Corporate Governance and Corporate Risk Disclosure: Empirical Evidence of Non-Financial Companies Listed in Indonesia Stock Exchange

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ABSTRACT

The purpose of this study is to examine the effect of corporate governance on corporate risk disclosure. Corporate governance is defined as the board size and the proportion of independent board member. This study also uses firm size as a control variable. The samples are selected using purposive sampling, with 200 annual reports from non-financial companies listed in Indonesia Stock Exchange in the period of 2011-2015. The results of this study prove that board size has no effect on corporate risk disclosure, while the proportion of independent members in the board affects corporate risk disclosure. It shows that the board understands and performs their task as an independent party in supervising, directing, and evaluating the implementation of corporate governance and strategic policy of the company, thus we may conclude that independent board in non-financial companies in Indonesia perform their role accordingly.

Keywords: corporate risk disclosure, corporate governance, board size, independent members of board

1. INTRODUCTION

According to The World Bank, which publishes the report of corporate governance in Reports on the Observance of Standards and Codes (ROSC), the implementation of corporate governance (CG) in Indonesia is 68 points (59%), lower than the score of the implementation of CG in Malaysia with 88 point (76%). This difference is due to, primarily, the weakness of disclosure items and transparency in which the score of Indonesia is 12 points and Malaysia is 17 points (McGee, 2009).

Based on ROSC, risk disclosure in Indonesia is low. The problem of low risk disclosure is important to study because the user of annual report published by companies needs more information regarding the risk management systems to be disclosed. 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

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future financial position. The annual report is seen to have weakness due to the lack of essential information about the risks faced by the company (Cabedo and Tirado, 2004).

The complexity of business activities makes companies have to face various business risks which in turn increase the challenges in managing the risk (Beasley et al., 2005). One of the core competencies that must be owned by the management to achieve corporate goals is the ability to manage risk because various business risks affect shareholder value. When management capable in managing the risks, then the risks faced by the company can be reduced by various strategic measures, therefore the management should apply the principles of effective enterprise risk management system in managing the company.

However, the facts say that the principle of enterprise risk management has not implemented effectively by several companies, especially in emerging markets such as Indonesia. The evidence is also supported by an indication that several number of companies experience financial problems that ended in bankruptcy such as: Enron, Farmalet, Tyco, and WorldCom. When the global financial crisis hit in 2008, many companies fail to overcome the crisis, it shows that company has not established a reliable risk management system (Cabedo and Tirado, 2004).

Companies try to cover the needs of accounting information users by revealing more information about the different kinds of risk faced and the sustainability of company operations. The information allows users to assess the present and future risk, which is essential to optimize their income (Abraham and Cox, 2007).

Solomon, Norton, and Josef (2000) show a strong demand for the increase in risk disclosure from institutional investors to enhance investment decisions. Risk disclosures assist investors in making investment decisions by evaluating the information disclosed by the company in order to develop levels of risk, their decision will be made based on the consideration of expected return and risk (Cabedo and Tirado, 2004).

Risk disclosure encourages better risk management, improves management accountability, the protection of investors, and the use of financial reporting (Institute of Chartered Accountants in England and Wales, 1997), it helps users of financial statements to identify potential managerial problems and opportunities, assess the effectiveness of management in addressing this issue (Lajili and Zéghal, 2005). Companies on the other hand also benefit from risks disclosure by decreasing the possibility of financial failure (Beretta and Bozzolan, 2004), it also can reduce the cost of external finance (Linsley and Shrives, 2006).

Disclosure of risk is a form of the implementation of CG mechanisms. Some aspects related to CG mechanism are the role of board of directors (the board size and independent board members). Dechow, Sloan, and Sweeney (1995) and Beasley (1996) find a significant relationship between the roles of Board of Commissioners on financial reporting. They find that the board size and independent board members affect their ability to monitor the financial reporting process.

Most of previous research on risk disclosure are conducted in western countries and Europe, such as England (Solomon et al., 2000; Linsley and Shrives, 2006; Abraham and Cox, 2007; Iatridis, 2008; Linsley and Lawrence, 2007; Elzahar and Hussainey, 2012), Italy (Beretta and Bozzolan, 2004), Canada (Lajili and Ze'ghal, 2005; Lajili, 2009), United States (Jorion, 2002), Belgium (Vandemele et al., 2009), and Portugal (Lopes and Rodrigues, 2007; Oliveira et al., 2011). However, little are known about the risk disclosures in the companies that operate in developing capital market, such as Indonesia (Meizaroh and Lucyanda 2011; Probohudono et al., 2013).

