Advances in Social Science, Education and Humanities Research, volume 343

1st International Conference on Administration Science (ICAS 2019)

The Influence of Financial Performance, Corporate Governance, and Stock Prices to the Sustainability Reporting

(Study of companies that listed on Indonesia Stock Exchange in 2014 – 2017)

Muhammad Zaki Hasanuddin*, Elly Suryani
Department of Accounting
Faculty of Economics and Business
Telkom University
Bandung, Indonesia
*zakihasanudin@student.telkomuniversity.ac.id, ellysuryanizainal@telkomuniversity.ac.id

***Abstract*—A sustainability reporting is a report that is announced to the public that contains the economic, social, and environmental performance, of a financial service institutions and public companies in running a sustainable business. This study aims to determine the effect of financial performance, audit committee, board of directors, and stock prices to the sustainability reporting. The population in this study were companies that listed on Indonesia Stock Exchange in 2014 – 2017. The sample selection method used purposive sampling with 24 companies, so there were 96 observations in this study. This study used panel data regression analysis method with Eviews 9.0 application. Based on the results of this study, we found that financial performance, audit committee, board of directors, and stock prices have a simultaneous effect to the sustainability reporting. Partially, stock prices effect the sustainability reporting positively. While the financial performance, audit committee, and board of directors does not affect the sustainability reporting.**

Keywords—sustainability reporting; financial performance; audit committee; board of directors; stock prices

I. Introduction

In 2017, the Financial Service Authority of Republic of Indonesia has issued the Financial Service Authority Regulation Number 51/POJK.03/2017 about Financial Sustainability Implementation for Financial Service Institutions and Public Companies [1]. The main point of the regulation is obliging financial service institutions and public companies to implement sustainable finance in their business activities, as stated in the article one. According to the regulation, a sustainability reporting is a report that is announced to the public that contains the economic, social, and environmental performance, of a financial service institutions and public companies in running a sustainable business. The purpose of the regulation is to realizing sustainable development which able to maintain the economic stability and the inclusiveness, needed a national economic system that prioritize the harmony between the economic, social, and environmental aspects.

There have been several events related to the sustainability issues of companies that have occurred in the past few years. In 2018, the people of Lingga Village, Lawang Kidul District, Muara Enim were unable to utilize the water of Kiahan River for daily activities because it was polluted due to the exploration of mining activities by PT Bukit Asam Tbk (PTBA) [2]. In 2017, a number of environmental activists in the city of Balikpapan planned to report PT Semen Indonesia (Persero) Tbk (SMGR) to the police because it has caused environmental damage in the Balikpapan Bay area [3]. From these examples of cases, it can be concluded that the company's operational activities can damage the environment and have a negative impact to the society.

Nowadays the companies strive to be more active in carrying out social efforts, society development, and environmental preservation. Therefore, companies establish an orientation towards sustainable development. According to the Sustainability Reporting Guidelines in 2011, the goal of sustainable development is to meet current needs, without damaging the availability of resources in the future [4].

II. Theory and Variable Operationalization

A. Stakeholder Theory

According to Ghozali and Chariri, stakeholder theory is a theory that states a company is an entity that not only operates for its own sake, but must provide benefits to all its stakeholders (shareholders, creditors, consumers, suppliers, government, society, analyst, and other parties) [5]. Stakeholders is what later became a consideration to the management of the company to disclose information that is considered as important and relevant to be disclosed in company reports.

B. Sustainability Reporting

According to Financial Service Authority Regulation Number 51/POJK.03/2017 about Financial Sustainability

Implementation for Financial Service Institutions and Public Companies, a sustainability reporting is a report that is announced to the public that contains the economic, social, and environmental performance, of a financial service institutions and public companies in running a sustainable business [1].

The disclosure of sustainability reporting can be measured by the sustainability report disclosure index (SRDI). It is done by giving a score in each item that being disclosed. Score 1 if disclosed, and score 0 if not disclosed. After scoring, this is the formula for the SRDI calculation:

$$\text{SRDI} = \text{Total disclosed items} / \text{Total items} \quad (1)$$

C. *Financial Performance*

The company's financial performance is the achievement of the company in a certain period that reflects the health level of the company [6]. In measuring financial performance, one of the most popular and widely used financial analysis tools is ratio analysis. According to Subramanyam and Wild, the ratio is a tool that provides a view of the underlying conditions [7]. Ratio analysis can reveal important relationships and become the basis of comparison in determining conditions and trends that are difficult to detect by studying each component that forms a ratio.

