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Business Strategy, Corporate Governance, Firm Characteristics, and Risk Disclosure in the Indonesian Stock Exchange

Abstract

Companies were required to disclose non-financial information other than financial statements, due to the rapid and changing business conditions. This study aimed to examine the impact of business strategy, corporate governance, and firm characteristics on the risk disclosure. More specifically, we examined the impact of barriers to entry, cost leadership, the board of commissioner size, ownership concentration, liquidity, industrial profile, and auditor type on risk disclosure. We used a sample consisted of 96 observations for the period of 2008-2015 listed in Indonesian Stock Exchange and PEFINDO 25. This research conducted using multiple regression analysis methods to examine the factors influenced risk disclosure. This research also used independent sample T-test to investigate the quality of risk disclosure before, and after the implementation of IFRS in Indonesia. We found that barriers to entry, the board of commissioner size, ownership concentration, industrial profile, and auditor type significantly affect the risk disclosure. However, cost leadership and liquidity did not have significant effects on the risk disclosure. Results of the study might provide a sound contribution for further research, government, management of the company, and investors regarding the risk disclosure practices.

Keywords: Business Strategy; Corporate Governance; Firm Characteristics; Risk Disclosure

JEL Classifications: G32, G34

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Abstrak

Perusahaan diminta untuk mengungkapkan informasi non-keuangan selain dari laporan keuangan, karena kondisi bisnis yang cepat dan berubah. Penelitian ini bertujuan untuk menguji dampak dari strategi bisnis, tata kelola perusahaan, dan karakteristik perusahaan terhadap pengungkapan risiko. Lebih khusus lagi, kami memeriksa dampak hambatan untuk masuk, cost leadership, ukuran dewan komisaris, konsentrasi kepemilikan, likuiditas, profil industri, dan tipe auditor terhadap pengungkapan risiko. Kami menggunakan sampel yang terdiri dari 96 observasi untuk periode 2008-2015 yang terdaftar di Bursa Efek Indonesia dan PEFINDO 25. Penelitian ini dilakukan dengan menggunakan metode analisis regresi berganda untuk menguji faktor-faktor yang memengaruhi pengungkapan risiko. Penelitian ini juga menggunakan independent sample T-test untuk menyelidiki kualitas pengungkapan risiko sebelum dan sesudah implementasi IFRS di Indonesia. Kami menemukan bahwa hambatan masuk, ukuran dewan komisaris, konsentrasi kepemilikan, profil industri, dan jenis auditor berpengaruh secara signifikan terhadap pengungkapan risiko. Namun, cost leadership dan likuiditas tidak memiliki pengaruh yang signifikan terhadap pengungkapan risiko. Hasil penelitian dapat memberikan kontribusi yang kuat untuk penelitian lebih lanjut, pemerintah, manajemen perusahaan, dan investor mengenai praktik pengungkapan risiko.

Kata kunci: Strategi Bisnis; Tata Kelola; Karakteristik Perusahaan; Pengungkapan Risiko

In a turbulent, rapidly changing business condition, companies are required to disclose non-financial information aside from the financial statements. Mokhtar & Mellett (2013) stated that companies are encouraged not only to report their activities but also to report the extent of firms' risk and how well they are capable of managing the risks. Agency theory also maintained that in order to reduce information asymmetry, there is a strong demand to report corporate risk among institutional investors to improve portfolio investment decisions (Solomon et al., 2000). Stakeholder theory also concurs with the lemma that companies try to satisfy stakeholder need by disclosing more information regarding the company's risks and the sustainability of its operation (Elzahar & Hussainey, 2012).

Since companies are required to disclose the risk information, a framework and regulations in order to satisfy the accounting information user of the global investor are needed. The framework will ease financial analysts to understand the financial reports under the same language (Cheong & Gould, 2012; Mokhtar & Mellett, 2013) under the International Financial Reporting Standard (IFRS). As a result, in 2009, International Accounting Standards Board issued an exposure draft for global reporting standard entitled IFRS.

