

The Impact of Risk Control Units on Corporate Performance in Indonesia

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ABSTRACT

This study comprehensively examines the influence of Risk Management Committees (RMCs) on corporate financial performance, specifically measured by Return on Assets (ROA), through three distinct linear regression models. Model 1 evaluates the direct presence of RMCs, Model 2 analyzes the interaction between RMCs and governance characteristics, and Model 3 examines the classification of RMCs based on their risk management functions, whether handled by standalone committees or integrated with other governance bodies. The findings reveal that the existence of RMCs has a significant negative effect on ROA in Models 1 and 2, while Model 3 shows no significant effect. Control variables, such as liquidity (CurrRatio), asset turnover efficiency (AsTurn), and market capitalization (Mcap), demonstrate consistent positive effects on ROA across all models. These results underline the importance of optimizing RMCs through enhanced operational effectiveness and strategic alignment with organizational objectives. The study acknowledges limitations, including its focus on financial outcomes and the exclusion of non-financial dimensions, such as stakeholder satisfaction or corporate reputation. Future research is encouraged to investigate these broader aspects for a more holistic understanding of RMC contributions.

Keywords: Risk Management Committees, Corporate Governance, Return on Assets, Financial Performance, Indonesia, Risk Oversight, Governance Effectiveness.

INTRODUCTION

Corporate governance is widely regarded as a cornerstone of sustainable business success, playing a pivotal role in enhancing a firm's financial and operational performance. Among the key mechanisms of governance, Risk Management Committees (RMCs) have emerged as critical entities tasked with identifying, evaluating, and mitigating organizational risks. As companies face increasingly complex and volatile market conditions, the role of RMCs has become even more significant. However, while RMCs are intended to bolster corporate stability and decision-making processes, their actual impact on financial performance remains a topic of considerable debate, particularly in emerging markets like Indonesia.

Despite regulatory mandates and industry best practices encouraging the establishment of RMCs, empirical evidence on their effectiveness is mixed. In some cases, RMCs are perceived as adding bureaucratic layers that increase operational costs, while in others, they are credited with fostering a proactive approach to risk management. This divergence in findings raises important questions about the conditions under which RMCs contribute positively to corporate performance.

Indonesia, as a developing economy with a rapidly evolving corporate landscape, presents a unique context for exploring these dynamics. Companies in Indonesia operate within a regulatory framework that emphasizes risk management but often lack the resources and expertise to fully implement these practices. Consequently, the effectiveness of RMCs in this environment may differ significantly from that in more developed markets. Understanding these nuances is critical for both practitioners and policymakers aiming to enhance corporate governance frameworks.

This study seeks to bridge this gap by investigating the relationship between RMC functionality and corporate financial outcomes, as measured through Return on Assets (ROA). ROA serves as a widely accepted indicator of financial performance, reflecting how efficiently a company utilizes its assets to generate profits. By focusing on ROA, the study provides insights into the tangible financial implications of RMC practices.

The research employs three regression models to dissect this relationship. Model 1 focuses on assessing the impact of RMC presence on ROA. Model 2 delves into the interplay between RMCs and specific governance characteristics, such as the composition of members and meeting frequency. Model 3, on the other hand, evaluates the structural classification of RMCs, determining whether standalone committees or multifunctional bodies yield better financial results.

In addition to analyzing the direct and interactive effects of RMCs, this study incorporates several control variables known to influence ROA, including liquidity, asset turnover, and market capitalization. These variables provide a comprehensive understanding of the factors that drive financial performance, ensuring that the results are not solely attributed to RMC-related dynamics. By addressing these dimensions, the study aims to provide a nuanced understanding of how RMCs contribute to, or detract from, financial

performance. The findings are expected to inform corporate governance practices, offering actionable recommendations for optimizing RMC operations in a way that aligns with organizational objectives.

