

Factors That Influence Corporate Risk Disclosure Among Top 100 Publicly Listed Companies in Malaysia

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Abstract: *The purpose of this paper is to explore the factors that can influence corporate risk disclosure among the top 100 publicly listed companies in Malaysia. This study is conducted in a setting where the companies are required to disclose their statement of risk management and internal control, as well as how effectively the companies disclose their risk management practices. Besides, there is no mandatory standard for disclosing items for non-financial risks. This study employed regression analysis to investigate the influence of firm characteristics on corporate risk disclosure. This study reports a positive relationship between board size and profitability with corporate risk disclosure. This study makes a significant contribution to the risk disclosure literature in developing countries, where information is voluntarily disclosed, and highly transparent information is needed to reduce the agency problem.*

Keywords: Risk disclosure, corporate governance, transparency, agency theory, Malaysia

1. Introduction

A firm's characteristics—such as its financial condition and corporate governance practices—can significantly influence its behaviour, including how it discloses corporate risk (Raimo et al., 2022; Khan et al., 2023). The primary purpose of corporate risk disclosure is to enhance accountability and transparency for stakeholders. By providing comprehensive and reliable information about potential risks, companies enable investors to make well-informed decisions. In the situation of publicly listed companies, they are in a dilemma to improve their financial performance to remain listed in the stock exchange market (Kamaluddin et al., 2024). Therefore, the financially distressed companies have the potential to do earnings manipulation to show good financial standing.

Prior researchers have shown several implications of corporate risk disclosures. Khand et al. (2023) posited that the level of corporate risk disclosures can lead to efficient investment due to the disclosure of risk information can reduce information asymmetry. However, the authors found that the voluntary risk disclosure tends to result in inefficient investment, and mandatory risk disclosure has no significant effect on investment efficiency. Besides, corporate risk disclosure can mitigate the possibility of managerial opportunistic behaviour (Haj-Salem & Hussainey, 2021). Furthermore, the International Organization of Securities Commissions (IOSCO), which promotes its Principles of Good Practice on Publicly Available Information, and the International Accounting Standards Board (IASB), whose International Financial

Reporting Standards (IFRS) require specific disclosures on major risks and uncertainties, are key players in this arena. Furthermore, the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) have gained momentum, requiring companies to disclose the financial implications of climate change risks and opportunities.

Risk disclosure requirements in Malaysia are shaped by a complex constitutional and regulatory framework. The Securities Commission Malaysia (SC) is the primary regulator, requiring broad annual reports and interim financial statements that disclose substantial risks and uncertainties that the company faces (Securities Commission, 2023). Moreover, the Malaysian Code on Corporate Governance (MCCG) emphasises its significance of risk management and communicating risks to stakeholders in a transparent manner. Specific regulations delve even deeper into high-risk areas. For example, the Central Bank of Malaysia (BNM) has guidelines for financial institutions on climate-related risk disclosure that align with the TCFD framework (Bank Negara Malaysia, 2022). It is critical to note that the Malaysian framework does not exist in isolation. International best practices and emerging global standards have an impact on local regulations, promoting a convergence toward more robust and transparent risk disclosure practices. Finally, the dynamic interaction of global and local forces aims to provide investors, analysts, and the general public with the information they need to make informed decisions in a gradually complex and interlinked world.

Attracting investors to Malaysia's capital market is critical to its economic growth and development, as it serves as an essential tool for mobilising funds, encouraging innovation, and providing job opportunities. Inflowing investments fuel the expansion of local businesses, increasing their competitive edge and driving productivity gains (World Bank, 2020). This, in turn, stimulates GDP, generates revenues from taxes for infrastructure development and welfare initiatives, and ultimately improves Malaysians' living standards (Asian Development Bank, 2023). Prioritising measures that improve accessibility to the market, transparency, and confidence in investors is therefore critical to realising Malaysia's full capital market potential and propelling the country toward an Anglophile and sustainable future. Ideally, the board of directors is responsible for disclosing information about a company's risks to stakeholders, acting as the ultimate trustee of its objectives and ensuring transparency. This responsibility stems from their fiduciary duties to shareholders (ensuring informed investment decisions) as well as other stakeholders (such as employees, communities, and creditors) whose success or failure is impacted by the company's success or failure (Jensen & Meckling, 1976). The issue of risk disclosure is inextricably linked to the board of directors' responsibilities and actions.

The board of directors faces a delicate balancing act as the guardians of a company's well-being, ensuring transparency about possible problems while preserving its edge and avoiding market panic. Effective risk disclosure, on the other hand, fosters trust and accountability. For properly informed investment decisions, investors rely on reliable and comprehensive data about potential risks. Furthermore, stakeholders such as employees, communities, and authorities hold the board accountable for the company's future stewardship. The International Organisation for Securities Commissions (IOSCO) emphasises open communication of publicly available information, which adds to the pressure for transparency (IOSCO, 2015). Nevertheless, the board must also consider the risks of excessive disclosure.

