ANALYSIS OF GOVERNANCE, EXTERNAL GUARANTEE, COMPANY CHARACTERISTICS AND RESURRECTION SUSTAINABILITY REPORT

(Empirical Study of Listed Manufacturing Companies on the Indonesia Stock Exchange in 2014-2015)

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A R T I C L E   I N F O

A B S T R A C T

Thie research purpose to analyze the governance, external assurance, firm-level characteristics and financial distress on the sustainability reporting. The method used in this study is multiple regression analysis using Eviews 9. The samples used in this research are 242 which the data of 121 manufacturing companies listed on the Indonesia Stock Exchange from 2014-2015. The result shows that the governance committee, the sustainability report of the assurance provider, the number of members on the audit committee and the number of members on the board of directors as firm-level characteristics have a significant positive effect on sustainability reporting. Financial distress has a significant negative effect on sustainability reporting. Operating cash flow has no significant effect on sustainability reporting, whereas log total assets have a significant positive effect on sustainability reporting.

INTRODUCTION

Sustainability reports have become an important report on the company's agenda in several parts of the world. Some business organizations also do not carry out independent types of voluntary reporting (Kend, Michael, 2015). Furthermore, for those who carry out this type of self-reporting, external sustainability guarantees are attached to rare sustainability reports. The sustainable reporting process is complex because there are many different stakeholder groups and an unlimited number of sustainability issues. The interests of different stakeholder groups for each problem can lead to conflicts that lead to the dilemma managed by the board of a company (Wallage, 2000).

Alon, Anna and Martina Vidovic (2015) suggest that reporting on voluntary sustainability, social responsibility and, financial performance may not be mutually constitutive and mutually reinforcing as suggested. However, there is no mention made of voluntary guarantee sustainability reports that are important to the principle of accountability and why companies may or may not choose this type of service. Guarantees add credibility to reports and information that help provide market stability and their operations. This disclosure now attracts the attention of stakeholders and regulators and the manner or format of disclosure is considered important, namely how companies that attract become social and environmental issues.

This guarantee is related to the desire to increase the credibility of the information disclosed and the general public may assume that the financial auditor is the most appropriate professional service provider to provide that credibility. An evaluation of the role of guarantees and the choice of guarantee providers in international markets, is more suitable in voluntary reporting arrangements (eg sustainability reporting), than the regulation of regulated financial statements (Simnett et al., 2009). There is a clear need to improve the definition of social responsibility

and better audit instruments, so that until now it has been handled, verification of sustainability reports will continue to be a very challenging guarantee service for financial auditors (Massa, Lorenzo et al., 2015).

The purpose of this study is to analyze (1) the effect of governance on a company's sustainability report; (2) to analyze the effect of external guarantees on a company's sustainability report; (3) to analyze the effect of company characteristics on a company's sustainability report; (4) to analyze the effect of bankruptcy on the sustainability report of a company The differences in this study with previous research are (1) the addition of governance variables and external guarantees as independent variables; (2) addition of operating cash flow variables and company size as control variables.

This study intend to broaden previous research (Kend, Michael, 2015; Alon, Anna and Martina Vidovic, 2015; Aliniar, Dwita and Sri Wahyuni, 2017; Nascimento, Glauce et al., 2015; Mass, Lorenzo et al., 2015; Haladu, Alhassan and Basariah Salim, 2016) by reviewing the financial statements of sustainability in manufacturing companies and two years (research 2014-2015).

