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A Literature Review with Relevant Measurement Approaches to Risk Reporting in Pandemic Situations

Rudianto Simamora [1*], Ferry Laurensius [2*], Iskandar Muda [3]
[1*,3] Universitas Sumatera Utara, Medan, Indonesia.
[2*] Politeknik WBI, Medan, Indonesia.
[1*] rasima_oke@yahoo.com, [2*] ferry.laurensius@wbi.ac.id, [3] iskandar1@usu.ac.id

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Abstract

The purpose of this study is to analyze the relevance of the financial reporting risks of companies going public during the pandemic. This methodology is carried out with a brief review of several previous studies, so that it can be concluded concisely and in detail without conducting data testing. The results of many studies show that the Corona Virus Disease Pandemic 2019 has changed the company's operational cycle, including reporting risks. This pandemic situation has forced the company to change its business plans and implementation. In a short time, the company can lose its income due to limited business activities. This condition is aggravated by the absence of anticipation of protection of the company's financial condition. Companies that have a high risk during the pandemic will be prodromal. In relation to reporting risks, establishing a good and comprehensive context in risk management will help recognize risks in the first stage, namely crisis/ prodromal symptoms. The right steps at this prodromal stage will be very decisive when the risk is already at an advanced stage. In addition, the establishment of a contingency plan at the risk mitigation stage can also help overcome the risks that actually occur. The formulation of a good contingency plan will be useful to reduce the impact of these risks. Reporting risks triggered by the strong impact of the pandemic will be addressed by conducting appropriate risk management. Proper risk management and supported by thorough planning, can anticipate unexpected risks, and also minimize the impact if risks really occur.

Keywords: Risk Reporting, prodromal and pandemic situation.

1. Introduction

The financial reporting published by an enterprise the covered by the actual condition of the company, so as to benefit the general public. Information that is useful for decision making must be information that has relevance. One of the indicators that an accounting information is relevant is the reaction of financiers at the time of the announcement of an observable information from the movement of stock prices (Oliveira et al., 2011). The study seeks to test whether the coefficient of profit is affected by the company's risks and capital structure. The application of value relevance testing methods that link accounting variables with stock market prices in inefficient capital markets will give rise to a lower bias on the resulting value relevance coefficient. The possibility of an inefficient capital market during a pandemic in a semi-strong form needs to be anticipated so that the risk relevance coefficient is not biased. This research is expected to make a conceptual contribution to the development of the literature for assessing the relevance of reporting risks. The relevance of the value of accounting variables is influenced by various factors resulting in the relationship of accounting variables with varying stock prices. The contribution of this study examines the implications of assessing the relevance information in inefficient capital markets. An inefficient capital market will cause a bias in the coefficient of relevance of value. This study applies the method developed by Aboody et al (2002) in the Indonesian capital market by making adjustments to the value relevance coefficient of possible inefficient market influences.

2. Literatur Riview

Agency Theory

Agency theory is the relationship between management and business owner. So that agents have more information than business owners. Its call a information asymmetry. Problems arise when financial statements compiled on the basis of generally accepted accounting principles are utilized by managers to influence reported profits. Causing information asymmetry where one party has more information than the other party (Lubis et al., 2021). This difference in interests and asymmetry of information is what gives rise to agency costs. The application of risk management can lower agency costs.

Risk Reporting

Kothari and Zimmerman (1995) state that earnings response coefficent (ERC) is function of systematic risk and in various models, there is an empirical relationship between risk and profit variables. Shares of companies that are low in risk will have a high ERC, and vice versa. If these risk factors are not considered in the model, there will be bias because there are related but ignored variables. The incremental coefficient of profit is negative for companies with high volatility. This is consistent with the volatility of securities yields as a proxy for risk. But for the equity book value coefficient, a reason has not been found. Risk management aims to manage risk so that the organization can survive. Djojosoedarso, (2003) in Utomo, (2012) states that risk cannot be eliminated but risk can be minimized through risk management. Risk management is the implementation of management functions in risk management, including risks faced by an organization or company. Therefore, every company needs risk management to reduce and handle any company risks that may arise.

