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The Role of Good Corporate Governance and Financial Reporting in Disclosure of Sustainability Report

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ABSTRACT: This study to know and analyzes good corporate governance and financial performance's role in sustainability reports. The method used in this research is Qualitative analysis, library research, previous research research, limited interviews, Triangulation, Point Group Discussion, Discussion and Conclusion, suggestions. This study shows that GCG, Independent commissioners, Audit Committee and financial performance positively affects sustainability reports.

KEYWORDS: financial performance, good corporate governance, audit committee, independent commissioner, financial performance and: Sustainability Report.

I. BACKGROUND

Pollution in the city of Jakarta has recently increased greatly, it is on the verge of endangering the public. Pollution caused by a lot of factory smoke in Tangerang, Bekasi and motor vehicle smoke. There are forest fires, whether intentional or not, the smoke of which rises high, disrupting flights even as far as the neighboring countries of Singapore and Malaysia. They complain heavily. The government conducts research and investigations of the perpetrators of the manufacturing process. Although it is repeated every year. Whereas in the Limited Company Law No. 40 of 2007 Article 74 (1) Companies that carry out their business activities in the field of and/or related to natural resources must carry out Social and Environmental Responsibility. (2) Social and Environmental Responsibility as referred to in paragraph (1) is an obligation of the Company that is estimated and calculated as the Company's cost, the implementation of which is done with due regard for propriety and propriety. (3) Companies that do not carry out their obligations as referred to in paragraph (1) are subject to sanctions in accordance with the provisions of laws and regulations. (4) Further provisions on Social and Environmental Responsibility are governed by government regulations. It was explained that companies must take responsibility for social and environmental responsibility. Meanwhile, Financial Services Authority Regulation No. 51/POJK.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Boards, Issuers, and Public Enterprises. Clarifies that companies must be able to disclose financial sustainability especially for financial institutions, issuers, and public companies. In order for companies to be able to express their responsibility in social and environmental aspects, a concept is needed, namely a sustainability report. Kurniawan et al. (2018) stated that companies that disclose sustainability reports have shown the wider community that the company is clearly and aware of social and environmental issues. Aditya and Sinaga (2021) revealed that the sustainability report is a sustainability report in which there is a company's performance in cultivating both the economy, the social, and the environment. In Indonesia, the sustainability report is still voluntary and its disclosure only depends on the company's
initiative. We are interested in doing research related to "The Role of GCG and Financial Reporting in the disclosure of Sustainability Report.

II. THEORETICAL STUDY

Grand Theory

1. Agency Theory

Agency theory or agency theory (Jensen and Meckling1976).

This theory explains that the separation between the owner (principal) and the manager (agent) of a company can cause an agency problem.

2. Stakeholder Theory

According to Freeman and Reed (1983), stakeholder theory is a group of policies and practices related to stakeholders, values, compliance with legal provisions, appreciation of society and the environment, as well as the commitment of the business world to contribute to development and sustainability.

Variable Theory

1. Good Corporate Governance (GCG)

According to The Organization for Economic Corporation and Development (OECD), corporate governance is a system used to direct and control company activities, organize the division of tasks, rights and obligations of shareholders, boards of directors, managers, and those who are interested in the life of the company.

According to The Organization for Economic Corporation and Development (OECD), corporate governance is a system used to direct and control company activities, organize the division of tasks, rights and obligations of shareholders, boards of directors, managers, and those who are interested in the life of the company.

GCG is the principles applied by the Company to maximize the Company's value, improve the Company's performance and contribution, as well as maintain the Company's long-term sustainability. GCG is also a relationship pattern, system and process used by the Company to provide added value to shareholders continuously in the long term, while still paying attention to the interests of stakeholders, but based on the applicable rules and norms. The main organ of GCG consists of the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors. While the supporting organs consist of: Secretary of the Board of Commissioners, committees, Company Secretary, Internal Supervisory Unit (SPI), Relations Function, Internal Audit Function and Policy & Risk Management Function. The company has tried to apply GCG throughout its business processes. In its implementation, the Company refers to the principles of GCG General Guidelines called TARIF, namely: Transparency, Accountability, Responsibility, Independence and Fairness.