Overly sensitive information may give competitors an advantage or cause unnecessary market panic, potentially harming the company's stock price and jeopardising strategic initiatives. Finally, finding the right balance between transparency and strategic prudence is critical. Boards cannot simply comply with laws and regulations but also construct trust with

stakeholders, attract shareholders, and ultimately chart a sustainable course for their companies by diligently meeting their obligations as fiduciaries and effectively managing risk disclosure. Specifically, this study is done to answer the following research questions:

Research Question 1 - What is the current level of corporate risk disclosure among the top 100 publicly listed companies in Malaysia?

Research Question 2 – Is there any relationship between a firm's characteristics (board size, board gender diversity, leverage and profitability) and corporate risk disclosure?

2. Literature Review

According to Schrand and Elliot (1998), it is difficult to define risk due to its wide range of meanings. Different studies have different definitions of what risk is all about, and most authors stated that risk and uncertainty are two different concepts and should not be combined. However, scholars have defined risk disclosure in many ways, and it is vital to be clear on which definition of risk is being used for a particular study, as a different definition could lead to different analysis and results. The risk information can be categorised into several items, which can be found in the annual report or integrated reporting. For instance, Haj-Salem and Hussainey (2021) developed a risk disclosure index that consists of six categories (operations risk, empowerment risk, information processing and technology risk, integrity risk, strategic risk, and financial risk).

Past Studies on the factors that contribute to corporate risk disclosure

A study conducted by Elmarzouky et al. (2022) revealed a notable positive correlation between the size of the board and the disclosure of corporate risks, indicating that larger boards are inclined to provide more information on risks. This corresponds with the idea that larger boards could improve supervision and enable more thorough reporting on risks due to a variety of viewpoints and expertise. In contrast, there is another study that indicates that board characteristics, which include board size, did not have a significant effect on corporate risk disclosures within the Indian setting (Khandelwal et al., 2020). This discovery suggests that simply enlarging the board may not be adequate to improve practices of disclosing risks, as other factors like board interactions and governance frameworks also have critical roles to play.

Furthermore, recent research has delved into the correlation between board diversity in terms of gender and corporate risk disclosure, offering valuable insights into how the presence of different genders on boards influences practices related to reporting risks. The study carried out in India discovered a positive connection between gender diversity on boards and the disclosure of corporate risks. This particular study employed a range of metrics to measure gender diversity, including the BLAU index and the percentage of female board members, and utilised hierarchical regression analysis. The results demonstrated that companies with a higher representation of female directors were more inclined to reveal comprehensive information regarding risks, which aligns with the principles of agency theory and resource dependency theory.

In addition, for leverage, a systematic review of the literature conducted by Ibrahim et al. (2022) revealed that, by agency theory, highly leveraged firms could face elevated agency costs, prompting them to enhance the disclosure of risk information to manage these expenses. However, one study has found in their research on non-financial companies listed on the UK FTSE all-share index that there is no notable correlation between leverage levels and the extent of narrative risk disclosure by corporations (Elmarzouky et al., 2022). This indicates that the

degree of leverage on its own may not be a decisive factor in determining practices related to reporting risks. Further, the impact of corporate risk disclosure on investment efficiency is more pronounced in firms with high opacity, large firms, and financially constrained firms (Khan et al., 2023).

A study by Elmarzouky et al. (2022) found that profitability has a positive and significant impact on corporate risk disclosure. The research revealed that companies with higher levels of profitability are more inclined to disclose comprehensive risk information within their yearly financial statements. This discovery corresponds with the concept that profitable companies might aim to uphold a positive reputation and allure investors by showcasing proficient risk management strategies. The analysis emphasizes that profitability functions as an indication of the management's capability to address risks, thereby offering valuable insights to stakeholders concerning the operational well-being of the company. Similarly, a systematic review of literature conducted by Ibrahim et al. (2022) substantiates the proposition that profitability plays a crucial role in determining the extent of risk disclosure. The review amalgamated diverse research works and determined that companies exhibiting superior financial performance are more likely to divulge a greater amount of information related to risks, given their enhanced capacity to effectively manage and communicate their risk profiles. This aspect holds particular significance in contexts where transparency holds paramount importance for fostering investor trust.

3. Methodology

This study employs a cross-sectional design and a quantitative methodology. Cross-sectional secondary data based on the annual report of the top 100 companies in Malaysia will be used. Follow through, a quantitative research method will be used in this study, which relies on the secondary data from an annual report of the top 100 companies listed in Malaysia. This study determines the level of corporate risk disclosure from the firm's characteristics. To retrieve their data, the study collected the annual reports from the top 100 listed public companies in Malaysia. Measurements of firm characteristics, including board size, board gender diversity, leverage and profitability, are extracted from the 2023 annual report one by one.

Meanwhile, corporate board disclosure is measured through six categories, namely financial risk, operational risk, empowerment risk, information processing and technology risk, integrity risk and strategic risk, with a total of 37 items. The calculation method is the total number of items disclosed by the company divided by the total number of items (37). Board size is measured by the total number of board members. Meanwhile, board gender diversity (female on board) is measured by the ratio of female board members as compared to male board members. The leverage is measured by total debt over total assets. Meanwhile, profitability is measured by the return on assets (ROA).

