

The Effect of Leverage, Profitability, Activity, and Corporate Governance on Sustainability Reporting Disclosure

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ABSTRACT

Environmental damage that occurs can be caused by company activities that are considered less attention to environmental and social aspects. This underlies the need for disclosure of sustainability from an economic, social and environmental perspective which is disclosed through a sustainability report. This look at changed into performed with the purpose of reading the impact of profitability, leverage, activity, audit committee, board of commissioners, and board of directors on sustainability report disclosure. Population in this study are manufacturing companies listed on the IDX in the period 2018-2020. The sample was selected make sure of the purposive sampling method and a sample of 39 companies was obtained. This study is a quantitative study that was tested using multiple linear regression. The effects of this look at suggest that activities and the audit committee have an impact on sustainability report publication. Meanwhile, leverage, profitability, independent commissioners, and the board of directors has not affect on the disclosure of the SR.

Keywords: *Leverage, Profitability, Activities, Corporate governance, Sustainability reporting*

1. INTRODUCTION

The success of the company is seen based on the ability to obtain large profits (profit oriented). With the development of technology and company knowledge, it is not enough if it is only oriented to profit (profit), but a company must also be able to make a good contribution to employees, consumers, society, and the surrounding environment. It is proven that in the last few years, companies have begun to disclose non-financial company information such as social and environmental aspects. This concept arises from the demands and desires of the community regarding the role of the company, this is in accordance with the Triple Bottom Line (Profit, People, Planet) concept. The 3P (Triple Bottom Line) concept is the most important pillar in building a sustainable company. Disclosing the environmental, social and economic performance of a company in the annual report or other reports

constitutes the accountability, responsibility, and transparency of the company to investors and other stakeholders. The company's stakeholders consist of various parties, including shareholders, government, customers, employees, and the general public [26]. The responsibility of a company determines the sustainability of the company because there is an impact on the effectiveness of the company's activities [15].

This is further strengthened by the fact that there are many cases in Indonesia regarding environmental damage caused by company activities. This case occurred because the company was considered less concerned about social and environmental aspects. Information about the impact of a company's activities from an environmental, social and economic perspective can be disclosed by means of sustainability reporting. The tools used in fulfilling the obligations of companies that report their performance on three dimensions are

social, economic and environmental [9]. Sustainability reporting is an accountability report issued by the company with the aim of sharing the results of social responsibility that has been carried out by the company.

Sustainability reporting compiled on the basis of the Global Reporting Initiative (GRI) guidelines which contain disclosure of the company's inputs and outputs for a period, the report can be presented separately or together with the annual report issued by the company [13]. Companies that issue sustainability reporting are committed to providing transparent and accountable information in line with the principles of good corporate governance. One consequence of the application of GCG principles is that companies not only have to think about financial performance but also have to conduct an assessment of their social and environmental work [24].

In Indonesia, evidence of increasing awareness of sustainability reporting disclosures is evidenced by the government accommodating the rules for disclosing CSR practices in Law no. 40/2007, PP47/2012 and BAPEPAM regulations [25]. In addition, there is other evidence, namely the annual award given for sustainability reporting given by the National Center for Sustainability Reporting (NCSR). In addition, the increasingly strong demands of stakeholders encourage companies to present open, accountable information, and also practice good corporate [23].

Research on sustainability reports has also begun to develop, as evidenced by the fact that many companies have published sustainability reporting. However, previous studies have inconsistent results. Research [24], shows the results that there is an influence between profitability and company size on the disclosure of sustainability reporting. These results are different from research by [1]. This study found that profitability did not affect the publication of sustainability reports. In addition, the research of [24] gives the result that leverage, audit committee, and the board of commissioners does not influence the disclosure of sustainability reporting. Another study conducted by [3] found that the audit committee, governance committee,

The purpose of this study is to determine the determinants of the disclosure of sustainability reporting. There are many determinants that can affect the publication of sustainability reporting. This focus of research is to examine the variables of leverage, profitability, activity and good corporate governance in term sustainability report publication.

2. THEORIES AND HYPOTHESES

2.1. Stakeholder Theory

One of the main theories commonly used as the basis for research related to sustainability reporting is the stakeholder theory [23]. Stakeholder theory emphasizes the importance of organizational accountability far beyond financial or economic [5]. This theory can be defined as a hypothetical theory regarding the company's existence in carrying out operational activities and contributing to stakeholders. Stakeholder theory is based on the assumption that a rapidly growing company gets the public to become attached to the business activities carried out by the company, so that it can show wider and unlimited accountability for [19]. In making it happen, the company can issue a sustainability report which includes the company's performance related to social, economic and environmental issues.