Even though the regulation has been issued, the disclosure of the company's risk is still lacking (Oliveira, Rodrigues, & Craig, 2011). Firms opt to disclose risk information conservatively in order to avoid negative consequences of such disclosure. As a result, most companies are selective and only disclose a small brief and statements on their controls environment and risk surrounded (Kendrick, 2000) and led to lack of relevant information to satisfy shareholders and stakeholders needs (Mokhtar & Mellett, 2013). Interestingly, despite rare, the quality, and quantity of risk reporting disclosure are not positively affected by the adoption of IFRS.

Management and other internal parties are the parties that are responsible for identifying the risk

of the company. Therefore, it is common to assume that management is in a better position to be aware of the risk information, which leads to the emergence of the information asymmetries between internal and external parties (Kravet & Muslu, 2013). This asymmetry information can be reduced by implementing sound and good corporate governance, while at the same time can also increase the protection of stakeholders by minimizing opportunistic behavior of managers (Siagian, Siregar, & Rahardian, 2013). Therefore, strong corporate governance mechanism could lead to better risk disclosure.

On another vein, a company's business strategy also needs to be based on risk consideration. Strategy and risk are strongly related because strategy requires some level of risk-appetite since risk affect both financial and non-financial performance (Smart et al., 2015). The risk is generally associated with bad news for the companies that force management to hold bad news to limit the shock to the firms' value (Rigoglioso, 2012; Elshandidy & Shrivess, 2016). A sound business strategy will also provide the companies with greater ability to manage the risk information and thus will be more likely to disclose risk information (Porter, 1980).

Another factor that could lead to a better risk disclosure is the company's characteristics itself. Company's characteristics can be viewed from multiple angles, including financial, industrial, corporate culture, etc. Those characteristics might help to account information used to assess the future risk of the company (Campbell et al., 2014) while the quality of this disclosure can make the company looks desirable not just for the investor, but also to the capital market regulators (Laidroo, 2009).

As previously mentioned, given there are several factors of the reasons for a company to disclose its risk profile, it is still not clear the determinants of risk disclosure. Researches by Amran, Bin, & Hassan (2009) and Oliveira, Rodrigues, & Craig (2011) stated that firm size and industrial profile are the main determinants of risk disclosure. How-

ever, other researchers found differently. Studies by Beretta & Bozzolan (2004), Amran, Bin, & Hassan (2009), and Mokhtar & Mellett (2013) indicate that there is a non-significant association between firm size and risk disclosure. Meanwhile, Amran, Bin, & Hassan (2009) and Mokhtar & Mellett (2013) research results indicate that industrial profile has no impact on risk disclosure.

This research tried to figure out the factors that could influence the level of risk disclosure in the company. It is important to identify the factors that determine risk disclosure in the company's annual report (Mokhtar & Mellett, 2013) to understand and better manage the companies' risk. Hence, the objectives of this research are to examine the influence of barriers to entry, cost leadership, the board of commissioner, ownership concentration, liquidity, industrial profile, and auditor type to the risk disclosure. These variables are combined to be tested for their effects on risk disclosure. This research contributes to ways to manage firms' risk through multiple channels, including strategy, competitive forces, governance mechanism, and firm as well as industry-specific attributes.

This research contributes particularly on the effect of the company's strategy, corporate governance and firm characteristics on risk disclosure study of the SMEs in Indonesia. Moreover, this research could provide the government and regulator on ways to manage the firm's awareness of risk and its disclosure. This study also contributes the ways to encourage the management's attention to improve their ability in disclosing the risk.

HYPOTHESES DEVELOPMENT

Agency theory describes the relationship between the principal and the agent. However, the agent is more likely to possess more information than the principals which could be used to seek their benefit (Jensen & Meckling, 1976), which is called information asymmetries. Agency theory also sug-

gests that companies can reduce information asymmetries by assigning auditor (Kravet & Muslu, 2013). However, according to Jensen & Meckling (1976) and Buckby, Gallery, & Jiacheng (2015), auditor assignment lead to added agency cost to monitor the agents' actions. There is another way to reduce information asymmetries which is by risk disclosure. Risk disclosure provides strong information regarding the company's situation and their risk management which can decrease agency cost.

