

**THE EFFECT OF CHARACTERISTICS COMPANY AND CORPORATE  
GOVERNANCE ON SUSTAINABILITY REPORT AND FINANCIAL  
PERFORMANCE LISTED LQ45 COMPANY**

**Sihwahjoeni**

**University of Merdeka Malang, Indonesia**

Email: yuninang1812@gmail.com

**Dwi Ermayanti**

**STIE PGRI Dewantara Jombang, Indonesia**

Email: dwi\_ermayanti@yahoo.co.id

**ABSTRACT**

Financial performance is a description of the condition and circumstances of a company that is analyzed with the tools of financial analysis, so it can know both the financial condition and financial performance of the company within a certain time. The sustainability report is needed for stakeholders including the community, to know all forms of corporate responsibility to the community and the environment. This study aims to analyze the influence of Characteristics Company and corporate governance towards sustainability report and financial performance, analyze the influence of sustainability report on financial performance, and analyze the influence of Characteristics Company and corporate governance on financial performance through sustainability report. The number of samples in the study of 22 companies. The results of the analysis show that the characteristics of the company affect the sustainability report, also affects the financial performance, corporate governance affect sustainability report and financial performance. Sustainability report affects the financial performance. Sustainability mediates the influence of Characteristics Company and corporate governance on financial performance.

Keywords : Characteristics Company, Corporate Governance Sustainability Report, Financial Performance

**PRELIMINARY**

The size of the company as one of the characteristics of the company that helped determine the level of investor confidence requires good credibility so that the company needs to contribute in social and environmental growth around (Syailendra, 2014). Burhan and Rahmati (2012) examine the differences between

companies that have published sustainability reports and those that do not publish when viewed from the characteristics of the company covering the types of sectors of operations, financial performance, long-term growth, corporate governance, and the location of those companies established.

Meryana (2013) states that corporate governance practices in Indonesia include the following: the number of Board of Commissioners and Board of Directors adjusted to the complexity of the company, the number of independent commissioners who are also members of the Audit Committee comprises 30% of the total Audit Committee, as well as the appointment and dismissal of internal audit shall be conducted by the President Director with the approval of the Board of Commissioners. The concept of corporate governance is essentially an extension of the concept that governs the relationship between the owner and the company's management or agency problems (Sihwahjoeni, 2016)

Sustainability reports in Indonesia have been practiced since 2000 and GRI guidelines (Global Reporting Initiatives) have been used as reference for companies. Sihwahjoeni (2014) states that sustainability reports in Indonesia have been encouraged by several laws or government regulations, either implicitly or explicitly requiring companies to disclose and report information about their social, environmental, and economic activities to a certain level. In Indonesia, research on sustainability report disclosure still tends to be in the early phase, this is because more and more companies are expressing sustainability report can be a strategy for company to improve its financial performance one year ahead (Wibowo and Faradiza, 2014).

Financial performance is a description of the condition and circumstances of a company that is analyzed by means of financial analysis, so it can know both the financial condition and the performance financial company in a certain time (Weber, et al, 2015). Reddy and Gordon (2012) stated that the company's financial performance is reflected in the financial statements of a particular year or made in comparison with previous years, so it can be seen the progress or decline that occurs from year to year, as well as how the difference to know whether or not the company's consistency.

This research aims to analyze the influence of Characteristics Company and corporate governance towards sustainability report and financial performance, analyze the influence of sustainability report on financial performance, and analyze the influence of Characteristics Company and corporate governance to financial performance through sustainability report.

## **Literature review**

### **1. Characteristics affect the Company's Sustainability Report**

Darwin (2014) in his research measures the characteristics of firms with profitability, liquidity, solvency and firm size. The result that profitability and liquidity have a significant effect on sustainability report. While the solvency level of the company has no effect on CSR disclosure. Affirmed by Ballou et al (2014) that the size of the solvency owned by the company has no effect on the level of corporate social responsibility disclosure.

Sustainability report research using disclosure principle of sustainability report consisting of balance, comparable, accurate, timeliness, suitability and

accountability has been done by Lean (2011), the result that the economic and environmental factors significantly influence the characteristics of the company. This is supported by Reddy and Gordon (2012) which states that companies with extensive disclosure of sustainability reports tend to earn substantial ROA over the next year.