The contribution of this research consists of practical contributions and contributions to the development of science. The practical contribution of this research is to increase understanding of sustainability reports. A practical contribution for regulators is to increase understanding of sustainability reports. A practical contribution to public accountants is that the results of this study can be considered in preparing a sustainability report. Practical contributions to the Financial Accounting Standards Board (DSAK), the results of this study can be used as a reference for DSAK to provide technical standards in order to help companies improve the quality of their reporting related to sustainability reports. Practical contributions for the Public Accountant Professional and the Indonesian Institute of Certified Public Accountants (IAPI), to improve the quality and quantity of sustainability reports in the annual report, the

public accounting profession is expected to have a greater role in providing input to issuers who are audit clients to pay more attention to the sustainability reports produced. Practical contributions for the Professional Management Accountant and the Indonesian Institute of Management Accountants (IAMI), are expected to be more instrumental in helping companies to improve the quality and quantity of sustainability reports in annual reports. IAMI as a forum for the profession of management accountants needs to consider making technical guidelines as a guide for their members in making policies on corporate reporting guidelines. Practical contributions for companies and other interested parties are the results of this study can provide input and evaluation related to sustainability criteria. The results of the study prove the existence of the benefits of sustainability reports which are appreciated by investors. Therefore, companies need to increase the type and amount of information disclosed in annual reports.

Contributions to the development of science are the contribution of ideas, thoughts, additional information and additional empirical evidence on sustainability reports. This research consists of five parts. The first part is the introduction. The second part is discussing related theories, previous research and developing hypotheses. The third part is to discuss how to collect samples and data. The fourth section discusses the results of the research and sensitivity analysis. The fifth part discusses the conclusions, recommendations and, limitations of the study.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES
Governance and Sustainability Report

Organizations are expected to grow fast and benefit the company more, have a strong corporate governance structure in place, including an active and effective board of directors and the role of stakeholder theory (Alon, Anna and Martina Vidovic, 2015). Providing costs related to the production of this independent report voluntarily in a more

profitable manner, the growth of companies that can develop governance structures is estimated to be the most likely company to produce these reports to satisfy the power of stakeholders demanding the type of voluntary disclosure, where there are several consultation processes. Based on this explanation, the following research hypothesis is proposed:

H1: Governance has a positive effect on sustainability reports.

External Assurance and Sustainability Report

Audit committees are key aspects of the board, management and auditor supervision. This organization that releases an independent sustainability report, is therefore expected to have a voluntary guarantee statement with a sustainability report, by having an active and diligent audit committee, and also become growing fast, more profitable company that can afford this type of guarantee service, above and beyond audit of traditional generic financial statements. Therefore, the audit committee is considered to be more ceremonial or symbolic, because it is considered to be a key driver in ensuring effective oversight of organizational sustainability disclosures, which requires sustainability reports with independent guarantees to third parties (Beasley et al., 2009). Sustainability reporting aims to give stakeholders a clear picture of the company's values and principles, governance so management values (Dilling, 2009). Based on these explanations, the researchers propose the following research hypotheses:

H2: External guarantees have a positive effect on sustainability reports

Company Characteristics and Sustainability Reports

Companies that are the large size (measured by market capitalization), the literature consistently speculates that large companies will use more for voluntary disclosure information related to social and environmental activities and will pay higher average audit fees, which traditionally correlate with larger company size (Houghton

and Ikin, 2001). Based on this explanation, the following research hypothesis is proposed:

H3: Company characteristics have a positive effect on sustainability reports.

Bankruptcy and Sustainability Reports

Financial problems in a company can be predicted in a long period before the company fails (Bringham and Ehrhart, 2008). Based on research conducted by Altman, 1968; Chen and Church, 1996, companies with difficult financial conditions can be predicted before they fail in business. This indicates that the company will try to manipulate financial statements so that the company's sustainability will decrease. Based on these explanations, the researchers propose the following research hypotheses:

H4: Bankruptcy has a negative effect on sustainability reports.

RESEARCH METHODS
Research design

This study aims to determine the factors that affect sustainability reports. These factors are governance, external guarantees, company characteristics and, bankruptcy so the research design is causality. The unit of research analysis is the organization. Data collection from companies listed on the Indonesia Stock Exchange. The time horizon of this study was cross-sectional and longitudinal with a study period from 2014-2015.

