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The Effect of Company Characteristics on Sustainability Report Disclosure with Corporate Governance as Moderating Variable

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ABSTRACT

The purpose of this study is to obtain empirical evidence about the moderating effect of corporate governance on the effects of profitability, leverage, and firm size towards sustainability report disclosure. The population is the firms listed in the LQ45 index over the period 2015 to 2017 from 40 companies. The sampling technique used in this research is purposive sampling. Seventeen (17) companies were selected in this research with 51 units of analysis were obtained. Regression analysis absolute value of the difference was used for analyzing data. The results showed that profitability and leverage do not have effect to sustainability report disclosure. Firm size has a negative significant effect on sustainability report disclosure. The board of commissioners moderates the relationship between profitability and leverage toward sustainability report disclosure, but cannot moderate the relationship between firm size toward sustainability report disclosure. This study concludes that the firm size influences sustainability report disclosure and the board of commissioner moderates the relationship between profitability and leverage toward sustainability report disclosure. It shows that corporate governance has an important role on sustainability report disclosure. The effectiveness of corporate governance indicates that company management can fulfill the firm's goals and stakeholder needs.

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INTRODUCTION

Extensive and comprehensive information regarding company activities makes stakeholders make right business decisions. One of the forms of extensive information delivery is sustainability report. Sustainability report is a form of information delivery that contains economic, environmental, and social responsibility programs that have been implemented by companies. This report can be used to increase company transparency, improve the relationships with stakeholders, attract long-term capital, generate a favorable investment climate, and manage company reputation (Bhatia & Tuli, 2017).

Based on the triple bottom line concept and Sustainable Development Goals, companies carry out business activities by implementing sustainable development with the hope of contributing to the economic, social, and environmental sectors. However, in reality, the company's activities do not always pay attention to social and environmental conditions. In fact, mining sector company operations donate up to 70% of environmental damage in Indonesia (Kompas.com, 2012). The pollution of the five major rivers in Jambi was caused by the activities of PT Aneka Tambang Tbk (Merdeka.com, 2016). PT Karya Tanah Subur (KTS) disposal of waste kills river biota which is the source of livelihood for the local community (Merdeka.com, 2015).

Environmental damage reflects that corporate responsibility for social and environmental conditions is still low. On the other hand, stakeholders are increasingly highlighting company activities that have the potential to damage the environment and harm the community. Information transparency is important in conveying the real company management to stakeholders. Companies are expected to convey positive and negative impacts as results of company operations and must be disclosed and informed to stakeholders. Companies can use sustainability reports as a means of realizing the transparency of company information.

The disclosure of sustainability reports by Indonesian companies is relatively low. This is based on the finding by Doktoralina et al., (2018) who examined non-financial companies listed on the Indonesia Stock Exchange from 2013 to 2017. The finding shows that

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the average disclosure is only 30.85% with the highest disclosure at 53%. Besides that, Rudyanto & Siregar (2017) found a low number of opinions on sustainability reports and GRI Application Check assessments by independent parties on 123 corporate sustainability reports recorded in the year 2010-2014.

The low disclosure of sustainability reports indicates that companies in Indonesia are unaware of the importance of reporting corporate sustainability. The assumption that sustainability report is a voluntary report and is still in the process of being introduced causes the disclosure still low (Adhipradana & Daljono, 2014). Regulations regarding sustainability reports in Indonesia just applied in 2017 through POJK 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies.

Previous studies regarding the disclosure of sustainability reports produce inconsistent results so that a research gap is found. The positive relationship between profitability and sustainability report disclosure has been proven by Aniktia & Khafid (2015), Martínez-Ferrero et al. (2015), and Agustina & Rusmana (2016). On the other hand, Shamil et al.,(2014), Doktoralina et al., (2018), as well as Karaman et al., (2018) found that profitability does not affect sustainability report disclosure.

