



DISCLOSURE OF SUSTAINABILITY REPORT MEDIATING GOOD CORPORATE GOVERNANCE MECHANISM ON STOCK PERFORMANCE

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Abstract. The aim of this study is to examine the effect of good corporate governance mechanism to stock performance through sustainability report disclosure as mediation. Good corporate governance mechanism used in this case is commissioner board's size, the proportion of independent commissioners, audit committee's size, and managerial ownership, whereas stock performance measured in this case is stock return. Using a sample 113 companies all sector listed in Indonesia Stock Exchange which publish sustainability report during 2014-2016. This study were using simple and multiple linear regression analysed to determine indirect effect through path diagram. Based on the result of the first hypothesis testing of GCG mechanism none of which have significant effect on SR disclosure, the second hypothesis is only the proportion of independent commissioner and audit committee's size of GCG mechanism which have positive significant effect on stock performance, the third hypothesis of SR disclosure has no significant effect on stock performance and the fourth hypothesis explains that SR disclosure is not exactly a mediating variable.

Keywords: commissioner board's size; proportion of independent commissioners; audit committee's size; and managerial ownership; sustainability report; stock return; Indonesia

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JEL Classifications: M14, M41, M48

1. Introduction

Reporting from the Sustainability Reporting Awards Indonesia 2016, there are already 120 companies that have issued SR and annual report (AR) as a separate report. Based on observations of researchers through companies listed on the IDX, the development of SR reporting in Indonesia in 2016 has increased 60% compared to 2012. Although still a voluntary disclosure, the amount is not much different from Singapore state that has mandatory disclosure. Based on the GRI database through website database.globalreporting.org, in 2016 the number of Singapore companies that publish SR as many as 35 companies, while in Indonesia as many as 58 companies. According to Weber et al. (2008), an increase in companies that publish SR indicates that there is an awareness that is beginning to emerge and arising from the benefits generated in SR disclosure.



SR Disclosure aims to demonstrate the company's commitment in carrying out its social and environmental responsibilities towards sustainability improvement (Utama & Mirhard, 2016). Society will give a good perception if the company is able to provide mutual relations to the environment. Not just follow the trend and want to see that the company cares about the environment outside the entity but the company also has the vision and mission to be achieved in building and improving the environment and social sustainability. By issuing the SR, the company has shown its seriousness to maintain the balance and sustainability of the environment, minimizing social inequalities, and the economic welfare of the people (Isnalita & Narsa, 2012). In Indonesia, SR is still a voluntary disclosure. Therefore, not all companies want to publish SR because it requires the cost and energy to arrange it.

In accordance with the objectives of sustainable development, addressed to internal and external parties, the company must begin preparing a strategy to show the company's going concern to stakeholders. Particularly parties associated with supervision through the effectiveness and efficiency of corporate performance ie corporate governance. Good Corporate Governance (GCG) is a corporate management mechanism to improve the effectiveness and efficiency of financial statements, aimed at stakeholders to attract investors (Agustia, 2013a). GCG mechanism serves to supervise and ensure that any activities undertaken company management can provide benefits and has been prepared carefully for future planning company. According to Aziz (2014), the existence of GCG in expressing the aspects that exist in SR become a medium for companies to communicate to stakeholders in preparing accountability reports. Effective GCG implementation is expected to improve a company's performance through sustained vision and mission, as Rodriguez-Fernandez (2015) observes that most of the GCG mechanisms have an effect on delivering better financial results. In the study of Bistrova and Lace (2012) states that one of the factors that affect the company's performance is information disclosure to external parties. Arniati et al (2019) put emphasis on role of independent auditing in good corporate governance model.

Performance of the company to be studied in the form of stock performance or stock performance because stock return given to shareholders is a fundamental indicator in assessing the success of the company attract investors. Investors are more interested in companies that have stock price stability, because stable stock prices show that the company is able to maintain the company's performance even more if there is an increase. Companies should be able to present good and quality company performance reports to be able to provide a positive signal to investors. According to Aziz (2014) who examines the effect of GCG on the quality of disclosure of sustainability report produces a significant influence only from managerial share ownership in line with research Janggu et al. (2014), while the size of the board of commissioners, the proportion of independent commissioners, the size of the audit committee, the concentrated shareholdings, and the size of the company have no significant relationship to the quality of disclosure of sustainability reports, as Hussain et al. (2016) and Mahmood and Orazalin (2017) and Prabowo et al. (2017). In addition, managerial share ownership is regulated in Law No. 40 of 2007 so that there is no doubt its existence in the research In this case inconsistent with research conducted by Khafid and Aniktia (2015), the size of audit committee, governance committee positively affect the disclosure of sustainability report.