1). Transparency (transparency) To increase objectivity in business activities, the Company will always take the initiative to provide and disclose information and policies that are material and relevant written and on time in a clear way, easily accessible and understood by all shareholders, creditors and other stakeholders.

The Company will continue to uphold the Company's secrets in accordance with legal regulations, official secrets and personal rights without diminishing the principle of openness that is adhered to in accordance with the principles of GCG Openness.

2). Accountability (accountability) is a necessary prerequisite to achieve good and continuous performance so that the Company must be properly managed, measured and in accordance with the interests of the Company by always taking into account the interests of shareholders and other stakeholders.Corporate bodies and employees must always adhere to business ethics and code of conduct in carrying out their responsibilities and business activities.

3). Responsibility. As a form of responsibility towards society and the environment as a shareholder, the Company will always implement the principle of prudence, comply with the Company's internal rules in carrying out each of its business activities so that it is hoped that the Company will receive recognition as a Good Corporate Citizen.

4). Independence The company will always try to run its business independently and avoid the practice of dominance by any party, conflict of interest, dominance by one of the company's organs over other organs of the company, all kinds of pressure or influence that can influence decision-making. It is hoped that all decisions made by the Company will be more independent and objective.

5). Fairness (equality and propriety. The company will always try to pay attention to and treat the interests of shareholders and third parties who are related or conduct transactions with the company with equality and propriety and always provide equal opportunities to the community in the process of hiring employees and careers without looking at physical conditions and distinguishing tribes, religion, race, class and gender.

2. Financial Performance

According to Rudianto (2013), financial performance is the result that has been achieved by company management in generating profit. Fahmi (2014) thinks that financial performance is an analysis that is done to see how far the company has implemented financial implementation rules properly and correctly.

Abdullah (2005) stated that overall performance is a reflection of the performance achieved by the bank in its operations related to aspects of finance, marketing, collection and distribution of funds, and technology as well as human resources. The bank's financial performance is a reflection of the bank's financial condition in a certain period. The measurement of financial performance is the ability of a company to effectively and efficiently use its capital (Munawir, 2011). Investors will be more motivated to invest their capital when the company has good credibility. Financial Performance Measurement The most important thing for investors is the rate of return from the capital that has been invested in a company. According to Rudianto (2006), financial performance measures can be selected into several, namely: Activity ratio, leverage ratio, liquidity ratio, and profitability ratio. In this research, the measurement of financial performance used is the profitability ratio, namely: Return on Equity (ROE). Kasmir (2014) stated that ROE is a comparison between net profit and company capital.

3. Sustainability Report

Elkington's Triple Bottom Line concept gives the view that companies that want to be sustainable should observe the 3Ps, namely: First, profit to increase the Company's income Second, people to provide well-being to employees and Society Third, the planet to maintain and improve the quality of nature and the environment where the company operates . Sustainability Report The concept of sustainability according to Whitehead (2006) is as a result of society that allows future generations to at least have the same natural wealth as the current generation. He explained that sustainability does not mean then needing such a special saving of resources, but only ensuring the sufficiency of resources (combination of human, physical, and natural resources) for future generations, so as to make their living standards at least as good as the current generation.

Related to that, it is necessary to disclose information related to environmental, social, and economic aspects as a form of transparency in reporting the company's performance. Companies must collect, control, and report to internal and external parties about the sustainability information they have in the sustainability report. Global Reporting Initiative (GRI) is one of the institutions that seriously deal with problems related to sustainability (Yuliana and Sukoharsono, 2008:251) . GRI was established because of the increasing urgency of transparency of the influence of business activities of companies, both economic, environmental and social, so guidelines or frameworks are needed to compile sustainability reports for companies of various sizes and business sectors around the world (Notiger and Gai, 2007).

