Analysis of the role of Corporate Governance, Leverage, and Company Size on Banking Sustainability Report

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ABSTRACT

This study examines the impact of corporate governance, as well as the leverage and size of the company and the level of disclosure of sustainability reports. The population in this study are all banking companies listed on the Indonesia Stock Exchange for the financial year ending December 31, 2019-2021. The sampling technique was carried out by purposive sampling method. The results of the multiple regression test show that corporate governance and leverage have a positive and significant effect on the level of disclosure of sustainability reports. The results of the firm size test show that firm size has a negative and significant effect on the disclosure of sustainability reports.

Keywords: Sustainability report, corporate governance, Leverage, and size

Background

Sustainability Report is a report published by a company in the report disclosed on the economic, social, and environmental impacts (Nasution & Adhariani, 2016). Banks as financial institutions that play an important role in supporting the economy in Indonesia face increasingly complex risks and challenges. The risks and challenges faced by the bank are internal and external. The internal challenges of the bank come from the management of the bank itself, while the external challenges of the bank can come from the economic conditions of a country where the bank operates. In addition, the economic condition of the country that is the parent of foreign banks operating in Indonesia is also a challenge for banks.

Agency Theory

Agency theory according to Jensen dan Meckling (1976) views that the management of the company as an agent for the shareholders, will act with full awareness for its own interests, not as a wise and prudent and fair party to the shareholders. In other words, agency theory views that the management cannot be trusted to act as well as possible for the public interest in general and shareholders in particular. Agency Theory expressed by Jensen & Meckling (1976) Companies that have high leverage will disclose more information voluntarily but this theory is not supported by empirical evidence researched by (Chakroun et al., 2017) Instead, it proves that there is a negative relationship between the sustainability report and leverage. Greater governance is less likely to be influenced by management, but requires greater agency costs (Rukmi & Hutami, 2015).

Legitimacy theory

Based on the theory of legitimacy, large companies that are supervised by the public are companies that have great power over resources (Anugerah et al., 2018). Several studies have found a significant positive relationship between company size and sustainability report reporting in the perspective of legitimacy theory, a company voluntarily reports its activities if the management considers that this is what the community expects. So the company continues to strive to ensure the company's operations in the community or environment where the company is located (Deegan, 2004).

Sustainability Report

Haris et al., (2019) defines that the sustainability report is reporting on the economic, social, and environmental aspects of the impact of the company's performance and its products in the context of sustainable development. With the concept of sustainable development, the company is more based on the Triple Bottom Line (TBL), namely economic, social and environmental (Fauziah et al., 2020) (Amran et al., 2014). Lipunga,(2014) reporting is measured by disclosing a dummy, namely for those who disclose sustainability reports = 1, companies that do not disclose sustainability reports = 0

Corporate Governance

Weak implementation of Corporate Governance triggers various financial scandals. Many companies went bankrupt which was indicated as a result of not implementing the principles of Good Corporate Governance. The government's seriousness in paying attention to the importance of implementing good corporate governance can also be seen from a copy of the Financial Services Authority Circular Letter Number 32 / POJK.04 / 2015 concerning "Guidelines for the Governance of Public Companies" (OJK, 2015). A copy of this circular contains the obligations of all public companies to implement good corporate governance. In addition, this copy also contains guidelines for each company in implementing corporate governance. The practice of corporate governance is one of the mechanisms within the company to mitigate agency problems. Governance is measured by:

$$GCG = \frac{\text{Total number of principles applied}}{\text{Total number of principles}} \times 100\ \%$$

Leverage

Leverage shows the company's ability to meet its obligations, the higher the level of leverage, the higher the risk of the company because the lower the company's ability to meet its obligations. The company will try to fulfill it by presenting a good company performance or improving from the previous period. Penelitian Jian dan Wong (2003) dan Bona-Sanchez et al. (2017) prove that the level of leverage has a positive effect on company performance. On the contrary, Cheung et al. (2009), Habib et al. (2017), dan Chen et al. (2009) found that the higher the company's leverage, the lower its performance. This study uses leverage as a control variable as measured by total liabilities divided by total assets (Michelon, et.al 2015).

