.491	.624
LTD	-.059	-.552	.582
TD	.216	.782	.435
GROWTH	-.085	-1.342	.181*
SIZE	.205	3.127	.002**
INDUSTRY	.012	.204	.839
R			.217 ^a
R Square			.047
Adjusted R Square			.025

a. Dependent Variable: Risk Disclosure

**Correlation is significant at the 0.1 level (1-tailed).*

***Correlation is significant at the 0.01 level (2-tailed).*

As displayed in Table 6, the R-value is 0.217 suggesting a weak linear correlation between the predicted and observed values of outcomes. While R square of 0.047 indicates that 4.7% of the variation in the risk disclosure is influenced by variation in the independent variable. The value for adjusted R squared is relatively low at 2.5%, signifying that there are other variables that may explain the variation in risk disclosure (Atan et al., 2010). The result obtained is equivalent to Hashim and Saleh (2007) who also obtained the lowest value for adjusted R at 4.1%, while 7% obtained by Atan et al. (2010). Thus, it can be concluded that the model is not fit and the capital structure decisions are not significantly influenced the risk disclosure according to this regressions results and vice versa.

The regression analysis conducted to examine the relationship between capital structure decisions (STD, LTD, TD, GROWTH, SIZE) towards risk disclosure. According to Table 6, the beta value for STD, LTD and GROWTH is negative which indicate a negative relationship. The negative relationship for STD and LTD due to low debt spending among ACE Market companies would result in low-risk disclosure. However, the beta for TD, SIZE and INDUSTRY shows a positive value that represents the positive relationship. The mixed result for Beta corresponds to the mixed relationship of capital structure decisions with risk disclosure.

In relation to t-value and significant value, Table 6 shows the insignificant negative relationship between short-term debt and risk disclosure whereby the (beta = -.123, t = -.491,

p-value = -624). Hence, Hypothesis 1 was rejected. The result is in line with Nikolaev and Lent (2005) and Yu (2005) who also found an insignificant connection for STD and risk disclosure. The insignificant result for this study probable due to debt level is not the main factor influence the need for risk disclosure.

The regression result for LTD in Table 4.9 shows (beta = -.059, t = -.552, p-value = .582) indicated insignificant negative relationship between LTD and RISK.DISC. Hence, as a result posits an insignificant relationship between these two variables, therefore Hypothesis 2 was rejected due to the spending on long term debt is not influence the decision on risk disclosure. The finding in this study is parallel with Guo (2002) which concluded that there is no significant relationship between long-term debts with risk disclosure.

The following result for TD was found insignificant positively influenced the decision on RISK.DISC. As prescribed in Table 4.9, the result shows the (beta = .216, t = .782, p-value = .435). The insignificant relationship for this study is similar to the previous study by Bertomeu, Beyer and Dye (2009), Atan et al. (2010), Troberg et al. (2010), Dobler et al. (2011) and Miihkinen (2012) who not detect any significant association between company total debt and risk disclosure. This evidenced that there no significant influence among variable. Thus, Hypothesis 3 was rejected since highly debt company would minimise their risk disclosure because reporting of risk may harm their company's reputation which in turn enhance their risk of bankruptcy (Miihkinen, 2012).

Next, the regression result for company GROWTH has a significant negative influence on the risk disclosure made by companies. As exhibited in Table 4.9 the result shows (beta = -.085, t = -1.342, p-value = .181). The result for p-value is 0.181, which is not significant since the value is more than 0.05. However, the GROWTH is assumed to have a significant relationship at one-tailed ($p < 0.1$). As evidenced by Lombardi (2009), "a two-tailed p-value as twice the one-tailed p-value". This indicates that the p-value of one-tailed is half of the two-tailed p-values. The p-value of two-tailed is divided by 2 in order to get one-tailed p-value. Thus, the p-value for GROWTH at one-tailed = 0.0905, which is half of 0.181 (two-tailed). Referring to the t value, if the ($t > 1.28$), the relationship is significant at one-tailed since ($p = 0.0905$), which less than ($p < 0.1$) (Cooper and Schindler, 2003). The relationship between GROWTH and risk disclosure is weak. According to Kock (2016), one-tailed test is recommended if the coefficient is assumed to have a sign (positive or negative), which should be reflected in the hypothesis that refers to the corresponding association. Besides, Farrington, David & Maria (2011) addressed that one-tailed test could be used for one direction hypothesis predictions. Hence, one-tailed test is applicable for GROWTH because of one direction hypotheses is tested, and the coefficient showed a negative sign (beta = -.085).

As predicted earlier, Hypothesis 4 is assumed to have a significant negative relationship between company GROWTH and risk disclosure. Therefore, Hypothesis 4 was accepted. The significant relationship is in line with Hyytinen and Pajarinen (2005), Khurana et al. (2006) and Karamanou and Nishiotis (2009). These inverse relationship (-1.342) because of high growth companies would have a low or negative value of debt (Myers, 2001). Furthermore, it might be due from most of ACE Market companies comes from technologies based sector who less concern on accounting matters since they more concern on their product and market development in gaining market acceptance (Glaum & Street, 2003). Hence, their risk disclosure relatively low. However, the result contra with Miihkinen (2012) which noticed that growth companies would expand their risk disclosure in their annual report.

