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Sustainability Report:

Women directors, competencies of commissioners and corporate characteristics

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***Abstract*—The number of companies in Indonesia that publish sustainability report has increased, although it has not been encouraging. Sustainability report indicates the company's attention to long-term performance oriented in economic, social and environmental aspects. This study aims to examine the determinant factors of sustainability report. The unit of analysis of this research is non-financial corporates in Indonesia that published sustainability reports in 2013-2016. Using purposive sampling, 20 companies or 80 data are obtained. The result of regression analysis shows that: (1) women directors positively affect sustainability report and (2) financial leverage, as a component of corporate characteristics, negatively affects sustainability report. (3) Competencies of commissioners and (4) elements of corporate characteristics, namely operating leverage and profitability, do not affect the sustainability report. The limitation of this study is measurement of commissioner competences not include experience in his field. The implications of this research; (1) Companies need to consider the proportion of women directors in maintaining the continuity of the company. (2) For investors; the proportion of high financial leverage has the potential to hinder the corporate sustainability. (3) For future researchers, it is recommended to retest the variables in this study, but in different industry. The novelty of this research is the utilization of women directors as a variable, which has never been done in previous studies.**

Keywords—women directors; competencies of commissioners; corporate characteristics; sustainability report

I. Introduction

Indonesia as a member of G20 shows its commitment to decrease greenhouse gas emission by 26% with its own efforts, so that the government includes it as a framework with environmental vision, including social, economic, and environmental aspects [1]. On a micro scale, this framework is accommodated in the company's sustainability report, which discloses economic, environmental, and social performance. The sustainability report of the company accommodates three performance aspects to its stakeholders in a transparent manner. Firms that publish sustainability reports are oriented towards long-term performance. The development of firms that publish sustainability reports has increased, although not yet encouraging. The developments occurred from 2013 to 2017, namely 46 companies in 2013, 48 companies in 2014, 63 companies in 2015, 85 companies in 2016 [2], and 98 companies in 2017 [3]. The biggest increase occurred in 2015-2016, which is 34%. Sustainability reports indicate long-term performance that need to be supported by various factors, among other directors' policies, corporate governance and corporate characteristics.

Corporate governance is an activity that deals with shareholders, managers and other stakeholders in determining the right and obligations as well as regulations or procedures for making decisions [4]. Corporate governance plays an important role in increasing the company efficiency to achieve corporate values [5,6]. In global business environment, there has been a shift of corporate governance approach, namely to control and manage sustainably to achieve performance effectiveness, accountability and social responsibility [7]. The element of corporate governance in this study is competences of commissioners. The board of commissioners represents internal mechanism, observing management actions in overcoming agency problems [8]. In the structure of governance, the role of the board of commissioners is really important and strategies to create and maintain the company control system that affects reporting quality [9,10]. The role of monitoring commissioner needs to be supported by qualifications in their fields, that it is expected to have an impact on quality financial statements, including sustainability reports.

Sustainability reports contain information on economic, social, and environmental performance; therefore, the reporting is related to decision making performed by commissioners who are responsible for management of company's business activities. If decision making is associated with gender roles, women tend to be more careful, utilize supporting data and take to make decision, meanwhile men tend to be pragmatic [11]. This indicates that women think in a long-term and integrated context. Will the proportion of women commissioners encourage sustainability reports?

Meanwhile, the realization of economic, social and environmental performance is associated with the utilization of external funds, namely financial leverage and profitability. These two variables are company characters [12]. This study also adds operating leverage as one of corporate characteristics. Operating leverage is a measure to test the sensitivity of earnings before interest and tax /EBIT towards sales [13].

This study was conducted on non-financial companies that published sustainability reports consistently. The motivation is to know whether women commissioners, commissioner competences, and corporate characteristics affect sustainability reports. The novelty of this study is the use of women commissioners and operating leverage variables as company characteristic elements.

II. Literature Review

A. Commissioner Competences and Sustainability Report

Commissioners play an important role in governance, because they are responsible to control the management policies and the implementation. Therefore, commissioners have to have integrity and competences [14,15]. Monitoring role requires the competences of the board of commissioners, so that the company objective to provide value for stakeholders, among others, is reflected through sustainable development [8,11,16,]. Therefore, commissioner competences as one of commissioner characteristics affect sustainability reports [13].

H_1: Commissioner Competences affect sustainability report positively

B. Women Directors and Sustainability Report

Study results in America shows that there is an increase of market share of women directors by 27% in 2017 [10]. The increase in proportion is empirically followed by the increase in roles; women can reduce the risk of insufficient capital in banking industry [17]. Meanwhile, gender diversity in the board of directors is an important factor in the scope and quality of sustainability report [13,18]. These references can be referred to for testing the effect of women directors on sustainability report, which is one of the novelties in this study. Women directors is measured based on the proportion as top leaders in the company.

