Good Corporate Governance's Impact on Sustainability Reporting Disclosure

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Abstract: The goal of this study is to see how good corporate governance affects the disclosure of sustainability reports in mining companies listed on the Indonesia Stock Exchange between 2017 and 2020, with profitability as a moderating factor. The population of this study includes all mining companies operating between 2017 and 2020. Samples were collected using a purposive sampling strategy with specific criteria during the research period. Based on the criteria defined using panel data, the maximum amount of data that can be processed is 40 data points. The analysis, which is done with Eviews 12, uses panel data regression and moderated regression analysis. According to the study's findings, (1) the board of directors has a positive and significant impact on the disclosure of the sustainability report. (2) The Audit Committee has a positive and significant impact on the disclosure of the sustainability report.

Keywords: Good Corporate Governance, Board of Directors, Audit Committee, Sustainability Report Disclosure

***Abstrak**: Penelitian ini bertujuan untuk mengetahui pengaruh good corporate governance terhadap pengungkapan sustainability report pada perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia Tahun 2017-2020. Populasi dalam penelitian ini meliputi semua perusahaan sektor pertambangan selama periode 2017-2020. Sampel diambil dengan menggunakan metode purposive sampling dengan kriteria tertentu, selama periode penelitian. Berdasarkan kriteria yang telah ditetapkan data menggunakan data panel maka diperoleh jumlah data yang dapat diolah sebanyak 40 data. Metode analisis yang digunakan adalah regresi data panel dan moderated regession analysis yang diolah menggunakan Eviews 12. Hasil penelitian ini menunjukan bahwa: (1) Dewan direksi berpengaruh positif dan signifikan terhadap pengungkapan sustainability report. (2) Komite Audit berpengaruh positif dan signifikan terhadap pengungkapan sustainability report.*

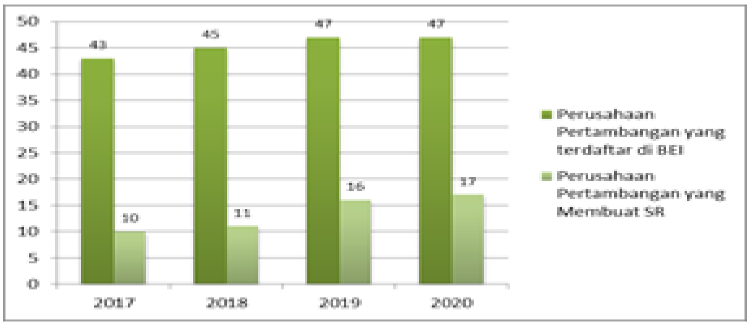
***Kata kunci:** Good Corporate Governance, Dewan Direksi, Komite Audit, Pengungkapan Sustainability Report*

1. Introduction

Companies must give transparent and accountable information, even if it is voluntary and not obligatory. Companies must give accurate, precise, clear, and easily available information to stakeholders in order to protect their rights. Stakeholders, particularly investors, want a great deal of information on the company's societal and environmental involvement or contribution. As a result, many corporations increasingly make social, environmental, and governance information available on their corporate websites on a voluntary basis (Mujiani dan Jayanti. 2021).

The corporation has become the major focus of its participation in social and environmental concerns since the establishment of the topic of corporate social responsibility and sustainability. The mining sector has received a lot of attention because its operational activities are in the sphere of natural resource exploitation, and the operation process consumes a lot of non-renewable natural goods. For the year 2017-2020, here is a graph of mining firms who publish sustainability reports:

Picture 1. Progress on the Sustainability Report Disclosure



Source: Stock exchange of Indonesia, 2021.

According to the data above, the number of sustainability reports filed by mining companies listed on the IDX increased from 2017 to 2020. However, when the number of companies listed on the IDX is compared to the number of companies that publish sustainability reports, the findings are drastically different. Only 17 of the 47 mining companies listed on the IDX created and published sustainability reports in 2020. This demonstrates that the company still lacks awareness and participation in fulfilling its obligations to prepare and publish a sustainability report as a form of accountability for the company's operations' impacts.