Research Agustia (2013b), states that the number of boards of commissioners has a significant effect on market reaction in line with research Sharifi (2017), while the proportion of managerial ownership has no significant effect on market reaction is not in line with Sharifi (2017) study. In another study conducted by Bistrova and Lace (2012), revealed a significant relationship between GCG and the company's stock performance, supported by Bauer et al. (2004), Tjondro and Wilopo (2011), Drobetz et al. (2004) and Adityara (2014). This study is inconsistent with research conducted by Ahmed and Hamdan (2015), which states there is no significant relationship between GCG and stock returns, supported by Yatmi et al. (2016). Furthermore, research conducted



by Du et al. (2017) which resulted in a relationship between sustainability reports and abnormal stocks significantly influenced by Rakhiemah (2011), Jones et al. (2007) and Iriyanto and Nugroho (2014), while in another study conducted by Stekelenburg et al. (2015) states that the two relationships have no significant effect, supported by Prayosho and Hananto (2013) and Lo and Kwan (2017). This is due to the uncertainty in the stock return of the company.

This research is motivated by research Bhutta et al. (2014), Aziz (2014), Agustia (2013b), and Fatchan and Trisnawati (2016) to continue or improve the research. This research contributed to the following: (1) the researcher expanded the previous research by adding the mediation variable and (2) if the previous researcher only used some specific industry sector, the researcher used all sectors.

Based on the description, the researcher conducted a study entitled "Disclosure of Sustainability Report Mediating Influence Mechanism of Good Corporate Governance to Stock Performance". Thus, the research problem can be formulated as follows: (1) Is good corporate governance mechanism influencing the disclosure of sustainability report?, (2) Is good corporate governance mechanism affecting stock performance?, (3) Is sustainability report disclosure effect to stock performance?, and (4) Does the mechanism of good corporate governance affect stock performance through the disclosure of sustainability report?

2. Literature Review

2.1. Agency Theory

Jensen and Meckling (1976) defines that agency relations arise when one of the interested parties (as principal) employs someone who has knowledge (as an agent) by delegating authority to manage and make decisions within the company. When the agent does not work in line with the expectations of the shareholders, there is a conflict of interest that causes the company to spend on agency costs to overcome it. This conflict is triggered by the existence of different goals owned by each party. Based on the study Javed et al. (2017), agency theory also explains the existence of asymmetric information. As an agent, managers must also provide true and transparent information to stakeholders as a principal concerning the actual condition of the company (Untoro & Zulaikha, 2013). Given information of asymmetry and conflict of interest, it can cause harm to the company.

2.2. Signalling Theory

In signal theory, describes how the company attempts to signal to external parties to invest into the company by expecting a higher return value and disclosure transparency through SR reporting (Fatchan & Trisnawati, 2016). Development done by Ross (1977) stated that the best important information is owned by the internal company to be presented to potential investors to invest their capital so that the stock price of the company will increase. The company can provide a good signal to investors and stakeholders when the company is able to implement the performance of the company based on the triple bottom line. In this theory management not only pay attention to the condition of the company from the economic side but also from the environmental and social side of the company.

2.3. Good Corporate Governance

According to FCGI (2001), the implementation of GCG can provide effective protection for shareholders and creditors so as to provide confidence to shareholders of the return on investment from the company. Studies



conducted by Bauer et al. (2004) stated that investors tend to invest in companies that have good management governance because they have a small market risk compared to companies with poor governance. Companies with good governance will have a longer going concern. According to Jamali et al. (2008), management must be able to determine the right decision, especially in terms of corporate management to meet the objectives to be achieved. The existence of GCG is expected to prevent the management of the company against the gap of interest.