2.2. Legitimacy Theory

An acknowledgment of the legality of something is an understanding of legitimacy. Legitimacy theory is another theory that underlies sustainability reporting which has a close relationship with stakeholder theory. The theory is based on a social contract between the company and the community where in its operations the company uses economic resources, which is an understanding of legitimacy theory [6]. This theory states that an organization will continuously act in accordance with the boundaries and values held by the surrounding community in an attempt to achieve legitimacy [1]. A company can realize legitimacy by publishing a sustainability report, because the report contains an overview of the performance of a company that includes economic, social, and environmental aspects. With the sustainability reporting, it is expected that the company's image in the eyes of investors will increase, so that investors will be more interested in investing in company shares, and ultimately the value of the company will increase with this report [20].

2.3. Leverage and Sustainability reporting

The ability of a company to meet its financial obligations if the company is liquidated is the meaning of leverage [7]. Companies with high leverage mean the company relies heavily on the trust and support of creditors. In order for a company to continue to gain the

trust of creditors, company management must be able to report high profits or profits. In order for a company's profit to be high, the company will reduce costs that can affect the company's profits, one of which is by reducing costs for disclosure of social responsibility. The research of Liana, [21] shows that leverage has an effect on the disclosure of sustainability reporting. Based on this explanation, the following hypothesis is proposed:

H1: Leverage has an effect on the disclosure of Sustainability reporting.

2.4. Profitability and Sustainability reporting

The main purpose of establishing a company is to gain profitability according [16]. According to Almilia [8] companies with a high level of profitability will disclose more information because they want to show the public and stakeholders that the company has a higher level of profitability than others. With the increase in profitability, it can also lead to increased information to be published by the company, one of which is sustainability reporting. Studies conducted by [4] and [24] proves that profitability has an effect on the disclosure of sustainability reporting. Based on this explanation, the following hypothesis is proposed:

H2: Profitability has an effect on the disclosure of Sustainability reporting.

2.5. Activities and Sustainability reporting

To measure the effectiveness of a company in using the company's assets, it can be seen at the company's activities. The higher the activity ratio reflects the better the management's ability to manage its assets, which means that the company uses its total net assets more efficiently. The picture of companies with good financial performance can be reflected in the high activity ratio, thus encouraging companies to disclose other information more broadly and comprehensively through sustainability reporting [10]. [17] shows that activities have an effect on the disclosure of sustainability reporting. Based on this explanation, the following hypothesis is proposed:

H3: Activities have an effect on the disclosure of Sustainability reporting.

2.6. Audit Committee and Sustainability reporting

According to [3] the board of commissioners formed an audit committee to assist him in carrying out his duties. According to [24], a large number of committee members can improve coordination between members of the audit committee, so that the audit committee can supervise management more effectively and is expected to support increased reporting of social and environmental information by the company. The supervision carried out by the audit committee can encourage the effectiveness of GCG implementation. The more the audit committee meets, the more opinions are exchanged between members of the audit committee and decisions must be made on the basis of the interests of all stakeholders, including relevant decisions related to corporate social and environmental disclosure through sustainability reporting. An empirical study conducted by [3] found that the audit committee has an effect on the disclosure of sustainability reporting. Based on this explanation, the following hypothesis is proposed:

H4: The audit committee has an effect on the disclosure of Sustainability reporting.

2.7. Board of Commissioners and Sustainability reporting

The board of commissioners is one of the important elements in the implementation of good corporate governance. The existence of an independent board of commissioners is expected as the implementation of good corporate governance, thereby encouraging companies to make wider disclosures to stakeholders. According, to [22] the greater or the majority of the proportion of the board of commissioners in a company can add power to pressure management in improving the quality of company reporting disclosures. By increasing the quality of report disclosure, the company will disclose wider information, one of which is through the disclosure of sustainability reports. Research conducted by [22] found that the disclosure of sustainability reporting is influenced by the number of independent commissioners having an influence. Based on this explanation, the following hypothesis is proposed:

H5: The independent board of commissioners has an effect on the disclosure of sustainability reporting.