In this study, financial performance is measured by profitability ratio with return on assets as proxy. According to Keown et al., return on assets is the ratio that determine the amount of net income that generated from assets by dividing net income to total assets [8]. This is the formula for the return on assets calculation:

$$\text{Return on Asset} = \text{Net income after tax} / \text{Total assets} \quad (2)$$

D. *Audit Committee*

According to the Financial Service Authority Regulation Number 55/POJK.04/2015 about the Establishment and Working Guidelines of the Audit Committee, the audit committee is a committee that formed by and responsible to the board of commissioners in helping carry out the duties and function of the board of commissioners [9]. The audit committee consists of at least three members who are from independent commissioners and external side of public companies. In this study the size of audit committee is measured by the number of members in the audit committee. This is the formula for the measurement of audit committee size:

$$\text{Audit committee size} = \sum \text{Audit committee members} \quad (3)$$

E. *Board of Directors*

According to the Law of Republic of Indonesia Number 40 of 2007 about the Limited Liability Company, the board of directors means the organ of the company that has the authority and full responsibility to manage the company for the interest of the company, in accordance with the purposes and objectives of the company as well as to represent the company, either in or out the court in accordance with the provisions of the articles of association. In this study the size of board of directors is measured by the number of members in the board of directors. This is the formula for the measurement of board of directors:

$$\text{BoD size} = \sum \text{BoD member} \quad (4)$$

F. *Stock Prices*

According to the Indonesia Stock Exchange in 2019, stock prices are a number of values that denominated in Rupiah that are formed based on the finding point of selling offers and buying demand for securities conducted by members of the stock exchange on the capital market [10]. In this study, the stock prices will be measured by the end-year closing price.

$$\text{Stock prices} = \text{End-year closing price} \quad (5)$$

III. HYPOTESES DEVELOPMENT

A. *Financial Performance and Sustainability Reporting*

The company's financial performance is the achievement of the company in a certain period that reflects the health level of the company [6]. Companies that have good financial performance will have a higher tendency to publish and disclose information to show stakeholders that the company has good performance.

The better the financial performance of the company, the higher allocation of funds for corporate social responsibility that will be released, subsequently reported in the sustainability report. A good financial performance will provide certainty and assurance to investors that the company can run a business on an ongoing basis.

Prior studies by Lucia and Panggabean; Fitri and Yuliandari; Khafid and Mulyaningsih found that profitability has a positive effect to the sustainability reporting [11-13].

H1. Financial performance has a positive effect to the sustainability reporting on companies that listed on the Indonesia Stock Exchange in 2014 - 2017.

B. *Audit Committee and Sustainability Reporting*

According to the Financial Service Authority Regulation Number 55/POJK.04/2015 about the Establishment and Working Guidelines of the Audit Committee, the audit committee is a committee that formed by and responsible to the board of commissioners in helping carry out the duties and function of the board of commissioners. Some of the duties of the audit committee are reviewing financial information that will be issued by the public companies to the public and/or the authorities including financial reports, projections, and other reports that related to the financial information of the public companies [9]. The audit committee is also having to participate in reviewing the compliance with laws and regulations relating to the activities of the public companies.

Through the presence of the audit committee in the company, it can provide a significant role and create a better corporate governance in disclosing information in the sustainability report. The presence of the audit committee can provide encouragement to the management to conduct business in accordance with the applicable legal provisions to achieve a sustainable business.

Prior studies by Lucia and Panggabean; Afsari et al.; Aniktia and Khafid found that audit committee has a positive effect to the sustainability reporting [8,14,15].

H2. Audit committee has a positive effect to the sustainability reporting on companies that listed on the Indonesia Stock Exchange in 2014 - 2017.

C. *Board of Directors and Sustainability Reporting*

According to the Law of Republic of Indonesia Number 40 of 2007 about the Limited Liability Company, the board of directors means the organ of the company that has the authority and full responsibility to manage the company for the interest of the company, in accordance with the purposes and objectives of the company as well as to represent the company, either in or out the court in accordance with the provisions of the articles of association.

The board of directors has a very important role in a company, because the directors are the authorized parties to give direction to the company. Directors have a big influence in determining the company's business activities. The Directors can encourage companies to actively carry out sustainable business. Management will make every effort to disclose information that is relevant to the company that can impact the company's values and image for stakeholders.

Prior studies by Wulanda et al.; Sinaga and Fachrurrozie found that board of directors has a positive effect to the sustainability reporting [16,17].