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There is diverse result in the previous studies that connect risk disclosure and con[orate governance such as board size and proportion of independent board members. Research conducted by Beasley et al. (2005), Elzahar and Hussainey (2012) find no effect of board size on corporate risk disclosure, then Ambraham and Cox (2007), Lajili (2009), and Collins et al. (2014) find the relationship between these two variables. Research conducted by Lopes and Rodrigues (2007), Vandemele et al. (2009), Elzahar and Hussainey (2012), Husaini et al. (2013), Meizaroh and Lucyanda (2013) find that there is no relationship between the proportion of independent member and corporate risk disclosure, while other studies find that there is a relationship between the two (Abraham and Cox, 2007; Lajili, 2009; Oliveira et al., 2011; Probohudono et al., 2013).

The importance of risk disclosures in the financial statements has encourage the authority figures in Indonesian to issue regulation that require companies to report information about their risk in the financial statements. One of the regulation concerning the requirements of risk disclosure in Indonesia is mentioned in PSAK No. 60 (Revised 2010) regarding Financial Instruments: Disclosures, which states that the required disclosure is information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments that the entity is exposed at the end of the reporting period.

So far, the writers of this paper have not found the research on corporate risk disclosure uses weighted index that is prepared based on the importance of each voluntary risk disclosure item by considering the views from academics, external audit, and audit committee variables associated with CG in non-financial companies in Indonesia which is no found by the researcher. The differences between this study and the previous study are that this study uses weighted corporate risk disclosure index. The arranging of corporate risk disclosure index in this study consider the views of academics, external audit and the audit committee to determine the importance weight each item voluntary risk disclosure

Based on the description of the background mentioned above, the purpose of this study is to examine whether CG can affect corporate risk disclosures. The main question of this study is whether CG mechanism represented by board size and proportion of independent board members affect the corporate risk disclosures.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The Agency theory, according to Jensen and Mecklings (1976) state that the agency relationship occurs when the principal gives the task to the second party or agency to conduct the duties based on the principal interest. This transfer of task will covers the transfer of authority to take decisions. Problems will arise when both parties (principal and agent) are utility-maximize, then there is a great possibility that the agent will not always act based on principals interest, the clash between principal and agent will cause agency problems (Jensen and Mecklings, 1976).

William et al. (2006) state that the main problem of agency theory is the agency cost. The implementation of good CG is a mechanism to minimize these costs (Gurson and Aydogan, 2002; Judge et al., 2003). This method may increase the harmony between principal and agent (Conyon and Scwalbach, 2000). Cheung and Chan (2004) also explain that the ultimate objective of CG is to monitor management decision-making to ensure that it is in line with shareholder interests and to motivate managerial behavior that increase shareholder value.

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The term of "corporate governance" it for the first time is introduced by the Cadbury Committee in 1992. The committee uses the term in their report that became known as the Cadbury Report. The report is considered as a crucial turning point for CG practices worldwide. Cadbury Report (1992) defines CG as a system which functions is to direct and control an organization. Organization for Economic Cooperation and Development (OECD, 2004) defines CG as a structure in which shareholders, directors, and managers arrange corporate objectives and facility to achieve these objectives and monitor performance.

Monks and Minnow (1995) define CG as the relationship of various participants in determining the direction and performance of corporations. Another definition proposed by Shleifer and Vishny (1997) states that CG is part of a means or mechanism to convince investors to obtain returns according to their investment.

The definition is supported and clarified by Oman (2001), who states that CG is related to public or private institutions, including laws, regulations, and business practices that together control the relationship between manager and investor. Specifically, Oman (2001) describes the classification of institutional CG, namely: formulation of laws that regulate company ownership by individual, formulation of laws regarding the issuance and trading of securities, government agencies that control and oversee the companies' compliance with securities regulations, capital markets, professional associations, business associations, and other parties including both private and public who oversees companies and the behavior of market participants.

