Analysis of the Effect of Corporate Governance on the Company's Sustainability Performance

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Abstract. The focus of this research is to prove how significant the influence of corporate governance is on the company's sustainability performance. This research covers data from 2010 to 2020. The primary and secondary industries were chosen because they are considered to have a significant impact on social and economic environmental issues because they operate in the processing sector and are directly related to natural resources. The research sample is primary and secondary sector companies with complete data for each research variable. Testing the hypothesis in this study using multiple regression analysis. The results of the research and testing show that partially managerial ownership and institutional ownership have a significant effect on the company's sustainability performance. Meanwhile, the audit committee, board of directors scale, and environmental performance have no significant effect on the company's sustainability performance. However, Corporate Governance (CG) simultaneously influences the company's sustainability performance.

Keywords: Green; Company; Government; Continuity; Show.

1. Introductions

Sustainability has become a strategic issue for every company in Indonesia. This is motivated by John Elkington's statement about the Triple Bottom Line (TBL). TBL revealed that every company must report the condition of the company not only from the profit aspect, but also from the social and environmental aspects [1]. The report is the company's effort to show responsibility for all implementation within the company so that it can describe the impact caused by the company from economic, social and environmental aspects. Disclosure of economic, social and environmental aspects can be assessed as a corporate communication effort. With hope, it seems that companies are no longer concerned with the interests of investors, but also employees, consumers, society and the environment [2].

In general, companies have started implementing responsible reporting. Laskar's authors examine the relationship between corporate performance and sustainability. The research subjects are companies registered in Asia. The results show that the impact of corporate sustainability and sustainability reporting is still very low in Indonesia [3]. The latest

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information in Indonesia is that there is a regulation that requires companies to prepare and present a sustainability report issued by the Authority Number 51/PJOK.03/2017 [4].

Corporate governance, on the other hand, is the effort of all parties with an interest in the business to manage their business properly according to their rights and responsibilities. The principle role of company management can improve company performance [5]. Corporate governance practices as measured by external commissioners, audit committee, board size, and frequency of board meetings indicate that external commissioners and audit committees have an impact on financial statement results and the scale of the board of directors and board meeting frequency have no effect on financial results. In addition, the GMS control committee, institutional ownership and external commissioners have a significant effect on financial performance, but management ownership has no significant effect on financial performance [6].

The relationship between Corporate Governance (CG) and Sustainability Disclosure (CSP) has previously been investigated, but with mixed results. Inekwe et al. who studied in African countries and have small data limitations, so the possibility of differences with other studies is very open [7]. On the other hand, Tjahjad et al also found negative impacts, in their research the council found economic and environmental dimensions [8]. Therefore, this study examines the impact of Corporate Governance (CG) and green accounting on the sustainability of companies in the primary and secondary industries listed on the Indonesian Stock Exchange (IDX).

2 Literature Review

2.1 Agency Theory

Agency theory which was born in 1976 by Jensen and Meckling became the basic theory of researchers [9], [10], [11], [12] in showing the relationship between two variables. The agent theory gave rise to precedents of conflict of interest on both sides, namely the principal and the agent, due to separate ownership and control [13]. Due to the division of powers, there is a knowledge gap between shareholders and managers. In this theory, managers are assumed to have selfish tendencies that cause deviations in the company [14]. This theory also shows the important role of the board of directors in the structure and mechanism of Corporate Governance (CG). CG plays a role in resolving conflicts between principals and agents. At the same time, corporate sustainability, the agency theory applied by the government, certainly has a positive impact on companies [15].

2.2 Corporate Governance

The OECD principles of corporate governance also point to its role in reducing agency problems [16]. Here are some rules:

1. shareholder rights;
2. fair treatment of shareholders;
3. interest guarantor role

4. Description and Disclosure and
5. board obligations.

The factors that shape the management of the company are management ownership, institutional ownership, audit committee independence, board size independence, level of environmental protection [17]. Managerial ownership is company shares owned by directors, commissioners or company management. So that the directors owned by the director can manage the company's business according to their interests. So that the directors owned by the director can manage the company's business according to their interests. At the same time, having institutional investors encourages optimal monitoring of management performance. The audit committee is a committee established by the board whose task is to assist the board in carrying out its duties. The board of directors is one of the management structures that influences corporate social responsibility. Then environmental performance is a company's performance to create a healthy environment.

2.3 Corporate sustainability

Corporate sustainability is an organization's general activities, which include organizational policies, decisions made, and organizational actions in creating economic, social, and environmental values for the company. The triple bottom line, which combines economic as well as environmental and social actions at the same time, is widely used to achieve sustainable development. On a macro level, sustainable development is a concept related to poverty alleviation and environmental protection. If sustainable development is applied to companies, it is called corporate responsibility. At the company level, three dimensions (economic, social, environmental) are accepted as the company's sustainable development performance [18].