The Freeport mine, Buyat Bay, the Sidoarjo Mud, and more recent cases such as environmental damage caused by gold mining activities in Banyuwangi carried out by PT. Bumi Suksesindo, which has resulted in the destruction of Mount Tumpang Pitu due to mining excavations, and contamination of river flows, which has resulted in community conflicts (Jatam Publisher, 2020).

The company's lack of environmental concern and information about corporate social responsibility to the surrounding community is demonstrated by the phenomena of environmental harm. As a result of this environmental impact, numerous interest groups in society have demanded that businesses fulfill their social and environmental duties for the consequences of their operations. Transparent information about the company's actions is critical so that stakeholders can learn about the company's operations and the environmental implications it has. A sustainability report can be used to report this information by the company (Madona dan Khafid, 2020).

Good corporate governance is regarded to have the potential to reveal environmental social responsibility as an endeavor to meet the demands of stakeholders in order to develop a constructive relationship between the firm and its stakeholders. The board of directors and the audit committee represent good corporate governance. The board of directors, as a corporate organ, is tasked with and responsible for the company's management. The number of board meetings reveals how frequently the boards communicate and collaborate. That example, the more board of directors meetings there are, the more frequent contact there is, which can help establish effective corporate governance and raise the level of information disclosure (Purbandari dan Suryani, 2018).

This is consistent with studies conducted by Dewi and Ramantha (2021), Krisyadi and Elleen (2020), and (Latifah dkk, 2019), which found that the board of directors had an impact on the sustainability report disclosure. Purbandari and Suryani (2018) found that the board of directors had no impact on the sustainability report's disclosure. This is due to the focus of the work of directors on the company's financial performance.

The audit committee is one of several committees under the board of commissioners that have the tasks and powers of principal assistant commissioners under Indonesia's good corporate governance system. The audit committee is a useful tool for conducting oversight mechanisms. The presence of an audit committee in the company is expected to aid the board of commissioners' performance in disclosing sustainability reports and resolving conflicts of interest that may arise between management and company owners. As a result, the larger the audit committee, the better equipped it is to encourage management to expand the publication of sustainability reports (Dewi dan Ramantha,2021).

This is consistent with the findings of Mujiani and Jayanti (2021), who discovered that the audit committee had an impact on the sustainability report's disclosure. However, according to research Sulistyawati and Qadriatin (2018), the audit committee had no bearing on the sustainability report's disclosure. This is due to the fact that the number of audit committee members owned by the company is only a formality to comply with government regulations, without regard for the company's effectiveness or complexity. The audit committee's size, which remains small, has had no impact on the extent of the sustainability report's disclosure.

The mining industry is the focus of this investigation. The mining industry is a business that deals with the extraction of natural resources. Given the broad scope of mining, which includes general investigation, exploration, mining, processing and refining, transportation and sales, and post-mining activities, it is necessary to pay attention to and control the dangers of environmental pollution and changes in the ecosystem's balance in order to preserve the environment.

Literature Review and Hypotheses

The Board of Director's Role in Sustainability Report Disclosure

According to the stakeholder theory, the stronger the corporate relationship, the better the corporate business (Untung, 2014). Implementing good corporate governance principles and disclosing information more broadly to communicate with stakeholders is one of the company's strategies for maintaining relationships with stakeholders, with the information being summarized in a sustainability report.

Elkington (1997) formulates three basic pillars of business in Lako (2018), which essentially emphasizes that business corporations have three basic pillars, namely the earth or the environment (planet), community stakeholders (people), and profit. These three fundamental pillars are also known as the 3P. Good corporate integration and management of the three basic business pillars will support the long-term success of business sustainability and corporate profit growth.

As the company's manager, the Board of Directors is in charge and fully responsible for the company's operations. The company's corporate governance will be improved if the board performs well. Good corporate governance relies heavily on the functions of the board of directors, who are trusted as the party in charge of the company. The higher the frequency of board of director meetings, the more frequent communication and coordination between members, making good corporate governance easier to achieve and increasing the level of information disclosure. Dewi and Ramantha

(2021), Krisyadi and Elleen (2020), and Latifah, et al (2019) all found that the board of directors had a positive impact on the disclosure of sustainability reports. The hypothesis can be summarized as follows based on the above explanation:

H1: The Board of Directors has a positive impact on the Sustainability Report's disclosure.