2.8. Board of Directors and Sustainability reporting

According to Effendi, [21] one of the corporate organizations that is also obligated to develop corporate guidelines for performing good corporate governance is the board of directors. The board of directors periodically holds meetings to carry out coordination and communication. The more frequent the meetings between the members of the board of directors, the more frequent the communication and coordination between the members and create conditions to achieve good corporate governance. With good corporate governance, a company can be judged to be able to recommend the disclosure of sustainability reporting. A study conducted [21] found that the board of directors has an influence on the disclosure of sustainability reporting. Based on this explanation, the following hypothesis is proposed:

H6: The board of directors has an effect on the disclosure of sustainability reporting.

3. RESEARCH METHOD

3.1. Population, Sample and Sampling Technique

The population of this research were all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018 to 2020 as many as 202 companies. The sample obtained with certain criteria was obtained from as many as 13 companies for the 2018-2020 period. The sample was selected using a purposive sampling method with the following criteria:

1. Companies that publish annual reports for the period 2018-2020 consecutively on the IDX.
2. Companies that publish sustainability reporting for the period 2018-2020 consecutively on the IDX.

3.2. Operational Definition and Measurement of Variables

Disclosure of Sustainability reporting	This variable is measured based on the GRI-G4 index with a disclosure indicator of 91 items. Based on the information above, the following formula can be written: $SRD = \frac{\text{Number of disclosures}}{91} \times 100\%$ $SRD = \frac{\text{Number of disclosures}}{91} \times 100\%$
Leverage	The measurement of this variable uses the Debt to Equity Ratio (DER) by comparing liabilities and capital, so that the following formula can be written: $DER = \frac{\text{Total Debt}}{\text{Total Equity}}$ $DER = \frac{\text{Total Debt}}{\text{Total Equity}}$
Profitability	Measurement of this variable using Return on Assets (ROA) which compares net income with total assets can be expressed by the following formula: $ROA = \frac{\text{Net Income}}{\text{Total Asset}}$ $ROA = \frac{\text{Net Income}}{\text{Total Asset}}$
Activity	This variable is measured using the Inventory Turnover (IT) ratio which compares sales and inventory, can be expressed by the formula: $IT = \frac{\text{Sales}}{\text{Inventory}}$ $IT = \frac{\text{Sales}}{\text{Inventory}}$
Audit Committee	For the Audit Committee variable, it is measured by the frequency of meetings between committee members for 1 year, which is contained in the annual report.
Board of Commissioners	Independent Commissioner . This variable is measured by the formula = Number of independent commissioners / Total members of the board of commissioners.
Board of Directors	In this study, the board of directors can be measured by the frequency of board of directors meetings for 1 year, which can be seen in the company's annual report.

Table 1. Variable operational summary

Variable	Measurement
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3.3. Data analysis technique

Analysis of the data used in this study is a quantitative analysis presented in the form of numbers. The data in this study is secondary data obtained through the website of the IDX and the Company. In the study used as data analysis is the classical assumption test which consists of normality test, heteroscedasticity test, multicollinearity test, autocorrelation test and multiple linear regression analysis test with SPSS version 22.00 program. The following is a multiple linear regression equation model in this study:

$$SRD = \alpha + \beta1DER + \beta2ROA + \beta3IT + \beta4KA + \beta5KI + \beta6DD + \epsilon$$

Description :

SRD = Sustainability reporting Disclosure

α = Constant

ROA = Profitability

DER = Leverage

IT = Company activities

KA = Audit Committee

KI = Independent Board of Commissioners

DD = Board of Directors

ϵ = Error

4. RESULTS AND DISCUSSION

4.1. Classic assumption test

Normality test was carried out using the One Sample Kolmogorov-Smirnov Test method. This test is performed to ensure whether the data is normal or not, as can be seen from the significance level, if the significance level (sig) > 0.05 then the data can be said to be normally distributed. The result of this research is that the significance value of Asymp.Sig (2-tailed) is 0.132, which means more than 0.05, it can be concluded that the data in this study is normally distributed.

Heteroscedasticity test is a test carried out to prove whether in a regression model there is an inequality of residual variance from one observation to another. That heteroscedasticity test in this study was conducted using the Spearman's rho test with the assumption that if the

significance probability is > 0.05, it can be said that there is heteroscedasticity in this regression model. The results of this study show that the significance value of each variable is > 0.05 so that means in the regression model of this study there is no symptom of heteroscedasticity.

