Company Characteristics and Good Corporate Governance Influence Sustainability Report Disclosure

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***Abstract*— Company Characteristics and Good Corporate Governance Influence Sustainability Report Disclosure testing was carried out using the linear regression method using the Eviews application to analyze Sustainability Report Disclosure problems in Banking Companies Listed on the Indonesia Stock Exchange. Profitability harms sustainability report disclosure, leverage has no effect on sustainability report disclosure, company size has a positive effect on sustainability report disclosure and Good Corporate Governance does not affect sustainability report disclosure.**

Keywords—characteristics, corporate governance, sustainability

I. Introduction

The social impact caused by the company is now increasingly making people aware that providing products is not enough, but it is also necessary for people as consumers to experience the quality of the product. Public trust is assessed more comprehensively by the views of the public, which consumes a company's results [1] According to legitimacy theory, companies must manage their business in a way that is consistent with societal norms, ensure that the company does not do things that violate the law, and prioritize positive interactions between the company and society. Sustainability reports can also be used as reports that can be added to annual reports and can explain information about the impact of a company's economic, environmental, and social actions. To meet company reporting requirements, sustainability reports discuss three aspects: economic, environmental, and social [2]

In recent times, the most prominent phenomenon is sustainable development, which is accompanied by increasing issues of natural destruction, including a lack of attention to the safety of the earth and little greening, which causes climate change and construction systems that are not in harmony with the environment. Due to the abundance of natural resources that can be used, businesses must use them effectively to meet their operational needs. Because of this phenomenon, companies must improve the management of existing natural resources. Because population density is increasing, resources will increasingly run out if management and conservation of natural resources are not carried out [3] To achieve sustainable development goals of organizational performance, measurement, disclosure, and accountability efforts focus on internal and external interests.

In this research, company characteristics are discussed and tested in terms of profitability, leverage, and size. Good corporate governance also plays a role in disclosing sustainability reports. Profitability and Leverage, which measure a company's ability to generate levels of profit and financial risk, can be taken into consideration when planning social and environmental programs. By creating a sustainability report, companies can take this into account. The function of company size also determines the company's credibility to make a deep contribution to social and ecological growth. Management Committee One Committee helps companies improve their business management course by providing information about social and environmental activities [1]

[4] conducted research showing that profitability and sustainability report disclosures are positively correlated. On the other hand [5] found that profitability is negatively correlated with sustainability report disclosure. The results of research [6] show that the leverage variable has a positive impact on sustainability report disclosure, while other research [7] shows that the leverage variable harms sustainability report disclosure.

Good corporate governance is also referred to as a company's efforts to build relationships with its stakeholders. For a company to maintain sustainable growth, known as sustainable growth, it requires internal factors and relevant strategies to deal with external changes. Good company leaders also play a role in managing the company's daily activities [8]

II. Literature Review and Hypotheses Development

A. Legitimacy Theory

According to legitimacy theory, companies operate by societal norms and rules [9] According to [10] legitimacy

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theory says that people should always try to ensure that they do something by society's standards. A company must have good governance, or corporate governance, which can describe how management organizes and processes assets and capital to attract investors based on existing financial performance because management tends to increase its profits rather than company goals [11]

B. Profitability of Sustainability Report Disclosure

When companies make a lot of profits and have good relationships with the environment and society, they tend to acquire more resources. As a result, awareness of corporate social responsibility increases [6] Maximizing profits is the company's goal [12]. [13], [14] and [15] found that sustainability reports are influenced by profitability.

H1: Profitability has a positive effect on Sustainability report disclosure

C. Leverage on Sustainability Report Disclosure

Greater leverage means more opportunities for profitability to continue to increase, while lower leverage means fewer opportunities to report a sustainability report because the company will consider many things related to social and environmental aspects. [9] and [16]found results that leverage influences sustainability report disclosure.

H2: Leverage influences the disclosure of the Sustainability report.

D. Company Size on Sustainability Report Disclosure

Larger companies usually can solve business problems and generate large profits, it is important to understand how they operate [17]. [15] and [8] found that company size influences sustainability report disclosure

H3: Company size influences Sustainability report disclosure

E. Good Corporate Governance Regarding Disclosure of Sustainability Reports

Its development and balance with the social and environmental responsibility value chain through the publication of sustainability reports [7]. A healthy business is not much different from an independent business, which must be managed professionally and based on the principle of fairness, namely treating all stakeholders and shareholders fairly [15]. [14] found that Good corporate governance influences sustainability reports. Good corporate governance is a unity in which there are principles to state that companies need to pay attention to the interests of stakeholders for the long-term sustainability of the company which is applied in the sustainability report

H4: Good Corporate Governance influences Sustainability report disclosure.