H3. Board of directors has a positive effect to the sustainability reporting on companies that listed on the Indonesia Stock Exchange in 2014 - 2017.

D. *Stock Prices and Sustainability Reporting*

According to the Indonesia Stock Exchange in 2019, stock prices are a number of values that denominated in Rupiah that are formed based on the finding of selling offers and buying demand for securities conducted by members of the stock exchange on the market [10]. The higher the stock price reflects that the stock performance of the public company is getting better so that shareholders and investors increasingly need adequate and relevant information or disclosures regarding the company's business processes for the purpose of making investment decisions.

Stock prices are form of external pressure which is a manifestation of the response of investors in the capital market to the company's business activities and the impact of the activities. In this context, sustainability reports are a way for the management of the company to be able to disclose to the shareholders and investors about the company's efforts in running a sustainable business.

Prior studies are still limited. Guidry and Patten found that the market reactions relate positively with companies that have a high-quality report [18].

H4. Stock prices has a positive effect to the sustainability reporting on companies that listed on the Indonesia Stock Exchange in 2014 - 2017.

IV. RESEARCH METHODS AND RESULTS

A. *Sample Selection Criteria*

In this study the sample used was chosen using the purposive sampling method. The sample criteria in this study are as follows:

- Companies that listed on the Indonesia Stock Exchange consistently in 2014 – 2017;
- Companies that publish audited financial statements and sustainability reports consistently in 2014 – 2017.

The sample used in this study were 30 companies with six companies that became outliers. So the number of samples observed in this study were 24 companies after being reduced by outliers with a total of 96 samples in four years of observation.

B. *Descriptive Statistics*

This study used audited financial statement data and sustainability reports that obtained from Indonesia Stock Exchange website (www.idx.co.id) as well as corporate websites. Descriptive statistics analysis includes the mean, maximum, minimum, and standard deviation. The results of descriptive statistics in this study are as follows:

TABLE I. THE RESULTS OF DESCRIPTIVE STATISTICS

	Variables				
	SR	***RoA***	***Audit Comm.***	***BoD***	***Stock***
Mean	0.2846	0.0407	3.7917	7.3646	5,510.57
Max	0.7033	0.1860	6.0000	11.0000	25,000.00
Min	0.0440	-0.1200	2.0000	3.0000	110.00
S.Dev.	0.1534	0.0505	1.0555	2.1527	6,096.57
n	96	96	96	96	96

In Table 1 it can be seen that the sustainability reporting (SR), the audit committee, and the board of directors (BoD) have a mean value that is higher than the standard deviation, it means that the data is not varied and tends to be grouped (homogeneous). Whereas in the financial performance (RoA) and stock prices, the mean is lower than the standard deviation, meaning that the data are varied and tend to be heterogeneous.

C. *Data Panel Regression Analysis*

The data analysis technique used in this study is the panel data regression analysis to calculate the effect of the independent variables on the dependent variable. This research will process data with different times from various companies called cross sections with research objects of companies listed on the Indonesia Stock Exchange with a total of 24 companies. The time series data used in this study is 2014 - 2017. Based on this, the panel data regression equation models in this study are as follows:

$$SR = \alpha + \beta_1 RoA + \beta_2 AuditComm + \beta_3 BoD + \beta_4 Stock + \varepsilon$$

Notes:

SR : Sustainability reporting

α : Constants

β_1, β_2, β_3, β_4	:	Regression variable coefficients
RoA	:	Financial performance
AuditComm	:	Audit committee
BoD	:	Board of directors
Stock	:	Stock prices
ε	:	Error

After testing three panel data regression models (Chow test, Hausman test, and Lagrange-Multiplier test), the random effect model is the best to be used in this study. The following are the results of the random effect model testing:

TABLE II. THE RESULTS OF DATA PANEL REGRESSION TESTING

Variables	Coefficient	t-Stat	Prob.
RoA	0.5558	1.3396	0.1837
AuditComm.	-0.0120	-0.6932	0.4899
BoD	-0.0044	-0.4647	0.6432
Stock	8.66E-06	2.1455	0.0346
Adj. R^2	**0.1216**		
***F*-stat.**	**4.2888**		
Prob. > F	**0.0031**		
n	**96**		

Based on the results of panel data regression analysis using the random effect model test in Table 2, the following is the explanation of the results:

- The test results simultaneously have a probability value of 0.0031 which is lower than the significance level of $\alpha = 0.05$ which means that the variables of financial performance, audit committee, board of directors, and stock prices simultaneously influence the sustainability reporting on companies that listed on the Indonesia Stock Exchange in 2014 – 2017;