Agustina & Rusmana (2016), Bhatia & Tuli (2017), and Doktoralina et al. (2018) succeeded to prove the negative relationship between leverage and sustainability report disclosure. In contrast to Shamil et al. (2014), Nazari et al. (2015), and Khafid & Mulyaningsih (2015) did not find a relationship between leverage and sustainability report disclosure. Adhipradana & Daljono (2014), Bhatia & Tuli (2017), and Karaman et al. (2018) proved the positive relationship between firm size and sustainability report disclosure. This is different from Lungu et al. (2011), Sari & Marsono (2013), as well as Nasir et al.,(2014) where they did not obtain evidence of the relationship between firm size and sustainability report disclosure.

The inconsistency in the effect of profitability, leverage, and firm size on the sustainability report disclosure is assumed to be caused by other variables that determine sustainability report disclosures done by companies. This study tries to position corporate governance as a moderating variable. The selection of corporate governance is based on the consideration that the objective of corporate governance is the fulfillment of company objectives by taking considering the interests of all stakeholders. Companies that implement corporate governance practices place the community and the environment as stakeholders who must get benefit from the company's existence.

Sustainability reports are used by companies to meet the information needs of stakeholders which include corporate responsibility to the society and environment. Through the effectiveness of corporate governance practices, companies are expected to disclose extensive information to meet stakeholder needs. A board of commissioners as a corporate governance organ has a duty to supervise management so that it acts in accordance with the interests of stakeholders (Rudyanto & Siregar, 2017). This description is the basis that corporate governance through a board of commissioners can moderate the relationship between profitability, leverage, and firm size with sustainability report disclosure.

This study aims to analyze and describe the relationships between profitability, leverage, and firm size with sustainability report disclosure and the role of corporate governance in moderating these relationships. The originality of this study is corporate governance variable is positioned as a moderating variable. The use of moderating variables is expected to reveal the causes of inconsistency in the results of the previous studies that is the presence of moderating variables, in this case, corporate governance, which has never been disclosed in the previous studies.

The disclosure of sustainability reports can be explained using stakeholder theory and legitimacy theory. Stakeholder theory considers managers have to formulate and implement processes that satisfy all stakeholders. Stakeholder support is the key to corporate survival so that the company seeks to get this support through company activities that are relevant to the wishes of stakeholders (Grayet al., 1995). Legitimacy theory views that the alignment of corporate social values with community social values is a condition that companies must create (Dowling & Pfeffer, 1975). Legitimacy theory emphasizes the views and recognition of the wider community as strong reasons for disclosing information (Khafidet al., 2018).

Profitability reflects the ability of a company to account profits after carrying out corporate operating activities. According to stakeholder theory, when profitability is high, the company tries to fulfill its information needs through extensive information disclosure. A qualified sustainability report disclosure requires strong financial resources, therefore profitability has an important role in disclosing sustainability reports (Kuzey & Uyar, 2017). The potential for extensive and comprehensive information disclosure by companies can be seen through high company profitability. The positive relationship between profitability and sustainability report disclosure has been proven by Idah (2013), Aniktia & Khafid (2015), Nazari et al. (2015), and Martínez-Ferrero et al. (2015).

H_1 : Profitability has a positive effect on sustainability report disclosure

Leverage describes the ability to manage and pay off obligations and describes the composition of corporate funding. Based on stakeholder theory, companies seek to fulfill creditors' interests in the form of repayment of principal loans and interest. The existence of companies with high leverage depends on creditors' support and trust. Therefore, companies try to generate high profits to maintain creditors' support and trust by reducing voluntary costs, including sustainability report disclosure.

High leverage makes companies strive to maintain financial performance through high profits in order to keep creditors' support and trust. When corporate

leverage is high, the companies choose to disclose extensive financial information and limit financial resources for non-financial purposes such as contributing to sustainable development and its disclosure (Andrikopoulos et al. 2014). The negative relationship between leverage and sustainability report disclosure has been proven by Drobetz et al. (2014), Agustina & Rusmana (2016), Bhatia & Tuli (2017), and Kuzey & Uyar (2017).

