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Shareholder Pressure, Independent Audit Committee and Sustainability Reports

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ABSTRACT: This research analyzes the influence of shareholder pressure and independent audit committees on the quality of sustainability report disclosures with profitability as a moderating variable. A sustainability report is a report that reflects a company's social, economic, and environmental responsibilities, which are an important concern for stakeholders. This study uses 40 banking companies listed on the Indonesia Stock Exchange (BEI) during 2020-2023. The data analysis method used is multiple regression with the independent variable shareholder pressure and independent audit committee, the moderating variable profitability, and the dependent variable sustainability report quality. The research results show that shareholder pressure has a significant positive effect on sustainability reports, while the independent audit committee does not show a significant impact. Profitability strengthens the relationship between shareholder pressure and sustainability reports but does not moderate the relationship between independent audit committees and sustainability reports. These findings imply that companies need to pay attention to the role of shareholders and profitability in increasing the disclosure of sustainability reports as part of the company's sustainability strategy.

KEYWORDS: Shareholder Pressure, Independent Audit Committee, Sustainability Report, Profitability

I. INTRODUCTION

Nowadays, company goals are no longer just profit-oriented. Companies have realized that other aspects besides the economy are no less important, namely society (people) and the earth (planet). This encourages companies to communicate their performance and responsibilities from economic, social, and environmental aspects to their stakeholders. To fulfill this, one way that companies can do this is to publish a sustainability report with the aim of transparency to stakeholders (Putri et al., 2022) A sustainability report is defined as a company or organization report that is open and discusses the organization's economic, environmental, and social impacts. Sustainability reports also discuss the company or organization's contribution to sustainable development goals. In Indonesia, the Financial Services Authority (OJK) issued regulations regarding sustainability reports in 2017. POJK Number 51 of 2017 states that public companies are required to prepare a sustainability report which is then reported separately from the annual report, and must be submitted every year. POJK Number 51 of 2017 was issued to encourage companies to carry out sustainability reports which previously were only voluntary to become mandatory.

A sustainability Report is a practice of measuring, disclosing, and accountability efforts for organizational performance in achieving sustainable development goals to stakeholders, both internal and external to the company (Lulu, 2020). The Sustainability Report expected by stakeholders is a quality report with global preparation standards, namely the Global Report Initiative (Putri et al., 2022). The quality of the Sustainability Report disclosure level is the good or bad quality of a company in disclosing information regarding environmental, social, and corporate governance performance to outside parties. The Sustainability Report is more than just reporting ESG (Environmental, Social, and Governance) operational performance, but is also used as a strategic assessment tool and as a communication platform between investors and various stakeholders. The sustainability report also has the function of looking at the annual health of a company, regarding the strengths and weaknesses of a company to increase sustainability in providing beneficial results for the business and company stakeholders.

The government requires companies to disclose sustainability reports for companies or financial institutions in 2018 and listed companies since 2020, due to the Covid-2019 outbreak, its implementation has been postponed to 2021. The phenomenon at PT Bank Maybank Indonesia Tbk that occurred in 2019 is where PT Bank Maybank Indonesia Tbk's operating income rose by 2%. The main supporting factors for income growth are increasing non-interest income (fee-based income), sustainable tariff control, and increasing net interest income. In addition, the bank succeeded in reducing excess liquidity and high funding costs to reduce unexpected risks. At Bank Asia Limited in 2019, greenhouse gas and carbon emissions occurred which damaged the environment. To reduce greenhouse gas emissions, Bank Asia reduced meetings to business trips and shifted them to video conferences. To reduce the carbon produced, Bank Asia is collaborating with Bangladesh to sign an agreement on the HKK which is intended to use biomass and waste management.

The independent audit committee is one of the committees formed by the board of commissioners to be able to carry out its duties and responsibilities related to corporate governance in order to create effective control in management. The existence of an independent audit committee is able to improve the supervisory function of the transparency and openness of company finances and sustainability reports, including a high level of profitability which is considered more capable of carrying out social and environmental responsibilities, including implementing and disclosing high sustainability reports to be able to carry out their responsibilities towards the environment and social which is getting bigger so that it can be accepted by society (Ariyani & Hartomo, 2018); (Adila & Sofyan, 2015) ; (Lucia & Panggabean, 2018).