Data and Samples

This research uses secondary data. The secondary data used in this study is the financial statements of companies listed on the Indonesia Stock Exchange in the 2014-2015 period. Sample of research using purposive sampling. The criteria for sampling these studies are (1) manufacturing companies listed on the Indonesia Stock Exchange and fully operational during the year, (2) the company has never delisted from the IDX, has not stopped its activities, has not stopped its operations on the stock market, has not merged and has not changed its industrial status during 2014-2015, (3) the financial

statements are presented in rupiah, (4) presents the complete and audited financial statements from 2014-2015.

Based on the criteria, the reduction in the research sample was 15 companies because on the date of the Initial Public Offering (IPO) after January 2014 and as many as 8 companies due to negative equity values. The study sample was 242 samples (121 manufacturing companies for 2 years).

Variables and Measurements
Dependent Variable
Sustainability Report

The dependent variable in this study is based on the research model of sustainability reports. Sustainability accounting in a contemporary form that involves publishing reports on the social performance of an organization began in the 1970s. Sustainability reporting emerged in companies almost 30 years ago and has evolved as a key mechanism through business organizations that will manage the transition to a new business that is dominated by greater attention and awareness about sustainability (Higgins et al., 2013). Several studies have been examined with various aspects of sustainability reporting, including alleged financial markets that have the potential to contribute to social responsibility and sustainability. For example, Murray et al. (2006) examine whether there is a relationship between social disclosure and the sustainability and performance of financial markets in the largest companies in the UK. They found there was an indirect relationship between stock returns and disclosures. Do not have the relationship as expected, according to previous literature (Murray et al., 2006).

Extensive research, to identify the relationship between social performance and corporate financial performance by investigating annual reports and corporate financial reports, has shown the most inconclusive results (Varenova et al., 2013). The results of disclosure if the company makes a sustainability report then the value of 1 and vice versa.

Independent Variable

The first independent variable is corporate governance. The indicator for corporate governance consists of GCOMM showing a value of 0 where the company does not have a governance committee and a value of 1 where there is a committee, and GCME is the number of members on the governance committee.

The second independent variable is external assurance. The indicator to measure it is PROVIDER is 0 if the guarantee provider of the sustainability report is not from the audit profession and 1 if the guarantee provider is a member of the audit profession.

The third independent variable is company characteristics. The indicator to measure market characteristics consisting of ACMEB is the number of audit committee members and BDME is the number of members of the board of directors.

The fourth independent variable is bankruptcy. The indicator to measure it is to use bankruptcy predictions developed by Altman (1968) with the formula:
$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5$$

Where, Z is the overall index; X_1 is working capital divided by total assets; X_2 is retained earnings divided by total assets; X_3 is profit before interest and tax divided by total assets; X_4 is the market value of equity divided by the book value of total debt; X_5 is sales divided by total assets.

Control Variable

The control variables in this study are (1) operational cash flow. The formula is operational cash flow divided by total assets (Subramanyam, 1996) and (2) company size, which is measuring the size of a company using the proxy total assets logged (LOGTA) of each company (Shingvi and Desai, 1971; Chow and Boren, 1987; Alsaeed, 2005).

Research model

The data analysis technique used is multiple regression analysis. The statistical data processing program uses Eviews 9. The model examines the effects of governance,

external guarantees and company characteristics on the sustainability report as follows:

Information:

SR = Sustainability Reporting

Governance:

GCOMM shows a value of 0 where the company does not have a governance committee and a value of 1 where there is a committee and GCME is the number of members on the governance committee.

External guarantees: PROVIDER is 0 if the guarantee provided for the sustainability report is not from the audit profession, a value of 1 if the guarantee provider is a member of the audit profession.