2.4. Sustainability Report

Sustainability report (SR) is a sustainability report consisting of three dimensions: environmental dimension, social dimension and economic dimension (e.g. Vegeera, Malei, Sapeha, Sushko 2018; Vegeera, Malei, Trubovich, 2018). According to PWC (2012), SR is a practice of measuring, disclosing, and accountability of the company to stakeholders both internally and externally for the performance of the company towards a sustainable goal. In Indonesia, SR is still a voluntary disclosure meaning the government has not obliged the company to issue SR. Internationally, the GRI guidelines of the G4 version are the guidelines currently used to compile worldwide recognized SR disclosure reporting (GRI, 2013). GRI contains the disclosure of governance and performance along with the impacts of the three aspects of company performance, namely the impact of the environment, the social impacts and economic impacts that the company generates and the documents required in disclosure under certain conditions that must be met (Global Reporting Initiative, 2013). Through this uniformity, it is hoped that the report disclosed by the company is increasingly accountability and transparency to the public.

2.5. Stock Performance

Based on the Investment Guide Book in Indonesian Capital Market, shares are certificates indicating proof of ownership of the company and shareholders have rights over claims against income and activity of the company (Bapepam, 2003:9). Stock performance is a company's ability to attract investors to invest in the company in order to obtain return and achieve the company's goals. To measure the performance of shares in the company, the researcher uses stock returns obtained from the closing price of JCI stocks. Good stock performance is seen in the rise in stock prices above the market index value (Nursasi, 2017). Investors always pay attention to the increase or decrease in stock value in the capital market because it is related to the return of stock investment considering the level of stock price speculation. According to Sharifi (2017), stock price speculation is a consequence of investors in getting the latest information before other investors find the information in making a decision to buy or sell shares in the capital market.

2.6. The Influence of GCG Mechanisms on SR Disclosure

The Board of Commissioners is one of the important roles in the GCG mechanism in overseeing and providing direction for the company to manage the company's performance well. Good oversight will prevent the company from a conflict of interest. In addition to supervising and advising the board of directors, the function of the board of commissioners is to ensure that the company has carried out its social and environmental responsibilities through the effectiveness of corporate governance (Agustia, 2013a). Good supervision will encourage companies to disclose more information about company's performance.

Board of commissioners consists of independent and non independent commissioners. Independent commissioners are part of the unaffiliated board of commissioners so that minorities can have equal rights in



every management decision. SR Disclosures illustrates how well the company performs in increasing the confidence of minorities. The number of boards of commissioners per company varies, depending on company policy. Based on Law No. 40 of 2007 article 108 (5), for the company go public the number of existing board of commissioners in the company consists of at least 2 members (Republik Indonesia, 2007). It aims to reduce misbehavior.

The audit committee is established by the Board of Commissioners. Under the GCG guidelines of the IDX, the audit committee is tasked with assisting the execution of the duties of the board of commissioners, including (i) presenting reasonable financial statements in accordance with GAAP, (ii) applying effective internal controls, risk management and GCG, and (iii) that the function of internal and external auditing is going well. With the supervision in reporting and internal control more intense, it is expected that information submitted by company become more complete and transparent. The size of the audit committee is indicated by the intensity of meeting among members of the audit committee. Based on the Regulation of the Financial Services Authority No. 55 / POJK.05 / 2015 states that in the intensity of meetings conducted at least 3 months or in a year at least 4 times.

Managerial share ownership is the participation of managers as shareholders owning certain shares in a company. With the concurrent interest, it will increase the chance for management to manage the company for the better. In agency theory, with managerial share ownership, companies can reduce agency costs because of conflicts of interest will decrease, so management becomes confident to disclose the company's performance to the public because the management will work in accordance with the interests of stakeholders.

H1.a: size of the board of commissioners influences the SR disclosure

H1.b: proportion of independent commissioners influences the SR disclosure

H1.c: size of the audit committee influences the SR disclosure

H1.d: Managerial share ownership affects SR disclosure

2.7. The Effect of GCG Mechanism on Stock Performance

Effective GCG implementation is demonstrated by the right decision making so as to improve the company's stock performance and have a high return on investment because of its strategy because it has been thought through and is forward-looking. This makes investors think that risks in the company are decreasing and have a big enough going concern opportunities that are more attractive to investors. Companies are not only oriented to entities, but also contribute to stakeholders and minorities who are also struggling with the company's success. Companies that pay close attention to minority interests so they can attract in the capital market. This can give a signal to potential investors to be interested in investing into the company and can increase the stock price due to an increase in demand so that the return obtained will be greater.

