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Impact of The Corporate Governance on Sustainability Report Disclosure with Environmental Performance as A Moderation Variable in Indonesia

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KEYWORDS
Board Size; Independent Commissioners Women board of director; Financial performance; Audit Committee Sustainability report disclosure; G20; SGD; Environmental Performance; PROPER Score

ABSTRACT
This study aims to analyze the effect of corporate governance on sustainability report disclosure, with environmental performance acting as a moderating variable. The analysis focuses on the role of the board of directors, independent commissioners, audit committees, and financial performance in influencing the quality of sustainability reporting, particularly within the Indonesian context. Environmental performance is measured using the PROPER scale. The study utilizes data from the annual and sustainability reports of 20 companies in the basic materials and energy mining sectors listed on the Indonesia Stock Exchange from 2018 to 2022, amounting to 100 observations. The data is processed using SPSS 23. The results show that the presence of female directors significantly enhances the quality of sustainability disclosures, as they tend to prioritize social responsibility. Moreover, financial performance, as measured by Return on Assets (ROA), positively affects sustainability reporting, with companies in better financial health being more transparent in their disclosures. Environmental performance, when combined with strong independent oversight, further improves reporting quality, reflecting the positive influence of independent commissioners and sound financial governance. The study concludes that environmental performance, as measured by the PROPER scale, plays a significant role in improving sustainability disclosures in Indonesia. It recommends that the Indonesian government provide stronger support and clearer regulations to help companies improve their sustainability practices and contribute to the G20 agenda.

Introduction

Global warming, pollution, and ecosystem extinction are sustainability issues facing the world. Some of the sectors most affected by these environmental and social problems are the raw material manufacturing sector and the energy sector (Subramaniam et al., 2023). It is one of the backgrounds to the development of the 2030 Sustainable Development Agenda, the 13th Goal on Climate Change Management, which is a global agenda adopted by all United Nations member states since 2015. This implementation is beneficial for environmental sustainability in the future (United Nations, Department of Economic and Social Affairs Sustainable Development) (Suharyono & Hs, 2023).

Indonesia is also very concerned about this global issue. One of the strategic goals and benefits of the G20 is to be a strategic forum to discuss global issues such as global warming, pollution, global health, and ecosystem extinction (Kemenkeu, 2022). In line with Indonesia's commitment as a G20 member, the Ministry of Habitat and Forestry has developed a program to raise environmental management awareness (Jati et al., 2023). The program was created to provide an assessment of environmental management compliance as well as the performance of an Environmentally Careful Company. This program is called PROPER (Bramanti et al., 2021).

In addition to the PROPER Assessment, the indication that a company cares about management and environmental performance aspects is to publish and explain the state of its company in a sustainability report or sustainability report (Bramanti et al., 2021). In today's era, sustainability reports are not only used as an indicator of the company's management and environmental performance. However, they can also be used to provide non-financial information and company strategy, as well as company operations that are very useful to investors (Cormier & Magnan, 2014; Haque et al., 2018).

Data related to economic, environmental, and social aspects are the main concerns of corporate stakeholders who are seeking transparency, and one of them is environmental management, waste, and environmental performance (Akisik & Gal, 2011; Baboukardos, 2018; Chouaibi et al., 2021; Murashima, 2020; Welbeck et al., 2017). Therefore, the Company must have a strategy in the management of waste generated based on sustainability financial reporting in accordance with Financial Services Authority Regulation No. 51/POJK.03/2017 on Sustainable Financial Applications for Financial Services Institutions, Emittents, and Public Companies. A sustainability report is a report announced to the public that displays the economic, financial, social, and environmental performance of an LJK, issuer, and public company in conducting sustainable business based on the Global Reporting Initiative (GRI) Standard (POJK, 51).

However, there is still a gap in the understanding of how corporate governance plays a role in sustainability disclosure, especially when influenced by environmental performance. For example, although some previous studies have examined the influence of corporate governance on sustainability report disclosure, such as studies by Ben-Amar et al. (2017) and Chouaibi et al. (2022), there are limited studies that specifically explore the moderating role of environmental performance in the Indonesian context.