3. Metodology

This study uses a descriptive research approach, namely a study to compile, classify, interpret and interpret data and identify the problem of measurement of risk reporting in pandemic. The design of this study used a literature review approach on reporting risks. This methodology is carried out with a brief review of several previous studies, so that it can be concluded concisely and in detail without conducting data testing. We collect data and articles from various sources which are summarized into an overview of qualitative analysis.

4. Result and Discussion

The discussion of the results of this study was followed by observing the results of previous studies related to the relevance of measuring reporting risks. Then it was linked to the covid 19 pandemic situation. The relationship between shown below:

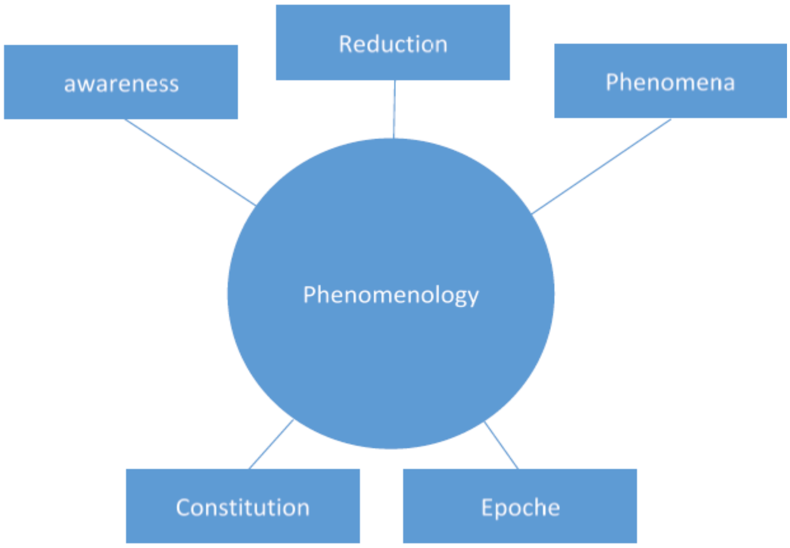

Figure 1; Phenomology Ilustration

Likewise, the life cycle of the company is inseparable from ratio. The previous literature has proven a lot that the relevance of the risks of companies that are measured using systematic risk (Beta) negatively affects the response coefficient of accounting profit. These results support the findings produced by Kothari and Zimmerman (1995), Collins and Kothari (1989), and Easton and Zmijewski (1989). Those companies that have low-risk stocks, the profit information submitted will be reacted positively by the market, so the ERC of such companies is high. Conversely, the more risky the expected returns in the future from a company, the financier will give a lower reaction to unexpected profits. The previous literature has proven a lot that the relevance of the risks of companies that are measured using systematic risk (Beta) negatively affects the response coefficient of accounting profit. These results support the findings produced by Kothari and Zimmerman (1995), Collins and Kothari (1989), and Easton and Zmijewski (1989). Those companies that have low-risk stocks, the profit information submitted will be reacted positively by the market, so the ERC of such companies is high. Conversely, the more risky the expected returns in the future from a company, the financier will give a lower reaction to unexpected profits. Rozenbaum (2017) found that companies with lower levels of job satisfaction and lower levels of "culture and values". On the contrary, there is also a perception that risk reporting can cause a negative impression among stakeholders about the future of the company. In line with the growing dilemma for risk disclosure, the issue of corporate risk reporting (CRR) has received great emphasis from accounting academics.

5. Conclussion

The conclusions of the results of the study have strengthened the evidence that the pandemic that causes the profit response coefficient is an inverse function of the company's risk (Collins and Kothari, 1989; Easton and Zmijewski, 1989; and Kothari and Zimmerman, 1995). Shares of low-risk companies will have a high ERC. Evidence also suggests that the accounting profit response coefficient is lower in companies that have a capital structure consisting of more debt, consistent with Dhaliwal et al (1991), Dhaliwal and Reynold (1994) and Billings (1999). For companies that have high debt, any increase in profits, will be perceived by lenders as a security. Any increase in profit will be responded to by lenders, not shareholders, so the ERC of a company with high debt will be low (Dhaliwal et al, 1991).

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