

**THE INFLUENCE OF BUSINESS STRATEGY,  
CORPORATE GOVERNANCE AND FIRM  
CHARACTERISTICS TO THE RISK  
DISCLOSURE ON THE SMALL AND MEDIUM  
ENTERPRISES**



**UNDERGRADUATE THESIS**

Submitted as Partial Requirement to Complete Undergraduate Degree  
Faculty of Economics and Business  
Diponegoro University

Submitted by :

**NADHILLA MAZAYA  
12030113130192**

**FACULTY OF ECONOMICS AND BUSINESS  
DIPONEGORO UNIVERSITY  
SEMARANG  
2017**

## THESIS APPROVAL

Author Name : Nadhilla Mazaya

Student Number : 12030113130192

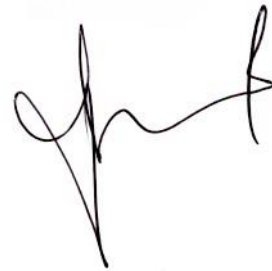
Faculty/Department : Economics and Business/ Accounting

Thesis Title : **THE INFLUENCE OF BUSINESS STRATEGY,  
CORPORATE GOVERNANCE, AND FIRM  
CHARACTERISTICS TO THE RISK DISCLOSURE  
ON THE SMALL AND MEDIUM ENTERPRISES**

Thesis Supervisor : Fuad, M.Si., Ph.D

Semarang, July 25<sup>th</sup>, 2017

Supervisor,



(Fuad, M.Si., Ph.D.)

NIP. 19790916 200812 1002

## LETTER OF SUBMISSION

Author Name : Nadhilla Mazaya

Student Number : 12030113130192

Faculty/Department : Economics and Business / Accounting

Thesis title : **THE INFLUENCE OF BUSINESS STRATEGY,  
CORPORATE GOVERNANCE, AND FIRM  
CHARACTERISTICS TO THE RISK DISCLOSURE  
ON THE SMALL AND MEDIUM ENTERPRISES**

Has been presented and defended in front of the board of Reviewers on August 9<sup>th</sup>  
2017, for fulfilling the requirement to be accepted.

The Reviewers Board :

1. Fuad, M.Si, P.hd

()

2. Etna Nur Afri Yuyetta, Dr.,S.E.,M.Si.,Akt.

()

3. Adityawarman,,S.E.,M.Acc.,Ak.

()



## **DECLARATION OF ORIGINALITY**

I, Nadhilla Mazaya, hereby declare that this thesis is real and accurate to be my own work initially written for the partial requirement to complete Undergraduate Program of Accounting, and has not been presented on any other occasion before. I bear full responsibility for my undergraduate thesis.

Semarang, July 28<sup>th</sup>, 2017

A handwritten signature in black ink, appearing to read 'Nadhilla Mazaya', written over a horizontal line.

Nadhilla Mazaya  
12030113130192

## MOTTO AND DEDICATION

لَا يُكَلِّفُ اللَّهُ نَفْسًا إِلَّا وُسْعَهَا لَهَا مَا كَسَبَتْ وَعَلَيْهَا مَا اكْتَسَبَتْ

“Allah does not lay a responsibility on anyone beyond his capacity. In his favor shall be whatever good each one does, and against him whatever evil he does.[...]”

-Qs. Al-Baqarah: 286

“Always try your best in every situation, the result will not betray your efforts”

-Anonymous

**I dedicate this undergraduate thesis for:**

**My Father, Badrul Fadhil**

**My Mother, Erlina Ramli**

**My Sister, Keumala Filzahira**

**My Family**

**And All My Friends**

## ACKNOWLEDGEMENT

*Alhamdulillah Rabb al-'alamin.* First of all, I would like to express my gratitude for ALLAH SWT; Lord of the world for all the blessings, guidance, and assistance in my life. After working and struggling for several months, I finally complete my thesis entitled: **The Influence of Business Strategy, Corporate Governance, and Firm Characteristics to The Risk Disclosure On The Small And Medium Enterprises.** However, I do realize that along the process of completing my thesis, there are many people that help me and support me to finish the thesis. Therefore, I deeply would gladly thank to:

1. Dr. Suharnomo, SE., M.Si., as the Dean of Faculty of Economics and Business, Diponegoro University, for the knowledge, encouragement, and support.
2. Fuad., M.Si., Ph.D. as the Head of the Accounting Department, Faculty of Economics and Business, Diponegoro University and at the same time my thesis supervisor which constantly support, guide and giving valuable opportunities and suggestions not only for this thesis but for my life as well.
3. Andrian Budi Prasetyo S.E, M.Si, Akt as my academic advisor. Thank you for all the lesson, discussion, and support.
4. All the lectures and staffs in Faculty of Economics and Business, whom I cannot mention one by one. Thank you for all the lesson and discussion.
5. Kuschayo Budi Prayogo, as my Academic English teacher. Thank you for all the lessons and help so that I finally succeed to write my thesis in English.

6. My beloved family for the love, support, and guidance. Ayah that always giving wisdom advice, supporting and encouraging me to become a great person. Mama that always loving, caring and giving full attention everyday in everywhere. Adek that always annoying but caring and cheering me up. Thank you for being with me no matter where I go, and supporting my choices and dreams.
7. Koncho Kenthel; Aida Farah, Alamanda Rosia, Andi Annisa, Ardimas Rahmadyo, Darmawan Heru, Deny Prasetyo, Fatimah Zahrah, Fitra Maharani, Gita Oktaviany, Irham Aulia, Ivanno Eka, Nadya Zulfa, Natigor manalu, and Seleta Fitriani who consistently coloring my college life with the very best colors that have existed. Thank you for always be there for me. I believe the true heart of friendship last forever, so we shall be friends forever.
8. Azis Ahmad Hakim Firdaus who always makes my day feel absurd. Thank you for stay by my side, accompanied and support me. I hope one day, you can achieve all of your dreams and become a great man.
9. Elvia, Ully, Dita, and Dilla, who always help me through the hard subject and together solve the questions. Thank you very much.
10. Hani Setiowati, Lilis Nosiva, and Tantie Dila. Thank you for all the joy and the time that we have spent together. Because of you, I never felt lonely in our home.

11. Papi Fuad squad; Agis, Arman, Dhila, Farah, Imas, Ita, Ika and Wulan.  
Thank you for the time we spent, your help and support towards me. Keep fighting because our time has just begun.
12. Exchange Squad; Afi, Dewi, Ida, Santi, Sinta. Thank you for all the time, support and experiences. You made me laugh and feel like I am in Home.
13. My exchange buddy; Azliah and Zahidah who consistently giving a good time and support me from the distances.
14. FEB SHARE 2017; Afi, Dilla, Marko, Sinta, and Sonia. Thank you for all the help and support towards me.
15. Annisa Eka Rianti, Dwi Andini Putri, and Trinanti Avina, who consistently showing love and caring me through all this time. Also, for always spending time whenever I go back to Jakarta.
16. Novitria Faradilla who always care for me throughout the time. Thank you for always listening to my concern and sharing yours. I wish you nothing but the best that could have to happen.
17. Aziz Afif, Muthia Julia, Nadhyra Anjany and Rizka Lailiana who always giving me a wonderful trip, sharing amusing stories, and making a memorable day each time we met.
18. Kabinet Matahari, UPK Tari, especially BPH. Thank you for becoming the best non-blood sister in my life. I hope you will become a great woman, and achieved all of your dreams.



19. KKN Desa Sidomukti; Tiara, Vania, Adissa, Vidya, Uma, Roy, Sames, and Suryo. Thank you for all the joy, good times, experiences and supports you gave to me.
20. All the members of Saman Economics and UPK Tari 2013,2014,2015. Thank you for all good times and experiences.
21. Tim Soal Dash 2016; Amallia, Andriyo, Dita, Farah, Imas, Ita, Sholeh, Naufal, Resi, Wulan, and Yuliana. Thank you for all the efforts, supports, and good times we had spent together.
22. SHARE EU-ASEAN Scholarship Committee. Thank you for giving me the opportunity to become a mobility student in Malaysia during the time I write this thesis.
23. All of my friends and classmates in Accounting batch 2013, thanks for the memories, togetherness, and experiences.
24. All of the people who help me finished my thesis whom I cannot mention them one by one. Thank you very much.