III. Research Method

This quantitative research uses annual financial reports and sustainability reports of banking companies listed on the Indonesia Stock Exchange (BEI) from 2018 to 2020. The criteria used to select the sample for this research are as follows: a. Banking companies registered on the IDX; b. Companies that publish Good Corporate Governance; and c. Companies that publish annual financial reports.

The same return on assets was used for the study [4] to determine the profitability of this research. The debt-to-equity ratio is used to measure leverage. Log total assets are used to measure company size and corporate governance based on several indicators that form the Corporate Governance Index (CGI).

Data processing using Eviews requires selecting the best estimation model through the Chow test, Hausman test, and Lagrange multiplier test [18]

IV. Result and Discussion

In this research, the Random Effect Model (REM) model has been carried out and selected as the data estimation model that is most suitable for use as a regression equation. Classical Assumption Test For the OLS (Common Effect Model & Fixed Effect Model) approach and the GLS (Random Effect Model) approach, it is different, OLS means it applies to the FEM and CEM models while GLS is to the REM model. The normality test is not mandatory for the OLS approach, while it is mandatory for the GLS approach. For the GLS approach, the Heteroscedasticity test is not mandatory. This research uses more than 1 independent variable, so whatever model is chosen (FEM / CEM / REM) must be tested for multicollinearity [19]

A. Chow Test Result

TABLE I. REDUNDANT FIXED EFFECTS TESTS

Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	21,106029	(29,56)	0,0000
Cross-section Chi-square	223,114368	29	0,0000

The probability value is 0.0000 < 0.05, then the Fixed Effect Model (FEM) is selected, then proceed with the Hausman test to determine the Fixed Effect Model (FEM) or Random Effect Model (REM).

B. Hausman Test

TABLE II. CORRELATED RANDOM EFFECTS - HAUSMAN TEST

Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	8,335221	4	0,0800

The probability value is 0.0800 > 0.05, so the Random Effect Model (REM) model is selected followed by the Lagrange Multiplier Test (LM Test).

C. Lagrange Multiplier Test

TABLE III. LAGRANGE MULTIPLIER TESTS FOR RANDOM EFFECTS

	Test Hypothesis		
	Cross-section	***Time***	***Both***

Breusch-Pagan	55.91098	0.013871	55.92485
	(0.0000)	(0.9062)	(0.0000)

The Breusch-Pagan probability value is 0.0000 < 0.05, so the Random Effect Model (REM) model was selected. So of the three-panel data tests that have been carried out, the Random Effect Model (REM) is the best in this research.

D. Normality Test

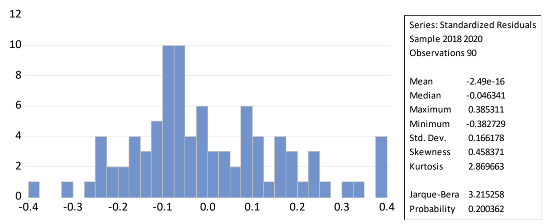

Fig. 1. Normal Probability Plot Graph

If the probability value is 0.20 > 0.05, then the data is normally distributed.

E. Multicollinearity Test

TABLE IV. KOEFISIEN KORELASI

	ROA	DER	SIZE	GCG
ROA	1,000000	-0,289234	0,586236	0,510939
DER	-0,289234	1,000000	-0,153611	-0,183966
SIZE	0,586236	-0,153611	1,000000	0,419776
GCG	0,510939	-0,183966	0,419776	1,000000

The correlation coefficient for ROA and DER is -0.289234 < 0.85, ROA and SIZE are 0.586236 < 0.85, and ROA and GCG are 0.510939 < 0.85, so it can be concluded that it is free from multicollinearity.

F. Regression Equation

TABLE V. PANEL EGLS (CROSS-SECTION RANDOM EFFECTS)

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0,058094	0,255887	0,227031	0,8209
ROA	-0,019471	0,006841	-2,846143	0,0055
DER	-0,001771	0,005169	-0,342556	0,7328
SIZE	0,035302	0,013902	2,539354	0,0129
GCG	-0,003086	0,001577	-1,957273	0,0536

$$Y = 0{,}0580943931845 - 0{,}0194713010331*X1 - 0{,}00177067273432*X2 + 0{,}0353022755272*X3 - 0{,}00308649120874*X4 + [CX=R]$$

The variable regression coefficient is positive, meaning there is a positive relationship, while the variable regression coefficient is negative, meaning there is an inverse relationship.