Based on these definitions it can be concluded that CG is a system made by all parties concerned with the company to run their businesses better based on each right and responsibility in order to improve the welfare of all. As a system, the mechanism of CG requires various devices, namely: company law, securities law, listing rules, accounting standards, bankruptcy and insolvency laws, competition or anti-trust laws, important of court (judicial redress), market institutions and practices, codes of good governance (best practices), and mechanism for addressing investors / minority shareholder expectation (Lukviarman, 2004).

According to Shaw (2003), the understanding of governance system and governance models is crucial in the implementation of governance concept. Governance model is a framework and processes, including activity as well as various tools and methods that can be described, documented, studied, and operated within an organization (Shaw, 2003). In this regard, the system of governance is described as the active involvement of all organization components (board, executive management, and employees) that interact dynamically within the framework of governance models. Thus, the governance system cannot work without the support of governance model. Overall, the implementation of governance system is largely determined by how the various parties in the organization work together to anticipate, understand, and take action with respect to the consequences arising from any decisions taken (Lukviarman, 2005a). A governance system consists of three main components: 1) the governance structure, 2) the governance process, which essentially consists of the governance mechanisms, and 3) the governance outcomes in the form of results obtained from the implementation of governance.

According Tricker (2009), governance structure is essential in supporting the function of CG in a corporation effectively, so it should be clear and understandable for various elements of the organization. The effectiveness of CG structure, as part of an overall CG system is determined by the human factor, their selection patterns, and

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motifs. CG structure consists of three components: 1) Annual General Meetings of Shareholders (AGMS), 2) The Board of Directors (BOD), and 3) The Executive Manager (CEO). However, this structure can be distinguished between the Anglo-Saxon models that adhere to the common-law tradition with Continental European Model that embraces Civil-law tradition. Governance is divided to hierarchical format is common in Anglo-Saxon model characterized by a unitary or single tier board. While the Continental European model uses two-tier board system with the corporate organ that consists of: 1) AGMS, 2) Supervisory Board, and 3) Management Board.

According to Shleiver and Vishny (1997), governance mechanism is required as an important part within CG framework. Because it can provide assurance that every investor will obtain return from any investment they made. Governance mechanisms are categorized based on their characteristics as an internal or external part of a corporation. The main concern of internal mechanism of governance system is the existence and role of board of director (via board governance process) and the availability of managerial incentive schemes. While external governance mechanism relies on the effectiveness of market mechanisms in disciplining companies as well as the reliability of legal and regulatory system of a nation. The basic characteristic of both mechanism types leads to the difference in governance system among countries. The differences can be caused by differences in the financial system, legal and regulatory framework used, and the existence of markets in mobilizing capital to be utilized by the company (Lukviarman, 2004b).

The main purpose of internal control mechanism is providing an early warning system to position the organization back on track before the difficulties it faced reached an alarming stage (Jensen, 2000). In this regard, the existence of board of directors (BOD) is the culmination of an internal control system and it has the responsibility to restore companies as in normal conditions. Corporations around the world have BOD as a structure in their company although in practice there are differences regarding the structure of BOD. BOD structure in Anglo-Saxon countries and the commonwealth is a one-tier board system, while continental European countries and Japan BOD system adheres to a two-tier board system. The existence of BOD actively in the corporate structure carries out supervisory and advisory toward management is believed to be more efficient and cheaper governance mechanism, if it is compared with other external mechanism (Lukviarman, 2004b). BOD will act to reduce the conflict of interest among various parties within the corporate structure.

According to Morland (1995), the position and composition of companies BOD have some differences. The main tasks related to various other issues concerning the existence of BOD that has been studied in Anglo-Saxon countries are generally related to the size and structure of the BOD. While in USA, the most important functions and roles concerning the existence of BOD are to develop and establish rules for CEO (Jensen, 2000). In this connection one of BOD tasks is to choose and dismiss CEO, as well as setting the amount of adequate compensation for CEO. However, according to Denis (2001) BOD role in monitoring the company is still not optimal. It was partly due to the independent directors (as the supervisor) does not have adequate information about the company, while the CEO (as the controlling party) has adequate information. Deficiency of this information will lead to the phenomenon of information asymmetry and would inhibit the BOD to implement their best performance in the comppany.