This study focuses on the effect of corporate governance including board size, female board of directors, independent commissioners, financial performance, and audit committee on sustainability report disclosure, considering environmental performance as a moderating variable. Although various studies have explored the relationship between these factors, most studies were conducted in Western countries with different governance structures (Bae et al., 2018; Mahmood et al., 2018;

Masud et al., 2018). This research seeks to fill the literature gap by providing empirical evidence from the Indonesian context, which has unique governance and sustainability policy characteristics.

A number of previous studies have found that corporate governance, such as gender diversity in the board and audit committee structure, has a significant impact on the quality of sustainability disclosures (Ben-Amar et al., 2017; García-Sánchez et al., 2019). However, these studies have also found that specific context, such as environmental performance and local regulations, can moderate this relationship (Chapple & Humphrey, 2014; Chouaibi et al., 2021). Therefore, this study offers a novel contribution by exploring how environmental performance, as measured through PROPER score in Indonesia, moderates the effect of corporate governance on sustainability report disclosure.

The novelty of this study lies in exploring the moderating role of environmental performance in the context of Indonesian companies listed on the Indonesia Stock Exchange, which differs from previous studies that are more common in developed countries. By examining the role of this moderating variable, this study not only provides a new perspective on the influence of corporate governance on sustainability report disclosure but also highlights the importance of adapting more specific sustainability policies to the local context, such as in Indonesia.

As such, this study not only contributes to the existing literature on the influence of corporate governance and environmental performance on sustainability disclosure, but also offers guidance for policy makers and companies in Indonesia to improve transparency and compliance with global sustainability agendas such as the SDGs and G20.

Materials and Methods

The object of the research in this study is the size of the board of directors, the Board of Directors Women, Independent Commissioners, Financial Performance, and Audit Committee on Sustainability Report Disclosure with moderation variable, namely Environmental Performance. The subject of the study used is the Annual financial report, which is secondary data, namely the data of the annual financial report on the company of the primary material and energy sector in 2018 - 2022, which is listed on the Indonesian Stock Exchange (Figure 1).

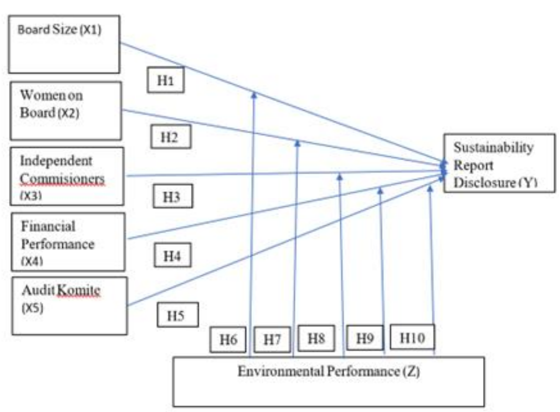

Figure 1. Research Framework

Based on the following model of research, the study formulates the following hypothesis:
H1: The size of the Board of Directors has a positive impact on Sustainability Report Disclosure
H2: Women's Board of Directors Positive Influence on Sustainability Report Disclosure
H3: Independent Commissioners have a positive influence on sustainability report disclosure.
H4: Financial Performance Positive Impact on Sustainability Report Disclosure
H5: Audit Committee has a positive impact on sustainability report disclosure.
H6: Environmental Performance Moderates Board Size to Sustainability Report Disclosure
H7: Environmental Performance Moderates Women's Board of Directors Against Sustainability Report Disclosure
H8: Environmental Performance Moderates Independent Commissioners Against Sustainability Report Disclosure
H9: Environmental Performance Moderates Financial Performance to Sustainability Report Disclosure
H10: Environmental Performance Moderates Audit Committee on Sustainability Report Disclosure

Table 1 Variable Operationalization

Variable	Description	Indicator	Scale	Reference
Sustainability Report Disclosure (Y)	Organizations that publicly report the impact of economic, environmental, and social activities (Global Reporting Initiative, 2016)	Based on scoring level by García – Sánchez et al (2019)	Nominal	García-Sánchez et al (2019)
Board size (X1)	A number of directions per year. (Ika et all, 2021)	Number of Board Size per year	Nominal	(Ika et all, 2021)
Women on Board (X2)	Number of women's boards per year.	Number of women sitting on the board of directors.	Nominal	Ben-Amar, W., Chang, M., & McIlkenny, P. (2017).
Independence Director (X3)	Number of Independent Councils per year.	Number of independent directors on the board	Nominal	Ben-Amar, W., Chang ., M., & McIlkenny, P. (2017).
Financial Performance (X4)	Liquidity Ratio	$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$	Ratio	Sonia and Khafid (2020)
Audit Committee (X5)	The GCG bodies responsible for assisting in the performance of the duties and functions of the manager of the Commissioner (OJK Regulation No.55/ PJOK.04/2015)	Number of the audit committee	Nominal	Khafid & Mulyaningsih, (2017)