- The financial performance variable (X_1) as proxied by return on assets has a probability value of 0.1837 which is higher that the significance level of $\alpha = 0.05$, which means that the financial performance does not influence the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. This result is contrary to the hypotheses, so H_1 is rejected. This is caused by the issuance of sustainability reports can increase costs which will have an impact on the company's financial performance which is able to reduce the profitability of the company. According to Aryani and Hartomo, the better the profitability value of a company will not make the company have a better policy to be able to disclose more information on the sustainability reports, because the company will feel that there is no need to report things that are considered to have an impact to the financial statements [19];

- The audit committee variable (X_2) as proxied by the size of audit committee has probability value of 0.4899 which is higher that the significance level of $\alpha = 0.05$ which means that the audit committee does not influence the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. This result is contrary to the hypotheses, so H_2 is rejected. This is caused by the fact that audit committees are more focused on their main duties which are reviewing financial information and the appointment of external auditor. In addition, audit committees which originate from the external side of the companies will be considered not have a primary focus on creating good governance and capable to do the supervisory tasks. The reason is that the audit committee members have other main and regular job on the other side. So that the role of audit committee can't significantly encourage management to disclose more in the sustainability reports. According to Sommer, many of the audit committees only did routine tasks and do not question critically the responsibilities of the management [20]. This is caused by they don't have adequate competence and don't really understand their main role;

- The board of directors variable (X_3) as proxied by the size of the board of directors has a probability value of 0.6432 which is higher that the significance level of $\alpha = 0.05$, which means that the board of directors does not influence the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. This result is contrary to the hypotheses, so H_3 is rejected. This is caused by the board of directors have a primary focus on business activities and company operations so that it does not make disclosure of information in sustainability reporting a priority. In addition, the board of directors will also focus more on financial performance which have a direct effect than the sustainability performance which has a long-term effect. This is due to the tenure of the board of directors which not in a long time in general. So that short- and medium-term goals that will have a direct impact will be their main focus. According to Setiawan et al., the large size of the board of directors is not good for the company because the decision-making process becomes longer and ineffective [21]. In addition, there are more free riders on the board of directors. Therefore, the smaller size of the board of directors will have a better performance;

- The stock prices variables (X_4) as proxied by the end-year closing price has a probability value of 0.0346 which is lower that the significance level of $\alpha = 0.05$, which means that the stock prices positively influences the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. This result support the hypotheses, so that H_4 is accepted. This is caused by the stock prices are the results of the mechanism in capital market which is a manifestation of the investor's response who are increasingly concerned about the sustainability of the company so that the company is motivated to be able to disclose more in the sustainability reports. According to Guidry and Patten, investors consider the evidence of company's efforts to improve sustainability practices that are manifested in the quality of disclosures in the sustainability reports matters [18]. The capital market requires that the sustainability reports which issued by the companies must have adequate disclosure of social and environmental information, because the quality of sustainability reports is important for the investors in the capital market.

V. Conclusion

Based on the results of this study, it can be concluded that the financial performance, audit committee, board of directors, and stock prices simultaneously influence the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. The independent variables in this study have an effect of 12.16% and the remain 87.84% influenced by other variables which is not used in this study. Partially, the financial performance, audit committee, and board of directors have no effect on the sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017. While the stock prices have a positive effect on sustainability reporting on companies that listed on Indonesia Stock Exchange in 2014 – 2017.

The suggestions for future research are that researcher can test and examine other various variables that are considered to have an impact to the sustainability reporting, such as variables that related to the capital market. Because the shareholders and investors need adequate information of disclosure which is relevant to the company's business activities for investment decision-making purpose. The limitations in this study are that previous research is still limited, and the variety of variables studied is still low. On the other side, the level of publication and disclosure of sustainability reporting in Indonesia is still low.

Reference

[1] Otoritas Jasa Keuangan. Peraturan Otoritas Jasa Keuangan Nomor 51/POJK.03/2017 tentang Penerapan Keuangan Berkelanjutan bagi Lembaga Jasa Keuangan, Emiten, dan Perusahaan Publik, 2017.

[2] Redaksi, PTBA Diduga Cemari Air Sungai Kiahan di Desa Lingga. Kabarmuaraenim.Com. [Online], Retrieved from http://kabarmuaraenim.com/2018/02/27/ptba-diduga-cemari-air-sungai-kiahan-di-desa-lingga/, 2018.