Regular meeting of members of the audit committee to discuss internal control in a company, whether it is going well or not to avoid fraud. With the audit committee, the reports produced by the company to be qualified and protected from fraud, so that investor confidence to the company will be greater. Managerial shareholding in the company, as manager and shareholder, helps to encourage management management in improving the company's performance to earn return on shares invested in the company. Based on the agency theory, managerial ownership will reduce the conflict agency so that investors are confident that the company's shares will be managed better



for management not only for personal interests but also for shareholders' interests. This means that management is expected to have company shares to reduce the cost of conflict and work in the interests of all parties. With good management performance and focus on the company's stock, the fluctuation of share price will become stable, so demand becomes high and the return earned also increases (Nursasi, 2017) so that stock performance increases.

H2.a: size of the board of commissioners influences the stock performance

H2.b: proportion of independent commissioners influences stock performance

H2.c: size of the audit committee influences the stock performance

H2.d: Managerial share ownership effect on stock performance

2.8. The Effect of SR Disclosure On Stock Performance

In signal theory, SR disclosures are made to assist companies in raising investor interest through the operations of participating companies to realize sustainable performance towards nature and resources that can sustain life in the future. Completeness of reports produced by the company can provide added value for the company. Moreover, SR disclosure has become a special concern and is being developed worldwide. Therefore, investors will be interested in investing in companies that have been able to publish SR because information asymmetry is getting smaller.

H3: SR disclosure affects stock performance

The Influence of GCG Mechanism On Stock Performance Through SR Disclosure

SR is a mediation variable used as a bridge to demonstrate the role of GCG to the firm's performance for investors. Stock performance is identical to the presence of shareholders or investors as the company's investors. Stock performance should display stable stock market conditions and require effective oversight of GCG. Many investors only recognize the board of commissioners, audit committees and managers entering in the stakeholders. However, they are an inseparable part of the GCG role. To be able to convey a message from GCG, it is necessary to report a report to give an idea of what has been done by the company, one of which is sustainability report.

In the mediation relationship, before the board of commissioner size variables directly affect the stock performance as in the research Agustia (2013b) and Sharifi (2017), the variable must have an indirect relationship through SR disclosure. Mediation can be said to be successful when SR disclosure variables and stock performance have significant effect. Based on the description above, the researcher proposed the following hypothesis:

H4.a: size of the board of commissioners influences stock performance through SR disclosure

H4.b: proportion of independent commissioners influences stock performance through SR disclosure

H4.c: size of the audit committee influences stock performance through SR disclosure

H4.d: Managerial share ownership effect on stock performance through SR disclosure



3. Research Methodology

3.1. Research Design

This research was conducted using quantitative approach. The explorative research approach is to explain the relationship between variables through hypothesis testing that has been predetermined to obtain the results of research that can be generalized.

3.2. The Measurement Model

3.2.1. The size of the Board of Commissioners

The board of commissioners is someone responsible for overseeing performance and advising the board of directors in management management. Based on the Company Law No. 40 of 2007 article 108 (1), the board of commissioners is one of the organ of corporate structure that plays an important role in the General Meeting of Shareholders especially in overseeing the financial performance of the company in accordance with the articles of association and giving advice to the board of directors (Republik Indonesia, 2007). This variable uses the ratio scale by measuring the total number of board of commissioners, both independent commissioners and non-independent commissioners listed in the annual report (Aziz, 2014).