H_2 : Leverage has a negative effect on sustainability report disclosure

A company is measured by a scale that determines the size of the company. The company category when viewed from its size is divided into small, medium, and large companies (Khafid et al., 2018). Large companies reflect companies have great financial capabilities as well. The greater the total assets owned means the greater the company's financial resources as a source of funding in disclosing sustainability reports.

Based on legitimacy theory, the company seeks to get public recognition so that it can continue to carry out company activities. Large companies get legitimacy by communicating responsible activities to the environment and society, considering that large companies pay more attention to the media and society (Aggarwal & Singh, 2018). This condition makes big companies even more interested in disclosing sustainability reports to gain legitimacy. The positive relationship between firm size and sustainability report disclosure has been proven by Adhipradana & Daljono (2014), Agustina & Rusmana (2016), Bhatia & Tuli (2017), and Karaman et al., (2018).

H_3: Firm size has a positive effect on sustainability report disclosure

The expectations of stakeholders are increasing along with the increase in company profitability. The implementation of high corporate governance is needed by companies with high profitability so that the companies meet the needs and expectations of all stakeholders. The demands for sustainability report disclosure besides coming from external parties also coming from internal parties (Rudyanto & Siregar, 2017). Internal pressure is pressure from company supervisors, where the company supervisor is the board of commissioners.

On the basis of stakeholder theory, the fulfillment of stakeholder needs is achieved through an accountability mechanism that is played by a board of commissioners. The board of commissioners considers that high profitability is a great opportunity to disclose extensive information, both mandatory and voluntary information. The disclosure of sustainability reports can increase when profitability is high and accompanied by an effective role of the board of commissioners through a high number of meetings.

H_4: The board of commissioners moderates the effect of profitability on the sustainability report disclosure

High leverage reflects the company's high financial obligations in the form of loan principal and loan interest. This condition makes the company prioritize the fulfillment of these financial obligations, thereby reducing voluntary spending, including sustainability report disclosure. Therefore, companies with high leverage need high corporate governance mechanisms to ensure that the company can still fulfill the interests of creditors without sacrificing other stakeholders.

On the basis of stakeholder theory, the fulfillment of stakeholder needs is achieved through an accountability mechanism played by a board of commissioners. The effectiveness of corporate governance practices through the number of committee meetings has made the company continue to disclose sustainability reports even though the company has high leverage. This consideration is based on the fact that corporate governance mechanisms play an important role in ensuring the quality of corporate reporting (Johl et al., 2013).

H_5 : The board of commissioners moderates the effect of leverage on sustainability report disclosure

Large companies show that they have large financial capabilities and broad stakeholders. This condition is due to the business activities of large companies are increasingly complex and involve the wider community even on an international scale. Large companies need public legitimacy to keep getting support and trust in carrying out company business activities. Sustainability report contains corporate social and environmental responsibility programs to gain legitimacy.

According to stakeholder theory, large companies need corporate governance mechanisms in order to manage large financial capabilities to meet broad stakeholder interests. Corporate governance fosters and maintains stakeholder trust by fulfilling corporate responsibility (Stuebs & Sun, 2015). The practice of company management through the effective supervision of the board of commissioners can be accounted for the truth through extensive information disclosure.

H_6 : The board of commissioners moderates the effect of firm size on sustainability report disclosure

RESEARCH METHODS

This research was quantitative research. The population used was companies that were consistently indexed LQ45 for the 2015-2017 period as many as 40 companies. The purposive sampling technique was used in selecting 17 sample companies. The research period was 3 years. The analysis units were 51 units as shown in Table 1.