Sustainable business is an advantage in constant or continuous competition with competitors. Corporate Sustainability Performance (CSP), on the other hand, is defined as an organization or company that is able to achieve a balance between the goal of making profits and socially and environmentally important goals in running a business or operation. CSP can be used to measure the extent to which a company integrates economic, environmental and social factors as well as various management into its operations to experience the benefits it brings to both the company and society.

To facilitate performance reporting and evaluation, several international standard guidelines have been developed with the aim of achieving three results, namely: United Nations Environmental Program (UNEP), Global Reporting Initiative (GRI), Global Compact (UNGC). Among these guidelines, GRI is the most popular and widely used method in the field of corporate sustainability, because it contains indicators consisting of three components, namely economic, social and environmental [3]. Based on this explanation, Corporate Sustainability Performance (CSP) can be interpreted as a long-term competitive advantage in which the company gains financial benefits without sacrificing environmental and social impacts and the needs of the company's stakeholders. instructions adopted by many countries.

3 Research Methods

The type of method used in this research is quantitative. While the data source used in this research is secondary data. Where secondary data is data collected from other sources, which are used as data sources.

The population of this study is from large and small industries listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. In 2017-2020, a total of 76 large and small companies were listed on the Indonesian stock exchange. Meanwhile, 42 companies met the criteria to be used as research samples. In taking samples using Purposive Sampling technique method. Where the Purposive Sampling technique is a sampling technique with various considerations and certain supporting criteria according to the research objectives. The sample criteria are companies that are still listed on the Indonesia Stock Exchange (IDX) during the study period, namely. from 2017 to 2020, as well as companies that do not yet have complete information about the variables used in the research.

In this study Corporate Sustainability Performance (CSP) and its categories as related variables, sustainability disclosure is measured using content analysis on corporate sustainability reports published on the IDX website. Sustainability reports are defined as information published by companies related to corporate social activities and cover the following topics: economic, environmental and social aspects. where the social aspect consists of four sub dimensions namely work, human rights, community and product responsibility [19]. While the independent variables are:

1. Management ownership (X1) is the level of management share ownership that is actively involved in decision making.
2. Institutional ownership (X2), namely the proportion of share ownership owned by a company such as banks, insurance companies, pension funds, limited liability companies, and other financial institutions.
3. The board forms an audit committee (X3) which plays an important role in improving the governance system, and is obligated to assist the board in carrying out its duties.
4. Board size (X4) can be seen from the number of company board members; and
5. Environmental impact (X5) as measured by the company's performance in following PROPER.

The index measurement method created is content analysis, where the value is 1 for each item that is disclosed and 0 for items that are not disclosed in the category determined by the Global Reporting Initiative (GRI). The following formula is used to calculate the level of social responsibility disclosure from the annual report, which is as follows:

$$CSDI_j = \frac{\Sigma X_{ij}}{n_j}$$

Information:

$CSDI_j$ = Company Social Description Index j

n_j = Number of items described, n_j

X_{ij} = Number of items spelled, 1 = if item i is spelled out; 0 = if item i is not explained.

The data analysis method used in this study is multiple regression. Because in regression analysis besides measuring the strength of the relationship between two or more variables, it also shows the direction of the relationship between the dependent variable and the independent variable. This study uses multiple regression analysis to determine how much influence the independent variables, namely management ownership, institutional affiliation, audit committee independence, board size independence, environmental protection, and the influence of the dependent variable on corporate sustainability.

4 Research Results and Discussion

4.1 Descriptive Statistical Analysis

Descriptive statistical analysis is a statistical test process used to see an overview of research data. The following are the results of descriptive statistical tests which can be seen from the mean, standard deviation, the largest and smallest values and are summarized in Table 1.

Table 1 . Descriptive statistics

V ari _ a ble	M enters	Max _	Method	St.De v i a s i
Management ownership (X1)	0 , 0	0.21	0.020	0 , 05 09 0
Institutional ownership (X2)	0.45	1 , 0	0.967	0.09667
Audit committee board (X3)	2	5	3.0	0.379 ___
Board of commissioners size (X4)	2	8	5,2	1 , 901
Environmental performance (X5)	2	6	3 ,	0.709 ___
Company Sustainability Performance (Y)	0.20 3	0.454	0.320	0 .05 0 68

Source: SPSS output

4.2 Multiple Linear Regression Analysis Test

Multiple linear regression analysis is used to prove the effect of the independent variables on the dependent variable. The summary of the results of multiple linear regression analysis is shown in Table 2.