Semarang, 2017



Nadhilla Mazaya

NIM. 12030113130192

## **ABSTRACT**

This study aims to examine the influence of business strategy, corporate governance and firm characteristics to the risk disclosure. Each factor can be extended to several variables, which are the barriers to entry, cost leadership, board of commissioner size, ownership concentration, liquidity, industrial profile and auditor type. Hence, this study examines those variables to the risk disclosure.

Total sample used in this study are 96 samples which collected from 2008 until 2015. The samples are companies which listed in Indonesian Stock Exchange and incorporated in PEFINDO 25 Index. The criteria of the sample are conducted using purposive sampling method. This study used multiple regression analysis to examine the influence of business strategy, corporate governance, and firm characteristics to the risk disclosure.

The result of this study shows that there is an influence from barriers to entry, board of commissioner size, ownership concentration, industrial profile and auditor type to the risk disclosure. However, cost leadership and liquidity are proven to not have an influence to the risk disclosure. The result of this study is expected to give contribution for further research, government, the management of the company and investor about the risk disclosure practices.

*Keywords : Risk Disclosure, Business Strategy, Corporate Governance, Firm Characteristics*

## ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh strategi bisnis, tata kelola perusahaan dan karakteristik perusahaan terhadap pengungkapan risiko. Faktor-faktor tersebut dapat diperluas menjadi beberapa variabel, yaitu hambatan masuk, kepemimpinan biaya, ukuran dewan komisaris, konsentrasi kepemilikan, likuiditas, profil industri dan jenis auditor. Oleh karena itu, penelitian ini menguji variabel-variabel tersebut terhadap pengungkapan risiko.

Total sampel yang digunakan dalam penelitian ini adalah 96 sampel yang dikumpulkan dari tahun 2008 sampai 2015. Sampel penelitian adalah perusahaan yang terdaftar di Bursa Efek Indonesia dan tergabung dalam Indeks PEFINDO 25. Kriteria sampel dilakukan dengan menggunakan metode *purposive sampling*. Penelitian ini menggunakan analisis regresi berganda untuk menguji pengaruh strategi bisnis, tata kelola perusahaan, dan karakteristik perusahaan terhadap pengungkapan risiko.

Hasil penelitian ini menunjukkan bahwa ada pengaruh dari hambatan masuk, ukuran dewan komisaris, konsentrasi kepemilikan, profil industri dan jenis auditor terhadap pengungkapan risiko. Namun, biaya kepemimpinan dan likuiditas terbukti tidak berpengaruh terhadap pengungkapan risiko. Hasil penelitian ini diharapkan dapat memberikan kontribusi untuk penelitian lebih lanjut, pemerintah, manajemen perusahaan dan investor mengenai praktik pengungkapan risiko.

*Kata Kunci : Pengungkapan risiko, Strategi bisnis, Tata kelola perusahaan, Karakteristik perusahaan*

## TABLE OF CONTENTS

COVER .....	i
THESIS APPROVAL .....	ii
LETTER OF SUBMISSION.....	iii
DECLARATION OF ORIGINALITY .....	iv
MOTTO AND DEDICATION .....	v
ACKNOWLEDGEMENT .....	vi
ABSTRACT.....	x
ABSTRAK.....	xi
TABLE OF CONTENTS.....	xii
LIST OF TABLES .....	xv
LIST OF FIGURES.....	xvi
LIST OF APPENDICES .....	xvii
CHAPTER I INTRODUCTION.....	1
1.1. Background.....	1
1.2. Problem Formulation.....	7
1.3. Research Objectives .....	8
1.4. Contributions of Study .....	9
1.5. Structure of the Study.....	10
CHAPTER II LITERATURE REVIEW.....	12
2.1. Underlying Theories.....	12
2.1.1. Agency Theory.....	12
2.1.2. Attribution Theory .....	14
2.1.3. Risk disclosure .....	15
2.1.4. Business Strategy.....	17
2.1.5. Corporate Governance.....	18
2.1.6. Firm Characteristics.....	19
2.1.7. Disclosure .....	20