3.2.2. Proportion of Independent Commissioners

An independent board of commissioners is part of a board of commissioners who is not affiliated, neutral and impartial. Affiliate relationships such as family relationships with company owners or former members of directors and managers or anyone who has held positions in the company. In this study, the scale used is the ratio scale and the proportion of independent commissioners measured by the following formula (Agustia, 2013b):

$$\text{KOMIND} = (\text{Number of Independent Commissioners}) / (\text{Total of Board of Commissioners}) \times 100\%$$

3.2.3. Audit Committee Size

The audit committee is the party appointed by the board of commissioners to assist in completing the duties of the board of commissioners in carrying out the GCG mechanism effectively. The audit committee serves to oversee the reporting system to comply with the applicable IFRSs. The researcher measured the audit committee using the ratio scale measured by the number of meetings among members of the audit committee which held a three-year reporting period (Aziz, 2014).

3.2.4. Managerial Share Ownership

Managerial share ownership is the sum of the total shares owned by the manager as a party of the company's interests of the total outstanding shares of the company. The ratio scale is used in this variable and managerial shareholding is measured by the following formula (Agustia, 2013b):

$$\text{MANAJ} = (\text{Number of managerial shares}) / (\text{Total shares outstanding}) \times 100\%$$

3.2.5. Stock Performance

Stock performance is the company's ability to attract investors to invest in the company in order to obtain return and achieve company goals. Proxy used is stock return. Return of shares is the result of returns received by investors on investments made. The price used is the closing price of shares (IHSG) at (Yahoo Finance, 2017). The ratio scale is used in this variable, with the following formula (Sharifi, 2017):



$$\text{RETURN} = (P_t - P_{(t-1)}) / (P_{(t-1)})$$

Note:

RETURN = Stock return at year t

P_t = Stock price at year t

P_(t-1) = Stock price at year (t-1)

3.2.6. Sustainability Report Disclosure

SR Disclosure is a form of corporate responsibility in publishing company performance as a follow-up of the company's environment. This variable uses the proxy of GRI G4 indicator which has 91 items consisting of 3 categories namely social category (including human rights, labor, production and society responsibility), economy and environment (Global Reporting Initiative, 2013). This variable uses dummy variable, scale ratio with the following formula (Aziz, 2014):

$$\text{SRDISC} = \frac{\sum I}{\sum D}$$

SR = SR disclosure

∑I = Number of items disclosed, using dummy variables; 1 = item disclosed, 0 = item not disclosed

∑D = Amount to be disclosed, maximum value is 91

3.3. Types and Sources of Data

The type of data used by researchers in the form of quantitative data, and data sources used are secondary data. The data is obtained from 3 main sources, namely the official website of Indonesia Stock Exchange www.idx.com, website of each company, and Yahoo! Finance. Researchers examine all sectors of companies listed on the Indonesia Stock Exchange (IDX) from the range of 2014 to 2016.

3.4. Population and Samples

The population used in the research is all sectors of companies listed in Indonesia Stock Exchange (IDX) period of 2014-2016 and has published sustainability report. Researchers use the study period from 2014 to 2016 because the company uses GRI G4 indicator. The total population of companies that have published SR during the period 2014-2016 is 116 companies. Based on the selection of sample selection criteria conducted by researchers, of 116 companies that publish SR on the BEI during the period 2014 to 2016, there are 113 samples that have met the criteria. See Table 1.

Table 1. Sampling Technique

No	Criteria	2014	2015	2016	Total
1.	Companies listed on the BEI publish SR	37	41	38	116
2.	Do not use G4 guidelines	(2)	-	(1)	(3)
3.	No information in IHSG	-	-	-	-
Sample used		35	41	37	113

3.5. Techniques Analysis

This research uses analytical techniques in the form of path analysis or path analysis, because in this study researchers used the influence of intervening variables as a liaison between dependent and independent variables



in hypothesis testing. The researcher tested the hypothesis using path analysis with SPSS version 20 statistical tool. The analysis test is used to find out the relationship of a set of variables either directly or indirectly. The research model can be formulated as follows:

$$\text{Model 1 : } Z = \alpha + \beta_1.\text{KOMIS} + \beta_2.\text{KOMIND} + \beta_3.\text{KOMDIT} + \beta_4.\text{MANAJ} + \varepsilon$$

$$\text{Model 2 : } Y = \alpha + \beta_1.\text{KOMIS} + \beta_2.\text{KOMIND} + \beta_3.\text{KOMDIT} + \beta_4.\text{MANAJ} + \beta_5.\text{RETURN} + \varepsilon$$

The first model describes a simple linear regression with SR disclosure as the dependent variable and the second model describes multiple linear regression with stock performance as the dependent variable. Both models are used to analyze the indirect effect of the mediation variable, ie SR disclosure.