The companies in Indonesia, as mandated by Law No. 40 of 2007 on Limited Liability Company, adhere to a two-tier board system as is commonly found in

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continental European countries. However, the application of a two-tier board system in Indonesia is implemented by using the different terms for each tier board. Executive board at companies in Indonesia is known as the Board of Directors, while the supervisory board in the structure of companies in Indonesia is known as the Board of Commissioners. Specifically, the Board of Commissioners in Indonesia is different from the supervisory board in Germany, because in the Board of Commissioner there are no commissioners who are the representative of company's employees (for example, representatives of trade unions). Meanwhile, the component of Board of Commissioner in Indonesia is separated and independent from the Board of Directors, as commonly found on the two-tier board structure.

The external governance mechanism is a control function that operates through market competition as a part of governance mechanism in disciplining management behavior. According to Fama (1980) and Fama and Jensen (1983a), in the disciplinary mechanisms that occur through capital market activities, product market, and managerial labor market, the principle of external governance is based on the market mechanism.

Market-based corporate control mechanism works well in the well-developed capital market, so the controlling mechanism will work effectively if the market is very active in monitoring company's performance (Aoki, 1995). Studies conducted ADB (2000) in East Asia region shows that the market control mechanism of corporations does not work actively in some countries in the region. It is indicated by the difficulty in taking over inefficient companies by other companies, due to the characteristics of company's ownership which is concentrated family ownership (Lukviarman, 2001; 2004a).

Therefore, external control through market mechanisms has weaknesses as part of the external governance mechanism, so that the implementation of the external market for corporate control will waste the time and expensive cost. This is in line with the arguments of Denis (2001) who states that the mechanism is not an effective way to maximize the value of the company if the deviation of managerial performance is relatively small. In Indonesia, for example, the existing capital market is relatively underdeveloped, it indicated by the lack of information available for public about the performance of companies listed in the market as the basis for various parties in making decision. It can be stated that there is a relatively large obstacle for effectively disciplining companies in developing countries, such as Indonesia.

According to Hitt, Hoskisson, and Ireland (2007), the role of CG is critical in empowering the company to be more competitive in the competition environment. Furthermore, MacMilan and Downing (1999) also argue that the good corporate governance application will increase the ability of company access toward international capital markets. Based on these descriptions, it can be concluded that the governance outcomes through the implementation of governance is expected to enhance company's competitiveness and access to financing sources at a global level.

Agency theory identifies the presence of potential conflicts of interest between various parties associated with the company, so it affects their behavior differently (Jensen and Warner, 1988). The conflicts can occur because of differences in their respective goals, in accordance with the position and interest in the company. Because of these differences in systems, governance is expected to function as a controller to ensure that business practices do not benefits one party and harm other party. In this regard, the expected governance outcome is a reduction in the conflicts of interest

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among the parties involved in the company. This is especially needed in many countries with low level of minority investor protection, as in Indonesia and other developing countries (La Porta et al., 2000).

Risk, risk management, and risk disclosure

Risk can be defined as the variation in the distribution of possible outcomes that will be accepted and its possibility to occur (March and Shapira, 1987). While Lindsley and Shrives (2006) and Cabedo and Tirado (2004) connect risk and uncertainty. Cabedo and Tirado (2004), state that "risk may be defined as the uncertainty associated with both potential gain and loss." So refers to the definition, the risk can be expressed as the variation between plans and results that contain elements of uncertainty, so it can result in gain or loss. March and Shapira (1987) state that the definition of risk is the choice influenced by the expected rate of return.

In general, the risks faced by managers can be divided into various categories. Linsley and Shrives (2006) divide the risks faced by manager into six categories as follows: financial risk, operation risk, empowerment risk, information processing and technology risk, integrity risk, and strategy risk. The risks faced by managers can be minimized through risk management.

The risk management carried out by managers is considered important for company because it can maximize the wealth of shareholders (Cabedo and Tirado, 2004). On the financial side, Taylor et al., (2010) state that financial risk management plays a role in ensuring that the company's operations are implemented as planned. Financial risk management also plays a role in determining the source of the financial risks as well as to assess the risk level (Taylor et al., 2010). The explanation shows the importance of risk management for a company.

Apart from the importance of risk management for a corporation, only little information is known by academics regarding the practice of risk management (Tufano, 1996). This is because only a few managers reporting on risk management they perform (Tufano, 1996). Therefore it is difficult to know the risks profile faced by a company, and then a reporting in the field of risk would be very beneficial for investors.

