The Influence of Organizational Culture on Company Performance with Disclosure of Risk Management as An Intervening Variable

(Empirical Study of Property and Insurance Companies listed on the Indonesia Stock Exchange in 2014-2016)

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ABSTRACT

The company's performance which is considered quite important in providing an evaluation for investor decision making triggers further research to find out what factors can improve company performance. Companies have several motivations in risk disclosure, in line with legitimacy theory, that companies tend to take corporate action and behavior similar to the industry itself. This study will examine and analyze the effect of Clan organizational culture on company performance with the intervening variable of risk management disclosure. The research method used is quantitative with multiple linear regression through the Eviews application.

Keywords : Organizational Culture, Company Performance, Risk Management, Intervening

INTRODUCTION

Companies have several motivations in risk disclosure, in line with legitimacy theory, that companies tend to take corporate actions and behavior similar to the industry itself. (Deegan, 2014). The next motivation comes from the internal company itself as a fundamental aspect, namely organizational culture, organizational culture acts as a solid footing in the agent-principal relationship (Elkeish & Hassan, 2014) this implies that organizational culture influences management practices and as a consequence will have an impact on control and behavior in disclosure. Organizational culture has several dimensions, one of the studies used as a reference is (Elkesih & Hassan, 2014) which divides the cultural dimension into several measurements, namely Clan, Adhocracy and Market Hierarchy. The results of the study show that the dimensions of organizational culture influence company behavior in disclosing risks. Similar research was conducted by (Wong, 2012) with a sample of companies listed on the China stock exchange and gave the result that risk management is an important factor in achieving company goals and the cultural differences studied have an impact on the level of risk disclosure. The results of the study show that the dimensions of organizational culture influence company behavior in disclosing risks. Similar research was conducted by (Wong, 2012) with a sample of companies listed on the China stock exchange and gave the result that risk management is an important factor in achieving company goals and the cultural differences studied have an impact on the level of risk disclosure. The results of the study show that the dimensions of organizational culture influence company behavior in disclosing risks. Similar research was conducted by (Wong, 2012) with a sample of companies listed on the China stock exchange and gave the result that risk management is an important factor in achieving company goals and the cultural differences studied have an impact on the level of risk disclosure.In this study, researchers try to take one dimension, namely the Clan dimension and will make observations separately, namely the influence of Clan organizational culture on company performance, and Clan organizational culture its influence on company performance. level of risk disclosure and research that others that examine the relationship between the level of risk disclosure and company performance. As in the study: Elkeish & Hassan, (2014) who tested the effect of Clan dimension organizational culture on the level of risk disclosure

1. Kakanda et al (2017) tested risk management disclosure on company performance.

The formulation of the problems to be answered in this study are:

1. Does Clan Organizational Culture have a direct effect on Company Performance?
2. Does Clan Organizational Culture affect Company Performance with the intervening variable Risk Management Disclosure

HYPOTHESIS DEVELOPMENT

The Effect of Clan Organizational Culture on Company Performance

Clan organizational culture focuses on internal conditions, flexibility and places human resources as the main factor. The characteristics that appear are the terminology of wellness, namely behavior, values, cooperation, participation and deliberation (Cameron & Quinn, 1999). Yesil and Kaya (2013) conducted a similar study with a sample of companies listed on the Turkish stock exchange, the results showed that there was no effect of organizational culture on company performance. Similar research was conducted by Golafzani and Chirani (2016) using a primary data approach. The results showed that CLAN culture had a positive effect on company performance.

H1 : Clan Organizational Culture affects Company Performance.

The Effect of Clan Organizational Culture on Company Performance with Disclosure of Company Risk Management as an intervening variable

In line with the research objectives, an indirect test will be carried out, namely testing the variable level of corporate risk disclosure as an intervening variable, to the best of the researcher's knowledge there has not been a similar study that has tested it simultaneously. The development of this hypothesis is based on separate research from previous studies, namely: L

1. Elkeish & Hassan, (2014) who tested the effect of organizational culture on the level of risk disclosure.
2. Kakanda et al (2017) tested risk management disclosure on company performance.

H2 : Disclosure of company risk management that has been influenced by Organizational Culture*Clans* effect on company performance

RESEARCH METHODS

The population in this study is all lists of companies that are on the Indonesia Stock Exchange from the 2014 to 2016 period. The research sample is in the form of property company financial statements for the 2014 to 2016 period.

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Variable Operationalization

Dependent Variable

The dependent variable is a variable that is influenced by independent variables, or variables that affect other variables and is also called the dependent variable. In this study the dependent variable (Y) is company performance. Company performance will be measured using the return on equity (ROE) ratio (Kakanda, et al 2017) as follows:

ROE : Net Profit After Tax / Shareholders Equity.

Independent Variable

The independent variable used in this study is the Clan organizational culture dimension which refers to research (Elkelish et al, 2014), with the following definitions and measurement proxies:

Table 1. Measurement Proxies

Dimensions	Definition	Measurement
CLANS	Organizational culture that focuses on employee welfare	

Intervening Variables

The intervening variable in this study is the level of risk disclosure using a content analysis approach using measurements adopted from Buckby et al, 2015 research with a total of 37 risk disclosure indicators. Furthermore, the technique used is by giving code 1 if the company discloses each indicator presented and code 0 if it does not disclose the indicators presented (using the Dummy method). Table 3.2 shows an example of using the dummy method as well as two journal forms: Majella Percy. (2000), Justyna Dyduch at al. (2017).