## **2. Corporate Governance affect the Sustainability Report**

Domaldson and Preston (2015) examine other factors of institutional ownership structure as a proxy for corporate governance that allegedly influences sustainability report is ownership by foreign institutions which is an investment decision made by foreign investors in order to diversify internationally with the aim of reducing the variation of return portfolio, corporate governance is a combination of management, board, shareholder, and others who have an interest in the company (Meryana, 2013). Supported by Weber et al (2015) that corporate governance requires the existence of a device structure to achieve goals and supervise performance.

Sustainability report is a report that refers to the concept of sustainable development (Ernst et al 2013). Supported by Ballou et al (2014) which states that with the disclosure sustainability report, it is expected that the level of profitability, liquidity, and earnings per share companies will increase, and then the company can grow sustainability. Thus, sustainability report ideally integrating the three forms of financial, social, and environmental reports.

## **3. Characteristics Company Influence on Financial Performance**

Characteristics of the company proxies with variable financial performance and long-term growth, the results are not significant if associated

with profitability and liquidity (Darwin, 2014). This is supported by Guidry and Patten (2011) who have examined the differences between companies that have issued sustainability reports with those not yet published when viewed from the company's financial performance and firm characteristics covering aspects of the types of sectors of operations, financial performance, long-term growth, and corporate governance.

Porter and Kramer (2015) argue that firms with high liquidity levels are considered capable of managing their business, resulting in low risk levels. Supported by Alewine and Stone (2011), in his research on financial performance that a credible company's ability will create a strong and positive image attached to the company. Positive images are increasingly allowing stakeholders to always support the company (Meryana, 2013). Another case with Reddy and Gordin (2012) is that corporate profitability is a good management of corporate management indicators, so management will tend to reveal more information when there is increased profitability of the company. This is supported by Weber et al (2015) that profitability is a factor that gives managers the freedom and flexibility to conduct and disclose social responsibility programs widely.

#### **4. Corporate Governance Influence on Financial Performance**

Donaldson and Preston (2015) argue that there is a discrepancy between large-scale shareholdings in corporate governance in countries with liquid markets and illiquid markets, namely that liquid-market models will reduce the incentives of large shareholders to monitor companies. This is supported by Guidry and Pattern (2011) because the liquid market allows them to sell

shares when they receive unfavorable information about the company. Thus, in a less liquid market, there will be corporate governance mechanisms by foreign investors in public companies that they can be individuals or institutions (Darwin, 2014).

Meryana (2013) states that the company's financial performance is reflected in the financial statements of a particular year and can be used as a comparison with previous years to see progress or decline from year to year.

Another issue of ownership structure in the emerging markets is foreign and domestic ownership, in his research Lean (2011) examines corporate governance by comparing company ownership by domestic institutions and foreign institutions. The results show that foreign agencies monitor better than domestic institutions. This is supported by Ballou and Landes (2014) stating that the company's performance is positively related to the ownership of foreign institutions and relates negatively to domestic ownership.

## **5. Sustainability Report has an effect on Financial Performance**

Research on sustainability reports continues to increase as the topic draws. Wibowo and Faradiza (2014) provide evidence that sustainable performance in the economic, social and environmental sectors is positively correlated with the company's financial performance as projected by earnings before interest and taxes, ROA, and ROE. This research is supported by Ernst and Young (2013) which shows that the sustainability report undertaken by companies in Australia has an effect on the abnormal return, but when the research was conducted with a sample of companies in New Zealand, the results were insignificant (Porter and Kramer, 2015).

Reddy and Gordon (2012) stated that the positive impact of sustainability report disclosure on company performance can be obtained only if sustainability practices are integrated into the business model and strategic decisions of the company. This result is not in line with Darwin (2014) which states that the increasingly widespread disclosure sustainability report made the company will increase the ROA and current ratio of the company one that will come.

In his research Guidry and Patten (2011) revealed that reporting economic performance in sustainability report will increase the transparency of the company that impact on improving investor confidence and financial performance. This is reinforced by Weber et al (2015) which states that the disclosure of economic performance has a positive effect on financial performance.

### **Hypothesis**

1. Company and Corporate Governance characteristics affect the Sustainability Report.
2. Characteristics Company and Corporate Governance Influence on Financial Performance.
3. Sustainability Report has an effect on Financial Performance.
4. Characteristics Company and Corporate Governance Influence on Financial Performance through Sustainability Report.