Company Characteristics:

ACMEB is the number of members of the audit committee and BDME is the number of members of the board of directors

Bankruptcy:

FDISS = Bankruptcy, measured by the Altman's Z-Score model

Control variable:

OCF = operating cash flow, measured by operating cash flow divided by total company assets

LOGTA = company size, measured by the total number of company assets logged (total log assets)

ε = Error

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistics and Correlation Matrices

Tabel 1. Descriptive Statistic

Variabel	Minimum	Maksimum	Mean	Standar Deviasi
SR	0.0000	1.0000	0.9793	0.1425
GCOMM	0.0000	1.0000	0.9835	0.1277
PROVIDER	0.0000	1.0000	0.9876	0.1109
ACMEB	3.0000	4.0000	3.0537	0.2259
BDME	3.0000	11.0000	5.5206	0.8747
FDISS	-0.3183	3.1161	0.5163	0.5449
OCF	-0.5393	0.7992	0.0676	0.1191
LOGTA	2.2531	24.5000	8.1050	0.2546

Note: SR: sustainability report; GCOMM: corporate governance committee; PROVIDER: provider of guarantees for sustainability reports; ACMEB: number of audit committee members; BDME: number of members of the board of directors; FDISS: bankruptcy; OCF: operational cash flow statement; LOGTA: log total assets.

Table 1 shows the results of the descriptive statistics. Based on the results of descriptive statistical analysis, it can be seen that the average sustainability report is quite good because it is almost close to 1. This indicates that the average company has presented a sustainability report well. Companies on average already have a governance committee and providers of guarantees for sustainability reports are members of the audit profession. The average condition of the company's financial statements is quite good, although there some companies that are experiencing financial difficulties.

The matrix correlation in Table 2 shows that the corporate governance committee, the provider of sustainability reports, the number of members of the audit committee and the number of board members has a significant positive effect on the sustainability report as predicted. Bankruptcy has a significant negative effect on sustainability reports. Operational cash flow has no significant effect on the sustainability report, while the total assets logged have a significant positive effect on the sustainability report.

Table 2. Pearson Correlation Matrix

VARIABEL	SR	GCOMM	PROVIDER	ACMEB	BDME	FDISS	OCF	LOGTA
SR	1							
GCOMM (*p-value*)	0.034 (0.057) **	1						
PROVIDER (*p-value*)	0.054 (0.027) **	-0.014 (0.433)	1					
ACMEB (*p-value*)	0.023 (0.030) **	0.031 (0.064) *	0.027 (0.252)	1				
BDME (*p-value*)	0.066 (0.013) **	-0.108 (0.622)	0.024 (0.034) **	0.026 (0.021) **	1			
FDISS (*p-value*)	-0.005 (0.048) **	0.022 (0.157)	-0.001 (0.002) ***	-0.095 (0.600)	-0.086 (0.041) **	1		
OCF (*p-value*)	0.276 (0.241)	0.052 (0.066) **	0.060 (0.001) ***	0.035 (0.214)	0.096 (0.251)	0.202 (0.072) *	1	
LOGTA (*p-value*)	0.023 (0.062) *	0.036 (0.464)	0.027 (0.000) ***	0.154 (0.316)	0.093 (0.001) ***	-0.032 (0.000) ***	0.052 (0.223)	1

*** Significant at the 1% level; ** Significant at the 5% level; * Significant at the 10% level.

Note: SR: sustainability report; GCOMM: corporate governance committee; PROVIDER: provider of guarantees for sustainability reports; ACMEB: number of audit committee members; BDME: number of members of the board of directors; FDISS: bankruptcy; OCF: operational cash flow statement; LOGTA: log total assets.

Hypothesis Test Results

The classic assumption test of this research model shows that the model does not experience multicollinearity, heteroscedasticity and autocorrelation problems. Based on the research of Gujarati and Porter (2009), the t-test and F test can be used because of the large sample in this study.