The second stream of theory in this study is the attribution theory. According to attribution theory, people tried to understand the event, the people or the situation they had, and draw conclusions (attribution) that may influence the situation (Octaviani, Juwita, & Widagdo, 2015). The problem occurs when people make a false attribution. Attribution theory could explain the motive behind why the shareholders tend to blame the director when they cannot control risk, but disclose the good news and take the credits when they can control the risk (Anthony & Godwin, 2015).

Incumbent firms avoid new potential competitors by creating a barrier for them to enter the industry. Existing firms usually create an expensive cost of entry into a particular industry to prevent potential competitors to enter (Barney & Hesterly, 2012). According to agency theory, in high situations of barriers to entry, incumbent firms tend to disclose more information to prevent new potential competitors compete with them in the industry because the new competitors cannot use that information against them (Laidroo, 2009). Incumbent firms tried to disclose information which more sensitive but powerful to prevent new potential competitors. Mokhtar & Mellett (2013) stated that in a high situation of barriers to entry, the incumbent firms might provide sensitive information like risk disclosure. Hence, the hypothesis is formulated:

H₁: there is a significant positive relationship between barriers to entry and risk disclosure

Cost leadership is part of a business strategy which enables the company to be the cost-lowest producer in a particular industry. Companies can achieve cost efficiency and price reduction by efficient and optimal resources allocation (Birjandi, 2014). Furthermore, a company that follows this strategy is more likely to make a significant investment in the fixed asset to achieve economic scale (Banker, Mashruwala, & Tripathy, 2014). The company which implements cost leadership strategy may achieve superior contemporaneous performances (Banker, Mashruwala, & Tripathy, 2014). Agency theory predicts that companies with superior performances tend to comply to disclose the risk and their ability to reduce it because it will increase the firm value and consequently, higher risk disclosure. Therefore, the study hypothesis that:

H₂: there is a significant positive relationship between cost leadership and risk disclosure

The effectiveness of corporate governance in which determined by the board of commissioners size. According to agency theory, the board of commissioners as the principal has an authority to monitor the management actions to keep in line with the stakeholder interest.

Managers can alter the risk information to make their performances look good. Attribution theory also indicates that managers are more willing to make gimmicks to report bad news in a better way. According to attribution theory, managers tend to disclose bad news in a good way to reduce its negative effects. A large board of commissioner provides enough members for monitoring the management so that this situation is reduced. Moreover, agency theory predicts that large board is more effective to monitor the management (Moumen, Othman, & Hussaeny, 2016). Instead, few, although the independent board of commissioners, large board structure provide more room for the management to be motivated to disclose risk information to the stakeholder so that they can decrease

the agency cost (Oliveira, Rodrigues, & Craig, 2011). Accordingly, the hypothesis is tested:

H₃: there is a significant positive relationship between the board of commissioners and risk disclosure

Ownership of the companies may cause an agency problem. Agency theory predicts that there is a difference of interest and controls between the agents and the principals due to the difference of ownership which led to agency problem (Jensen & Meckling, 1976).

Companies which have little ownership tend to centralize the authority of the company. Companies with a high level of concentrated ownership create a strong monitoring power from investors over a company's managerial decisions (Oliveira, Rodrigues, & Craig, 2011). Hence, risk information will not be disclosed in the annual report but board meeting on a company with concentrated ownership structures (Moumen, Othman, & Hussaeny, 2016).

Meanwhile, companies with a large number of shareholder pushed the company to reduce agency cost (Jensen & Meckling, 1976). Moreover, dispersed ownership more likely complies with the mandatory risk disclosure (Mokhtar & Mellett, 2013). The following hypothesis is stated:

H₄: there is a significant negative relationship between ownership concentration and risk disclosure

Liquidity is one of many indicators that can indicate a company's financial performance. Even though there are numerous proxies for financial performance, liquidity is chosen since it is able to show the overall financial condition (Horne & Wachowicz, 2008).

Therefore, companies are required to disclose information regarding the liquidity risk (Taylor, Tower, & Neilson, 2010), which is useful for the

investor to assess the company's situation for their interest. Attribution theory predicts, in a high situation of liquidity, managers tend to disclose more information to enhance their reputation and performances (Brennan, 2010).