## **Research Methods**

### **1. Population and Sample**

The population in this study are all companies whose shares are listed on the BEI in 2012 - 2016. The election begins in 2012, as it was the year of the initial disclosure of the sustainability report. The difference of years of research is intended to determine the financial performance of one year to come.

The sample selection technique used is purposive sampling with the following criteria:

- a. Companies that publish sustainability reports consecutively in 2012-2016, and are nominated for ISRA (Indonesian Sustainability Reporting Awards) and can be accessed through the company website and BEI website (<http://www.idx.co.id>). This shows that the information contained in the sustainability report company can be accessed by the public.
- b. Companies that publish financial statements for four consecutive years (2012, 2013, 2014, 2015, 2016) and all the variables required in this study are available.

### **2. Definition of Operational Research**

- a. Company Characteristics reflecting the company's fundamental condition as factors affecting the financial performance, is proxied by firm size of total assets presented in the form of natural logarithms.
- b. Corporate Governance is a set of rules governing relationships between shareholders, managers (companies), creditors, government, employees and other internal and external stakeholders related to the rights and obligations of the company. Corporate Governance is proxied with the Board of



Directors. D Board of Directions is the organ of the company authorized and fully responsible for the management of the company for the benefit of the company.

- c. The sustainability report is one instrument that provides a balanced and reasonable picture of sustainability performance, measured using dummy variables. Value 1 = express, and value 0 = not express.
- d. Financial Performance is an illustration of the financial condition of a company, so it can be known about both the poor financial condition of a company that reflects the performance of work within a certain period. Financial performance is proxies with return on asset.

### **3. Types and Data Sources**

The type of data used in this study is secondary data, obtained indirectly through intermediate media. Secondary data used are sustainability report and report obtained from company website or website of BEI (<http://www.idx.co.id>).

Data for SRDI variables are obtained from company sustainability report, while data for profitability, liquidity, and dividend payout ratio are obtained from company financial report and Indonesian Capital Market Directory (ICMD 2016).

### **4. Data Analysis Technique**

The relationship structure that exists on all four variables will be analyzed using SEM-PLS model. The reason for the use of Partial Least Square (PLS) is that there are several research hypotheses that do not yet have a solid theoretical foundation. PLS can be used to test the causal relationships of

research variables that have not received much of theoretical or research support is exploratory (Ghozali, 2011). PLS is a powerful analytical method, because it is not based on many assumptions, the data does not have to be normal distribution, the sample should not be large, and can explain the relationship between latent variables (Ghozali, 2011). Another advantage of PLS is that it can be used on data of different types of scales capable of managing multicollinearity problems among independent variables, and results are robust despite the abnormal and missing data (Hartono, 2009).

## RESULTS AND DISCUSSION

### Results

The output of SEM PLS results is presented in the following figure.