Research Questions: (1) Does the presence of RMCs influence corporate financial performance? (2) How do governance characteristics interact with RMCs to impact ROA? And (3) Does the structural classification of RMCs affect their effectiveness in enhancing financial outcomes? By answering these questions, this study contributes to the growing body of literature on corporate governance and risk management, providing insights that are particularly relevant for emerging markets. The results have implications not only for corporate leaders but also for regulators and policymakers seeking to enhance governance standards.

Previous studies reveal various critical aspects of the implementation of Enterprise Risk Management (ERM) and Risk Management Committees (RMC) in supporting corporate performance. Gabriela (2018) demonstrated that ERM implementation at Astra Group helps companies achieve risk management maturity through systematic risk identification, evaluation, and mitigation [1]. Similar findings were reported by Yap & Yap (2018), who emphasized that ERM positively impacts SMEs' performance, particularly through risk assessment and monitoring, which enhance competitiveness and financial stability [2]. Malik *et al.* (2020) added that the support of a Board-Level Risk Committee (BLRC) strengthens ERM effectiveness by improving risk oversight, operational efficiency, and firm value through strategic, risk-based decision-making [3].

On the other hand, several studies highlight the challenges in RMC implementation. Jia & Bradbury (2020) found that RMCs, particularly Standalone RMCs (SRMC), enhance financial flexibility and profitability through more focused risk oversight [4]. However, Winarto & Chariri (2022) noted

that RMCs often serve as symbolic structures with limited effectiveness due to internal conflicts and poor coordination [5]. Agustina et al. (2021) further emphasized that the effectiveness of RMCs in improving transparency and corporate performance is constrained by the lack of expertise among committee members and low incentives for comprehensive risk disclosure [6].

Other studies also identify obstacles in ERM and RMC implementation. Boudiab et al. (2021) indicated that the independence of RMC members can increase operational costs without yielding significant benefits, particularly when members lack industry-specific knowledge [7]. Suzuki et al. (2023) highlighted that insufficient interdepartmental coordination and technical expertise are major barriers to effective risk management [8]. Similarly, Ramli & Djakman (2020) found that ERM implementation often remains a formality without delivering tangible value due to misalignment with corporate strategic objectives [9].

Overall, previous studies suggest that the success of ERM and RMC largely depends on effective execution, coordination, and the expertise of committee members. While ERM and RMC have the potential to enhance corporate performance, internal challenges often reduce their impact. Therefore, further research is needed to explore strategies for optimizing ERM and RMC implementation to deliver significant benefits for organizations.

MATERIALS & METHODS

This study employs a quantitative research design, leveraging secondary data collected from publicly listed companies in Indonesia. The dataset encompasses multiple industries, providing a comprehensive view of corporate governance and financial performance. With 1,749 observations, the sample offers robust statistical power for the analyses conducted. Debt to equity, current ratio, revenue per share, asset turnover, and market capitalization are commonly used as control variables when analyzing Return on Assets

(ROA) due to their relevance in capturing different dimensions of a company's financial and operational performance. Debt-to-equity ratio reflects a company's financial leverage, which can impact profitability through the cost of debt and financial risk [10]. Companies with higher leverage might experience lower ROA if debt servicing costs exceed the returns generated from asset utilization. Similarly, the current ratio, a measure of liquidity, indicates a company's ability to meet short-term obligations. Firms with higher liquidity levels generally demonstrate financial stability, which positively influences ROA by minimizing disruptions caused by liquidity constraints.

Asset turnover measures how effectively a company utilizes its assets to generate revenue, directly influencing profitability [11]. Companies with higher turnover rates typically achieve better ROA, reflecting superior operational performance. Revenue per share, another critical indicator, captures the earnings potential per unit of shareholder equity, providing insight into a firm's operational output relative to its capital structure. This variable complements ROA analysis by highlighting how effectively revenues are translated into profitability.

Larger firms often benefit from economies of scale and greater market power, which can lead to more efficient asset utilization and higher ROA [12]. Market capitalization serves as a proxy for these advantages and captures the influence of firm size on financial outcomes. By incorporating these control variables, the study accounts for factors that could independently affect ROA, ensuring a more accurate analysis of the primary relationships under investigation.

