CHAPTER I
INTRODUCTION

1.1 Introduction

This study investigates the effect of corporate governance and risk disclosure to financial performance among listed companies in Indonesia. Therefore, chapter 1 begins by presenting the background of study, issues and problem statement, and study justification. This chapter describes the study's purpose, objectives, research questions, limits, and importance in experimental research. It finishes with an operational definition of key terminology used throughout the study.

1.2 Background of Study

Corporate governance, particularly in the context of Indonesian companies, necessitates risk disclosure. Risk disclosure is a process that allows stakeholders to make informed decisions about the risks businesses face (Gull et al., 2023). It significantly contributes to enhancing transparency and accountability, which are crucial elements of good corporate governance (Mbithi et al., 2022).

However, Indonesian businesses face substantial challenges in risk disclosure. Many find it difficult to accurately identify and quantify risks and effectively engage stakeholders (Raimo et al., 2022a). Additionally, ensuring that risk information is presented in a comprehensible manner for stakeholders can be challenging (Bingler et al., 2022).

The performance and corporate governance of listed companies are critical factors influencing transparency and accountability, especially in the Indonesian business landscape. In recent years, due to several high-profile corporate scandals worldwide, there has been an increased focus on corporate governance and risk disclosure in Indonesia (Adinegara & Sukamulya, 2021). Corporate governance mechanisms have been scrutinized for their role in enhancing transparency and mitigating risks within organizations (Dongol & Research Scholar, 2021). The effectiveness of these mechanisms is closely tied to the overall performance of listed companies, thereby influencing their risk disclosure practices.

The Indonesian business environment has experienced its share of corporate governance challenges, highlighting the need for robust governance structures (Nour et al., 2023). These challenges reflect global concerns about corporate scandals and emphasize the importance of implementing effective governance frameworks (Do et al., 2021).

This study explores this crucial connection by investigating how the performance and corporate governance of listed companies in Indonesia affect their risk disclosure practices. The aim is to gain insights into the factors that promote or impede effective risk disclosure within the Indonesian corporate landscape. To achieve this, the study conducts a thorough analysis of existing literature on corporate governance and performance (Gardi et al., 2023).

1.3 Problem Statement

The landscape of corporate governance in Indonesia has faced significant challenges, with implications observed through cases such as Jiwasraya. This raises concerns about the effectiveness of corporate governance practices and their impact on financial performance among listed companies in Indonesia. To address these concerns, there is a need to explore how performance and corporate governance relate to risk disclosure practices within the Indonesian business context.

In recent years, several high-profile corporate scandals worldwide have led to an increased focus on corporate governance and risk disclosure in Indonesia. The effectiveness of corporate governance mechanisms in enhancing transparency and mitigating risks within organizations is closely tied to the overall risk disclosure of listed companies, thereby influencing their financial performance practices. However, the Indonesian business environment has experienced its share of corporate governance challenges, highlighting the need for robust governance structures.

These challenges reflect global concerns about corporate scandals and emphasize the importance of implementing effective governance frameworks. However, the relationship between corporate governance, risk disclosure, and financial prrformance is complex and multifaceted. It is influenced by a variety of factors, including the regulatory environment, the nature of the industry, and the specific characteristics of individual companies. Understanding this relationship requires a nuanced and comprehensive approach.

This study aims to contribute to this understanding by investigating the impact of corporate governance and risk disclosure on risk disclosure among listed companies in Indonesia. By doing so, it hopes to provide valuable insights that can inform policy-making and practice in the area of corporate governance and risk disclosure. This is particularly relevant in the current context, where the need for transparency and accountability in business is more pressing than ever.

Furthermore, the study seeks to shed light on the role of corporate governance and risk disclosure mechanisms in shaping financial performance practices. It will examine the extent to which these mechanisms influence the quality and quantity of financial performance, and how this, in turn, impacts company financial performance. The study will also explore the potential moderating effects of various firm-specific factors, such as size, industry, and ownership structure.

In addition, the study will delve into the implications of these findings for regulators, policymakers, and practitioners. It will provide recommendations on how to enhance corporate governance practices and risk disclosure to improve financial performance in the Indonesian context. Ultimately, the goal is to foster a culture of transparency and accountability among Indonesian companies, thereby promoting sustainable business practices and contributing to the overall development of the Indonesian economy.

Finally, the study will contribute to the existing body of literature on corporate governance, risk disclosure and financial performance. It will provide empirical evidence from the Indonesian context, thereby enriching our understanding of these issues in emerging markets. The findings of this study will be of interest to academics, researchers, and students in the fields of corporate governance, risk management, and corporate disclosure. It will also serve as a valuable resource for future research in these areas.

1.4 Research Objective

The general objective of this study is to examine the mechanisms of corporate governance and risk disclosure listed on the Indonesia Stock Exchange. The specific objectives of this study are:

RO 1: To analyze the impact of board independence on financial performance among listed companies in Indonesia.

RO 2: To investigate the impact of board size on financial performance among listed companies in Indonesia.

RO 3: To investigate the impact of risk disclosure on financial performance among listed companies in Indonesia.

1.5 Research Questions

To achieve the research objective, this study will seek to answer the following questions:

RQ 1: What is the impact of board independence on financial performance among listed companies in Indonesia?

RQ 2: What is the impact of board size on financial performance among listed companies in Indonesia?

RQ 3: What is the impact of risk disclosure on financial performance among listed companies in Indonesia.

1.6 Significant of Study

This study holds significant importance for various stakeholders, including investors, policymakers, and corporate decision-makers in Indonesia. By examining the relationship between corporate governance, risk disclosure and financial performance, it provides valuable insights that can inform corporate practices and regulatory policies. Understanding these dynamics can help improve the transparency and accountability of listed companies in Indonesia, ultimately fostering trust and confidence among investors and stakeholders. Furthermore, it contributes to the existing body of knowledge on corporate governance and its impact on financial performance, particularly in emerging economies like Indonesia.

1.7 Definition of Key Terms

1. Corporate Governance: The system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of various stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community.
2. Risk Disclosure: The practice of providing information about potential risks, uncertainties, and vulnerabilities that may affect a company's financial performance, operations, or future prospects.
3. Financial Performance: An evaluation of how a company successfully uses its assets and resources to generate profits and growth.
4. Board Independence: The extent to which members of a company's board of directors are free from conflicts of interest and external influence, allowing them to make impartial decisions in the best interest of the company and its stakeholders.
5. Board Size: The total number of members constituting a company's board of directors.