Risk management is performed by manager but it is not disclosed or reported will creates information asymmetry (Deumes, 2008). These conditions will have an impact on the high transaction costs so that the investment is unfavorable for minority of investors. Lindsley and Shrives (2005) state that a disclosure can be referred as reporting risk if the disclosure can provides information to the reader about the opportunity or hope, and also the kind of threats and exposure, which have affected the company or which may affect the company.

Disclosure of risk is important because it helps stakeholders for getting the information needed to understand the risk profile and how the management manages risk. Disclosure of risk is also beneficial to monitor risk and detect potential problems so that they can take precaution action to prevent the problem from occuring (Linsley and Shrives, 2006). Risk information is also useful for investors because it helps determine the risk profile of the company, reducing the information asymmetry, estimate the market value, and determining the investment decisions of portfolio (Abraham and Cox, 2007 and Hassan, 2009).

According to the agency theory, the larger Board of Directors combines various business expertise that provide more effective board supervisory role, so it will disclose more risk information in company's annual report (Singh et al., 2004). The Board of

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Commissioners is an essential part of the corporate governance mechanism and an internal center of corporate governance (Lukviarman, 2007). The large size of board is more effective in its controlling role so that it can increase corporate risk disclosure (Elzahar and Hussainey, 2012).

The results of previous studies on the effect of board size on risk disclosure present diverse findings. Beasley et al. (2005) and Elzahar and Hussainey (2012) find there is no effect of board size on risk disclosure. Abraham and Cox (2007), and Lajili (2009) find a positive relationship between the two variables. Based on the explanation above, we proposed the following hypothesis

H1: Board size has a positive influence on corporate risk disclosure.

Based on the agency theory, the monitoring function of the Board of Commissioners is to make sure that management will conform to stockholder's interest. The Independent Commissioner is a commissioner who does not have any relationship in financial, managerial, shareholding, and family field with other commissioners, directors, controlling shareholders, and other relation which could affect its ability to act independently (Zulfikar et al., 2017). Independent commissioner is expected to provide independent advice for commissioners appointed by the company. The larger the proportion of independent commissioner is expected to increase the effectiveness of controlling role so that it can influence the quality of the accounting reporting and increase corporate risk disclosures (Fama and Jensen, 1983).

The results of previous studies on the influence of independent members proportion in the board on risk disclosure are diverse. Research conducted bt Lopes and Rodrigues (2007), Vandemele et al. (2009), Elzahar and Hussainey (2012, Husaini et al. (2013), Meizaroh and Lucyanda (2011) find that there is no effect on both of two variables, while the others find a positive significant effect (Abraham and Cox, 2007; Lajili, 2009; Oliveira et al., 2011; Probohudono et al., 2013). Based on the explanation above, it can be developed hypotheses as follows:

H2: The proportion of independent board positive influences on corporate risk disclosure

3. RESEARCH METHODS

3.1 Population, sample, and sampling technique.

The population studied in this study is non-financial companies listed in Indonesia Stock Exchange 2011-2015. Samples are selected using purposive sampling with the criteria: 1) a non-financial company listed in Indonesia Stock Exchange 2011-2015. 2) Companies that publish financial statements and annual report for 2011-2015. 3) The company that has a complete data regarding the size of the board of directors and independent directors. Based on these criteria, we obtained total sample of 200 annual reports.

3.2 Data and data collection methods.

The data analyzed in this study is secondary data taken from non-financial companies annual report listed in Indonesia Stock Exchange in 2011-2015. The data are collected from www.idx.co.id sites, and from each site of sampled company. The framework of relationship between each variable can be seen in the picture below:

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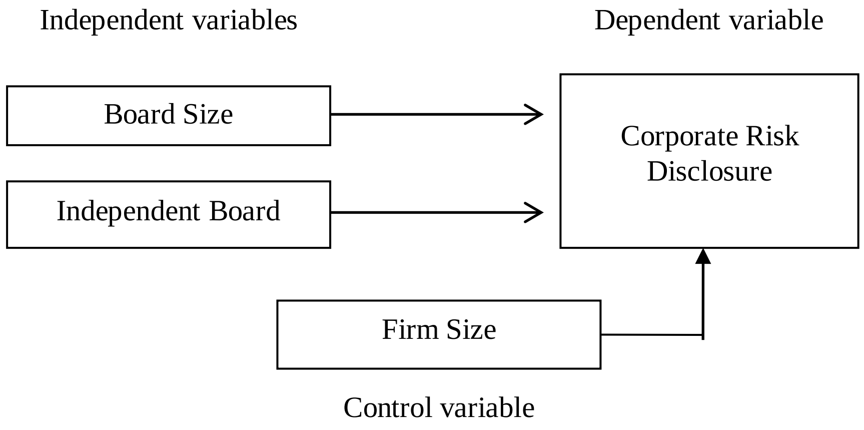
Figure 3.1 Schematic Research