Table 2 . Multiple Linear Regression Analysis

Variable	Coefficient	St.'s mistake	Sig.
Constant	0.385	0.074	0.000
Management ownership (X1)	-0.238	0.087	0.021
Institutional ownership (X2)	-0.186	0.053	0.000

Audit committee board (X3)	0.025	0.014	0.056
Board of commissioners size (X4)	0.003	0.004	0.257
Environmental performance (X5)	0.008	0.007	0.146
Adj. R2 = 0.273			
F Count = 8783			

Source: SPSS output

$$Y = 0.385 - 0.238X1 - 0.186X2 + 0.025X3 + 0.003X4 + 0.008X5 + e$$

4.3 Simultaneous Significance Hypothesis Test

While the results of testing the hypothesis give a calculated F value of 8.783 greater than the table F value of 2.300 with a significance value of 0.000 and less than 0.05 so it can be concluded that managerial ownership, institutional ownership, audit committees, meeting commissions and the level of environmental protection have an effect together. the same for the company's sustainability performance. It can also be interpreted that the regression model used is in accordance with the data.

4.4 Partial Test

The results of the partial test of the significance level of the variable p-value of management ownership are 0.021 and <0.05 so that the hypothesis is accepted but has a negative effect. This shows that managerial ownership affects the company's sustainability performance, but the results show a negative effect, so that the greater the percentage of managerial ownership in the company, the lower the company's sustainability performance. This is because managerial ownership with a high level of focus is more focused on developing the company's work ability level and the view of managerial investors who seek profit can add value to company policies such as disclosing corporate social responsibility towards discouragement. The results of this study are in line with research conducted by Ong and Djajadikerra who found that an increase in managerial ownership causes a decrease in corporate sustainability [20].

The results of testing the institutional wealth variable obtained a p value with a significant level of 0.000 and <0.05, indicating that the hypothesis is accepted but there is a negative effect. This shows that institutional ownership has a significant effect on corporate sustainability, but the effect is negative. The results of this study indicate that institutional ownership has a negative effect on corporate sustainability performance. This is because the focus of institutional ownership is to seek profits which will have a direct impact on the rate of return obtained by institutional owners from their investment in a company. , the results in this study are consistent with research conducted by Sukarsih who found a negative relationship between institutional share ownership and corporate sustainability performance [17].

The results of the research on the audit committee variable obtained a p value with a significance level of 0.056 > 0.05 so that the hypothesis was rejected. This shows that the audit committee has no significant effect on the sustainability of a company. The audit committee board in the company does not have a significant effect on the company's sustainability performance, because the oversight function carried out by the company is not optimal, because the audit committee is obliged to assist the board of commissioners or supervisory board in carrying out company disclosures, so that pressure factors and unilateral interests make the work of the audit committee be under pressure. The results of this study are in line with the results of research conducted by Ginting that the audit committee has no influence on the results of the company's sustainable development [21].

The results of the study on the board of commissioners variable size obtained a p-value with a significance level of 0.257 > 0.05, so the hypothesis was rejected. This shows that the size of the board of commissioners has no significant effect on the Company's Sustainability Performance. The average small scale of the board of commissioners will make it more difficult for the CEO to control and supervise him, so that what he does becomes less effective. The results of this study are in line with research conducted by Mahmood et al., that the size of the board of commissioners has a significant effect on the sustainable development of a company, namely the more the number of commissioners in a company, the higher the level of sustainable development of a company [22].

The results of the research on environmental performance variables obtained a significant p-value level of 0.146 > 0.05, indicating that the hypothesis was rejected. This indicates that environmental performance as measured by the PROPER rating has no significant effect on corporate social responsibility exposure. The reason for rejecting the hypothesis is because the disclosure of social obligations disclosed by the sample companies that have followed PROPER by the Ministry of Environment is not widely disclosed in the annual report. The results in this study are in line with research conducted by Sukarsih which states that environmental performance does not affect the sustainability of a company [17].

5 Conclusion

This study aims to determine how much influence the implementation of Corporate Governance (CG) has on financial performance. Based on the data collected, the results of the tests and analyzes that have been carried out in this study, it is concluded that partially institutional ownership and managerial ownership have a significant effect on the company's sustainability performance, but have a negative effect. This is because managerial ownership with a high level of focus is more focused on developing the level of corporate employability and the view of profit-seeking managerial investors can lead to value-added corporate policies such as exposing corporate social obligations to despair. On the other hand, because the focus of institutional ownership is to seek profits which will have a direct impact on the rate of return obtained by institutional owners from their investment in the company. While the audit committee board, board of commissioners scale and environmental performance have no significant effect on the Company's Sustainability Performance. But simultaneously Corporate Governance has a joint influence on Corporate Sustainability Performance.

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