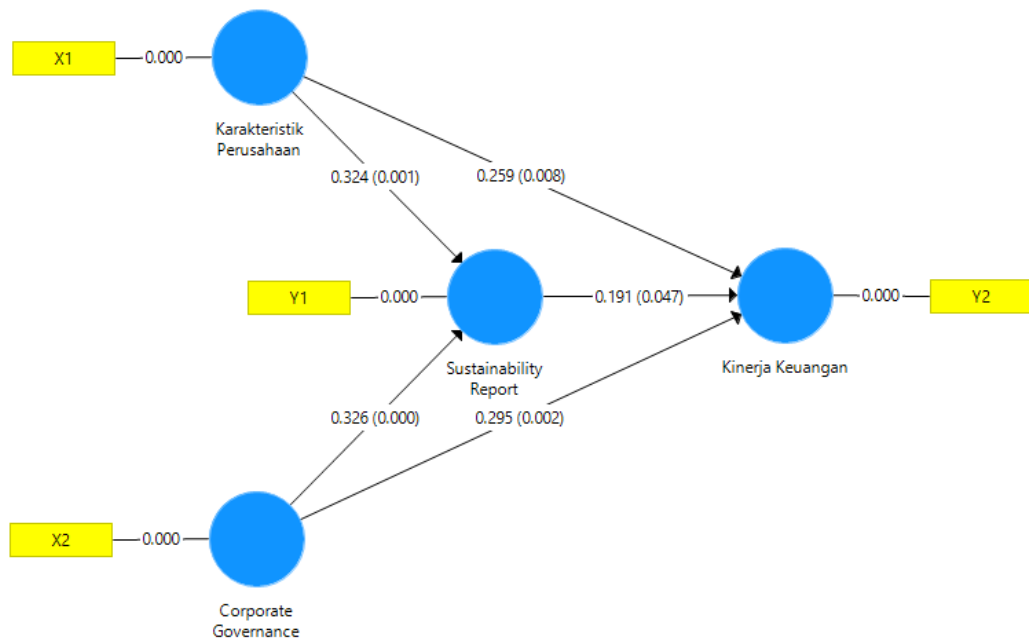


Figure 1  
Hypothesis Model Test Results

The result of the hypothetical model analysis of the combined effect of Characteristics Company and corporate governance on sustainability report is

35.3%. While the combined effect of Characteristics Company, corporate governance and sustainability report on financial performance is 30.1%. Hair et. al. (2014) states that the contribution with a value of between 20% -50% included in the category is quite high.

**Table 1**  
**Path Coefficient Test Results**

Relationship between Variables	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (  O / STDEV  )	P
Characteristics Company → sustainability report	0.324	0.096	3.388	0.001*
Corporate governance → sustainability report	0.326	0.089	3.644	0.000*
Company characteristics → financial performance	0.259	0.097	2.673	0.008**
Corporate governance → financial performance	0.295	0.096	3.078	0.002**
Sustainability report → financial performance	0.191	0.096	1.987	0.047**

\* significant at  $\alpha = 1\%$

\*\* significant at  $\alpha = 5\%$

The coefficient of the direct influence of the characteristics of the company towards sustainability report is significant ( $\beta = 0.324$ ;  $p = 0.001$ ). The coefficient of direct influence of corporate governance on sustainability report is significant ( $\beta = 0.326$ ;  $p = 0.000$ ). The coefficient of direct influence of firm characteristics on financial performance is significant ( $\beta = 0.259$ ;  $p = 0.008$ ). The coefficient of direct influence of corporate governance on financial performance is significant ( $\beta = 0.295$ ;  $p = 0.002$ ). The coefficient of the direct influence of the sustainability report on the financial performance was significant ( $\beta = 0.191$ ;  $p = 0.047$ ).

**Table 2**  
**Test Results Direct, Indirect, Total Influence**

Relationship between Variables	Direct	Indirect	Total Effect	P	Status
Characteristics company → Sustainability report → Financial performance	0.259	0.062	0.321	0,002*	Significant
Corporate governance → Sustainability report → Financial performance	0.295	0.062	0.357	0.000**	Significant

\* significant at  $\alpha = 1\%$

\*\* significant at  $\alpha = 5\%$

The net effect of Characteristics Company on the financial performance of 0.321 is greater than the direct effect of 0.259 with a significance value of 0.002 second, so that the sustainability report shown to mediate the effects of Characteristics Company on financial performance. The effect of total corporate governance on financial performance of 0.357 is greater than the direct effect of 0.295 with a significance value of 0.000, so that sustainability report is proven to mediate the influence of corporate governance on financial performance.

## **Discussion**

### **1. Effect of Corporate Characteristics and Corporate Governance on Sustainability Report**

The company's characteristics influence the sustainability report, which means that the larger the company, the more likely it is to disclose more information, the more likely it is to practice sustainability report disclosure. Large companies generally have large amounts of assets, large sales, good employee skills, sophisticated information systems, many product types, a complete ownership structure that allows and requires a large level of disclosure. The greater the number of employees the greater the level of corporate complexity so that accounting information is needed. Companies are more often highlighted, because large companies tend to better maintain the quality and image in the eyes of the community. Large companies will also reveal more information than small companies because big companies will face greater political risk than small companies.

Corporate governance affects sustainability, which means that the more frequent the board of commissioners holds the meeting is expected to monitor (supervision) conducted by the board of commissioners will be better and encourage companies in disclosing social information, so that corporate social information disclosure will also be wider. Sustainability report is getting more attention in global business practice and become one of the criteria in assessing corporate social responsibility. Leaders of global companies are increasingly realizing that more comprehensive disclosure (not just financial reports) will support the company's strategy. In addition it can show their commitment to sustainable development.