Source: Developed by researchers

3.3 Method of Analysis.

The data are analyzed using descriptive statistics and hypothesis testing method. The test is performed using SPSS. As the requirement of multiple regression testing, we conduct classical assumption test to ensure that the data is valid, unbiased, consistent, and efficient assessment of regression coefficient (Gujarati, 2003). Classical assumption test consist of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Multiple regression equation to test the hypothesis of this study is as follows:

$$CRD = \alpha_0 + \beta_1 BOARDSIZE + \beta_2 BOARDINDEP + \beta_5 FIRMSIZE + \varepsilon$$

Notes:

CRD	: Corporate Risk Disclosure,
BOARDSIZE	: Board of Commissioner Size,
BOARDINDEP	: Independent members of board,
FIRMSIZE	: Firm Size by log total assets,
α0	: constants,
β1 ... β5	: regression coefficients, and
ε	: error term.

In this study, the dependent variable is corporate risk disclosure (CRD). While the dependent variable is corporate governance mechanisms (board size and independent members of board) and control variable is firm size.

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Table 3.1 Definition and measurement of variables

	Variables	Measurement
Dependent Variable	Corporate Risk Disclosure (CRD)	Measured using CRD index with the following formula: CRD index = $\frac{\text{Numbers of disclosed CRD}}{\text{Total CRD items should be disclosed}}$
Independent Variables	Board Size Independent Members of Board	The total numbers of board of commissioner members. Proportion of independent commissioner to total board of commissioner members.
Control Variable	Firm Size	Natural logarithm of total assets as at the end of the years.

4. RESULTS AND DISCUSSION

4.1. Description of data.

Overall there are 200 data from the observation on annual report emitted by non-financial companies in Indonesia during 2011-2015. Table 4.1 below presents the descriptive statistics of studied variables. The information of descriptive statistic consists of minimum value, maximum value, mean value, and standard deviation.

Table 4.1 Descriptive statistic

Variables	Min	Max	Mean	Std. Deviation
Board size	2.0000	11.0000	5.0800	2.0700
Proportion of independent members in the board	0.2500	0.5556	0.3733	0.0845
Firm size	24.0327	32.9970	29.1398	1.7256
Corporate risk disclosure	0.1264	0.6866	0.3447	0.1682
Valid N (list wise)				

Source: processed secondary data

Table 4.1 shows that the average level of corporate risk disclosure in non-financial companies in Indonesia is 34.47%, with a maximum value of 68.66% and minimum value of 12.64%. These results indicate that non-financial companies awareness on the importance of corporate risk disclosure as one of the keys to create added value and competitive advantage for the company is still low. This result shows that there is an increase of risk disclosure in Indonesia since in a study conducted by Probohudono, Tower, and Rusmin (2013) is the risk disclosed is only 21.64%. In term of independent variables, the descriptive statistic show that the average number of board members is five peopl and the average proportion of independent commissioners is 37.33%.

4.2 Multiple Regression Analysis.

The results of multiple regressions testing after the classical assumption test are as follows. Table 4.2 shows that the value of R Square (R^2) is 17.60% and Adjusted R Square (Adjusted R^2) of 16.30%. Based on Adjusted value (R^2), it can be conclude that 16.30% of variation in corporate risk disclosures can be explained by the independent

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variables and control variables, while the remaining 83.70% is explained by other factors outside the model.

The table shows F value of 13.944 with probability 0.000 (p-value <0.050). Because F value is greater than 4.000 and the probability is less than 0.050, then this regression model shows a good model (Goodness of Fit Model) so that the regression model can be used to predict corporate risk disclosures and show that the independent and control variables simultaneously affect corporate risk disclosure (Ghozali, 2011).