2.1.8.	Barriers to Entry.....	21
2.1.9.	Cost Leadership .....	22
2.1.10.	Board of Commissioner Size.....	23
2.1.11.	Ownership Concentration .....	24
2.1.12.	Liquidity.....	25
2.1.13.	Industrial profile.....	26
2.1.14.	Auditor Types.....	27
2.2.	Previous Research .....	28
2.3.	Theoretical Framework .....	35
2.4.	Hypotheses Development.....	37
2.4.1.	Barriers to Entry.....	37
2.4.2.	Cost Leadership .....	38
2.4.3.	Board of Commissioners Size .....	39
2.4.4.	Ownership Concentration .....	40
2.4.5.	Liquidity.....	41
2.4.6.	Industrial profile.....	42
2.4.7.	Auditor Type .....	43
CHAPTER III RESEARCH METHODOLOGY .....		45
3.1.	Operational Variables Definition and Measurement.....	45
3.1.1.	Dependent Variable .....	46
3.1.2.	Independent Variable .....	47
3.2.	Population and Sample .....	53
3.3.	Source and Type of Data .....	54
3.4.	Data Collection Method .....	54
3.4.	Analysis Methods .....	55
3.4.1.	Descriptive Statistics .....	55
3.4.2.	Multiple Regression Analysis.....	55
3.4.3.	Goodness of Fit Model Analysis.....	56
3.4.4.	Classic Assumption Test.....	58

CHAPTER IV RESULT AND DISSCUSSIONS.....	61
4.1. The Description of Research Objective.....	61
4.2. Data Analysis.....	62
4.2.1. Descriptive Statistics Analysis .....	62
4.2.2. Classic Assumption Test.....	67
4.2.3. Goodness of Fit Model Analysis Result.....	72
4.3. Interpretation and Discussions .....	78
4.3.1. The Influence of Barriers to Entry to the Risk disclosure .....	79
4.3.2. The Influence of Cost Leadership to the Risk disclosure.....	80
4.3.3. The Influence of Board of Commissioner Size to the Risk disclosure.	82
4.3.4. The Influence of Ownership Concentration to the Risk disclosure..	83
4.3.5. The Influence of Liquidity to the Risk disclosure.....	84
4.3.5. The Influence of Industrial profile to the Risk disclosure.....	85
4.3.6. The Influence of Auditor Type to the Risk disclosure.....	87
CHAPTER V CONCLUSIONS AND SUGGESTIONS.....	89
5.1. Conclusions .....	89
5.2. Limitations.....	91
5.3. Suggestions.....	91
BIBLIOGRAPHY .....	93

## LIST OF TABLES

Table 2.1.....	32
Table 3.1.....	45
Table 4.1.....	62
Table 4.2.....	63
Table 4.3.....	63
Table 4.4.....	67
Table 4.5.....	68
Table 4.6.....	69
Table 4.7.....	71
Table 4.8.....	73
Table 4.9.....	74
Table 4.10.....	75
Table 4.11.....	79

## LIST OF FIGURES

Figure 2.1 .....	36
Figure 4.1 .....	70
Figure 4.2 .....	72



## LIST OF APPENDICES

APPENDIX A .....	100
APPENDIX B .....	102
APPENDIX C .....	103

# **CHAPTER I**

## **INTRODUCTION**

### **1.1. Background**

Financial statements that provide information used by company's internal and external users are one of the statements contained in the annual report. The company's management uses financial statements to evaluate the company's performance, making decisions, and planning the strategies for the company's future performance to achieve its goals. External users such as investors use the information in financial statements to assess the amount, time and uncertainty of cash flow in the future; while, suppliers use the information in it to assess the likelihood of the payment of company's debt when due (Warren, Reeve, and Duchac 2009). Other external users are creditors, supplier, government, customers, and society. However, the needs for the information in financial statements are different among these parties as the elements of the financial report are different.

Aside from the financial statements, there are other reports contained in the annual report in which a company might need to disclose as well. These reports extended the information regarding the company's performance. Eccles et al., (in Mokhtar and Mellett 2013) stated that companies are required not only to report their activities but also to report the risks around the company as well as their ability to manage it. Companies try to satisfy stakeholder need by disclosing more information regarding company's risks and the sustainability of its operation (Elzahar and Hussainey 2012). There is a strong demand to report corporate risk

among the institutional investors in order to improve portfolio investment decisions (Solomon et al. 2000). Investors assess various risks that the company's face so that their portfolio investment decisions will be taken based on expected return and risk considerations (Cabedo and Tirado 2004). Moreover, shareholders and stakeholders have drawn more attention to the importance of risk related information due to the companies' failures (P. Linsley, Shrives, and Kajüter 2008; Solomon et al. 2000).