Variable	Description	Indicator	Scale	Reference
Environmental Performance (EP)	Environmental performance measured using PROPER SCORE	Gold; 5 Green: 4 Blue: 3 Red: 2 Black: 1 (Literature review)	Nominal	Jati, K. W., Agustina, L., Ulupui, I. G. K. A., & Respati, D. K. (2023

The research obtained data from the BEI website and the official websites of the respective companies. The secondary data used are the sustainability report and the annual report. Based on purposive sampling, 20 companies were obtained with the following criteria: 1) Basic Material and Energy Sector Companies listed on the Indonesian Stock Exchange. 2) Basic Materials and Energy sector companies listed on the Indonesia Stock Exchange less than 2018. 3) Basic materials and energy sector companies that publish their annual reports and complete Sustainability Reports in a row – participated in the period 2018-2022.

In the end, 100 analytical data were obtained, which were then processed for hypothetical testing using SPSS 23.

Result and Discussion

Table 1 Descriptive statistical analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Board size (X1)	100	5	22	10,22	3,506
Women's Board of Directors (X2)	100	0	3	73	0,851
Independent Commissioner (X3)	100	1	4	1,93	0,769
Financial Performance (X4)	100	-33	56	5,30	10,064
Audit Committee (X5)	100	1	6	1,93	0,769
Sustainability Report Disclosure (Y)	100	25	100	73,75	26,442
Environmental Performance (Z)	100	1	5	2,03	1,403

Table 1 shows that the standard deviation for sustainability reporting, Board size, Board of Directors, Women, Independent Commissioners, Financial Performance, audit committees, and environmental performance is smaller than the average, so it can be concluded that the data spread is almost the same.

Table 2 Hypotheses testing

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	
1	(Constant)	47.827	11.261		4.247	.000	
	x1	1.331	.893	.176	1.491	result	Insignificant
	x2	7.167	2.931	.231	2.446	.016	Significant
	x3	4.934	4.137	.143	1.192	.236	Insignificant
	x4	.721	.245	.274	2.944	.004	Significant
	x5	-1.960	2.914	-.064	-.673	.503	Insignificant

Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	
1	(Constant)	46.191	18.412		2.509	.014	
	x1	-1.011	1.570	-.134	-.644	.521	Insignificant
	x2	4.972	5.846	.160	.851	.397	Insignificant
	x3	22.927	8.712	.667	2.632	.010	Significant
	x4	-.125	.498	-.048	-.251	.802	Insignificant
	x5	-5.657	4.727	-.184	-1.197	.235	Insignificant
	z	-1.220	9.106	-.065	-.134	.894	Insignificant
	m1	.846	.673	.562	1.256	.213	Insignificant
	m2	.661	2.356	.060	.281	.780	Insignificant
	m3	-7.406	3.055	-.974	-2.424	.017	Significant
	m4	.768	.382	.444	2.009	.048	Significant
	m5	2.053	2.227	.380	.922	.359	Insignificant

a. Dependent Variable: y

Discussion

Board size does not have a significant effect on Sustainability Report Disclosure.

The board size variable above shows a result of 0.139 > 0.05, which indicates that the hypothesis was rejected because the large board size had no significant influence on the disclosure of sustainability report disclosures. This is because the size of the board of directors is more significant and bigger, and the ideas are intended for the company's internal and complex decision-making. This is in line with a study by Zeeshan Mahmood et al (2018) that found that the large size of the board of directors does not have a significant impact on the disclosure of sustainability reports. However, it should consist of women directors and CSR committees (CSRCs). In that case, it is better able to monitor and control management decisions on sustainability issues (either economic, environmental, or social) and produce better sustainability disclosures.

Women's Board of Directors has a significant favourable influence on Sustainability Report Disclosure.