[3] T. Rumengan, Aktivis Lingkungan: Pabrik PT Semen Indonesia Diduga Merusak Teluk Balikpapan. Kbr.Id. [Online], Retrieved from https://kbr.id/nusantara/03-2017/aktivis_lingkungan__pabrik_pt_semen_indonesia_diduga_merusak_teluk_balikpapan__/89401.html, 2017.

[4] Global Reporting Initiative. Sustainability Reporting Guidelines, 2011.

[5] A. Chariri, I. Ghozali, Teori Akuntansi. Semarang: Badan Penerbit Universitas Diponegoro, 2007..

[6] S. Sutrisno, Manajemen Keuangan: Teori, Konsep, dan Aplikasi. Yogyakarta: Ekonisia, 2009.

[7] K.R. Subramanyam, J.J. Wild, Analisis Laporan Keuangan. Jakarta: Salemba Empat, 2010.

[8] A.J. Keown, J.D. Martin, W. Petty, D.F.J. Scott, Manajemen Keuangan. Indeks, 2008.

[9] Otoritas Jasa Keuangan. Peraturan Otoritas Jasa Keuangan Nomor 55/POJK.04/2015 tentang Pembentukan dan Pedoman Pelaksanaan Kerja Komite Audit, 2015.

[10] Bursa Efek Indonesia. (n.d.). Retrieved March 4, 2019, from https://www.idx.co.id/

[11] L. Lucia, R. Ria, "The Effects of Firm's Characteristic and Corporate Governance to Sustainability Report Disclosure". Social Economics and Ecology International Journal, vol. 1(2), pp. 71–81, 2018.

[12] A.A. Fitri, W.S. Yuliandari, "Pengaruh Kinerja Keuangan Terhadap Pengungkapan Sustainability Report (Studi Kasus pada Perusahaan yang Terdaftar di Bursa Efek Indonesia Tahun 2014 - 2016)". E-Proceeding of Management, vol. 5(2), pp. 2218–2226, 2018.

[13] M. Khafid, M. Mulyaningsih, "Kontribusi Karakteristik Perusahaan Dan Corporate Governance Terhadap Publikasi Sustainability Report". EKUITAS (Jurnal Ekonomi Dan Keuangan), vol. 19(3), p. 340, 2015.

[14] R. Afsari, I.G.A. Purnamawati, M.A. Prayudi, Pengaruh Leverage, "Ukuran Perusahaan, Komite Audit dan Kepemilikan Institusional terhadap Luas Pengungkapan Sustainability Report (Studi Empiris Perusahaan yang Mengikuti ISRA Periode 2013-2015)". Jurnal Imiah Mahasiswa Akuntansi Undiksha, vol. 8(2), 2017.

[15] R. Aniktia, M. Khafid, "Pengaruh Mekanisme Good Corporate Governance dan Kinerja Keuangan terhadap Pengungkapan Sustainability Report". Accounting Analysis Journal, vol. 4(3), 2017.

[16] R.D.P. Wulanda, A. Hasan, E. Ilham, "Pengaruh Karakteristik Perusahaan dan Corporate Governance terhadap Publikasi Sustainability Report (Studi Empiris pada Perusahaan LQ45 yang Terdaftar di BEI Tahun 2011-2014)". Jurnal Online Mahasiswa Fakultas Ekonomi, vol. 4(1), 2017.

[17] K.J. Sinaga, F. Fachrurrozie, "The Effect of Profitability, Activity Analysis, Industrial Type and Good Corporate Governance Mechanism on The Disclosure of Sustainability Report", Accounting Analysis Journal, vol. 6(3), pp. 347–358, 2017.

[18] R.P. Guidry, D.M. Patten, "Market reactions to the first-time issuance of corporate sustainability reports: Evidence that quality matters". Sustainability Accounting, Management and Policy Journal, vol. 1(1), pp. 33–50, 2010.

[19] A.P. Ariyani, O.D. Hartomo, "Analysis of Key Factors Affecting The Reporting Disclosure Indexes of Sustainability Reporting in Indonesia". International Journal of Business, Economics and Laws, vol. 16(1), pp. 15–25, 2018.

[20] A.A. Sommer, "Auditing Audit Committees: An Educational Opportunity for Auditors". Accounting Horizons, vol. 5(2), pp. 91-93, 1991.

[21] D. Setiawan, R.T. Hapsari, A. Wibawa, "Dampak Karakteristik Dewan Direksi terhadap Pengungkapan Corporate Social Responsibility pada Perusahaan Pertambangan di Indonesia". MIX: Jurnal Ilmiah Manajemen, vol. 8(1), 2018.