H_2: Women directors affect sustainability report positively.

C. Corporate Characteristics and Sustainability Report

1) Operating leverage and sustainability report: Operating leverage in this study is the ratio of changes earnings before interest and tax on income changes. High ratio of operating leverage results in high income, so business risks become high [14,19]. The high business risk has the potential to disturb the continuity of the company's business. There are limited references on operating leverage variable, let along associated with sustainability report. Based on the description of references used, it can be said that companies with high business risk are potentially not oriented in the future, so they lack focus on sustainability report.

H_3: Operating leverage affects sustainability report negatively.

2) Financial leverage and sustainability report: Financial leverage is the use of external fund sources that have a fixed debt [20]. Financial leverage that is not used productively has a potential to disrupt the going concern of the company. Financial leverage has a negative effect on web disclosure [21] [22]. Companies with high level of financial leverage tend to reduce the level of disclosure, because the implementation of voluntary disclosure is relatively expensive [23].

H_4: Financial leverage affects sustainability report negatively.

3) Profitability and sustainability report: Referring to agency theory that profitable companies provide a more detailed and complete disclosure to support compensation to management [20]. Return on Assets (ROA) has a positive effect on corporate social responsibility (CSR) disclosure [24]. CSR is also revealed in sustainability reporting; therefore, it can be said that profitability that is measured by ROA has a positive effect on Sustainability Reporting.

H5: Profitability affects sustainability report positively.

III. Research Method

This study on sustainability report and the affecting variables is a descriptive verification and causality study. The object of this study is non-financial companies that published sustainability report. Sampling technique used in this study is purposive sampling, and the criterion is non-financial companies that published continuity reports consistently from 2013 to 2016 and the data are easy to access. Data obtained include 20 companies or 80 research data. These 20 companies are private companies or state-owned enterprises, with various types of business including automotive, medicines, construction, natural gas, infrastructure for electricity, cement and telecommunication service.

TABLE I. RESEARCH VARIABLES AND INDICATORS

No.	Variable	Indicator
1.	Commissioner Competences	Proportion of commissioners with education background in accounting, financial, and taxation fields
2.	Women Directors	Proportion of Women Directors
3.	Operating leverage	$DOL = \frac{\frac{\Delta EBIT}{EBIT t-1}}{\frac{\Delta Sales}{Sales t-1}}$ DOL= Degree of Operating leverage EBIT=Earnings Before Interest and Tax
4.	Financial Leverage	$DER = \frac{Debt}{Equity}$
5.	Profitability	$ROA = \frac{Earning\ After\ Tax}{Total\ Assets}$
6.	Sustainability Report	$SR = \frac{\sum Disclosure\ Item}{Total\ Disclosure\ Item}$ Total Disclosure 91 items, referring to G4

Since research data is quantitative, data is analyzed using descriptive statistical analysis and multiple regression analysis, thus classic assumption test is required. The regression equation is as follow:

$$SR = \beta 0 + \beta_1 CC + \beta_2 WD - \beta_3 DOL - \beta_4 FL + \beta_5 Prof + \varepsilon$$

Detail:
SR = Sustainability Report
CC = Commissioner Competences

WD = Women Directors
DOL = Degree of Operating Leverage
FL = Financial Leverage
Prof = Profitability

IV. RESULTS OF STATISTICAL ANALYSIS AND DISCUSSION

Research variables are described using mean, standard deviation, maximum value and minimum value. There were 80 initial data; however, after the panel data regression analysis was conducted, there were several variables whose results were not significant. After detecting factors that cause the insignificancy using Studentized and Cook's tests, there were 19 outlier data disrupting the model. These data were removed from the mode, so the remaining research data is 61. These 61 data were analyzed descriptively as presented in table 2 as follow.

TABLE II. DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
CC	61	.00	.50	.1708	.12695
WD	61	.00	.38	.0541	.11085
DOL	61	-346.00	120.00	-.7263	48.95331
DER	61	.04	3.56	1.0691	.85714
ROA	61	-.04	.21	.0755	.05985
SR	61	.10	.65	.3770	.13645
Valid N (list wise)	61				

Table 2 presents the result of descriptive statistical analysis of research variables described as follow:

Mean of commissioner competence in accounting, financial and taxation field is 17.08%. This competence is useful in performing monitoring as well as corporate governance mechanism.