Since companies require disclosing the risk information, they need a framework and regulations in order to satisfy the accounting information user. Global investor and financial analysts will face less likely difficulties in using the reports that use the same accounting language (Cheong and Gould 2012). Therefore, several bodies of regulators tried to find the most suitable regulations for the risk disclosure. In 1997, Securities and Exchange Commission (SEC) announced the disclosure requirements of the market risk on the derivative instrument (Mokhtar and Mellett 2013). However, these reporting requirements cover only a small portion of risks and dominated by the financial risk; therefore, Institute of Chartered Accountants in England and Wales (ICAEW) issued standard guidelines for a comprehensive approach to risk disclosure in 1997 (Cabedo and Tirado 2004). ICAEW listed the company that should provide reliable information about various types of risks so the user of financial statements may assess the company risk profiles.

The process of regulating standards for improving the risk disclosure continues discussed. As a result, In 2009, International Accounting Standards Board issued an exposure draft for global reporting standard entitled International

Financial Reporting Standard (IFRS) (Mokhtar and Mellett 2013). IFRS is then used in almost every companies in more than hundred countries as a guideline not just for risk disclosure but also to other reporting standards (Cahyonowati and Ratmono 2012).

IFRS regulates standard accounting policies among which is IFRS regulation no.7. IFRS no.7 regulates about the financial instrument and the nature and the extent of the risks arising from financial instruments. IFRS no.7 needs to apply by entities within the scope of IAS 39 and entities with any kinds of financial instrument. In Indonesia, IFRS' no.7 is adopted by Ikatan Akuntan Indonesia (IAI) to Indonesian Financial Accounting Standard (PSAK) no.60. Since PSAK no.60 adopted the IFRS no.7 it regulates the same issues with adjustments to the Indonesian condition (Ikatan Akuntan Indonesia 2010).

Even though the regulation has been issued, the disclosure of the company's risk still lacking. The quality and quantity of risk reporting disclosure are not positively affected by the adoption of IFRS (Oliveira, Rodrigues, and Craig 2011). Researches indicate that the information regarding risks and uncertainties in financial statements are inadequate (Cabedo and Tirado 2004; Schrand and Elliott 1998). Companies carefully disclose risk information to prevent that information become a counterattack for them. According to Roulstone 1999 (in Mokhtar and Mellett 2013), the disclosure of risks among companies is vague and difficult to understand. Moreover, most companies only give a small brief and statements on their controls environment and risk surrounded (Kendrick 2000). As a result, both

stakeholders and shareholders may not receive relevant information to satisfy their needs (Mokhtar and Mellett 2013).

Management and other internal parties are responsible for identifying the surrounding risk of the company. Therefore, the risk information tend to be more widely known by the internal of the companies, which led to the emergence of the information asymmetries between internal and external parties (Hendriksen and Van Breda 1991). This information asymmetries can trigger a crisis for investors, creditors, and other parties because it would be difficult to assess the company's risk (Rahman 1998).

The company was able to reduce the information asymmetry by implementing a system known as Corporate Governance. Corporate governance is a set of mechanism intended to reduce the agency risks resulting from the information asymmetries (Ashbaugh, Collins, and LaFond 2004). It increases the protection for stakeholders by minimizing opportunistic behavior of managers (Siagian, Siregar, and Rahardian 2013). Therefore, manager's opportunistic behavior is limited and their activity will be monitored. They have no option but to disclose the information need to be published for the stakeholders' interest. As a result, the implement of corporate governance led to a better risk disclosure.