The Audit Committee's Role in Sustainability Report Disclosure

According to Effendi (2016:212), a sustainability report is a report produced by a company to measure, disclose, and publicize the company's efforts to become an accountable company for all stakeholders for the purpose of company performance toward sustainable development.

The audit committee was formed to assist the board of commissioners in its function. The Financial Services Authority has stipulated Regulation no. 55/POJK.04/2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee states that the audit committee consists of at least 3 (three) members who come from independent commissioners and parties from outside the issuer or public company, and the audit committee is chaired by an independent commissioner.

The audit committee must ensure that the company has implemented and complied with all applicable laws and regulations, as well as that the company conducts its business activities ethically and morally (Latifah et al, 2019). In-depth oversight by the audit committee is expected to encourage companies to implement good corporate governance principles, such as being open about all business activities and reporting on them. So that stakeholders' information needs can be met with greater oversight from the audit committee (Madona and Khafid, 2020).

The company will disclose information about its environment more broadly if it has an audit committee, and the larger the audit committee, the more supervision and control the company will have over disclosing information to meet the needs of stakeholders. According to Dewi and Ramantha (2021); Mujiani and Jayanti (2021), the audit committee had a positive impact on the disclosure of sustainability reports. The hypothesis can be summarized as follows, based on the above explanation:

H2: The Audit Committee has a positive impact on the Sustainability Report's

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disclosure.

2. Research Methods

This research makes use of quantitative data, or data that is measured on a numerical scale. Secondary data is the type of information used. Secondary data is information obtained from other sources. Secondary data is sourced from the Indonesia Stock Exchange (IDX) website and directly from the company's website in the form of annual reports and sustainability reports for the years 2017-2020.

The technique used for data analysis in this study uses Regression Analysis and is processed using the Eviews 12 program to analyze the relationship between the independent variable and the dependent variable. In this study, panel data was used to combine cross-section data from ten companies with time series data. Data ranges from 2017 to 2020 Panel data regression is a method for combining time series and cross sections of data. The following operational variables were used in this study:

This Sustainability Report Disclosure variable is calculated using GRI indicators that are listed in the sustainability report disclosure index (SRDI). Giving a score of 1 if the item is revealed and a score of 0 if the item is not revealed, then dividing by 91 (Purbandari and Suryani, 2018). The formula for calculating the sustainability report is as follows:

$$\boxed{\mathbf{SRDI} = \frac{\mathbf{n}}{\mathbf{k}}}$$

Information:
SRDI : Sustainability Report Disclosure Index
n : The company's total number of items disclosed
k : Standard number of items

To measure the implementation of activities carried out by the board of directors to support corporate governance, the number of meetings between members of the board of directors will be calculated over a one-year period (Oktaviani dan Amanah, 2019).

The Board of Directors = Σ Annual Meeting of the Board of Directors

The audit committee must have at least 3 (three) members from independent commissioners and parties outside the issuer or public company, according to Financial Services Authority Regulation No. 55/POJK.04/2015, and the audit committee must be chaired by an independent commissioner. The audit committee's measurement is as follows Mujiani and Jayanti (2021):

$$\textbf{The Audit Committee :} \quad \frac{\boldsymbol{\Sigma}\ \textbf{internal audit committee}}{\boldsymbol{\Sigma}\ \textbf{a minimum of the audit committee}}$$

3. Results and Discussion

Test of Descriptive Statistics

Table 1. Results of the descriptive statistics test

	SR	DD	KA
Mean	0.434890	31.27500	1.183333
Median	0.467033	25.50000	1.166667
Maximum	0.626374	139.0000	1.666667
Minimum	0.164835	4.000000	1.000000
Std.Dev.	0.114225	24.73966	0.199000
Skewness	-0.433382	2.224045	0.538203
Kurtosis	2.603162	10.08067	2.362041
Jarque-Bera	1.514598	116.5357	2.609404
Probability	0.468931	0.000000	0.271253
Sum	17.39560	1251.000	47.33333
Sum Sq. Dev.	0.508849	23869.98	1.544444
Observations	40	40	40

