CHAPTER I
INTRODUCTION

A. Background

Recently, the rapid pace of progress in economy, technology and world politics have complicated the business environment and increased the level of uncertainty and volatility (Woods et al., 2017). Besides, the companies confronted diverse risks from the inside of their own organization as well as from the external environment, which are beyond the traditional ones (Mazumder and Hossain, 2018). As a result, managing and controlling the business risk have become more difficult (Beasleyet al., 2005). In the aftermath of the corporate scandals and financial crises, which led to a deceleration of the global economy and failure of many companies (Fung, 2014). The major corporate financial case occurred in Enron, Worldcom and Xerox in 2002. In addition to recent cases in Indonesia, PT Tiga Pilar Sejahtera Food Tbk (2018), PT Garuda Indonesia (2019), PT Asuransi Jiwasyara (2019) and PT Hanson International Tbk (2019). The above cases arise due to poor corporate governance and low transparency of financial reporting. For these cases, the company is required to be more transparent in disclosing information in financial statements, not only on financial information but also non-financial information, in this case for example is a corporate risk.

Dobler (2005) states that it is very important for companies to disclose companies' risk to their user, especially regarding the effect of this risk on

company future financial position. In addition, Jorgensen and Kirschenheiter (2003) theorize that, if a firm chooses not to disclose risk information, it will have a higher risk premium than firms providing such information. Furthurmore Alshirah et al (2020) declare that providing reliable and timely risk information to assess the financial conditions and business operations is vital. Indeed, all the companies are advised to disclose their risk in order to enhance the transparency of their financial reports, improve their disclosure quality and help the current and the potential investors in their proper assessment and economic decisions (Ellili and Nobanee, 2017).

The importance of corporate risk disclosure (CRD) enables regulators in Indonesia to issue regulations requiring disclosure of risk information in the company's annual report. PSAK No. 60 (Revised 2010) about Financial Instruments: Disclosure, explaining that a company should disclose information that users of financial statements can use to evaluate the type and level of risk of financial instruments. Another rule is the Decision of the Chairman of Bapepam LK Number: Kep 431 / BL / 2012 on Obligation of Submission of Annual Reports for Issuers or Public Companies. The regulation explains that the company is required to present an explanation of the risks facing the company and the efforts it has taken to manage those risks. In addition, Bank Indonesia Regulation Number 14/14 / PBI / 2012 concerning Transparency and Report Publication requires Banks to prepare annual reports that at least include the types of risks and potential losses faced by the Bank and risk management practices adopted by the Bank.

Under the three rules above, financial firms have more stringent provisions than non-financial firms in terms of risk disclosure practices. Financial companies are required to disclose the existence of risk management committees, while for non-financial companies, disclosure of the existence of risk management committees is still voluntary. Even for financial companies where corporate risk disclosure is mandatory, cases as mentioned earlier still arise as a result of the lack of transparency in the report. Therefore, for non-financial companies which corporate risk disclosure is voluntary practice, it makes non-financial companies more likely to present risk information in general and in less detail (Atika, 2016).

Increased transparency is one of the principles of corporate governance. Corporate governance is one of the key elements in improving efficiency, economic growth, and investor confidence (OECD, 2004). Corporate governance involves relationships between corporate management, councils, shareholders, and other stakeholders (OECD, 2015). The corporate governance mechanism is seen as an effective mechanism for controlling agency issues and ensuring that managers will always act in the interests of shareholders. Good corporate governance mechanisms will make accountability, accounting transparency, and disclosure practices increasing (Atika, 2016).

Several previous research have examined the effect of corporate governance mechanisms on CRD with diverse research results. The results of the study from Nur Probohudono (2013), Habtoor and Ahmad (20017) and Kurniawanto et al (2017) show that the proportion of independent

commissioners (one element of corporate governance mechanism) has a positive relationship to CRD. The existence of an independent commissioner is able to encourage management to make a wider disclosure of information. The high proportion of independent high commissioners can potentially increase the disclosure of risk-related information relating to corporate social and economic responsibility. The results of this study contradict Suhardjanto et al. (2012) and Dominguez and Gamez (2014) stating that the proportion of independent commissioners has no effect on CRD.

In addition to the proportion of independent commissioners, several studies have also examined the effect of frequent meetings of the audit committee and institutional ownership of the CRD. Al-Maghzom et al. (2016) states that the frequency of meetings of the audit committee has a positive effect on CRD. More meetings conducted by the audit committee can lead the company to be more adherent to the responsibility and monitoring of financial reporting. The results of this study contradict the research Ruwita and Harto (2013) which shows that the frequency of audit committee meetings negatively affect the CRD. On the other hand, the results of Suhardjanto et al. (2012) indicates that the frequency of audit committee meetings has no effect on CRD.

Research from Anggani et al. (2016) examines the effect of institutional ownership on corporate voluntary disclosure. The results show that institutional ownership positively affects voluntary disclosure. While the results of research Ntim et al. (2013) testing the effect of institutional ownership on CRD shows that institutional ownership negatively affects

CRDs. The results of both studies are contrary to the Elzahar and Hussainey (2012) studies which show that institutional ownership has no effect on CRD.