Moreover, a company with high liquidity is likely to disclose more information regarding the management of liquidity including the management of liquidity risk (Elzahar & Hussainey, 2012). According to the conditions above, the hypothesis is formulated:

H₅: there is a significant positive relationship between liquidity and risk disclosure

Different industries may have different uniqueness and characteristics. Agency theory predicts different industry may face the different cost of the agency because of the competition in the industry (Jensen & Meckling, 1976).

There are several industries which are riskier than other industries, and competition in this industry is higher than in other industries as well. Therefore, it is expected that a company in a different industry will experience different types of risk (Amran, Bin, & Hassan, 2009). For example, the gas and oil sectors may face a different risk than the textile sectors. Different types of risk create different activities and risk exposure (Elzahar & Hussainey, 2012), which indicates that there will be different information in the risk disclosure. According to the information provided above, the hypothesis is stated:

H₆: firms in the manufacturing industry are more likely to disclose their risk profiles

Companies may hire an external employee to monitor the management. As suggested by agency theory, the company hires external sources or known as external auditor to monitor management (Jensen & Meckling, 1976). In this research, big firms refer to the top four auditing firms or known as Big 4.

Companies which hire Big 4 comply to mandatory risk disclosure (Mokhtar & Mellett, 2013). Good quality of auditor increase the quality of its firm; and it is better for companies to hire auditing firms with good qualities (Buckby, Gallery, & Jiacheng, 2015). According to attribution theory, an auditor is more likely to be falsified when they failed to predict the occurrence of fraud or accounting irregularities (Jaswadi, 2013). Big 4 have higher knowledge about accounting standard IFRS, so they tend to motivate the company to disclose more information to maintain the firms' reputation and disclose firms' risk attributes (Fukukawa & Kim, 2017). Hence, the hypothesis is formulated as follows:

H₇: there is a significant positive relationship between auditor type and risk disclosure

METHODS

The research sample of this research is companies belong in the PEFINDO 25 INDEX from August 2016 to January 2017. Furthermore, the research objects are collected from the period of 2008-2015. The selection of research objects is conducted using the purposive sampling method with the following criteria; company incorporated in the PEFINDO 25 INDEX for the period of August 2016 to January 2017, company publish annual report or financial statement in 2008-2015, company use Indonesian rupiah (IDR) in their financial statement, and the research data is available in annual report and financial statement. PEFINDO was chosen as it is objectively ranked the firms based on firm's credit risk.

The dependent variable in this research is risk disclosure. Risk disclosure is the information for stakeholder regarding any opportunity, threat or exposure, hazard, the danger that has impacted the company or may impact the company in the future (Kim & Yasuda, 2018). The locations of the information of risks can be found in the notes to accounts and the management reports. Adopting the previous research measurement from (Amran, Bin, &

Hassan, 2009; Mokhtar & Mellett, 2013), this research uses an unweighted index. This research uses the risk-disclosure index (MRRI) as developed by Mokhtar & Mellett (2013). MRRI is used as it includes multiple dimensions of risk including risk

policies, financial as well as market risks. The MRRI index is presented below:

$$MRRI_{ij} = \frac{\sum_{i=1}^{n_j} d_{ij}}{\sum_{i=1}^{m_j} d_{ij}} \quad (1)$$

Table 1. Mandatory Risk Disclosure Index

Category	Disclosure Items
Risk Management Policies	Description of financial risk management objectives Description of financial risk management policies
Terms, Conditions, and Accounting Policies	An explanation of the extent to which financial instruments are used and the associated risks For each class of financial asset, financial liability and equity instrument, disclose information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows Accounting policies and methods adopted including the criteria for recognition and the basis of measurement applied
Interest Rate Risk	
Assets	Contractual repricing or maturity dates, whichever dates are earlier Effective interest rates Exposure to fair value interest rate risk, such as financial assets and financial liabilities with a fixed interest rate Exposure to cash flow interest rate risk, such as financial assets and financial liabilities with a floating interest rate that is reset as market rates change No direct exposure to interest rate risk, such as some investments in equity instruments
Liabilities	Contractual repricing or maturity dates, whichever dates are earlier Effective interest rates Information about exposure to the effects of future changes in the prevailing level of interest rates Exposed to fair value interest rate risk, such as financial assets and financial liabilities with a fixed interest rate Exposed to cash flow interest rate risk, such as financial assets and financial liabilities with a floating interest rate that is reset as market rates change
Credit Risk	The amount that best represents the maximum credit risk exposure at the balance sheet date in the event of other parties failing to perform their obligations under financial instruments Significant concentrations of credit risk Disclosure of concentrations of credit risk when they are not apparent from other disclosures about the nature of the business and financial positions A description of the shared characteristic that identifies each concentration The amount of the maximum credit risk exposure associated with all financial assets sharing that characteristic
Liquidity Risk	Analysis of assets into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date Analysis of liabilities into relevant maturity groupings based on the remaining period between the balance sheet date and the contractual maturity date
Foreign Currency Risk	Gains minus losses that arise from dealing in foreign currencies The amount of significant net foreign currency exposures