Testing the influence of the independent variable on the dependent variable and whether there is a real influence in the equation individually is done by looking at the probability value. It can be concluded that profitability harms sustainability report disclosure, leverage has no effect on sustainability report disclosure, company size has a positive effect on sustainability report disclosure and GCG has no effect on sustainability report disclosure.

TABLE VI. SIMULTANEOUS TEST

Weighted Statistics	
Prob(F-statistic)	0,005560

Value of Prob. (F-Statistic) is 0.005560 < 0.05, so it can be concluded that it has a significant simultaneous effect on Sustainability Report Disclosure.

G. Profitability of disclosure of sustainability report

The company that generates more profits, the better its profitability. The tendency of companies to obtain more resources when their profit level is high, is related to environmental and community aspects, which in turn increases awareness of the company's social responsibility towards society [6]

For a company to communicate with its stakeholders and show that there is hope for creditors and investors, the company must have strong financial performance capabilities and a high level of trust. Because profitability is a performance metric that must be included in sustainability reports, the existence of a profitability level requires it to be included in the sustainability report. One of the goals of a company is to maximize profits [12]

Research shows that profitability harms the disclosure of sustainability reports in banking companies listed on the Indonesia Stock Exchange in 2018-2020. The average profitability during the research year experienced fluctuations, in 2019 it increased while in 2020 it decreased, but in general, the profitability value tends to be small because it is still below 30% [12]. As profitability declines, investors, shareholders, and other stakeholders become more skeptical about a company's performance. Disclosing a sustainability report with details about sustainable business practices and social responsibility can increase company transparency, help reduce distrust, and explain the company's commitment to environmental, social, and good governance issues. In line with research [13] and different from [7]

H. Leverage on sustainability report disclosure

Leverage is a factor that is more related to the financial structure and the way a company funds its operations [6]. On the other hand, sustainability reports focus more on environmental, social, and good governance issues. These two aspects, although important, are usually managed by different departments within the company and have different goals.

This research shows that leverage does not affect sustainability report disclosure because it is often more influenced by the expectations of stakeholders such as investors, customers, and the general public than the company's leverage level. Companies may feel the need to disclose information about sustainable business practices to meet expectations and maintain good relationships with stakeholders. The research results are in line with [5] and different from [4] and [13]

I. *Company size regarding sustainability report disclosure*

[2] company size is closely related to increasing higher company performance which can gain profits from the economic side, which is related to operational costs and innovation costs. [15] and [8] company size reflects how big and how small a company is related to total assets, and average total assets, so it also requires greater effort to build together social values related to applicable norms. existing in society. The better the company size, the greater the opportunity for a company to implement a sustainability report.

The results of this research show that company size has a positive influence on sustainability report disclosure. Large companies often have great influence in their industry. If large companies in an industry start to become active in disclosing sustainability reports, this can create pressure on their competitors to do the same to not be left behind. In line with research [15] and [8] but different from [7] and [6]

V. CONCLUSION

The Random Effect Model (REM) was selected as the most suitable data estimation model for the regression equation. Classical Assumption tests were conducted for different models, including OLS (Common Effect Model & Fixed Effect Model) and GLS (Random Effect Model). Normality tests were mandatory for the GLS approach, and the heteroscedasticity test was not mandatory. Multicollinearity was tested due to the use of multiple independent variables. The Chow Test results indicated that the Fixed Effect Model (FEM) was selected, and the research proceeded with the Hausman Test to choose between FEM and REM. The Hausman Test results favored the Random Effect Model (REM). Lagrange Multiplier Test: The Lagrange Multiplier Test further supported the selection of the Random Effect Model (REM). The data was checked for normality, and it was found to be normally distributed. The analysis showed that the data was free from multicollinearity. The regression equation was presented, with variable coefficients indicating positive or negative relationships between variables. The research concluded that profitability negatively affects sustainability report disclosure, leverage has no significant effect, company size positively influences sustainability report disclosure, and good corporate governance (GCG) has no significant effect. Simultaneous tests indicated a significant simultaneous effect on Sustainability Report Disclosure. Higher profitability tends to negatively affect sustainability report disclosure in banking companies. Leverage was found to have no significant influence on sustainability report disclosure. Larger companies were more likely to disclose sustainability reports, and their actions influenced others in the industry. The research findings suggest that profitability, leverage, and company size are important factors in sustainability report disclosure, with their impacts varying in different contexts. These results contribute to a better understanding of the factors influencing sustainability reporting in banking companies.

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