A company's business strategy needed to be based on risk consideration. Strategy and risk are related as a flip side in a coin because strategy requires some level of risk-appetite since risk impact in every objective of both financial and non-financial strategy map (Smart et al. 2015). Furthermore, companies need to

associate strategy and risk to prevent the risk will harmed the companies. Risk in the business world is seen as catastrophes (Smart et al. 2015). Risk generally associated as a bad news for the companies. Therefore, management tends to hold bad news to prevent the shock to the value of the company's stock (Rigoglioso 2012). Through a good business strategy, companies are more likely disclose risk information because; A good business strategy minimizes the occurrence of risk (Porter 1980).

Another factor that could lead to a better risk disclosure is the company's characteristics itself. Company's characteristics vary depending on how a person views the company. For example, financial characteristics, industrial characteristics, corporate culture, etc. Each of those characteristic contains different information. Such information might help accounting information user to assess the future risk of the company (Abraham and Cox 2007). The quality of this disclosure made the company looks desirable not just for the investor but also to the capital market regulators (Laidroo 2009).

This research tried to implemented studies from Mokhtar and Mellet (2013) in Indonesia, but focusing on the Small and Medium Enterprise (SMEs). The difference is that this research uses the annual report on 2008 to 2015. The reason for choosing the year 2008 until 2015 is because, within the length of time, Indonesia is facing three steps before fully implemented IFRS into the PSAK (Lestari 2013). IFRS is adopted to increase the level of financial reporting in Indonesia. Since IFRS is principle based, the quality of financial statement should be increased (Lestari 2013). However, there are many arguments whether adopting

IFRS truly increased the quality of accounting information or not (Cahyonowati and Ratmono 2012). Hence, the researcher is interested in examining the risk disclosure during this period.

The list of companies collected from PEFINDO 25 INDEX 2016 period August 2016 to January 2017. This index launched on 18 May 2009 under the cooperation between IDX and PT Pemeringkat Efek Indonesia (PEFINDO) for Small and Medium Enterprises (SMEs) with good fundamental performances and liquidity. The reason for choosing the SMEs is because the prior researchers examine the risk disclosure on most likely on large and small companies. Those researchers stated that large companies tend to disclose more information than the smaller companies do (Amran, Bin, and Hassan 2009; Oliveira, Rodrigues, and Craig 2011). Whereas, there is other classified of a firm that is Small and Medium Enterprises (SMEs). There are SMEs that have go public and are required to report the risks because their share is available in the securities market (PT Bursa Efek Indonesia 2016). In the academic journal, there only a few researches which, focus on the risk disclosure among SMEs that have go public.

This research eliminates two independent variables from Mokhtar (2013) research that is role duality and firm size. Role Duality is not relevant to Indonesian situation as regulated in Law no. 40 year 2007 about the incorporated company. Moreover, this research eliminates firm size because the sample is collected from an index that it did not disclose information which company considered as small or medium enterprises.

## 1.2. Problem Formulation

A number of researchers had discussed risk disclosure. Researchers like, Amran, Bin, and Hassan (2009); Oliveira, Rodrigues, Lima, and Craig (2011); Elzahar and Hussainey (2012); Mokhtar and Mellett (2013), had published their research about risk disclosure. However, the results among them probably indicate a research gap; inconclusive or contradictory result among the same variables in different research (Dissanayake 2013). Researches by Amran, Bin, and Hassan (2009) and Oliveira, Rodrigues, Lima, and Craig (2011) stated that firm size and industrial profile are the main determinants of risk disclosure. However, other researchers conclude different results. Researches by (Beretta and Bozzolan 2004; Amran, Bin, and Hassan 2009; Mokhtar and Mellett 2013) indicates there is a non-significant association between firm size and risk disclosure. Meanwhile, Beretta and Bozzolan (2004), Konishi and Ali (2007), Amran, Bin, and Hassan (2009) and Mokhtar and Mellett (2013) research results indicate that industrial profile has no impact on risk disclosure. Auditor types found to have a positive significant relationship with risk disclosure (Oliveira, Rodrigues, and Craig 2011; Mokhtar and Mellett 2013) while liquidity found to has a nonsignificant association to risk disclosure (Mokhtar and Mellett 2013).