Tabel 3. Research Model

$SR_{it} = \alpha + \beta_1 GCOMM_{it} + \beta_2 PROVIDER_{it} + \beta_3 ACMEB_{it} + \beta_4 BDME_{it} + \beta_5 FDISS_{it} + \beta_6 OCF_{it} + \beta_7 LOGTA_{it} + \varepsilon_{it}$					
Variabel	**Prediksi**	**Koefisien**	**P-Value**	**Statistik Collinearity**	
				Toleransi	**VIF**
Konstan	+/-	0.987	0.000***	--	--
GCOMM	+	0.032	0.057*	0.981	1.019
PROVIDER	+	0.029	0.027**	0.995	1.005
ACMEB	+	0.020	0.030**	0.965	1.036
BDME	+	0.004	0.013**	0.959	1.043
FDISS	-	-0.011	0.048**	0.938	1.066
OCF	+	0.094	0.241	0.935	1.069
LOGTA	+	2.150	0.062*	0.964	1.037
Total Observasi			242		
Durbin-Watson Stat			2.021		
Uji Kolmogorov-Smirnov			0.000		
Adjusted R^2			0.417		
Prob (F-Statistik)			0.000***		

*** Significant at the 1% level; ** Significant at the 5% level; * Significant at the 10% level.

Note: SRit: company sustainability report i in year t; GCOMMit: corporate governance committee i in year t; PRO-VIDERit: provider of company continuity reporting guarantees in year t; ACMEBit: number of company audit committee members in year t; BDMEit: number of members of the company's board of directors i in yeart; FDISSit: bankruptcy of company i in year t; OCFit: company operating cash flow statement for year t; LOGTAit: log total assets of company i in year t.

Table 3 shows the results of hypothesis testing for the research model. Overall, all research independent variables influence sustainability reports. In this research model, only bankruptcy variables that have a significant negative effect on sustainability reports. The corporate governance committee, the provider of sustainability reports, the number of members of the audit committee and the number of members of the board of directors have a significant positive effect on sustainability reports as predicted. Operational cash flow has no significant effect on the sustainability report, while the total assets logged have a significant positive effect on the sustainability report.

Discussion of Research Results

The results of the study use multiple regression to support the hypothesis. This proves that the company that went bankrupt trying to manipulate financial statements so that the sustainability report of a company decreases. The corporate governance committee, the provider of sustainability reports, the number of members of the audit committee and the number of members of the board of directors have a significant positive effect on sustainability reports as predicted. Bankruptcy has a significant negative effect on sustainability reports. Operational cash flow has no significant effect on the sustainability report, while the total assets logged have a significant positive effect on the sustainability report.

CONCLUSION

Based on the test results, this study analyzes the positive effect of the corporate governance committee, the positive influence of the guarantee provider for sustainability reports, the positive effect on the number of members of the audit committee, the positive effect on the number of board members of the board of directors, the negative effect of bankruptcy, the positive influence of operational cash flow and the positive effect of total assets on sustainability report. This study uses 242 samples obtained after the sample selection process to see the consistency of sustainability report research data so that it can be analyzed the effect of consistency on the test variables in the study.

Based on the results of previous studies and discussions, it can be concluded that the control variable, total assets have a significant effect on the sustainability report, but operational cash flow has no significant effect on the sustainability report. Overall variables, corporate governance committees, providers of guarantees for sustainability reports, the number of audit committee members and the number of board members have a significant positive effect on sustainability reports.

The limitation that can be improved in future studies is, this research has not examined the factors that strengthen or weaken sustainability reports in the research model as moderating variables. This study only uses two control variables that affect the sustainability report, namely operational cash flow and total company assets. The sample used in this study is large, t-test and F-test have been carried out (Gujarati and Porter, 2009).

Based on the research results obtained, recommendations that can be given to the company's stakeholders are by giving more specific attention to the corporate governance committee, provider of sustainability report guarantees, the number of members of the audit committee, the number of members of the board of directors and bankruptcy in assessing sustainability reports. Besides, the regulator can create a standard or guideline that regulates what the company must do, so that sustainability reports can be improved and maintained. For further research, it can add moderating variables to strengthen or weaken the influence in the research model. Future studies can use all companies listed on the Indonesia Stock Exchange or increase the observation period. Control variables that affect the sustainability report can also be added, for example, variables in determining the number of audit committee meetings, the number of board of directors meetings in a certain period.

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