The greater the company's ability to generate profits using the resources it has, the better the company is at managing the assets in the company (Rofiqkoh & Priyadi, 2016). Profitability will influence stakeholder policies in making decisions, especially shareholders will be more open in disclosing sustainability reports that are responsible for the surrounding environment (Bisma et al., 2023).

This is in line with the research (Suharyani et al., 2019); (Lucia & Panggabean, 2018) ; (Tobing et al., 2019) which states that independent audit committees, shareholder pressure, and profitability have a positive effect on sustainability reports.

Previous research has focused much on the influence of independent audit committees and shareholder pressure on the quality of financial reports, but not much has explored their role in influencing sustainability reports in the banking sector in Indonesia. Also, sustainability reporting in Indonesia, especially in the banking sector, is still limited, even though this sector has a strategic role in supporting the implementation of sustainability principles (sustainable finance) as regulated in OJK regulations. Also as a development of clearer policies or guidelines regarding the audit committee's responsibilities in supporting sustainability disclosures, as well as suggesting the importance of integration between profitability and sustainability as part of the company's strategy.

II. LITERATURE REVIEW AND HYPOTHESES

Literature Review

Stakeholder Theory

Stakeholder Theory is a concept that explains to which parties the company is responsible. Stakeholders are parties that influence and are influenced by companies to achieve goals such as shareholders, consumers, communities, governments, and other interested parties (Freeman, 1984). One way to maintain relationships with stakeholders is to provide a Sustainability Report Quality that informs about economic, social, and environmental performance. Through these disclosures, it is expected that the company can meet the required information needs and obtain support from stakeholders that affect the company's continuity. This reflects the concept that the delivery of financial, social, and environmental information through sustainability reports is a dialog between the company and stakeholders (Michelon et al., 2015).

Legitimacy Theory

According to Suchman (1995), legitimacy is the perception or assumption that the activities carried out by the company are by the norms, values, and belief systems of the surrounding community. Legitimacy theory is rooted in the idea of social agreements between corporations and society. The survival and growth of a company is related to the ability to deliver the desired goals to distribute benefits in the economic, social, or political fields to the community around the company (Safirah P & Deviyanti, 2022). Legitimacy theory states that companies are part of society so in operational activities, companies must pay attention to the norms that apply in society (Choiriah & Lysandra, 2023). When the company cannot embrace the values that exist in society, it can result in the company's existence not being accepted by the community, this can threaten the sustainability of a company. Therefore, a company needs to maintain its image and credibility in society through social and environmental responsibility, including the application of environmentally friendly accounting (Hafsyah & Choiriah, 2023). The community needs a report that provides information about the activities that have been carried out by the company in the form of social and environmental concerns, so that becomes the basis for community assessment of the suitability of company activities with existing rules in society. So that the disclosure of Sustainability Report Quality can maintain the relationship between the company and the community.

Shareholder Pressure

Shareholder Pressure is the distribution level of share ownership that can pressure the company through continuous supervision of the company's operations and continuity (Yuliandhari et al., 2022). The power that shareholders have can be used to encourage companies to carry out activities in accordance with their requests (Arrokhman & Siswanto, 2021). The level of distribution of share ownership can affect the level of pressure from shareholders. This pressure also tends to increase as the spread of share ownership increases (Rudyanto & Siregar, 2018). The calculation of Shareholder Pressure is to measure the level of the dominant shareholder to the total number of shares (Rudyanto & Siregar, 2018).

Independent Audit Committee

An independent audit committee is a committee formed by the board of commissioners to ensure the implementation of good corporate governance. This committee is responsible for monitoring and controlling financial reporting, as well as company transparency, including the disclosure of sustainability reports. An independent audit committee can increase supervision of corporate social and environmental responsibility disclosures, which ultimately affects the quality of sustainability reports (Ariyani & Hartomo, 2018).

The existence of an independent audit committee allows companies to ensure that sustainability disclosures are effective and transparent. Research by (Setiawan & Ridaryanto, 2022) found that independent audit committees have a positive influence on the disclosure of sustainability reports. The more frequently this committee meets, the better the communication and coordination between its members, which can strengthen decisions regarding the disclosure of social responsibility.