The research data were collected using documentation methods in the form of annual reports and sustainability reports. The research model was analyzed using the absolute value difference test with the SPSS version 23 software analysis tool. The autocorrelation test with Durbin-Watson obtained a DW value of 1.624. This value indicated autocorrelation symptoms because it is between 1.3855 and 1.7218. The treatment of autocorrelation signs used the Cochrane-Orcutt transformation so that the autocorrelation signs did not occur. The level of

Table 1. Sampling Process

No	Criteria	Elimi-nation	Total
1	The LQ45 companies published its annual reports for the 2015-2017 period	(0)	40
2	The LQ45 companies published sustainability report separately during 2015-2017	(22)	18
3	The LQ45 companies include the GRI G4 index and/or GRI Standards in the sustainability report	(1)	17
	Year of observation		3
	Total analysis units		51

Source: Secondary data processed, 2019

significance used 5%. The formulation of the research model is shown as equation 1:

$$SR = \alpha + \beta_1 ROE - \beta_2 DAR + \beta_3 SIZE + \beta_4 |ROE\text{-}DK| + \beta_5 |DAR\text{-}DK| + \beta_6 |SIZE - DK| + e \quad (1)$$

RESULTS AND DISCUSSIONS

Descriptive statistics reflect the distribution of data in the form of minimum values, maximum values, mean (mean), and standard deviation. The results of descriptive statistical analysis are presented in Table 3. The Kolmogorov-Smirnov significance value in the normality test shows the number of 0.200 which is above the 0.05 significance level or it can be concluded that the residual data is normally distributed. The Tolerance and VIF values in the multicollinearity test show the results that the regression model is free from multicollinearity. The heteroscesdasticity test using the Glejser test shows that all independent variables have a significance value of more than 0.05 on the absolute residual value so that it is concluded that there are no heteroscedasticity signs. The results of the autocorrelation test after the Chocrane-Orcutt transformation obtained a DW value of 1.885 between 1.7218 and 4-1.7218, it is concluded that the regression model does not experience autocorrelation symptoms.

The adjusted R^2 value shows the value of 0.244, which means that profitability, leverage, firm size, and corporate governance as the moderating variable explain 24.4% of the sustainability report disclosure. The remaining 75.6% is explained by the variables not examined in this study. Table 4 contains the results of the hypothesis testing that has been carried out.

The Effect of Profitability on Sustainability Report Disclosures

Profitability does not have effect on sustainability report disclosure. This result is not relevant to stakeholder theory. Stakeholder theory assumes high profitability makes companies disclose sustainability reports as a form of delivering extensive information. Sustainability report disclosure is carried out regardless of the level of company profitability. The condition of low company profitability makes the sustainability report as a form of conveying the company's good news. In addition, the disclosure of sustainability report is used to divert the attention of users of information regarding low company profitability so that it will still get support and trust from stakeholders.

The data shows that 43.75% of the sample companies have a profitability level below the average. When profitability is low, companies do not feel pressure to disclose information about the company's profitability (Karaman et al., 2018). The companies are also not motivated to disclose sustainability reports. This result is in line with the research of Shamil et al.,(2014), Doktoralina et al., (2018), as well as Karaman et al.,(2018).

Table 2. Operational Definition of Research Variables

No	Variables	Definition	Measurement
1.	Disclosure of Sustainability Report (SR)	Performance reporting tools include social, economic, and environmental aspects (Khafid & Mulyaningsih, 2015)	(∑ Item Disclosed)/(GRI Items) (Doktoralina *et al.*, 2018)
2.	Profitability (ROE)	The ability of a company to record profits to increase company value for shareholders (Agustina & Rusmana, 2016)	ROE= (Net Income)/(Total Equity) (Khafid & Mulyaningsih, 2015)
3.	Leverage (DAR)	Sources of funds for asset financing outside sources of capital or equity funds (Andriyani & Khafid, 2014)	DAR= (Total Debt)/(Total Asset) (Doktoralina *et al.*, 2018)
4.	Firm Size (SIZE)	The size of the company is reflected in company total assets (Mahardika*et al.,* 2014)	Ln (Total Asset) (Adhipradana & Daljono, 2014)
5	Corporate Governance (DK)	The implementation of structures, systems, and processes as an effort to give added value by considering stakeholders based on the prevailing laws and legal norms (Khafid *et al.*, 2018)	The number of board of commissioners meetings in one period (Idah, 2013)