The multicollinearity test used to determine whether in the regression model there is a correlation in the independent variables (independent). In this test there are criteria used, namely correlation analysis between variables and calculation of tolerance values as well as coefficients adapted for variance (VIF) and tolerance. If the VIF value is < 10 and the tolerance value is > 0.10, it can be said to have symptoms of multicollinearity. The results of this test indicate that all independent variables have a tolerance value of > 0.10 with a value of variance infitaion factor (VIF) < 10. Based on these results, it can be concluded that in this study there are no symptoms of multicollinearity in the regression model.

The autocorrelation test was carried out using the Durbin Watson test. This test is carried out with the aim of knowing whether or not there is a correlation between the data based on the time sequence. The results of this study note that the value of Durbin Watson is 1.618. Where with n: 39, K; 6. Thus, the value of du is 1.8587, for the value of dl is 1.1612. So 4-du= 2.1413. Based on these results, it can be assumed that: du < d < 4-d so in this study there is no autocorrelation.

4.2. Hypothesis testing

Table 2. Hypothesis testing

Variable	Beta	t	Sig	Description
DER	-0.014	-1,238	0.225	H1 rejected
ROA	-0.001	-0.497	0.623	H2 rejected
IT	0.009	2,334	0.026	H3 accepted
KA	0.009	2,699	0.011	H4 accepted
KI	-0.190	-1.545	0.132	H5 rejected
DD	-0.004	-1,971	0.057	H6 rejected

<i>constant</i>	0.334	3,540	0.001	
R ² : 0.238				
F Count: 2,978 with Sig.: 0.020				

Based on the results of the hypothesis test, it can be interpreted as follows:

1. Hypothesis 1

The significance value (sig) of the leverage variable is $0.225 > 0.05$. So H1 is rejected. These results indicate that leverage has not effect on the disclosure of sustainability reporting.

2. Hypothesis 2

The significance value (sg) of the profitability variable is $0.623 > 0.05$. So it can be interpreted that H2 is rejected. These results indicate that profitability has no effect on the disclosure of sustainability reporting.

3. Hypothesis 3

The significance value (sig) of the activity variable is $0.026 < 0.05$. So it can be interpreted that H3 is accepted. These results indicate that the activity has an effect on the disclosure of sustainability reporting.

4. Hypothesis 4

The significance value (sig) of the audit committee variable is $0.011 < 0.05$. So it can be interpreted that H4 is accepted. These results indicate that the audit committee has an effect on the disclosure of sustainability reporting.

5. Hypothesis 5

The significance value (sig) of the board of commissioners variable is $0.132 > 0.05$. So it can be interpreted that H5 is rejected. These results indicate that independent commissioners have no effect on the disclosure of sustainability reporting.

6. Hypothesis 6

The significance value (sig) of the board of directors variable is $0.057 > 0.05$. So it can be interpreted that H6 is rejected. These results indicate that the board of directors has not effect on the disclosure of sustainability reporting.

5. DISCUSSION

5.1. Effect of Leverage on Sustainability reporting

Based on the results of the hypothesis test, it is known that the significance value is $0.225 > 0.05$, so H1 is rejected. These results can be interpreted that leverage has no effect on the disclosure of sustainability reporting.

In this study, there is no effect between leverage and sustainability reporting disclosure. This is because companies with high leverage will try to report high profitability in order to gain legitimacy from stakeholders (including creditors and investors). According to [24] that a company with a high level of debt will reflect that the company also has sufficient available working capital, so the company will tend to disclose only necessary information. The results of this study are in line with research conducted by [19] which states that leverage has no effect on the disclosure of sustainability reporting. This result is also supported by research conducted by [24]

5.2. Effect of Profitability on Sustainability Reporting

Based on the results of the hypothesis test, it is known that the profitability variable has a significance value of $0.623 > 0.05$, therefore H2 is rejected. These results can be interpreted that profitability has no effect on the disclosure of sustainability reporting.

There is no effect on profitability and sustainability reporting because a company with a high level of profitability indicates that the company has a good performance. Companies with high profitability can be sourced from company activities that can have a negative impact on the environment and society so that companies tend not to make social and environmental disclosures that can damage the company's image. Meanwhile, when profitability is low, the company will report sustainability reporting as a means to improve the company's image. The results of this study are in line with [3] and [1] which state that profitability does not affect the disclosure of sustainability reporting.

5.3. Effect of Activities on Sustainability reporting

Based on the results of the hypothesis test, it is known that the activity variable has a significance value of $0.026 < 0.05$, therefore H3 is accepted. These results can be interpreted that the activity has an effect on the disclosure of sustainability reporting.