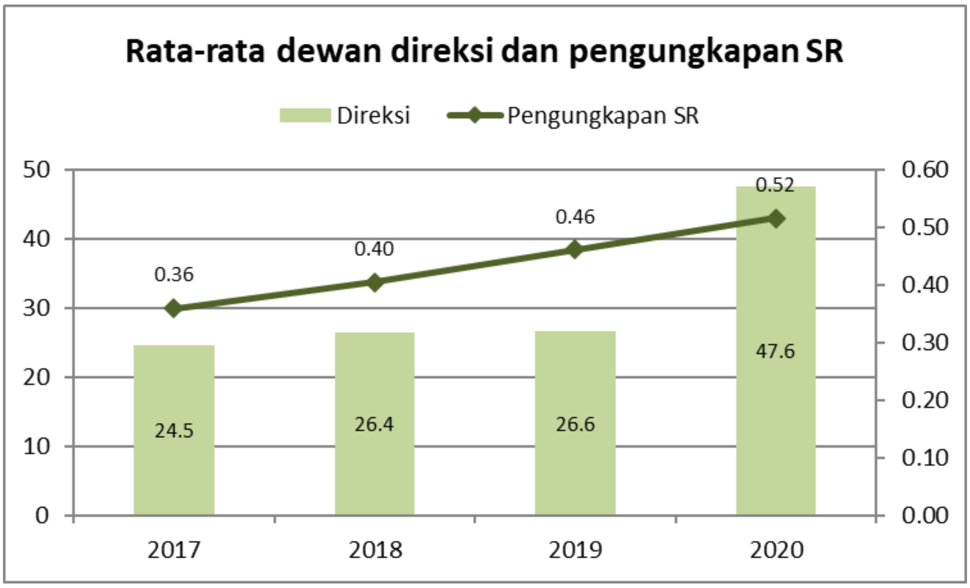
Source: Data diolah dengan eviews12, 2021

The dependent variable on sustainability report disclosure has the highest value of 0.626374 and the lowest value of 0.164835, according to the results of the descriptive statistical analysis above. The median is 0.467033, and the mean is 0.434890. 0.114225 is the standard deviation. The board of directors' independent variable has the highest value of 139,000 and the lowest value of 4,000000. The median is 25.50000, and the mean is 31.27500. 24,73966 is the standard deviation. The audit committee's independent variable has the highest value of 1.666667 and the lowest value of 1.0000000. The median is 1.166667, and the mean is 1.183333. 0.199000 is the standard deviation.

The Impact of The Board of Directors on Sustainability Report Disclosure

Based on the results of statistical tests, it can be seen that the regression coefficient value is 0.001221 and the probability value is 0.0305, both of which are less than the value of α (0.05). This indicates that the board of Directors variable has a positive and significant impact on the sustainability report disclosure. This means that the more frequently the board of directors meets, the more the sustainability report will be disclosed.

Picture 2. The average number of board of Directors meetings and disclosure of Sustainability Report



Source : Processed data, 2021

The graph above shows the average of the board of directors' variables and the sustainability report disclosure from 2017 to 2020. It can be seen that the average board of directors meeting has increased year after year, which corresponds to the increased disclosure of sustainability reports. This demonstrates that, on average, the board of directors can compensate for increased sustainability report disclosure.