Data Collection: Data were sourced from corporate annual reports, financial statements, and publicly available disclosures. These documents provided critical information on governance structures, financial metrics, and organizational characteristics. The collection process focused on ensuring the accuracy and consistency of the data to enhance the reliability of the findings.

Variables:

1. Dependent Variable: Return on Assets (ROA), a widely used indicator of corporate financial performance, measuring the efficiency of asset utilization in generating profit.
2. Independent Variables: dKOM: A dummy variable indicating the presence of RMCs; dKOM_dKOMGab: A categorical variable reflecting the classification of RMCs (e.g., standalone committees or integrated governance bodies). Interaction terms between RMCs and governance characteristics, such as AnggKom (committee member composition), KomIND (Independent Commissioner Percentage), DirIND (Independent Director Percentage),

- JmlhRapat (Meeting Held by Committee) and Gender (Gender of the Committee Chairman)
3. Control Variables: DebtToEq: Indicates the debt-to-equity ratio; CurrRatio (Current Ratio): Measures corporate liquidity; RevperShare: Revenue per share as a proxy for operational output; AsTurn (Asset Turnover): Represents asset turnover efficiency; Mcap (Market Capitalization): Captures the firm’s market capitalization; dCovid: Capture the year when pandemic hit Indonesia

Regression Models:

Three linear regression models were constructed to analyze the relationship between RMCs and ROA:

Model 1:	Assesses the direct impact of RMC presence on ROA
ROA _{i,t} =	$\alpha + \beta_1 dKOM_{i,t} + \beta_2 DebtToEq_{i,t} + \beta_3 CurrRatio_{i,t} + \beta_4 RevperShare_{i,t} + \beta_5 AsTurn_{i,t} + \beta_6 Mcap_{i,t} + \beta_7 dCovid_{i,t} + \epsilon_{i,t} \dots \dots \dots (1)$
Model 2:	Examines interactions between RMCs and governance characteristics, such as member composition and meeting frequency
ROA _{i,t} =	$\alpha + \beta_1 dKOM_{i,t} + \beta_2 (dKOM \times AnggKom) + \beta_3 (dKOM \times KomIND) + \beta_4 (dKOM \times DirIND) + \beta_5 (dKOM \times JmlhRapat) + \beta_6 (dKOM \times Gender) + \beta_7 DebtToEq_{i,t} + \beta_8 CurrRatio_{i,t} + \beta_9 RevperShare_{i,t} + \beta_{10} AsTurn_{i,t} + \beta_{11} Mcap_{i,t} + \epsilon_{i,t} \dots \dots \dots (2)$
Model 3:	Investigates the classification of RMCs, distinguishing between standalone committees and integrated governance structures.
ROA _{i,t} =	$\alpha + \beta_1 (dKOM \times dKOMGab) + \beta_2 DebtToEq_{i,t} + \beta_3 CurrRatio_{i,t} + \beta_4 RevperShare_{i,t} + \beta_5 AsTurn_{i,t} + \beta_6 Mcap_{i,t} + \epsilon_{i,t} \dots \dots \dots (3)$

RESULT

Table 1. Results of 3 Models Linear Regression

	(1) ROA	(2) ROA	(3) ROA
dKOM	-0.0423*** (0.00878)	-0.0606*** (0.0144)	
DebtToEq	-0.00968 (0.00111)	-0.00101 (0.00109)	-0.00100 (0.00110)
CurrRatio	0.00677*** (0.00104)	0.00706*** (0.00103)	0.00684*** (0.00105)
RevperShare	0.000270 (0.00194)	-0.000134 (0.00198)	-0.0000639 (0.00198)
AsTurn	0.0366 (0.00536)	0.0373*** (0.00536)	0.0376*** (0.00548)
Mcap	0.0173*** (0.00140)	0.0166*** (0.00140)	0.0171*** (0.00140)
dCovid	-0.00354 (0.00390)		
dKOM_AnggKom		0.00301 (0.00266)	
dKOM_IND		0.0281	