4. Results and Discussion

Table 1 presents the descriptive statistics for the variables used in this study. The Corporate Risk Disclosure (CRD) variable has a mean value of 0.5742 and a standard deviation of 0.06845, indicating that the data points are relatively close to the average. Regarding board size, firms have an average of approximately 9.07 directors, with board sizes ranging from 5 to 15 members. In terms of gender diversity, the average proportion of male directors is 0.7102, which corresponds to an average female representation of 28.98%. This reflects a moderate level of gender diversity on corporate boards. Turning to financial indicators, the leverage ratio

has a mean of 0.5710, suggesting a balanced use of debt financing among the firms. Profitability, measured by the average profit margin, is 0.1704, indicating a modest level of profitability across the sample companies.

Based on Table 2, these statistics provide an idea of the central tendency of the corporate risk disclosure scores. A high mean value indicates a generally high level of disclosure across companies. We can see that the mean value is a widely used measure of central tendency that represents the average of corporate risk disclosure. It's calculated by adding all the values in the data set and then dividing by the number of values. The mean provides a single number that summarises the centre point around which the data points tend to cluster.

Table 1: Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
Corporate risk disclosure (CRD)	0.46	0.81	0.57	0.07
Board size	5.00	15.00	9.07	2.07
Board gender diversity	0.00	0.75	0.29	0.12
Leverage	0.12	1.14	0.57	0.17
Profitability	0.00	0.67	0.17	0.14

Table 2: The frequencies of CRD of the top 100 publicly listed companies in Malaysia.

	CRD
Mean	0.5742
Median	0.5676
Mode	0.5900
Std. Deviation	0.0685

Table 3 shows there is a significant relationship between profitability and corporate risk disclosure (CRD) ($\beta = 0.282$, $p = 0.004$). Companies with higher profitability tended to disclose more risk information compared to their less profitable counterparts. Hence, more profitable firms might face greater regulatory pressure to comprehensively disclose risks. Board size also shows a significant influence on corporate risk disclosure ($\beta = 0.243$, $p = 0.013$). Meanwhile, board gender diversity (female on the board) and leverage have no significant influence on the corporate risk disclosure.

Table 3: Regression result

Variables	Beta	Sig
Board size	0.243*	0.013
Board gender diversity (female)	0.610	0.873
Leverage	-0.061	0.530
Profitability	0.282**	0.004

5. Conclusion

The results of this study also suggest several theoretical and managerial implications. First, the notable positive correlation between profitability and corporate risk disclosure suggests that companies with superior profitability tend to partake in transparent risk reporting. This discovery indicates that profitable companies might perceive risk disclosure as a strategy to boost their reputation and allure additional investments, supporting the notion that financial performance plays a crucial role in fostering transparency in corporate governance. Subsequently, the absence of significant associations between board size and board gender

diversity with corporate risk disclosure implies that these attributes may not wield as much influence on risk reporting practices as previously assumed.

These results contest prevailing beliefs regarding the impact of board makeup on risk transparency, hinting that merely augmenting board size or promoting gender diversity may not automatically enhance risk disclosure. Furthermore, the consequences of a study that identifies a lack of substantial correlation between leverage and corporate risk disclosure are notable. This observation challenges the widespread belief that heavily leveraged companies are more inclined to disclose risk-related information to mitigate agency costs and reassure stakeholders about their financial well-being. Instead, it indicates that leverage by itself may not decisively determine risk reporting practices.

On another hand, there are some recommendations included to assist future researchers interested in pursuing a relevant topic and making improvements to it. The first suggestion is exploring international nuances in corporate practices. Comparing disclosure patterns across different countries can reveal the impact of regulatory environments and cultural norms on corporate transparency. For example, stricter disclosure laws typically lead to more detailed risk reporting, while lax regulations allow for more discretion. Similarly, cultures with strong investor protection encourage proactive risk disclosure, whereas collectivist cultures might discourage transparency to avoid reputational harm. International comparisons can help distinguish the effects of company-specific features from broader institutional and cultural factors, leading to a deeper understanding of what influences corporate risk disclosure policies.

Moreover, the second suggestion is improving the control mechanism on the regulator. Large companies often disclose more profitability information than medium-sized ones, but all companies should be transparent about their profits. Detailed profit disclosure helps the government, investors, and the public assess a company's financial position. This transparency is crucial for informed investor decision-making, which is essential for a healthy market. Investors can evaluate a company's financial health and make better investment decisions through profitability metrics like earnings per share and profit margins. By analysing these metrics, investors can identify companies with sustainable growth and strong financial performance, optimising their returns and allocating their funds efficiently. The government should ensure that all companies, regardless of size, disclose their profitability information. Measures could include penalties for non-disclosure or temporarily revoking operating licenses. This would highlight the importance of risk disclosure and ensure companies understand its significance.

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Conflict of Interest Statement

The authors declare that there is no conflict of interest regarding the publication of this study.

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