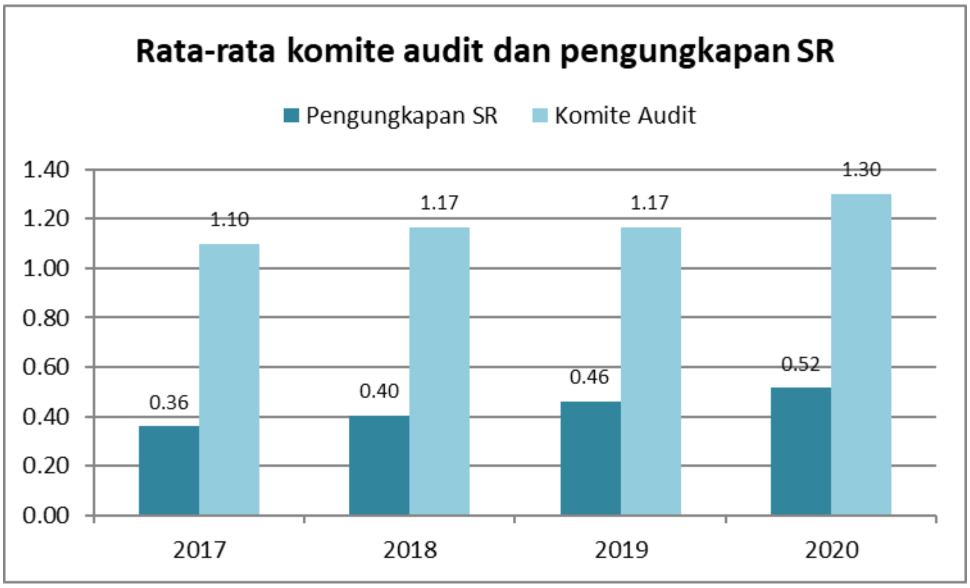
One of the board of directors' roles is to guarantee that the company complies with laws and regulations and fulfills responsibilities to the community and the environment so that long-term commercial continuity may be maintained, which is recognized as effective corporate governance. Where the board of directors requires meetings that can advance the targets that have been set.

The high frequency of meetings among board members indicates more regular contact and cooperation among members, making it simpler to achieve strong corporate governance. The use of corporate governance principles, particularly the responsibility principle, might motivate directors to release a broader sustainability report as a form of company duty towards social and environmental issues.

The Impact of the Audit Committee on Sustainability Report Disclosure

Based on the results of statistical tests, the regression coefficient value is 0.262687, and the probability value is 0.0076, both of which are less than the value of (0.05). This indicates that the audit committee variable has a positive and significant impact on the sustainability report disclosure. This indicates that the greater the number of audit committees held by the corporation, the more the sustainability report will be disclosed.

Picture 3. The average number of committees and disclosure of Sustainability Report



Source : Processed data, 2021

In the graph above, the average number of audit committees and sustainability report disclosures are shown for the years 2017 through 2020. Although the average number of audit committees owned by the companies in this research object did not grow in 2019, the average audit committees climbed significantly in 2018 and 2020. This corresponds to the increased disclosure of the sustainability report each year. This illustrates the fact that, on average, the audit committee is able to counteract the increased sustainability report disclosure.

Financial reporting, corporate governance, and corporate oversight are all tasks of the audit committee. The audit committee's role in corporate governance is to ensure that the firm has implemented and complied with all applicable rules and regulations, as well as that the corporation conducts its commercial activities ethically and morally. The audit committee's close scrutiny is meant to encourage corporations to follow sound corporate governance practices.

The principle of transparency is one of the principles of excellent corporate governance. Where the business must be open for all business activities, including social and environmental activities, which must be recorded. The better the oversight, the greater the number of audit committees held by the company. The audit committee's detailed oversight will improve the effectiveness of the oversight, encouraging corporations to disclose more social and environmental information.

4. Conclusion

The findings of the board of Directors research have a positif and significant impact on sustainability report disclosure. This demonstrates that one of the board of directors' responsibilities is to ensure that the company complies with all applicable laws and regulations, as well as its societal and environmental responsibilities, in order to maintain long-term business continuity and be recognized as good corporate governance. Where the board of directors requires meetings in order to stimulate the achievement of defined goals, the more the frequency of board meetings, the greater the increase in sustainability report disclosure.

The audit committee's findings have a positif and significant impact on the sustainability report's disclosure. As a result, the audit committee is responsible for financial reporting, corporate governance, and corporate oversight. In terms of corporate governance, the audit committee must ensure that the company has implemented and complied with all applicable rules and regulations, as well as that its commercial activities are conducted ethically and morally. The increased number of audit committees above the standard is expected to encourage corporations to apply the principles of good corporate governance, therefore the higher the sustainability report disclosure will be.

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