

**UNIVERSITI TEKNOLOGI MARA**

**THE INFLUENCES OF  
GOVERNANCE STRUCTURES AND  
COERCIVE ISOMORPHISM  
FORCES ON QUANTITY AND  
QUALITY OF RISK DISCLOSURE  
OF NOT-FOR PROFIT  
ORGANISATIONS**

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## ABSTRACT

In the volatile and complex ecosystem, the disclosure of non-financial risks of not-for-profit organisations (NPOs) has attracted considerable attention among relevant stakeholders. Such concerns are particularly related to how the multiple users of NPOs' annual reports can be provided with risk-related information that enables them to assess the risk profile of these organisations. However, the concept of non-financial risk has never been the main focus of the Malaysia Financial Reporting Standards (MFRS) when it was adopted for the preparation of NPOs accounts starting from the year 2012. The use of MFRS in financial statement preparation obliges NPOs to report only financial risk (i.e., credit risk, foreign risk, liquidity risk), which does not comprehensively provide other relevant non-financial risk-related information to stakeholders. It indicates that traditional financial reports overlook other types of risk (i.e., non-financial risk) that threaten the mission of NPOs and the sustainability of the organisations. In addition, NPOs have limitations in implementing risk disclosure practices. They claim that they do not have the necessary skills, knowledge and expertise to execute risk disclosure practices due to the lack of financial resources. This study thus provides a comprehensive analysis that aims to examine risk disclosure practices in terms of the quantity and quality of risk-related information and its determinants. This study employs a sample consisting of 120 NPOs registered as Company Limited by Guarantee under Companies Commission of Malaysia in Malaysia to investigate quantity and quality of risk disclosure and their determinant. All data for the study were manually collected from the annual reports of sample organisations over three years (2014 to 2016) using content analysis. The descriptive findings show that, on average, NPOs disclose low quantity and quality of risk disclosure, indicating risk management practices are still at the infancy stage in NPOs. Further, results also show that NPOs were more focused on the compliance risk dimension. This study further examines the determinants of quantity and quality of risk disclosure in NPOs, emphasising governance mechanisms and coercive isomorphism. Based on Agency Theory, this study argues that the risk disclosure directed to stakeholders are enhanced when managers' opportunism is monitored by internal and external governance mechanisms, thereby reducing the information asymmetry. Drawing on Institutional Theory, the study argues that the risk disclosure is a legitimation tool used by NPOs in response to isomorphic coercive forces. Based on the analysis, this study finds that the most fitting theory that could explain the variation in the choice of risk disclosure would be the Agency Theory. Specifically, this study finds that risk disclosure indicate improvement due to the efforts of the internal governance structure represented by board characteristics. The findings indicate that board size, board financial expertise, board multiple directorships and board international experience are positively and significantly related to management decisions pertaining to risk disclosure. This study also found external monitoring by an external auditor and coercive isomorphic forces from funders and Inland Revenue Board provides insignificant influence on the risk disclosure. The latter findings indicate that management decisions were not influenced by external monitoring and external pressure. Overall, the findings of this study provide valuable insights to NPOs and management, regulators, policymakers, professional bodies and other users of risk information in enhancing risk disclosure that are relevant for not-for-profit sector.

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