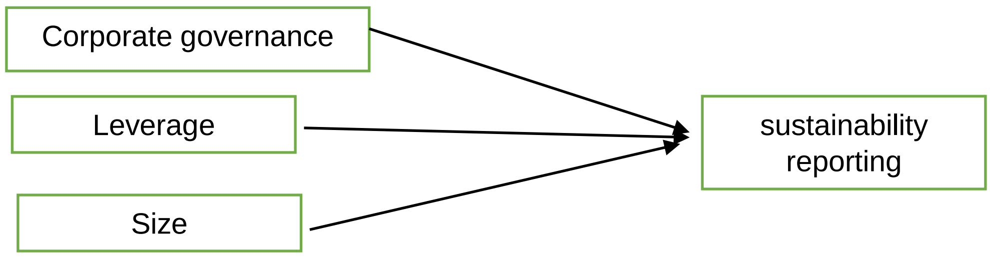
$$laverage = \frac{\text{total liabilities}}{total\ assets}$$

Size

Habib et al., (2017) found that company size had an impact on lowering company performance. In contrast, Cheung et al. (2009), Main et al. (2010), Wahab et al. (2011), Chen et al. (2009), and Downs et al. (2016) prove that the larger the size of the company, the better the performance. This study uses firm size as a control variable which is measured using the natural log of total assets (Habib et al., 2017).

$$\text{Size} = \ln total\ aset$$

Thought Framework Image



Hypothesis Development

Relationship of Good Corporate Governance to sustainability reports.

Good Corporate Governance of a company can be realized one of them through the formation and appointment of competent and qualified management members. This is done to ensure that management acts at its best for the benefit of stakeholders. Disclosure of information in detail will give a picture of the actual performance of the company, so that the more information provided by the company, especially in the sustainability report, it will increase the confidence of investors and other stakeholders. The hypothesis taken is that Good Corporate Governance has a positive effect on sustainability reporting.

Leverage relationship and sustainability report

The lower the leverage, the higher the sustainability reporting reported by the company (Dyduch & Krasodomska, 2017). The lower the leverage in the company, the higher the company will disclose sustainability reports. The second hypothesis Leverage has a positive effect on sustainability reporting

The relationship of company size has an effect on sustainability reports.

The bigger the size of the company, the bigger the company to disclose sustainability reporting. Larger and complex companies, namely large companies usually have a need to disclose sustainability reports (Razali & Arshad, 2014). Disclosure of the sustainability report of each company will be different depending on the condition and size of the company. The larger the size of the company is assumed to have a greater political risk than small companies, the larger it is also to encourage companies to disclose sustainability reports (Rachman, 2018). The third hypothesis is that the size of the company has a negative effect on sustainability reporting

Data Collection and Research Sample

This study uses secondary data. Data collection method on The research was obtained through the annual report and the sustainability report obtained through the Indonesia Stock Exchange (IDX) website. Data on sustainability reports were obtained through the global reporting initiative (GRI) document. Sampling in this study used a purposive sampling method, namely selecting samples based on criteria. The criteria for companies that can be sampled are all bank companies listed on the Indonesia Stock Exchange with the observation period used in this study starting from 2019 to 2021.

Analysis Method

Using regression analysis to test the relationship of influence between independent and dependent variables and to test the research hypothesis.

The model of the research is as follows:

$SR = \alpha 0 + \alpha_1 GCG + \alpha_2 Leverage + \alpha_3 SIZE + e$ ....(1)

Keterangan:

SR= Sustainability Reporting.

GCG = corporate governance.
Leverage= leverage
Size = company size.

Descriptive statistics
Descriptive analysis is used to describe the general description of the data used in the research so that it can be checked. The dependent variable in this study is the sustainability report, while the independent variables in this study are corporate governance (proxied by managerial performance according to the 2015 OJK rules), Leverage and company size.