Source: Various references processed, 2019

Table 3. Results of Descriptive Statistical Analysis

	N	Min	Max	Mean	Std. Deviation
SR	51	0.033	0.956	0.329	0.215
ROE	51	-0.079	0.330	0.118	0.069
DAR	51	0.133	0.920	0.542	0.242
SIZE	51	30.353	34.658	32.138	1.440
DK	51	4.0	51.0	17.137	13.477
Valid N (listwise)	51				

Source: *Output* SPSS, 2019

The Effect of Leverage on Sustainability Report Disclosures

Leverage does not have effect on the sustainability report disclosure. This phenomenon means that company leverage is not a measure for company decisions in disclosing the sustainability report. Social and environmental responsibility programs are still implemented due to company compliance with Law No. 40 of 2007 on Limited Liability Companies which regulates social and environmental responsibility. Companies with great concern and responsibility make them continue to reveal its responsibilities through sustainability reports even though with high leverage conditions. This can be observed in PT Bank Tabungan Negara (Persero) Tbk with the highest leverage at 0.9193 but has a disclosure level of 61.54% where the value is above average.

On the basis of legitimacy theory, companies with high leverage disclose sustainability reports to gain public recognition. This recognition is important for companies to ease them in obtaining sources of funds other than creditors. In addition, extensive information disclosure is used to eliminate creditors' doubts regarding the fulfillment of the company's obligations. The results support the research conducted by Shamil et al. (2014), Nazari et al. (2015), and Khafid & Mulyaningsih (2015).

The Effect of Firm Size on Sustainability Report Disclosures

Firm size has a negative relationship with sustainability report disclosure. Legitimacy theory views that disclosure is made by large companies as an effort to keep and maintain public recognition of the company's existence. This result cannot be said to contradict legitimacy theory. This is based on the idea that the sample companies are engaged in various sectors. The research data shows that the largest company, namely PT Bank Rakyat Indonesia (Persero) Tbk with a value of 34.657 has a low disclosure, which is 9%. On the other hand, PT AKR Corporindo Tbk as the smallest company with a value of 30.3535 has a high disclosure level of 58.24%.

The activities of banking companies do not intersect and do not have the risk of polluting the environment, making the companies have low sustainability report disclosures. The efforts of banking companies to gain legitimacy are not through environmental responsibility programs but by providing services that give customer satisfaction. The activities of mining companies are in direct contact with and have the risk of polluting the environment so that they have high sustainability report disclosure. The results support the research conducted by Isa (2014) and Marwanti & Yulianti (2015).

The Board of Commissioners Moderates the Effect of Profitability on Sustainability Report Disclosures

The moderating role of corporate governance on the relationship between profitability and sustainability report disclosure is proven. The result supports stakeholder theory in which the board of commissioners monitors the use of high profitability to fulfill all stakeholder interests. The board of commissioners considers the interests of all stakeholders in every strategy formulated at the meetings to avoid conflicts of interest. The more intense the board of commissioners meeting, the more potential the interests of all company stakeholders can be fulfilled, including sustainability report disclosure.

The board of commissioners considers that the fulfillment of information needs can be achieved with

Table 4. The Summary of Hypothesis Testing Results

	Hypothesis	Regression Coefficient	t-Count	Sig	Results
H_1	Profitability has a positive effect on sustainability report disclosure	-0.339	-0.899	0.373	Rejected
H_2	Leverage has a negative effect on sustainability report disclosure	0.164	1.001	0.323	Rejected
H_3	Firm size has a positive effect on sustainability report disclosure	-0.072	-2.585	0.013	Rejected
H_4	The board of commissioners moderates the effect of profitability on Sustainability Report disclosure	0.080	2.372	0.022	Accepted
H_5	The board of commissioners moderates the effect of leverage on Sustainability Report disclosure	-0.207	-2.924	0.005	Accepted
H_6	The board of commissioners moderates the effect of firm size on Sustainability Report disclosure	0.060	0.922	0.362	Rejected