		(0.0187)	
dKOM_DirIND		0.00103	
		(0.0166)	
dKOM_JmlhRapat		-0.000245	
		(0.000177)	
dKOM_Gender		-0.0200***	
		(0.00585)	
dKOM_dKOMGab			0.00292
			(0.00486)
Constant	-0.448***	-0.428***	-0.489***
	(0.0399)	(0.0401)	(0.0395)
Observations	1749	1749	1749

This study examines the relationship between Risk Management Committees (RMCs) and corporate financial performance, measured by Return on Assets (ROA), across three regression models. The findings provide critical insights into the influence of RMC presence, interaction with governance characteristics, and structural classification on ROA.

Model 1 evaluates the direct impact of RMC presence (dKOM) on ROA. The results reveal a significant negative relationship between the presence of RMCs and ROA ($\beta = -0.0423$, $p < 0.001$), indicating that the implementation of RMCs might introduce inefficiencies or additional costs that outweigh their potential governance benefits. Control variables such as CurrRatio ($\beta = -0.00677$, $p < 0.001$), AsTurn ($\beta = -0.0366$, $p < 0.001$), and Mcap ($\beta = -0.0173$, $p < 0.001$) consistently demonstrate a significant positive effect on ROA, highlighting the importance of liquidity, operational efficiency, and market capitalization in driving financial performance.

Model 2 incorporates interaction terms between RMCs and governance characteristics, providing deeper insights into the dynamics of governance. The negative effect of RMC presence remains significant ($\beta = -0.0606$, $p < 0.001$), and the interaction with gender diversity in leadership (dKOM_Gender) also shows a significant negative effect on ROA ($\beta = -0.0200$, $p < 0.001$). These results suggest that certain structural or leadership characteristics within RMCs may not optimally support strategic decision-making

processes that contribute positively to profitability. Other interactions, such as the number of committee members (dKOM_AnggKom) and frequency of meetings (dKOM_JmlhRapat), are not statistically significant, indicating limited relevance of these factors in explaining the RMC-ROA relationship. Control variables CurrRatio, AsTurn, and Mcap maintain their positive significance, consistent with Model 1.

Model 3 explores the classification of RMCs based on their structural setup (dKOM_dKOMGab). The results indicate no significant relationship between the classification of RMCs and ROA ($\beta = -0.00292$, $p = 0.548$), suggesting that the mere existence or structural configuration of RMCs, whether standalone or integrated with other committees, does not directly impact profitability. This finding underscores the importance of functional effectiveness rather than structural design in enhancing financial outcomes. Control variables, once again, demonstrate consistent positive relationships with ROA.

Overall, the results highlight significant challenges in realizing the potential benefits of RMCs. While their presence aims to strengthen corporate governance, their implementation and structural characteristics may introduce inefficiencies or fail to align with strategic goals. The consistent positive effects of liquidity, operational efficiency, and market capitalization across all models suggest these factors play a critical role in driving ROA. Future research should focus on exploring ways to optimize the

effectiveness of RMCs, ensuring their integration into broader governance frameworks to enhance corporate financial performance.

DISCUSSION

The findings of this study highlight the complexities of implementing Risk Management Committees (RMCs) as part of corporate governance frameworks and their impact on financial performance, specifically Return on Assets (ROA). **In Model 1**, the significant negative effect of RMC presence (dKOM) on ROA suggests that while RMCs are established to strengthen governance and mitigate risks, their implementation may inadvertently introduce administrative burdens or inefficiencies. This finding aligns with previous literature indicating that poorly implemented governance structures can lead to increased costs and diminished profitability, particularly in emerging markets where resources and expertise may be limited.