Descriptive Statistics

	Mean	Std. Deviation	N
SR	.965255	.0241649	137
GCG	.771212	.1819283	137
LAVERAGE	29.610708	1.8341643	137
SIZE	.75582	.194996	137

Multicollinearity
Multicollinearity test was conducted to test the correlation between independent variables in the regression model. The multicollinearity test in this study was carried out using the Variance inflation factor (VIF) test. If the value of VIF < 10 then it is said that there is no multicollinearity, on the contrary if > 10 then there is multicollinearity among the independent variables (Gujarati, 2010). Autocorrelation

Heteroscedasticity
Heteroscedasticity test is used to test whether the regression model has an inequality of residual variance from one observation to another (Field, 2009). From the results of the heteroscedasticity test on the model, it can be seen that the prob value is 0.0000 so that, it indicates there is no heteroscedasticity problem because the parameter coefficients for each independent variable are not significant ($p > 0.05$) (Gujarati, 2004).

Hypothesis analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.884	.035		25.332	.000
	GCG	.023	.011	.174	2.066	.041
	LAVERAGE	.003	.001	.193	2.077	.040
	SIZE	-.016	.012	-.133	-1.424	.157

SR = 0,884 + 0,023 GCG + 0,003 Leverage – 0,016 SIZE

Discussion
Governance and sustainability report
The first hypothesis states that governance has a positive effect on sustainability report. The results of the study indicate that corporate governance has a significant influence on the disclosure of the sustainability report. This is because the better the implementation of corporate governance, the more it encourages companies to carry out social

responsibility and the reporting. Based on the theory, it states that in carrying out the GCG mechanism, the company does not only pay attention to the economic value of its activities but also other added values such as the balance of stakeholder interests and compliance with regulations and norms that apply to the activities carried out. So, the better the implementation of GCG, the better the company's SR disclosure (Abdulrahim et al., 2021)

Laverage and sustainability report

The second hypothesis proposes that there is an influence between Leverage and sustainability reporting, thus the lower the leverage, the higher the sustainability reporting reported by the company (Dyduch & Krasodomska, 2017). The effect of leverage on sustainability report disclosure is because companies with high leverage seek to gain legitimacy through sustainability reports. Disclosure of sustainability reports can maintain the support and trust of creditors. Sustainability information can help lenders to determine risk factors associated with business practices company (Nasir et.al, 2014).

Size and sustainability report

The third hypothesis (H3) shows that firm size has an effect on positive to the sustainability report. Referring to stakeholder theory, all business activities and decisions taken by stakeholders in a company affect stakeholders. Thus, larger and more complex companies, i.e. large companies, usually have a need to disclose sustainability reports. There is no effect of company size on the disclosure of sustainability reports because large companies, have an urge to withhold information that contains value is relevant to avoid the pressure of political costs in law and tax increases, as well as pressure to carry out social responsibility (Dyduch & Krasodomska, 2017). For these reasons, it is possible that management prefers to disclose only necessary reports. This proves that the increase in the company's total assets does not guarantee the company to disclose the sustainability report. Companies that have large assets do not necessarily pay attention to good performance through their concern for the social environment. The company maintains a high level of assets in order to get a good image because it is seen as a large company.

Conclusions and recommendations

Conclusion

Company size and sustainability reports are not significant. The size of the company cannot influence the company to make a sustainability report. This means that the lower the leverage value, the higher the company's disclosure of sustainability reporting. The results do not prove that board size and profitability have no significant effect on sustainability reporting. This study examines the impact of corporate governance, as well as leverage and firm size and level of disclosure of sustainability reports. The population in this study are all banking companies listed on the Indonesia Stock Exchange for the financial year ending December 31, 2019-2021. The sampling technique was carried out by purposive sampling method. The results of the multiple regression test show that corporate governance and leverage have a positive and significant effect on the level of disclosure of the sustainability report. The results of the firm size test show that firm size has a negative and significant effect on the disclosure of sustainability reports.

Suggestion

The weakness of this study is that the sample only focuses on companies listed on the Indonesian Stock Exchange. For companies to pay more attention to the environment and social, considering that stakeholders have an important role in determining the sustainability of the company's life. As a suggestion for conveying information to stakeholders, the company can make sustainability report, completely and properly using the guidelines globally recognized.

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