4. Result and Discussion

4.1. Descriptive Statistics

Companies used in the research are all sectors of companies listed in Indonesia Stock Exchange (IDX) and have published sustainability report (SR) period 2014-2016 and using GRI G4 guideline. The sample of company used has been in accordance with sample selection criteria using purposive sampling. The number of companies that publish SRs in 2014, 2015, and 2016 respectively are 37, 41, and 38 earned from the websites of each company. Elimination results according to sample selection criteria resulted in the number of research firms in 2014, 2015, and 2016 sequencing were 35, 41, and 37 respectively. See Table 2.

Table 2. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
KOMIS	3	12	6,25	1,566
KOMIND	0,25	1,00	0,4570	0,14110
KOMDIT	4	59	15,34	12,129
MANAJ	0,000000	0,064183	0,00272066	0,009868885
RETURN	-0,784314	1,128713	-0,01935291	0,314759574
SRDISC	0,054945	0,945055	0,31999991	0,187392129

Descriptive statistical analysis describes the description of range, minimum value, maximum value, mean value, and standard deviation. This study uses size of the board of commissioner (KOMIS), propotion of independent commissioner (KOMIND), audit committee size (KOMDIT), managerial share ownership (MANAJ), sustainability report disclosure (SRDISC), and stock performance (RETURN).

4.2. Test Result Analysis of Class Assumptions

Normality test was performed using Kolmogorov-Smirnov non-parametric statistical test with p-value > 0,05. The results showed that the models 1 and 2 have p-value of 0,062 and 0,000, so the research data is still not normally distributed. Furthermore, the researchers reduced the outlier data through casewise on the regression result gradually and had eliminated 13 outlier data. Initial sample data showed a total of 113 samples and to meet the standard of data normality, the final data used after eliminating the data outlier of the sample data of the researcher to be 100 samples. After the process of elimination, the results showed that the models 1 and 2 have p-value > 0.05 that is equal to 0.139 and 0.309. Thus, this study has been normally distributed. The result of heteroscedasticity test, multicollinearity test of autocorrelation test has been qualified. See Table 3.



4.3. Hypotheses Development

Table 3. Regression Test Results Model 1

Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	0,476	0,110	0,000
KOMIS	-0,008	0,012	0,485
KOMIND	-0,260	0,133	0,054
KOMDIT	0,002	0,002	0,294
MANAJ	-3,642	1,892	0,057
R Square			0,091

Dependent Variable: SRDISC

Based on these simple linear regression results produce the first equation as follows (see Table 4):