The higher the company's activity ratio, the better the management in managing its assets, which means the more effective the company is in using its total assets. The higher the activity ratio is a picture of a good financial performance that encourages companies to disclose other information related to the company's social and environmental issues through sustainability reports as a communication tool regarding social and environmental activities so that the company will get a good image in the public eye. The results of this study are in line with research conducted by [17] who found that activities have affected the disclosure of sustainability reporting.

5.4. Effect of the Audit Committee on Sustainability reporting

Based on the results of the hypothesis test, it is known that the audit committee variable has a significance value of $0.011 < 0.05$, therefore H4 is accepted. These results can be interpreted that the audit committee has an effect on the disclosure of sustainability reporting.

The more often the audit committee meets, the better the performance of the audit committee. In this way, the audit committee is able to encourage management to practice sustainability reporting disclosure as a medium of corporate communication with stakeholders in order to gain legitimacy through establishing a good corporate governance which is seen based on the frequency of meetings held for 1 year. The results of this study are in line with research conducted by [3] and [2] which states that the audit committee has an influence on the disclosure of sustainability reporting.

5.5. Effect of the Board of Commissioners on Sustainability reporting

Based on the results of the hypothesis, knowing that the independent commissioner variable of the trustee significance value of $0.132 > 0.05$, therefore H5 is rejected which means that the Board of Commissioners has no effect on the disclosure of sustainability reporting.

The ineffectiveness of the independent board of commissioners can be due to several reasons. The first reason is that in the company the independent board of commissioners has not completed its duties and functions to the fullest. The second reason, according to Stranberg [23] is that in terms of decision making, the competence of the board of commissioners plays an important role, in addition to that, skills, knowledge, background and competence also have an important role, not only the composition of the board. Only independent commissioners are considered, thereby improving the quality of the board of commissioners' decision-making. The third reason is that not all independent commissioners show their independence so that their supervisory duties and functions are not good and can result in a lack of management encouragement to carry out social disclosures. The independent board of commissioners has not considered it necessary whether or not there is CSR disclosure in sustainability reporting. The results of this study are in agreement with a study conducted by [3] and [24] which states that independent commissioners have no influence on the disclosure of sustainability reporting. [12] and [24] which states that independent commissioners have no influence on the disclosure of sustainability reporting. [12] and [24] which states that independent commissioners have no influence on the disclosure of sustainability reporting.

5.6. Effect of the Board of Directors on Sustainability reporting

Based on the results of hypothesis testing, it is known that the independent commissioner variable has a significance value of $0.057 > 0.05$, therefore H6 is rejected, which means that the board of directors has no effect on the disclosure of sustainability reporting.

In a study conducted by [12] stated that the frequency of meetings between members of the board of directors does not guarantee the creation of good quality communication in terms of information disclosure which theoretically will increase the flexibility of disclosure including information on sustainability reports. Meetings are also sometimes less effective because of the dominance of votes from members who are concerned with personal interests so as to override the interests of the company. Meetings of the board of directors are only held to fulfill company regulations in realizing good corporate governance. The results of this research are in line with a study conducted by [18]

which says that the board of directors does not affect the disclosure of sustainability reporting.

6. CONCLUSIONS AND SUGGESTIONS

Based on the hypothesis testing and the research results, it can be concluded that the leverage variable has no effect on the disclosure of sustainability reporting. This shows that sustainability reporting is not affected by the level of the company's leverage ratio. Profitability has no effect on the disclosure of sustainability reporting. Thus, the disclosure of sustainability reporting is not influenced by the high level of profitability of a company. The activity variable shows the results that the activity has an effect on the disclosure of sustainability reporting. This means that the higher the ratio of the company's activity has an influence on the disclosure of sustainability reporting. The Audit Committee has an effect on the disclosure of sustainability reporting. This means that the more often the audit committee meets or meetings will affect the disclosure of sustainability reporting. The Board of Commissioners has no effect on the disclosure of sustainability reporting. This shows that the sustainability reporting disclosure is not affected by the large or small proportion of independent commissioners. The Board of Directors has no effect on the disclosure of sustainability reporting. Thus, it shows that the frequency of board of directors meetings has no effect on the disclosure of sustainability reporting.

Suggestions for further research should be carried out throughout the companies listed on the IDX and add other variables that have a more significant influence.

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