Source: Secondary data processed, 2019

high profitability. Therefore, the board of commissioners is increasingly encouraging management to disclose more comprehensive information. This is in line with the opinion of Agustina & Rusmana (2016) who consider high company profitability make the company more confident in providing information to stakeholders regarding the company's ability to fulfill stakeholder expectations.

The Board of Commissioners Moderates the Effect of Leverage on Sustainability Report Disclosures

The moderating role of corporate governance on the relationship between leverage and sustainability report disclosure is proven. On the basis of stakeholder theory, the board of commissioners ensures that all stakeholder interests are fulfilled. The board of commissioners in companies with high leverage, through its meetings, will discuss strategies that pay attention to the fulfillment of creditors' interests without reducing the fulfillment of the interests of other stakeholders.

Extensive information disclosure is one of the proofs of company transparency to stakeholders. The main element in company management is transparency through reporting that ensures stakeholders know what is happening to the company (Amran & Ooi, 2014). Sustainability report disclosures carried out by the companies are considered as a dimension of corporate governance which is manifested in the responsibility to employees and society through the design and performance of corporate governance (Garas & ElMassah, 2018).

The Board of Commissioners Moderates the Effect of Firm Size on Sustainability Report Disclosures

The moderating role of corporate governance on the relationship between firm size and sustainability report disclosure is not proven. This result is not in line with stakeholder theory where the board of commissioners in large companies is unable to reach all business lines so that the supervision is ineffective. The business activities of large companies are usually more complex and involving more stakeholders even on an international scale. This makes companies have to meet the increasingly diverse needs of stakeholders. The companies deliberately avoid strategies that can attract the attention of stakeholders through the passive strategy used by the companies (Ghozali & Chariri, 2014). This condition causes the board of commissioners as supervisors cannot moderate the relationship between firm size and sustainability report disclosure.

The results of descriptive statistics show that 70.5% of sample companies hold the board of commissioners' meetings below the average. The Financial Services Authority (FSA) recommends that the board of commissioners hold meetings separately from the board of directors at least 6 times a year. However, 23.5% of sample companies hold the board of commissioners' meetings at the minimum limit, namely 6 times and some even less than 6 times. This may reflect that the board of commissioners has not been effective in carrying out its duties. This condition is assumed to be the cause of the board of commissioners not being able to moderate the relationship between firm size and sustainability report disclosure.

CONCLUSIONS

The results of hypothesis testing show that firm size has a negative relationship with sustainability report disclosure. The level of company profitability and leverage is not a measure for companies to disclose the sustainability report. However, high profitability and leverage coupled with the effectiveness of the supervision of the board of commissioners through the number of board meetings can increase disclosure.

The findings of this study are that the level of sustainability report disclosure in Indonesia is still low with an average disclosure of only 32%. Firm size has a negative effect because the LQ45 companies consist of various sectors. Financial companies disclose less than mining companies where their activities intersect with the environment. The companies are expected to pay attention to the corporate governance mechanism, the interests of all stakeholders are met, particularly the sustainability report disclosure. Regulators are expected to formulate disclosure guidelines in accordance with the conditions of companies in Indonesia.

Suggestions for further research are to consider POJK reference index in the disclosure of sustainability reports for financial companies. The POJK reference index refers to POJK 51/POJK.03 /2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. The POJK reference index is arranged by the Financial Services Authority so that this is more in line with the conditions of companies in Indonesia, especially financial companies. This index is used by sample companies as disclosure guidelines starting in 2017. This research is conducted using the sustainability report disclosure data for 2015-2017 so that the POJK reference index has not been used as a guideline for sustainability report disclosure.

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