III. RESEARCH METHODOLOGY

The research methodology used is a descriptive qualitative research method. Qualitative research where the researcher's role is as a key instrument in collecting data, and interpreting the data. Data collection tools usually use direct observation, interviews, document studies, library studies, previous research studies. While the validity and reliability of data using triangulation using the inductive method, Forum Group Discussion (FGD) with colleagues, the results of qualitative research emphasize more on meaning than generalization.

IV. DISCUSSION

According to GRI data as of April 23, 2019, of the 629 companies listed on the BEI, there are at least 110 companies that publish their sustainability reports. There are still many companies that do not publish their sustainability reports due to various factors. The first factor is good corporate governance. In the principle of Good Corporate Governance that has been done during the operation of its business. Kusmayadi et al. (2015) explained that good corporate governance should protect the rights of stakeholders, one of which is by obtaining information about the company and being entitled to the company's profits in accordance with its procedures. Therefore, as a form of accountability, the company should disclose its economic, social, and environmental performance to stakeholders. One of the aspects good corporate governance is the audit committee. The audit committee is expected to maintain its independence in the supervisory function. Therefore, the audit committee plays an important role in order to create a good relationship with stakeholders. One of them reveals the sustainability report in more detail as a form of responsibility towards stakeholders (Yudaruddin & Pratiwi, 2019). However, the results of previous research have not yet obtained consistent results. Liana (2019) and Asfari et al. (2017) found that the audit committee influences the disclosure of the sustainability report. However, Dewi and Pitriasari (2019) and Tobing et al. (2019) did not find the influence of the audit committee on the disclosure of the sustainability report. The next aspect is the independent board of commissioners which is an independent party in the composition of the board of commissioners.

Sofa and Respati (2020) stated that the independent board of commissioners as a supervisory board has the main task of protecting the interests of shareholders and overseeing the performance of the board of directors. The independent board of commissioners has one of the responsibilities of advising the board of directors to add value to the company. One of the things that can be done to add value to the company is to disclose the sustainability report.

Corporate governance has the duty of the company to be responsible for what the financial performance is. According to Wibowo (2014), financial performance is an overview of the condition and condition of a company that is analyzed with financial analysis tools so that it can be known whether the financial condition and financial performance of a company is good or bad in a certain time. Financial performance is the result of decisions based on the assessment of the company's capabilities made by the parties who have an interest in the company. This financial performance is used by management as one of the guidelines for managing the resources entrusted to it. The financial performance report is made to describe the company's financial condition in the past and is used to predict future finances (Soelistyoningrum and Prastiwi, 2011). Financial performance is one aspect in evaluating the performance of a company. According to Tobing et al., (2019) financial performance reflects business activities and the Company's profit achievement. If the company's financial condition is good, the company will have the resources to reveal a broader sustainability report. The results of this research are in line with the results of Tobing et al. (2019) and Setiawan et al. (2019) who stated that if the level of profitability is high, the disclosure of the sustainability report is also high; if the level of profitability of the company is lower, the disclosure of the sustainability report is also lower. That is in accordance with the stakeholder theory which states that the concept of corporate social responsibility is that the survival of the company is influenced by the stakeholders. The more obedient GCG organs consisting of the General Meeting of Shareholders, the Board of Commissioners, the Audit Committee implement the principles of GCG namely Transparency, Accountability, Responsibility, Independence, Fairness (TARIF) in the management of Company Management, and obtain good Financial Reports that have an impact on Sustainable Reporting

V. CONCLUSIONS AND SUGGESTIONS

1. Conclusion

The issue of sustainability is heating up along with the reality of the impact of global warming. Companies are increasingly required to transparently disclose how they carry out their company's operational activities in sustainability reports. There are still many companies that have not disclosed their sustainability report. This research aims to analyze what factors may influence the disclosure of a company's sustainability report. The test results found that GCG and financial performance have an impact on the disclosure of the sustainability report.

2. Suggestions

It is recommended that all industrial companies in accordance with Law number 40 of 2007 on Limited Liability Companies make a sustainability report. While for further research the exogenous variables are increased, quantitative research is conducted with both primary and secondary data.

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