Model 2 reveals additional nuances, as the significant negative interaction between RMC presence and gender diversity in committee leadership (dKOM_Gender) points to potential challenges in decision-making dynamics within RMCs. While diversity is often associated with better decision-making and innovation, its negative impact here may reflect inefficiencies arising from communication barriers, power dynamics, or a lack of strategic alignment. Furthermore, other governance characteristics, such as the number of committee members and frequency of meetings, do not show significant effects on ROA. This suggests that these aspects, while important in theory, may not directly influence financial performance without a clear focus on enhancing the committee's functional effectiveness.

Model 3 further reinforces the idea that structural aspects of RMCs, such as their classification as standalone or integrated committees, do not have a significant impact on ROA. This finding underscores the

importance of operational effectiveness over structural design. Simply establishing a committee or integrating its functions with existing governance bodies is insufficient to drive financial performance. Instead, the value of RMCs lies in their ability to implement robust risk management practices that align with the organization's strategic objectives.

Across all models, control variables such as liquidity (CurrRatio), asset turnover efficiency (AsTurn), and market capitalization (Mcap) consistently show significant positive effects on ROA. These results emphasize the fundamental role of financial and operational efficiency in enhancing profitability, irrespective of governance structures. The consistent insignificance of other variables, such as revenue per share and the debt-to-equity ratio, suggests that these factors may have a limited role in the specific context of Indonesian publicly listed companies.

Overall, the study highlights the need for organizations to move beyond mere compliance with governance requirements and focus on optimizing the operational and strategic effectiveness of RMCs. Future research should explore the role of organizational culture, leadership competencies, and industry-specific factors in enhancing the contributions of RMCs to financial performance. Additionally, examining non-financial outcomes, such as stakeholder satisfaction and reputational benefits, could provide a more holistic understanding of the value of RMCs in corporate governance.

CONCLUSION

In Model 1, the presence of the Risk Management Committee, measured by the dKOM variable, has a significant negative effect on ROA, with a decline of 4.23%. This finding indicates that the presence of the Risk Management Committee has not yet provided a tangible positive impact on the company's profitability. The model suggests that while the Risk Management Committee is implemented to strengthen corporate

governance, the effectiveness of its implementation may not yet be optimal, so the benefits have not outweighed the additional costs or burdens incurred.

In Model 2, a deeper analysis using interaction variables shows that the significant negative effect remains evident in dKOM (-6.06%). Additionally, the interaction with dKOM_Gender (committee chairperson) also demonstrates a significant negative effect on ROA (-2.00%). This could indicate that certain structures or characteristics within the Risk Management Committee, such as the gender of the committee chairperson, may not yet optimally support strategic decision-making functions that positively impact profitability. However, interactions with other factors such as the number of committee members, independent commissioners, independent directors, and the frequency of meetings do not show significant effects, suggesting that these aspects may not be sufficiently relevant in explaining the relationship between the Risk Management Committee and financial performance.

In Model 3, the influence of the classification of the Risk Management Committee, measured by dKOM_dKOMGab, on ROA is not significant. This indicates that neither the existence of a standalone committee nor risk management functions conducted by other committees have a direct meaningful impact on the company's profitability. The lack of significant influence suggests that the classification or mere existence of the committee is insufficient to affect ROA without effectiveness in performing its duties.

Overall, the results of the three models indicate that the presence and characteristics of the Risk Management Committee still have limitations in providing a positive impact on ROA. Although Models 1 and 2 show significant negative effects, this reflects challenges in the effective implementation of risk management functions rather than negating the importance of the committee itself. Model 3, which

shows no significant effects, reinforces the view that classification or mere existence alone is insufficient to enhance the company's financial performance.

In conclusion, while the Risk Management Committee is an essential part of corporate governance, its benefits to profitability largely depend on how the committee is operated, including the effectiveness of decision-making, integration with corporate strategy, and its contribution to proactive risk management. Further research is necessary to explore ways to improve the effectiveness of this committee to deliver a positive impact on company performance.

Declaration by Authors

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