Where:

d_{ij} : disclosure value of “i” item of information required of “j” sample company. It is one (1) if it is disclosed or zero (0) if it is not disclosed

m_j : number of mandated information items applicable to, and are expected to be disclosed by, the “j” sample company where m_j = total number of information items.

n_j : number of mandated information items applicable to and are disclosed by the j sample company

One of which the capital needed by the company is to incorporate sophisticated technology which heavily requires investment on fixed assets in order to generate revenues, dominating the market and creating strong barriers to entry for new potential competitors (Bragg, 2012). It is reasonable, therefore, that the entry barrier is higher for an industry that requires a large investment on fixed assets and/or capital expenditures.

In this research, the measurement of cost leadership is identical to those used by Banker, Mashruwala, & Tripathy (2014). Cost leadership is measured using three different ratios as described below and these measurements represent companies efficiency in utilizing the capital investment and firm resources (Balsam, Fernando, & Tripathy, 2011). This research examines the cost leadership uses the standard score for all the ratios below:

$$\frac{\text{Net sales}}{\text{Capital expenditure}} \quad (2)$$

$$\frac{\text{Net sales}}{\text{Net book value of plant and equipment}} \quad (3)$$

$$\frac{\text{Number of employees}}{\text{Total asset}} \quad (4)$$

The size of the boards is determined by the laws of the company, and it may consist of one or more members according to the company needs and preferences. The number of the board determines the level of work efficiency among the board to achieve the company’s goal. According to Law No. 40 the year 2007, the number of a board member can change according to shareholder meetings. Hence, the board of commissioner size measured by the number of board members. Regarding the ownership structure, this study measures it using the percentage of ordinary shares held by substantial shareholders.

Current study measures liquidity ratio into two folds: the current ratio and liquidity ratio. In current ratio, it uses inventory and another not so liquid asset as the numerator. However, it is better to use the most liquid asset as it is more critical and reliable to check whether the companies can fulfill their short-term liability or not (Horne & Wachowicz, 2008). Therefore, this research use quick asset ratio to measure liquidity, and the formula ratio is expressed as follow:

$$\frac{\text{Current assets} - \text{Inventories}}{\text{Current Liabilities}} \quad (5)$$

Among the industry, there is more than one sector which manufactures their product. The company which manufactures its product tend to have sophisticated technology rather than another sector (Bragg, 2012). In other words, manufacturing companies are more likely to use heavy equipment to support their business. Consequently, firms in the manufacturing industry tend to disclose more information than non-manufacturing industry (Rajab & Schachler, 2009) to show firm compliance of their safe use. Following the measurement by Mokhtar & Mellet (2013) the industrial profile measured by a dummy variable. The manufacturing sector is equivalent as one (1), and the non-manufacturing sector is equivalent as zero (0).