In addition, some studies also tested the effect of board size on CRD. The study of Suhardjanto et al. (2012) shows that the influence of board size of the risk disclosures is positive and the results are not in line with Habtoor et al (2017) study showing the negative relationship between board size and risk disclosures. Research from Kurniawanto et al (2017) also showed different results which in the study found that there was no relationship between board size and risk disclosures.

Corporate Risk Disclosures (CRDs) can also be influenced by corporate culture. Corporate culture is a set of values that serve as a reference or habit in carrying out duties and obligations within the company. Cameron and Quinn (1999) divide corporate culture into four groups: clan culture, adhocracy culture, market culture and hierarchy culture.

A company with a clan culture focuses on maintaining the company's internal environment and the company's human resources. Some researchers have examined the influence of clan culture on risk disclosures. In the research that has been done by Elkelish and Hasan (2014) shows that the clan culture has no effect on risk disclosures. Supported by research conducted by Atika (2016) states that the clan culture has no effect on risk disclosures. But unlike the research conducted by Haniffa and Cooke (2012) shows that corporate culture has a positive effect.

Companies with an adhocracy culture focus on the company's position in the external environment with a high degree of flexibility and individuality. Researchers who have examined the influence of adhocracy culture on risk disclosures are studies conducted by Elkelish and Hassan (2014) which show that the culture of adhocracy has no effect on risk disclosures. Supported by research conducted by Atika (2016) which states that the culture of adhocracy has no effect on risk disclosures. But unlike the research conducted by Haniffa and Cooke (2012) shows that corporate culture has a positive effect on risk disclosures.

Companies with a market culture focus on the company's external environment that requires control. Some researchers have examined the effect of market culture on risk disclosures. In a study conducted by Atika (2016) who found that market culture has a positive effect on risk disclosures. But unlike research that has been done by Elkelish and Hassan (2014) shows that market culture has no effect on risk disclosures.

Firms with a hierarchy culture focus on the internal environment of a company that requires stability and control. Some researchers have examined the effect of hierarchy culture on risk disclosures. In a study conducted by Elkelish and Hassan (2014) showed that the hierarchy culture had a positive effect on risk disclosures. Supported by research conducted by Atika (2016) which states that the hierarchy culture has a positive influence on risk disclosures.

This study is a development of research conducted by Atika (2016) by adding board size as independent variable of corporate governance mechanism. The reason of the researcher to increase the size of variable on corporate governance mechanism is to widen the factors that may influence corporate risk disclosures. In addition researchers also increased the observation period to two years (2017-2018) where in previous research only performed within one year.

Based on the description above, the researcher intends to conduct research entitled "**The Influence of Corporate Governance Mechanism and Corporate Culture towards Corporate Risk Disclosures (Empirical Study on Non-Financial Companies listed on Indonesia Stock Exchange in Year of 2017-2018)"**

B. Research Scope

This study examines the effect of corporate governance mechanisms on CRDs where corporate governance mechanisms only look at the factors of proportion of independent commissioners, the frequency of audit committee meetings, institutional ownership and board size. In addition, this study also examines the impact of corporate culture on CRD where corporate culture only looks at clan culture, adhocracy culture, market culture, and hierarchy culture.

C. Research Questions

1. Does the proportion of independent commissioner has a positive effect towards corporate risk disclosures?
2. Does frequency of the audit committee meeting has a positive effect towards corporate risk disclosures?
3. Does institutional ownership has a positive effect towards corporate risk disclosures?
4. Does board size has a positive effect towards corporate risk disclosures?
5. Does clan culture has a negative effect towards corporate risk disclosures?
6. Does adhocracy culture has a negative effect towards corporate risk disclosures?
7. Does market culture has a positive effect towards corporate risk disclosures?
8. Does hierarchy culture has a positive effect towards corporate risk disclosures?

D. Research Objective

Based on the research question above, the purpose of this research are:

1. Testing and obtaining empirical evidence on the positive influence of the proportion of independent commissioners towards corporate risk disclosures.
2. Testing and obtaining empirical evidence on the positive influence of the frequency of the audit committee meeting towards corporate risk disclosures.

3. Testing and obtaining empirical evidence on the positive influence of the proportion of institutional ownership towards corporate risk disclosures.
4. Testing and obtaining empirical evidence on the positive influence of the proportion of board size towards corporate risk disclosures.
5. Testing and obtaining empirical evidence on the negative influence of the proportion of clan culture towards corporate risk disclosures.
6. Testing and obtaining empirical evidence on the negative influence of the proportion of adhocracy culture towards corporate risk disclosures.
7. Testing and obtaining empirical evidence on the positive influence of the proportion of market culture towards corporate risk disclosures.
8. Testing and obtaining empirical evidence on the positive influence of the proportion of hierarchy culture towards corporate risk disclosures.

E. Research Contributions

1. Theoretical Function
   a. This research is expected to provide empirical evidence about the factors that influence the level of corporate risk disclosure.
   b. This research is expected to become reference material for subsequent research with result of research concerning factors influencing corporate risk disclosure.
2. Practical Function
   a. This research is expected to provide description and information about the practice of corporate risk disclosure in non-financial companies in Indonesia.