Table 4.2 Results of Multiple Regressions

Variable	Coefficient	t	p-value
(Constant)	-0.628	-2.407	0.017
Board Size	0.009	1.180	0.239
Proportion of independent member in the board	0.494	3.668***	0.000
Firm size	0.025	2.752***	0.006
R-Square	0.176		
Adjusted R-Square	0.163		
F	13.944		
Sig	0.000		

Notes: significant at: *0.10, **0.05, and ***0.01 levels

The variables that significantly affect the level of corporate risk disclosure are the proportion of independent members in the board and firm size at the significance level of 0.01, while the variable board size has no effect on the level of corporate risk disclosure.

Board size (ρ-value = 0.239 and coefficient = 0.009) indicate that the board size has no effect on corporate risk disclosure. This result is consistent with the research conducted by Elzahar and Hussainey (2012) who state that there is no effect of board size on corporate risk disclosure. Non significant result might be caused by the probability that the larger the size of the board, the higher the chances of internal conflicts. Large size of board can also slow down decision making process because they have to combine members' views and opinions. This makes the board less effective in performing their controlling and supervision in the implementation of company risk disclosure.

The proportion of independent board members (ρ-value = 0.000 and coefficient = 0.494) shows that the proportion of independent commissioners has positive and significant effect on corporate risk disclosure. The positive coefficient in the proportion of independent commissioner shows that there is positive influence of the proportion of independent board members on corporate risk disclosure. The results show that the higher the proportion of independent members will increase corporate risk disclosure.

This indicates that commissioners understand and carry out task as an independent party in overseeing, directing, and evaluating the implementation of the corporate governance and strategic policy of the company. In other words, the independent members of board in Indonesia perform their function properly. This result is consistent with the results of study conducted by Abraham and Cox (2007) and Probohudono et al. (2013) which find that the proportion of independent commissioners has a positive and significant influence on corporate risk disclosures.

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In this study there is a control variable namely firm size. The firm size (p-value = 0.006 and coefficient = 0.025) indicates that firm size significantly affects corporate risk disclosure and has a positive coefficient which indicates that firm size has positive and significant effect on corporate risk disclosure. This result indicates that large company has the greater ability to implement corporate risk disclosure due to the resources they own. The results of this study is consistent with Beasley et al. (2005) who show that firm size has relationship with adoption level of risk disclosure in larger companies.

5. CONCLUSION, LIMITATIONS, AND SUGGESTIONS

From the analysis results, it can be concluded that board size does not affect corporate risk disclosure in Indonesia. This result indicates that the board size is fulfilled as a means of conformity with the prevailing regulations. Besides, the large size of board caused coordination and communication problems among board members. Thus, the commissioner is less effective in performing their duties.

The proportion of independent members affects risk disclosures in Indonesia. This result shows that higher the proportion of independent members in the board will increase risk disclosures. This indicates that commissioners understand and perform their task as an independent party for controlling, directing, and evaluating the implementation of corporate governance and strategic policy of company. As a conclusion, we may say that the independent members of board in non-financial companies in Indonesia perform their role properly.

The control variable, firm size, affects corporate risk disclosures in Indonesia. This indicates that large company has greater ability to implement corporate risk disclosure because of their vast resources.

The limitation of this study, especially from the result of R^2 or the coefficient of determination for the data in Indonesia is 0.167. This means that the independent variables have weak ability to explain the diversity in the dependent variable (corporate risk disclosure). We suggest that future research should add other independent variable that has a probability to influence the disclosure of corporate risk, such as the committees that exist in the companies and other ownership structures.

APPENDIX

Corporate Risk Disclosure Index

1. Financial risk
   - Commodity
2. Operations risk
   - Customer satisfaction
   - Product development
   - Efficiency and performance
   - Sourcing
   - Stock obsolescence and shrinkage
   - Product and service failure
   - Environmental
   - Health and safety
   - Brand name erosion
3. Empowerment risk

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- Leadership and management
- Outsourcing
- Performance incentives
- Change readiness
- Communications

4. Information processing and technology risk
   - Integrity
   - Access
   - Availability
   - Infrastructure
5. Integrity risk
   - Management and employee fraud
   - Illegal acts
   - Reputation
6. Strategic risk
   - Environmental scan
   - Industry
   - Business portfolio
   - Competitors
   - Pricing
   - Valuation
   - Planning
   - Life cycle
   - Performance measurement
   - Regulatory
   - Sovereign and political

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