However, other research reveals that the effectiveness of independent audit committees in encouraging sustainability disclosures may vary. (Yudaruddin & Pratiwi, 2022) state that the effectiveness of the audit committee is influenced by the quality of communication between commissioners, directors, and internal and external auditors. If communication is ineffective, the independent audit committee may fail to ensure good disclosure in the sustainability report.

Profitabilitas

Profitability refers to a company's ability to generate profits using the resources it has. A high level of profitability reflects effective and efficient asset management, which can increase a company's capacity to carry out social responsibility and sustainability disclosures. Research by (Rofiqkoh & Priyadi, 2016) shows that high profitability motivates companies to disclose more information related to social and environmental responsibility because this disclosure can improve the company's image in the eyes of stakeholders.

In the context of moderation, profitability can strengthen the relationship between shareholder pressure and the quality of sustainability reports. Research by (Yudaruddin & Pratiwi, 2022) shows that companies with high profitability are better able to absorb the costs of sustainability disclosure, thereby improving the quality of the sustainability reports produced.

On the other hand, high profitability does not always guarantee the effectiveness of the independent audit committee's implementation of sustainability disclosures. Tumwebaze et al., (2022) state that strong corporate governance, including the effectiveness of the independent audit committee, contributes more to improving the quality of sustainability disclosures than the company's financial performance.

Sustainability Report

According to the Global Report Initiative (2021), Sustainability Report Quality is a report that conveys information about economic, social, and environmental aspects based on the principles of the internationally recognized Global Reporting Initiative standard. Sustainability Report Quality is important for stakeholders to make a valid and rational assessment of an organization and to take appropriate action (Hidayah et al., 2021). Sustainability Report Quality is shown based on the relevance and reliability of information disclosed from economic, social, and environmental aspects, and the disclosed reports are easily understood by stakeholders for sustainable long-term decision-making (Leitoniene & Sapkauskiene, 2015). The calculation of Sustainability Report Quality is to compare the total items disclosed by the company with the total items based on the GRI standard.

Hypothesis development

Shareholder Pressure and Sustainability Report

Companies with an investor orientation make the company more transparent in disclosing quality information, a report will be given a positive response by investors if it can provide information content, whereas the expected information content is the ability of the sustainability report to be able to help investors predict the company's survival ability in the future (Jenawan & Juniarti, 2015). Companies that carry out mandatory activities such as CSR will get a positive response from investors, other activities are investors' indicators that the company is operating well and companies that have a reputation as companies that are socially and environmentally responsible will be more appreciated by investors when a crisis occurs. This research is in line with the results of research from (Suharyani et al., 2019)

H1: Shareholder Pressure has a positive effect on the Quality of Sustainability Reports.

Independent Audit Committee and Sustainability Report

The audit committee is a group of people selected by a larger group to do certain work or to carry out special tasks or several members of the client company's board of commissioners who are responsible for assisting the auditor in maintaining its independence from management. The more frequently meetings are held, the better the communication and coordination between members regarding decisions in the interests of shareholders. One of them is the decision to express social responsibility to increase the possibility of disclosure of sustainability reports. Based on research conducted (Setiawan & Ridaryanto, 2022) it is stated that the audit committee has a positive influence on sustainability reports.

H2: The Independent Audit Committee has a positive influence on the Sustainability Report.

The influence of profitability on the relationship between Shareholder Pressure, Independent Audit Committee, and Sustainability Report

Companies with a high level of ownership concentration tend to have higher-quality sustainability reports than companies with a low level of ownership concentration, but both have the same social responsibility. Through the general meeting of shareholders, the majority owner has decisive power in voting for the sustainability of the company (Sjåfjell, 2016). Shareholders with a high level of ownership can exert higher pressure by continuing to monitor the company's sustainability (Margaritis & Psillaki, 2010); (Crisóstomo et al., 2011). The higher the company's profitability, the better the company is at managing the assets in the company. Profitability will influence the policies of stakeholders and the independent audit committee in carrying out decisions, especially in social responsibility and disclosure of sustainability reports.