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Risk Disclosure (%)	96	0.38	0.88	0.6822	0.11853
Barriers Entry	96	13.18	16.72	15.2009	0.83545
Cost Leadership	96	-1.41	1.44	-3.125E-07	0.44076
Board Size	96	2.00	6.00	3.8750	1.17204
Ownership Concentration (%)	96	38.77	99.74	68.0265	13.59444
Liquidity (%)	96	0.10	4.38	1.1841	0.90939
Industrial Profiles (dummy)	96	0.00	1.00	0.4167	0.49559
Auditor Type (dummy)	96	0.00	1.00	0.5208	0.50219

The high quality of auditing firms may increase the quality of the company. Stakeholder feels more secured if a reliable auditing firm handles the company because the quality of Big 4 is considered as superior (Lawrence, Minutti-Meza, & Zhang, 2011). In Indonesia, most of the audit firm is affiliated with the international auditing firm. However, only a few of them affiliated with the Big 4. Therefore, auditor type is measured using dummy variable in which the auditing firm that affiliated with the Big 4 international auditing firm scored as one (1) and if the auditing firm does not affiliate scored as zero (0).

This research is conducted using multiple regression analysis methods to examine the factors influenced risk disclosure. Multiple regressions instead of panel data analysis are used since time year variations are not much and unbalanced year dominates the majority of the sample observation. This research also uses independent sample T-test to investigate the quality of risk disclosure before and after the implementation of IFRS in Indonesia. The regression model is explained below.

$$Y = a + b_1BE + b_2CL + b_3BS + b_4OC + b_5FL + b_6IS + b_7AT + \varepsilon \tag{6}$$

Where:

- a : intercept
- b : the slope of the regression line
- Y : risk disclosure
- BE : barriers to entry
- CL : cost leadership
- BS : board of commissioner size

OC : ownership concentration

FL : liquidity

IS : industrial profiles

AT : auditor type

e : error term

RESULTS

The descriptive statistics analysis is used to define the research data from the mean, minimum, maximum, and standard deviation value. The research data which use dummy variable the data is also defined by frequency and percentage.

Table 3. Frequency Distribution of Dummy Variables

Scoring	Ind Sector		Audi Type	
	Frequency	Percent	Frequency	Percent
0.00	46	47.9	56	58.3
1.00	50	52.1	40	41.7
Total	96	100.0	96	100.0

Based on the descriptive statistics, risk disclosure has a mean value of 0.6822 with standard deviation value 0.11853. The variable has a maximum value of 0.88 while the minimum value is 0.38. This means, the company disclose risk information minimum 38 percent and a maximum of 88 percent, and have an average level of disclosure of 68.22 percent. Barriers to entry have a mean value of 15.2009 with the standard deviation value 0.83545.

The maximum value of this variable is 16.72, while the minimum value is 13.18. The total of fixed asset is transformed into log natural (LN) in order

to be equal with other variables. Cost leadership has a mean value $-3.125E-07$ or -0.0000003125 with the standard deviation value of 0.44076.

The maximum value of this variable is 1.44 while the minimum value is -1.41. Board of commissioner size has a mean value of 3.8750 with standard deviation value 1.17204. The maximum value of this variable is six while the minimum value is 2. Ownership concentration has a mean value of 68.0265 with deviation standard 13.59444. The maximum value of this variable is 99.74, while the minimum value is 38.77. Liquidity has a mean value of 1.1841 with standard deviation value of 0.90939. The maximum value of this variable is 4.38, while the minimum value is 0.10.

The industrial profile has a mean value 0.4167 with a standard deviation of 0.49559. Since this is a dummy variable, the maximum value is 1, and the minimum is 0. Table 4 provides data to see the composition in the dummy variable. The value of 0 on this variable has 46 samples with a percentage of 47.9 percent, and the value 1 has 50 samples with a percentage of 52.1 percent. In conclusion, there are 46 samples or 47.9 percent of the sample that is not a manufacturing company, and there are 50 samples

or 52.1 percent of the sample which is a manufacturing company. Auditor type has a mean value of 0.5208 with a standard deviation of 0.50219. Since this is a dummy variable, the maximum value is 1, and the minimum is 0.

Table 4 provides data to see the composition in the dummy variable. According to Table 4, score 0 has 56 samples with a percentage of 58.3 percent, while score 1 has 40 samples with the percentage of 41.7 percent. Therefore, there are 56 samples or 58.3 percent of the samples hire the public auditing firm that not affiliated with the Big 4 international auditing firm and there are 40 samples or 41.7 percent of the samples hire the public auditing firm that affiliated with Big 4 international auditing firm.