Proportion of women directors varies around 5.41%. There are companies whose all directors are male. Based on literature review, the role of female leaders can reduce risks and is oriented on the company continuity [16]. This is implied in continuity reports.

DOL of companies that become research samples is varied, because mean is lower than standard deviation. DOL is a benchmark of sensitivity level of EBIT towards sales. Mean of DOL is negative, meaning that every change in sales if 1 unit will decrease profits -0.7263. However, 39 data from 61 data of this study have positive DOL value; therefore, the increasing sales tend to increase EBIT. The higher DOL value is, the higher the level of change sensitivity.

Financial leverage (DER) is external financing, which is the strategy of company funding by utilizing debts (total of debt). Mean of debt/equity ratio is 1.0691 bigger than standard deviation by 0.85714. This means proportion of total debts exceeds equity, companies need to be managed efficiently so as not to have financial difficulties

Company profitability is the ability of a company in generating earnings after tax by utilizing its total assets (return on assets). Mean of ROA is 0.0755 bigger than standard deviation by 0.05985. ROA of companies that published sustainability report is 7.55%, with maximum value 21% and minimum value -4%, meaning companies are not able to generate profits by utilizing the company's total assets.

Disclosure of economic, social and environmental performance is summarized in sustainable report (SR). Mean SR is 0.3770 bigger than standard deviation of 0.13645. This means mean of SR of companies that become the samples of this study is 37.7 %. Maximum value of SR is 65%, and 10% as the minimum value.

To interpret multiple regression result, classic assumption test is required. Normality test is shown by histogram graphic (Appendix 1), data is normally distributed. Meanwhile, heteroscedasticity is shown by Scatter plot (Appendix 2) periods are scattered, do not show a clear pattern; this means that there is nothing wrong with heteroscedasticity. Autocorrelation test is shown by comparing values of Durbin-Watson in table 3, with values of DL and DU in-table Durbin-Watson, which shows that (DL=1.4146) < (4-DW=2.78)> (DU=1.7671), meaning there is no autocorrelation.

TABLE III. MODEL SUMMARY [B]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.714[a]	.510	.466	.09976	1.220

a. Predictors: (Constant), ROA, Kom.K, DP, DOL, DER
b. Dependent Variable: SR

TABLE IV. ANOVA[A]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.570	5	.114	11.452	.000[b]
	Residual	.547	55	.010		
	Total	1.117	60			

a. Dependent Variable: SR
b. Predictors: (Constant), ROA, CC, WD, DOL, DER

Table 3 and 4 show values of Adjusted R Square of 0.466 with significance level 0.000 less than α= 5%, women directors, commissioner competences and corporate characteristics have a big effect.

The following table 5 presents the result of partial effects.

TABLE V. COEFFICIENTS [A]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	***Std. Error***	***Beta***		
1	(Constant)	.506	.038		13.153	.000
	C.C	-.203	.104	-.189	-1.961	.055
	WD	.356	.124	.290	2.874	.006
	DOL	.001	.000	.189	1.872	.067
	DER	-.095	.017	-.594	-5.626	.000
	ROA	-.164	.256	-.072	-.643	.523

a. Dependent Variable: SR

Table 5 shows that regression coefficient of women directors is 0.356 with significance level 0.00 less than α= 5%, meaning women directors affect sustainability report by 35.6%; this is in accordance with research hypotheses. This shows that women directors play a role in minimizing risks and have long-term orientation shown in sustainability report [16,18,25].

Leverage coefficient (DER) is -0.95 with significance level 0.000 less than α= 5%, leverage has a negative effect on sustainability report. Going concern of companies with high debts are likely to be disrupted, so they do not focus on sustainability report because considered to be expensive [21-23]. Variables of corporate characteristics including operating leverage and profitability are not determinant factors of sustainability report. This indicates that there are various business risks of companies that published sustainability report. On the other hand, a relatively low profitability of companies is indicated to not be used to finance corporate sustainability implied in sustainability report.

V. Conclusion and Recommendation

The study results show that women directors have a positive effect on sustainability report because women are more careful, tend to minimize risk, which means have a long-term orientation that is implied in sustainability report. Meanwhile, financial leverage as one of corporate characteristics has a negative effect on sustainability report. Companies that have financial risks tend to not be oriented on sustainability report.

The limitation of this study is measurement of commissioner competences not include experience in his field. The implications of this research; (1) Companies need to consider the proportion of women directors in maintaining the continuity of the company. (2) for investors; the proportion of high financial leverage has the potential to hinder the corporate sustainability. (3)For future researchers, it is recommended to retest the variables in this study, but in different industry.

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