Table 2. Disclosure Indicators

No.	Indicator	Sub-Indicators
1	Operational Risk	funding
		operational
		Insurance
2	Environmental Risk	Climate Awareness
		Environmental Risk
3	Sustainability Risk	Liquidity
		Sustainability
4	Compliance Risk	Sustainability of rules compliance
		Accounting standard compliance
	Strategic Risk	Investments
		Operational Strategy
		Sales and Marketing
		Suppliers
	Ethical Conduct Risk	Ethical Conduct Risk
	Reputational Risk	Reputation Risk
	Technological Risk	Information Security

		Information Technology failures
		Information Technology Project Development
	Service Quality Risk	Service Quality
	Human Capital Risk	Occupational Health and Safety
		Human Resources
	Market Related Risk	competition
		credits
		equity
		Commodity Fluctuations
		Asset Value changes
		Macroeconomic Environment Changes
		Monetary policy changes
		Exchange rate
		Financial Statements
		Interest Rates
		Political Conditions
		Market related others
	Legal Risk	Legal Risk disclosure
	Effectiveness of Risk management and internal control systems	Internal control disclosure
	Disclosure of internal audit analysis	Disclosures of internal audit analysis
	Board’s responsibility for Risk Management	Disclosures of board responsibility for RM

Research Model

Model of the Influence of Clan Organizational Culture on Company Performance

To examine the effect of organizational culture on the level of risk management disclosure, multiple regression models are used. The dependent variable in this model is the level of risk disclosure (CRD) and the independent variable is CLANmodel 1 will be used as a test for hypothesis 1

ROE=a0+a1CLAN

Model Indirect Influence of Clan Organizational Culture on Company Performance with the intervening variable Disclosure of Company Risk Management.

The intervening test in this study to test the effect of organizational culture on company performance through organizational culture will use the Sobel test technique with gradual calculations:

1. Determine the direct influence of organizational culture on enterprise risk management (regression model 2a)
2. Determine the direct effect of enterprise risk management on firm performance (regression model 2b)

Furthermore, to determine whether the intervening hypothesis is accepted, the sum of the direct effects of the above steps will be carried out. (Jannah & Khoirudin, 2017).

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The research method is written in the form of flowing paragraphs (no numbering). The research method describes the research design used (methods, data types, data sources, data collection techniques, data analysis techniques, variables and variable measurements). The research object does not mention the name of the company but the category of the company.

RESULTS AND DISCUSSION

Hypothesis Direct Testing 1

The Influence of Organizational Culture on Financial Performance

Table 3. Hypothesis Testing Results 1

Model	coefficient	probability
ROE = ?0 + ?1 CLANs	-0.040	0.5505

Hypothesis 1 which states that CLAN's organizational culture has an effect on financial performance is unacceptable. The results of the study show that CLAN's organizational culture which focuses on employee welfare has no effect on financial performance. this resultconsistent with the research of Yesil and Kaya (2013) which shows that organizational culture has no effect on the company's financial performance.

This insignificant result is possible because the financial performance of the companies in the sample focuses on other factors that can directly have an impact on increasing profits, such as increasing revenue or adding assets. Organizational culture does not directly have an impact because the internalization process is different for each employee and has a relatively different span of time between one employee and another. A successful organizational culture will have an impact on improving individual performance both in terms of output and effectiveness of how to work and then it will have an impact on improving the company's financial performance.

Indirect Testing of Hypothesis 2

The Influence of Organizational Culture on Financial Performance with Intervening Variables Level of Risk Disclosure

Table 4. Hypothesis Testing Results 2

Model	coefficient	probability
CRD = ?0 + ?1 CLAN	0.2770	0.0623
ROE = ?0 + ?1 CRD	-0.0563	0.1740
Intervening Influence Outcomes	**-0.015595****	**0.01084**

From the results of the intervening test in table 4.6 it shows that the correlation coefficient is -0.015 with a significance level of 0.01 or significant at the 5% level. These results provide an interpretation that the higher the level of risk disclosure from companies that have a CLAN culture or companies that prioritize employee welfare, the lower the company's financial performance will be.

The results of a significant negative test illustrate that caution is needed in disclosing risks presented in the annual report because it is possible to provide a bad signal for readers of financial statements and furthermore stakeholders or shareholders will make decisions that can affect company performance. It is very possible that risk disclosure will turn into a threat to these investors so that it can generate distrustof the company's performance which will have an impact on both strategic and non-strategic decisions so it will reduce the company's financial performance. Several things may occur as a result of naive investors reacting to risk disclosure such as disbelief in investing.

CONCLUSIONS

Conclusion

Some conclusions that can be drawn from the test results in this research are as follows:

1. The direct influence of Clan Organizational Culture on Company Performance

The test results show that organizational culture has no effect on the performance of the companies that are sampled in this study.

2. The effect of organizational culture on company performance with the intervening variable of corporate risk disclosure.

Disclosure of company risk management has a negative effect on the relationship between organizational culture and company performance.

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