## **2. The Influence of Corporate Characteristics and Corporate Governance on Financial Performance**

The financial performance is influenced by the characteristics of the company, the financial performance is a description of the financial condition of a company that is analyzed with the tools of financial analysis, so it can be known about the good of the financial condition of a company that reflects the performance of work in a certain period. The better the company's characteristics are proxies to the size of a company will broaden the stakeholders interests. More companies large generally have a creditor more and more investors (both local and foreign investors) compared to more companies small. Larger company size will be able to establish cooperation with the creditor and attract investors as well potential investors are broader and diverse. In addition, large companies usually to the public's attention. In condition so companies need effort to gain greater legitimacy stakeholders

within order to create harmony values social activities from the norm behavior that exists in society. By therefore the bigger the company will be the more interested to reveal broader information. This vast disclosure is intended to, inter alia: educate and inform stakeholders interests of purpose or intent organization to improve its performance, change organizational perception, without altering the actual performance of the organization, divert or manipulate the attention of the issues important to other related issues, or alter external expectations about organizational performance.

Corporate governance affects financial performance, which means that in achieving good corporate governance, the role of the board of directors in the company is very important in monitoring the financial reporting process by management to improve the credibility of financial statements and other information. Corporate governance is a system, process, and set of rules that are used to manage relationships between various stakeholders so as to encourage the company's performance to work efficiently, resulting in long-term sustainable economic value for shareholders and the surrounding community as a whole. Financial performance is one way that can be done by the management in order to fulfill its obligations to the funders and also to achieve the goals set by the company.

### **3. Effect of Sustainability Report on Financial Performance.**

Companies that have the ability good financial performance, will have high confidence to inform to stakeholders compared with companies that have performance poor finances. This is so rational because companies with performance good finance will show to the stakeholders that companies can

meet expectations they are primarily investors and creditors. As a result, companies with a level high profitability will tend to do the disclosure through sustainability report, due to profitability is one of the performance indicators must Profitability is the ability of companies in generating profits so as to increase the value of shareholders of the company. With increased profitability of the company then the company has more funds to do social activities. This impacts on the increasing amount of information that can be expressed in sustainability reports. Companies that have good financial performance capability will have high confidence to inform their stakeholders because the company is able to show stakeholders that the company can meet the expectations of stakeholders, especially investors and creditors. Consequently, firms with high levels of profitability will tend to disclose through sustainability reports, as profitability is one of the performance indicators to be disclosed in sustainability reports.

#### **4. Characteristics Company and Corporate Governance Influence on Financial Performance through Sustainability Report**

Sustainability report mediates the influence of Characteristics Company and corporate governance on financial performance. Sustainability report is an accountability report used to reveal the economic, social, and environmental impacts of an enterprise. Sustainability report becomes a medium of information for internal and external stakeholders to assess whether the management of a company has run what it has become its responsibility. Existence sustainability report as a complement to the company's financial statements is very important for the stakeholders as well as

the company itself. The disclosure of sustainability report is conducted in the framework of accountability to stakeholders to maintain stakeholder support and also to meet stakeholder information needs. Companies with high levels of profitability will tend to disclose through sustainability report, because profitability is one of the performance indicators that should be disclosed in sustainability report. This sustainability report disclosure is conducted in the framework of accountability to stakeholders to maintain stakeholder support and also to meet their information needs. In addition, the disclosure of sustainability report can also be used as a medium of communication with stakeholders, who want to gain confidence about how the profits generated by the company. This information is especially important for stakeholders other than investors and creditors who are usually motivated by economic or financial interests.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

This study aims to analyze the influence of Characteristics Company and corporate governance towards sustainability report and financial performance, analyze the influence of sustainability report on financial performance, and analyze the influence of Characteristics Company and corporate governance on financial performance through sustainability report. The results of the analysis show that the characteristics of the company affect the sustainability report. Corporate governance affects the sustainability report. Characteristics of the company affect the financial performance. Corporate governance affects



financial performance. Sustainability report affects the financial performance. Sustainability mediates the influence of Characteristics Company and corporate governance on financial performance.

### **Recommendations**

For investors must think logically in addressing any information received. This is due to the company's financial performance is not only influenced by internal and external factors, but also must be influenced by other factors that exist in the market. Subsequent research needs to conduct research by using other exogenous variables that have the potential to affect the financial performance.

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