H3: Profitability strengthens the relationship between shareholder pressure and Sustainability Report

H4: Profitability strengthens the relationship between the independent audit committee and the Sustainability

III. RESEARCH METHODS

This research looked at all 40 banking companies traded on the Indonesia Stock Exchange as one group. The sample used in this research is banking companies listed on the Indonesia Stock Exchange (BEI) consistently from 2020-2023. The sampling method used was 40 data from banking companies listed on the Indonesia Stock Exchange that met the criteria for sample selection. The criteria are as follows: (1) Banking companies that consistently publish annual reports and sustainability reports in 2020-2023. (2). Banking companies registered on the Indonesia Stock Exchange (BEI) that provide data related to research variables, namely disclosure of environmental accounting information and data from other financial reports. Using predetermined criteria, 40 banking companies were obtained that were listed on the Indonesia Stock Exchange from 2020-2023. So the amount of data used in this research for 4 consecutive years was 160 company data that met the specified requirements.

The research model by the hypothesis is as follows:

Equality $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3{*}Z + \beta_4 X_4{*}Z + e$

Y = Sustainability Report (SR)

A = Intercept value (constant)

X1 = Shareholder Pressure (SP)

X2 = Independent Audit Committee (IAC)

Z = Profitability (Profit)

e = Error

This research uses a sampling technique aimed at obtaining a representative sample according to specified criteria. Research variables are determined through the application of theory and supported by hypotheses. Dependent and independent variables were applied in this research. Sustainability Report (SR) is the dependent variable in this research. This variable is measured using the Quality Disclosure Index (QDI), which consists of disclosure indicators that comply with GRI standards. Total Quality Disclosure are items disclosed by the company through a yearly report using the GRI standard in the section with a maximum total quality disassembler which includes all items in the GRI standard.

Shareholder pressure can be measured, namely based on the level of concentration of ownership structure. Which is calculated by comparing the total share ownership owned by the company divided by the total shares as a whole. The variable size of the independent audit committee (IAC) used is the formula for the total number of independent audit committees divided by the total number of audit committees. Meanwhile, the moderating variable profitability is measured using Return on Assets (ROA).

IV. RESULTS AND DISCUSSION

a. Descriptive Statistics Test Results

Descriptive statistics test is used to determine the results of the minimum, maximum, average and standard deviation values of each variable. The following descriptive analysis is obtained.

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Table 1 Statistical Description

	N	Minimum	Maximum	Mean	Std. Deviation
SP (X1)	160	-.07	13.40	1.5213	2.06114
IAC (X2)	160	1.94	6.02	3.4379	.87479
PROFIT (Z)	160	-.07	.15	.0143	.04645
SR (Y)	160	.47	.83	.6707	.09133
Valid N (listwise)	160				

Based on Table 1, the Sustainability Report has a minimum value of 0.47 or 47%, which shows that disclosure of economic, social, and environmental information by banks is still low, namely 47% because high disclosure is above 70%. The maximum value of 0.83 or 83% reflects economic, social, and environmental disclosure by GRI. The standard deviation of sustainability reports is 0.09133 (9.13%). In general, the number of sustainability reports in Indonesia is still limited. Nevertheless, the number of sustainability reports continues to increase from year to year.

The maximum share ownership is 13.4% the average is 1.52% and the standard deviation is 2,061. Meanwhile, companies whose profits are 15% have an average of 1.43% and a standard deviation of 0.0465. The independent audit committee (X2) has a minimum value of 1.94 and a maximum value of 6.02, which means some companies only have 1 independent audit committee and a maximum of 6 people. The average is 3 people showing fairly good consistency in the role of the independent audit committee in sustainability monitoring. The standard deviation of 0.87479 data varies and does not fluctuate too much so this data is quite good for use in future research regressions.

b. Hypothesis Test Results

Partial Significance Test (t-test)

This test is conducted to determine whether the independent variable has a significant influence on the dependent variable. If the significance level is less than 0.05, the null hypothesis (H0) is accepted; however, if the significance level is greater than 0.05, the null hypothesis (H0) is rejected.