As reported by regression analysis the last variable SIZE of the company was found to have a significant positive influence on the RISK.DISC decisions made by companies since the result for (beta = .205, t = 3.127, p-value = .002). The result for p-value is significant at 0.01 (two-tailed) since (p < 0.01) and the t-value (t > 2.58). The result obtained is equivalent to prior studies by (Beretta & Bozzolan, 2004; Linsley & Shrides, 2006; Othman & Amir, 2009). Therefore, for this study, Hypothesis 5 has been accepted because most of the large companies believe that by expanding their information on risk disclosure it able to reduce the agency cost and information asymmetry (Petrus, 2011). In relation to cost, big companies can bear the high cost of disclosure as compared to small companies (Jiahui, 2015).

The INDUSTRY type which is a control variable for this study is not significantly influence the risk disclosure by companies. As the result presents the (beta = .012, t-value .204, p = 0.839), indicated insignificant positive relationship for industry and risk disclosure. This finding is in line with Linsley and Shrides (2005), Basam and Morisson (2009), Atan et al. (2010) and Marzouk (2016) that not detect any significant influence of industry towards on the risk disclosure. The insignificant result due to a different type of industry would have a different type of risk exposure. In this study, most of ACE Market companies are under technology industries which inherently riskier. Therefore they tend to minimise their risk disclosure in order to avoid the risk of bankruptcy. The following Table 4.9 below represents the overall result for Multiple Regression analysis.

Conclusions and Limitations

The analysis showed that the overall level of risk disclosure practices among companies in Malaysia ACE Market in the annual report is good but still at the medium level, mainly for voluntary risk disclosure. It shows that they have the initiative to keep on providing risk information to shareholders and investors as they realise the benefits of being transparent. As reported, the mandatory risk disclosure score was 26.33% higher than voluntary risk. This is

probably due to the fact that the managers are required to reveal financial risk information instead of non-financial risk, since financial risks are among mandatory risk disclosure mandated by MFRS 132 Financial Instruments: Presentation (Arshad & Ismail, 2011). Besides, the specific guidelines provided by accounting standard on “what and how” to disclose the financial risk, management information in annual reports is only applicable for mandatory risk disclosure (Abdullah et al., 2015). No specific guideline is provided for voluntary risk disclosure on what and how to disclose non-financial risk management information in annual reports (Abdullah et al., 2015). Through the guideline provided, it is easier for a manager to report their risk information and therefore enhance their motivation to report more mandatory risk information instead of their voluntary risk.

Liquidity, credit, interest and foreign currency risk disclosure are most favoured as compared to market and price commodity risk. Liquidity risk is the risk that arises when companies finance their assets, because the total liabilities exceeds total assets. It is important for companies to have good liquidity management as it is a key foundation to preserve financial stability and minimise a lack of liquidity. Therefore, good liquidity exposure is a major factor for a good performance in terms of liquidity (Htay Nu et al., 2015). The second mandatory risk information being highly disclosed by companies is a credit risk. This is probable due to credit risk being one of the requirements stipulated by the International Financial Reporting Standard 7 (IFRS 7), which requires companies to disclose their credit risk exposure by a class of financial instruments in annual reports (Bischof & Daske, 2013). The company may disclose more on credit risk information in order to show that they are good at handling their credit risk obligations.

In relation to voluntary risk exposure, the manager may publish information about the strategic and operational risks, among other voluntary risk categories. Both categories of risk are often exposed as it is closely linked to the business strategy, the terms of future business, events of the business and outstanding business performance, which are expected to substantially affect the overall results of stakeholders. Furthermore, with a discussion of risk information, it can enhance the reputation of the company, which in turn attracts the attention of shareholders in line with the investments made by investors (Healy & Palepu, 2001; Subramaniam, McManus & Zhang, 2009; Miihkinen, 2013). Instead, companies are prone to report their integrity and strengthening their IT risks because there is no specific risk disclosure requirement. Information on the integrity risk is very subjective and sensitive to be reported because it is directly related to the ethical behaviour of employees and management. Meanwhile, minimum exposure on the empowerment risk information may be personally related in connection with the employee and this may affect the company's reputation. In addition, the empowerment and IT risks, are less preferred than other types of risk. In general, most companies refuse to share their risk information as to protect the information from the competitors. It is one of the precautionary measures taken by the companies. In



addition to the high costs incurred in carrying out the risk, information can also be another factor that can influence the outcome of the disclosure. Usually, companies with high debt commitments can reduce the risk of their information in the annual report and vice versa.

This study is subjected to several limitations. First, this study only limits the investigation on mandatory and voluntary information disclosure about risks and uncertainties, which is being disclosed by companies in an annual report. Furthermore, the time frame for this study is limited only to three years, from 2013 to 2015. The selected sample for this study is only limited to PLCs listed under ACE Market Company, and the final sample is less than 300. The results of this study provide an opportunity to explore future research. Firstly, more studies need to extend this study to increase the sample to not only use the PLC as a sample but also other companies (i.e.: small medium enterprise). Next, it is highly recommended to add more capital structure variables like the age of the company, and the asset structure since it may affect the capital structure of the company. The result will probably be more accurate and significant if more variables are added.

Moreover, a future study may explore more on the capital structure practised by ACE Market companies. Lastly, the survey on past literature found there are a limited number of studies focusing on the corporate strategy which emphasised on capital structure decision and risk disclosure. Hence, the future research may focus the relationship on another type of corporate strategy such as financing strategy, restructuring strategy, diversification strategy and others with risk disclosure.

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