As time goes by, the numbers of risk disclosure issues are increased. Since the public perceptions of risk are increased, the number of risk disclosure issues becomes more rather than less (P. M. Linsley and Shrivs 2006). Investor thinks they received not enough information of risk disclosure (Rajab and Schachler 2009). Another view from Buckby, Gallery, and Jiacheng (2015) stated that there



have been criticisms about the inadequate or inaccurate of a company's disclosure, particularly to the risk management activities. Even in Indonesia, researchers found that the level of risk disclosure is still low compared to other countries (Siagian, Siregar, and Rahardian 2013; Probohudono, Tower, and Rusmin 2013, 2011).

Based on the previous explanation, the quality and level of risk disclosure are still lacking even though risk disclosure has an important role for both internal and external parties of the companies. According to Laidroo (2009), the poor quality of risk disclosure is caused by poor theoretical literature. Whereas, improving risk disclosure increases the stable environment for investment activities (Rajab and Schachler 2009); which can draw more investor to invest in the company. Hence, this research tried to fulfill the research gap through these questions :

1. Do barriers to entry influence company's risk disclosure?
2. Does cost leadership influence company's risk disclosure?
3. Does the board of commissioner size influence company's risk disclosure?
4. Does the ownership concentration influence company's risk disclosure?
5. Does the liquidity influence company's risk disclosure?
6. Does the industrial profile influence company's risk disclosure?
7. Does the auditor type influence company's risk disclosure?

### **1.3. Research Objectives**

This study aims to examine several factors that affecting companies to disclose the risk and their ability to manage it. It is important to identify the factors that determine risk disclosure in company's annual report (Mokhtar and Mellett

2013). Among all the factors, many researchers believe that there are main factors affecting risk reporting which explained in next chapter (Amran, Bin, and Hassan 2009; Abraham and Cox 2007; Oliveira, Rodrigues, and Craig 2011; Mokhtar and Mellett 2013). Therefore, the research objectives are :

1. To examine the influence of barriers to entry to the risk disclosure
2. To examine the influence of cost leadership to the risk disclosure
3. To examine the influence of board of commissioner size to the risk disclosure
4. To examine the influence of ownership concentration to the risk disclosure
5. To examine the influence of liquidity to the risk disclosure
6. To examine the influence of industrial profile to the risk disclosure
7. To examine the influence of auditor type to the risk disclosure

#### **1.4. Contributions of Study**

As shown before, there are many studies of risk disclosure. However, the result is still questionable. Through this research, the researcher hopes this study could contribute and fulfill the previous research gap. The contribution of this study is based on background, problem formulation, and research objectives. There are several contributions, which stated as follow:

1. For researchers, this study is expected to give a contribution to the effect of company's strategy, corporate governance and firm characteristics on risk disclosure study of the SMEs in Indonesia.

2. For the government and the regulator, the result of this study is expected to give information about the implementation of risk disclosure regulation among the companies, and as a continuous improvement on risk disclosure regulation.
3. For the management of the company, the result of this study is expected to encourage management's attention to improve their ability in disclosing the risk.
4. For investors, the result of this study is expected to help investors knowing about SMEs risk disclosure and to help make decisions about their willingness to invest in the company.
5. For society, the result of this study is expected to give knowledge about the extent of company transparency to reporting risk.

## **1.5. Structure of the Study**

### CHAPTER I : INTRODUCTION

This chapter consists of background, problem formulation, research objectives, contributions of study and structure of the study. Background explains about the general problem, research gap and this research difference to the prior research. Problem formulation explains about the problem arising from the background. Research objectives explain about the purpose of this research. The contribution of the study is expected to help people to know the extent of company transparency to reporting risk. Lastly, the structure of the study explains about each chapter that existed in this study.

## CHAPTER II: LITERATURE REVIEW

This chapter consists the theories and concepts used in the study. This chapter also explains and summarizes the prior research. Based on the theories, concepts and prior research, this chapter developed the hypothesis used in this study.

## CHAPTER III: RESEARCH METHODOLOGY

This chapter consists of research variable and operational definition of the variables, type and source of data, population and sample data collecting method, research object and data analysis.

## CHAPTER IV: RESULTS AND DISCUSSIONS

This chapter explains about the description of research object, data analysis and the study of hypotheses test result and its interpretation.

## CHAPTER V: CONCLUSIONS AND SUGGESTIONS

This chapter draws conclusions from the analysis result. This chapter also consists the research implications, the limitation of the study and suggestions for the future research.