Table 2. Coefficient Overall Test Results

VARIABLE	+ / -	β	t	Sig
SP	+	0.116	4.237	0.000
IAC	-	0.052	1.949	0.053
SP*PROFIT	+	0.101	2.602	0.010
IAC*PROFIT	-	-0.135	-1.125	0.262

1. Based on statistical tests in Table 2, the Shareholder Pressure variable shows a significance value of 0.000 which is smaller than 0.05 with a coefficient of 0.116. This shows that shareholder pressure has a positive effect on the Sustainability Report. The role of Shareholders is very important to have the same social responsibility and moral goals, showing that they have social, environmental, and moral responsibilities by implementing CSR and disclosing the sustainability activities they have carried out in sustainability reports. Improving the quality of sustainability reports aligns SR disclosures with the expectations of shareholders, companies can foster positive perceptions and strengthen their social accountability, making the company's image better (Perangin-Angin & Choiriah, 2024) & (Talha et al., 2020). This research is not in line with the research (Alfaiz & Aryati, 2019) & ((Rudyanto & Siregar, 2018) which states that shareholder pressure does not affect sustainability reports. This indicates that shareholders in Indonesia do not have a high level of sustainability awareness and pay less attention to sustainability reports in determining which companies to invest in.

2. In Table 2, the Independent Audit Committee variable has a significance value of 0.053 which is greater than 0.05, and a coefficient of 0.052. This shows that the Independent Audit Committee does not influence the Sustainability Report. The existence of an audit committee helps ensure that the disclosure and control system will run well. The audit committee carries out good supervision so that the quality of the social information disclosure carried out becomes wider. With the existence of an audit committee, investors believe that the value of the company will increase as the quality of the company's sustainability report increases. However, based on the Code of Corporate Governance (CG) issued by the National Committee on Governance Policy (2006), one of the objectives of the audit committee is to improve the quality of financial reports compared to the quality of Sustainability Report. The absence of good communication between commissioners, directors, and internal and external auditors is also one of the causes of the external audit committee's ineffectiveness in Sustainability Report disclosure (Yudaruddin &

Pratiwi, 2022).

3. Based on statistical tests in Table 2, it shows a significance value of 0.010 which is smaller than 0.05 with a coefficient of 0.101. This shows that profitability moderates the relationship between Shareholder Pressure and Sustainability Report (SR). The role of shareholders is very important in increasing company profits. The higher the level of profitability, the higher the level of disclosure of corporate social responsibility. This provides an interpretation that companies with high profitability can overcome the costs of disclosing social responsibility. A high level of profitability reflects the ability of shareholders and the entity to generate high profits so that the entity can increase social responsibility and disclose its social responsibility in sustainability reports (Yudaruddin & Pratiwi, 2022).

4. Based on statistical tests in Table 2, it shows a significance value of 0.262 which is greater than 0.05 with a coefficient of -0.135. This shows that profitability does not moderate the relationship between the independent audit committee and the Sustainability Report (SR). High profits in a company do not guarantee the effectiveness of the audit committee's implementation. This shows that corporate sustainability practices driven by an effective independent audit committee do not depend on the company's financial performance. Even though Audit Committee Effectiveness (ACE) and Internal Audit Function (IAF) are both important in sustainability reporting, the importance of strong governance on financial performance can further improve sustainability disclosure performance (Tumwebaze et al., 2022).

V. CONCLUSIONS AND SUGGESTIONS

1. CONCLUSIONS

This research highlights the importance of shareholder pressure and independent audit committees in influencing the quality of sustainability reports in the Indonesian banking sector. The research results show that:

Shareholder pressure has a significant positive influence on the quality of sustainability reports, indicating that pressure from shareholders can encourage companies to increase transparency and social and environmental responsibility.

The independent audit committee does not have a significant effect on sustainability reports, which shows that the supervisory function carried out by the audit committee is not fully effective in increasing sustainability disclosures.

Profitability is proven to strengthen the relationship between shareholder pressure and sustainability reports but does not moderate the relationship between independent audit committees and sustainability reports. This shows that good financial performance encourages companies to be more serious about sustainability disclosure, especially if encouraged by shareholders. This research underlines the strategic role of the banking sector in supporting the implementation of sustainability principles, especially in the context of OJK regulations regarding sustainability reports.

2. SUGGESTION

Banking companies need to increase the role of independent audit committees in supporting sustainability disclosures through special training and increased coordination between management, shareholders, and audit committees to strengthen sustainability governance. Regulators such as the OJK can provide more detailed guidance and supervision regarding sustainability reporting, as well as encourage the integration of sustainability reports with financial reports to provide a more comprehensive picture of performance. Future research could expand coverage to other sectors and use a qualitative approach to understand more deeply the effectiveness of sustainability disclosures.

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