The variable of the Women's Board of Directors showed a result of 0.016 < 0.05. This suggests an accepted hypothesis because the women's board of directors had a significant favourable influence on sustainability report disclosure due to the cautious thinking of all aspects and styles of leadership that are very concerned with the social, economic, and environmental. This is in line with a study by Chapple and Humphrey (2014) that revealed that women in top management and their influence on decision-making always consider aspects of the future.

The Independent Commissioner has no significant influence on the Disclosure of Sustainability Reports.

The Independent Commissioner variable showed a result of 0.236 > 0.05, which indicates that the hypothesis was rejected because the independent commissioner had no significant influence on the disclosure of the sustainability report, as the independent commissioner could not make a decision and was only advising. The only decision that can be made is by the board of directors. This is in line with a study by Dewi and Pitriasari (2019), which noted that independent commissioners do not influence sustainability reporting because they are merely advisory.

Financial Performance Significantly Positive to Sustainability Report Disclosure

The Financial Performance variable proxy with ROA showed a result of 0.010 < 0.05. This indicates an accepted hypothesis because financial performance has a significant positive impact on the disclosure of sustainability report disclosures. This is because if the Company has good corporate health, then the Company will be transparent in the submission of financial and non-financial reports. This is in line with Sonia and Khafid, (2020) research; Financial Performance is measured by the probability that a company has a function to determine a company's ability to pay its debts smoothly. The ability of companies with high profits indicates that the entity is capable of managing its current assets to the maximum. Moreover, this has a significant impact on the release of the sustainability report.

The audit committee has no significant influence on Sustainability Report Disclosure.

The audit committee's variable showed a result of 0.503 > 0.05, which indicates that the hypothesis was rejected because the auditing committee had no significant influence on the disclosure of the sustainability report. After all, the auditor's committee was only concerned with the internal company, and the audit committees were formed by an independent board of commissioners who only contributed advice to the board of directors. This is in line with the Purnama and Handayani study (2021) that reveals that the audit committee focuses only on the principle of good corporate governance and has not maximized the sustainability aspect.

Environmental Performance Moderates Board Size to Sustainability Report Disclosure

Environmental performance shows a result of 0.213 > 0.05. This indicates that the hypothesis was rejected because environmental performance failed to moderate the size of the board of directors against the disclosure of the sustainability report.

Environmental Performance Moderates Women's Board of Directors Against Sustainability Report Disclosure

Environmental performance shows a result of 0.780 > 0.05, which suggests that the hypothesis was rejected because environmental performance failed to moderate the women's board of directors against the disclosure of sustainability reports. This is due to whether or not the government's PROPER board of directors is inclined to take care of the external aspects of social and environmental issues.

Environmental Performance Moderates Independent Commissioner to Sustainability Report Disclosure

Environmental performance shows a result of 0.017 < 0.05. This suggests an accepted hypothesis because a company with an independent commissioner will always provide insight into good corporate governance and the sustainability of the company itself. The independent Commissioner provides insight related to sustainability policy, namely the PROPER Score, which is always encouraged by the government to participate in this program.

Environmental Performance Moderates Financial Performance to Sustainability Report Disclosure

Environmental performance shows a result of 0.048 < 0.05. This suggests an accepted hypothesis because a company that has a high profit then will race to comply with the government's program PROPER. It also provides a good reflection of the company and a good image in a transcendent way to reveal the sustainability report.

Environmental Performance Moderates Audit Committee on Sustainability Report Disclosure

Environmental performance showed a result of 0.359 > 0.05, so the hypothesis was rejected because the audit committee focused only on the internal company and did not take into account the incentive of the government to participate in the PROKER program and the board of directors that could make decisions.

Conclusion

This study concludes that female board of directors and financial performance have a significant positive influence on sustainability report disclosure, while board size, independent commissioners, and audit committees show no significant influence. Environmental performance proved to moderate the relationship between independent commissioners and financial performance on sustainability report disclosure. This study recommends that companies in Indonesia increase gender diversity in the board of directors and strengthen commitment to environmental performance to improve transparency of sustainability reporting. However, this study has limitations, such as only covering companies from the basic materials and energy sectors in Indonesia and not considering other external factors that may affect sustainability report disclosure. Therefore, further research is recommended to expand the coverage of industry sectors, consider external variables such as government regulations or stakeholder pressure, and test this approach in various other country contexts to provide more comprehensive insights.

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