Table 4 displays the results of hypotheses testing including its supporting coefficients. Coefficient of determination (R^2) measures about how far the set of independent variable could explain the dependent variable (Ghozali, 2011) is 0.462, which means that risk disclosure is explained 46.2 percent by barriers to entry, cost leadership, board of commissioner size, ownership concentration, liquidity, industrial profile, and auditor type.

Table 4. The t Distribution Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
(Constant)	0.200	0.187		1.069	0.288	
Barriers Entry	0.029	0.012	0.204	2.391	0.019	**
Cost Leadership	0.014	0.024	0.052	0.576	0.566	
Board Size	0.031	0.008	0.304	3.753	0.000	***
Owner Concentration	-0.002	0.001	-0.183	-2.115	0.037	**
Liquidity	-0.016	0.012	-0.126	-1.412	0.161	
Industrial Profiles	0.067	0.021	0.278	3.106	0.003	**
Audi Type	0.044	0.020	0.186	2.208	0.030	**

R^2 : 0.501; 0.462; Adj R^2 ; F Stat: 12.640; F-sig: 0.000; Durbin Watson d : 2.077

R^2 : 0.501; 0.462; Adj R^2 ; F Stat: 12.640; F-sig: 0.000; Durbin Watson d : 2.077

Dependent Variable: Risk Disclosure

Significance at *0.10, **0.50, and *** 0.01 levels

Additional Analysis

As previously stated, this research uses independent sample T-test to investigate the quality of risk disclosure before and after the implementation of IFRS in Indonesia. The independent samples t-test is used to determine whether two independent groups have a significant difference of mean population statistically. If the significance value is less than 0.05 (sig < 0.05) indicates that there is a difference in risk reporting between the pre-IFRS condition and post-IFRS condition. The result of the test is presented in Table 5.

Table 5. Test of Risk Disclosure Changes Due to IFRS

IFRS	N	Mean	Std. Deviation	Std. Error Mean
Pre	28	0.61071	0.134768	0.025469
Post	68	0.71162	0.097913	0.011874

According to Table 5 and Table 6, the number of the sample on pre-IFRS is 28 samples, while the post-IFRS has 68 samples. It means only 28 companies can be used to determine the quality of risk disclosure before the implementation of IFRS and 68 companies are used to determine the level of risk disclosure after the implementation of IFRS. The difference is caused by the lack of data in the company's annual report. The significance value is 0.000 and 0.001. The result found that there is a difference in risk reporting between the condition of pre-IFRS and post-IFRS.

The mean value of pre-IFRS is 0.61071 with the standard deviation value of 0.134768. The post-IFRS has a mean value of 0.71162 with standard deviation value of 0.097913. It means that the aver-

age level of risk disclosure after the implementation of IFRS is higher than before the implementation. According to Cheong & Gould (2012), the principal base of IFRS encourages companies for better accounting information that leads to better transparency.

DISCUSSION

Partially, we found that barriers to entry have a positive coefficient value 0.024 and the significant value is 0.024 which is less than the probability value 0.05. It means that the barriers to entry have a positive relationship to the risk disclosure and the hypothesis is accepted. It means that in a high situation of barriers to entry, the company tends to disclose more information (Laidroo, 2009), in order to draw more attention from new stakeholder which led them to be ahead of its potential competitors listed in PEFINDO 25 index. Nevertheless, the findings are inconsistent with ones found by Mokhtar & Mellett (2013).

Cost leadership has a positive coefficient value 0.024, and the significant value is 0.852, which is greater than the probability value 0.05. It means that variable cost leadership has a positive relationship to the risk disclosure and the hypothesis is rejected. The possible explanation is that companies which following different business strategy are also motivated to disclose risk information because of the competition in the market. As firms in cost leadership strategy are facing stronger competition, Beretta & Bozzolan (2004) maintained that competition could be anticipated by profiling and managing company's risk.

Table 6. Independent Samples Test

	Levene's Test for Equality of Variances		t-test for Equality of Means		
	F	Sig.	T	Df	Sig. (2-tailed)
Equal Variances Assumed	6.461	0.013	-4.094	94	0.000
Equal Variances Not Assumed			-3.591	39.265	0.001

Board size or board of commissioner size has a positive coefficient value 0.031, and the significant value is 0.000 which is less than the probability value of 0.05. It means that the board of commissioner size has a positive relationship to the risk disclosure and the hypothesis is accepted. It means that a large number of board of commissioner is more effective to monitor the management (Moumen, Othman, & Hussaeny, 2016). Moreover, a large number board of commissioner size is more aware of risk disclosure (Mokhtar & Mellett, 2013). The result of this hypothesis is consistent with Mokhtar & Mellett (2013) but inconsistent with Elzahar & Hussainey (2012).

Ownership concentration has a negative coefficient value of -0.002 and the significant value of 0.037, which is less than 0.05. It means that ownership concentration has a negative relationship to the risk disclosure and the hypothesis is accepted. It means that company which concentrated the ownership tends to disclose less risk information. Meanwhile, widely held of ownership concentration have a larger number of investor, so that it might be difficult to create a group and dominate the company in order to control the disclosure of risk information on behalf of their interest (Kravet & Muslu, 2013). The result is consistent with the previous research that is Mokhtar & Mellett (2013) but inconsistent with Oliveira, Rodrigues, & Craig (2011).

Liquidity has a negative coefficient value that is -0.016 and the significant value of this variable are 0.161, which is greater than the probability value that is 0.05. It means that liquidity has a negative, despite no significant relationship to the risk disclosure and the hypothesis is rejected. The possible explanation is because liquidity is only considered as key indicators for the company's financial performances but not for the risk disclosure (Ruwita & Harto, 2013). This research result is consistent with Rajab & Schachler (2009), Elhazar & Hussainey (2012), and Mokhtar & Mellett (2013).

The industrial profile has a positive coefficient value 0.067, and the significant value is 0.003 which is less than the probability value of 0.05. It means that the industrial profile has a positive relationship to the risk disclosure and the hypothesis is accepted. This result indicates that manufacture companies tend to disclose more information than non-manufacture companies. Manufacture companies have a more sophisticated asset, and some of them are classified as a heavy asset. Heavy-industry is motivated to disclose more information (Rajab & Schachler, 2009). The result is consistent with Hassan (2009), Rajab & Schachler (2009), and Oliveira, Rodrigues, Lima, & Craig (2011).

Auditor type has a positive coefficient value 0.044, and the significant value is 0.030 which is less than 0.05. It means that auditor type has a positive relationship to the risk disclosure and the hypothesis is accepted. The result means that a company which hires an auditing firm that affiliated with the big four international auditing firm tend to disclose more risk information. Big 4 tend to motivate the company to disclose more information (Fukukawa & Kim, 2017), to maintain their image and reputation. The result is consistent with Oliveira, Rodrigues, & Craig (2011) and Mokhtar & Mellett (2013).

CONCLUSION AND SUGGESTIONS

Conclusion

This research found that the level of risk disclosure is influenced by barriers to entry, the board of commissioner size, ownership concentration, industrial profile, and auditor type. We also found that risk reporting is higher in the post-IFRS convergence period as compared to the pre-IFRS period. Current research has some practical and policy implications that are worth noting. First, regulator and government can assure that risk disclosure can be enhanced by sustaining the smooth business en-

vironment and stronger and sound corporate governance mechanism. Second, regulators may also encourage auditing firms to promote the needs for proper and adequate risk management among the firms.

Suggestions

This research has some limitations and weaknesses. First, this research only focused on a small and medium enterprise which incorporated in PEFINDO 25 Index.

Next, the sample size is not equal among the period. Third, there is no difference for companies who disclose brief or long risk information. As long as the companies explain information of the required disclosure by the index, it is considered as disclosing risk information, and they get scored 1. Fourth,

there is no previous research which can support the result of hypothesis number two. Due to the low sampling period, the use of multiple regressions instead of panel data analysis also brings about further limitation.

Regardless of the limitations of this research, some suggestions are provided for future researchers in order to have a better exploration of this research topic. First, future research may include another small and medium enterprise out from the PEFINDO 25 Index, may have an equal data among the sample period, may differentiate the companies which give a brief or long explanation as a different disclosure of the risk, may use this research or another research to support the future result, research may conduct research among different countries, and may conduct the research with the consideration to use primary data.

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