$$Z = 0.476 - 0.008KOMIS - 0.260KOMIND + 0.002KOMDIT - 3.642MANAJ + \epsilon$$

Table 4. Regression Test Results Model 2

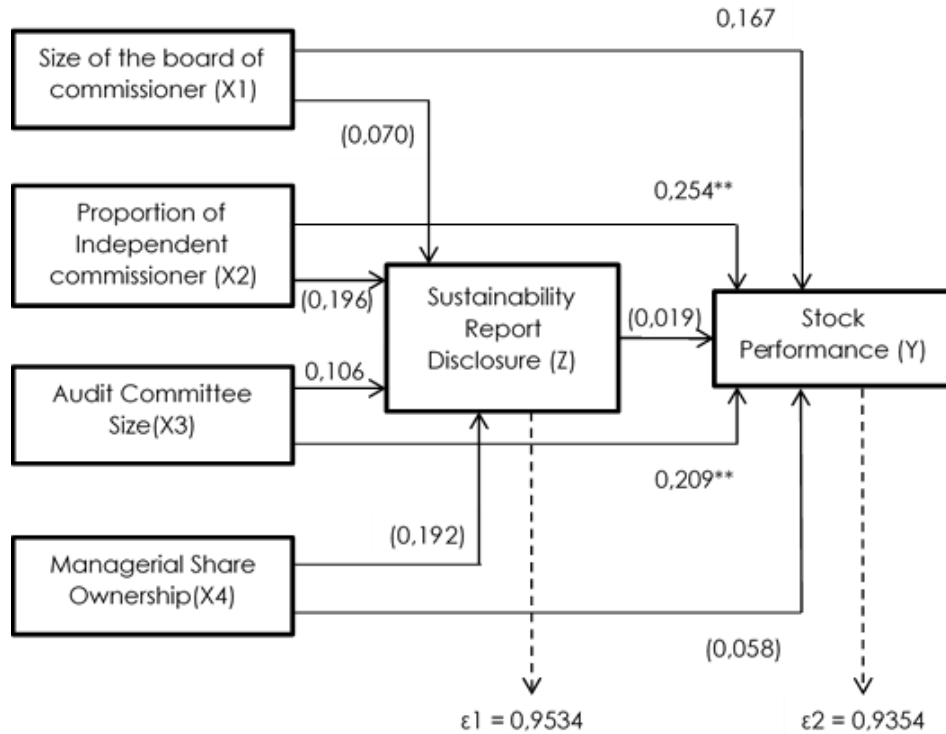
Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	-0,556	0,200	0,006
KOMIS	0,034	0,020	0,095
KOMIND	0,566	0,225	0,014
KOMDIT	0,005	0,003	0,038
MANAJ	-1,848	3,195	0,564
SRDISC	-0,031	0,170	0,855
R Square			0,125

Dependent Variable: RETURN

Based on these simple linear regression results produce the second equation as follows:

$$Y = -0.556 + 0.034KOMIS + 0.566KOMIND + 0.005KOMDIT - 1.848MANAJ - 0.031SRDISC + \epsilon$$

The mediation variable can be said to be significant if the indirect effect value is greater than the direct effect. The indirect effect is obtained from the multiplication of direct effect coefficients $X \rightarrow Z$ and $Z \rightarrow Y$. The following is the calculation of the magnitude of indirect effect:



**significant to 5%

Figure 1. Diagram Path Research Results

From the path diagram (see Figure 1), it can be seen the coefficients of each variable relationship that will be used to calculate the magnitude of indirect effect. The following test results indirect influence (see Table 5):

Table 5. Indirect Effect Testing

Hypothesis	Direct Effects X→Y	Indirect Effects X→Z→Y	Total
H4.a	0,167	0,00133 ^a	0,16833
H4.b	0,254	0,00374 ^b	0,25774
H4.c	0,209	(0,002014) ^c	0,206986
H4.d	(0,058)	0,003648 ^d	(0,054352)

4.3.1. The Influence of GCG Mechanisms on SR Disclosure

4.3.1.1. The size of the board of commissioners to the SR disclosure

The Law of the Company Number 40 Year 2007 article 108 (1) states that the board of commissioners plays an important role in carrying out the GCG mechanism. In the agency theory, the board of commissioners is one of the principal parties that have an important role in overseeing the operational performance in order to keep the company running effectively, efficiently and economically.



According to Hussain et al. (2016), the existence of this insignificant influence occurs because the board of commissioners still require adaptation with the existence of SR. This adaptation process is conducted to direct the board of commissioners to going concern through improving the sustainability of the company's performance in the future. This is of concern to researchers because of the GRI G4 amendment there is considerable renewal of the previous guidelines (Hussain et al., 2016). The study is consistent with Aziz (2014), Hussain et al. (2016) and Mahmood and Orazalin (2017).

This study is inconsistent with research by Janggu et al. (2014), reveals that the existence of a professional board of commissioners will have a major impact on the quality of SR disclosure. Thus, the government needs to reform the board's membership to develop the professional level of the board of commissioners in order to improve SR reporting in developing countries.

4.3.1.2. Proportion of independent commissioners to SR disclosure

Independent commissioners come from neutral parties outside the scope of the company, such as members of the TNI, government officials, or anyone else who has no affiliation relationship with the company. Based on agency theory, the involvement of external parties in a company can minimize the conflict of interest. This situation will encourage the management of the company to disclose all information regarding the actual condition of the company to stakeholders including investors.

The function of an independent commissioner as a neutral party is to represent and protect minority rights against majority parties' decisions. According to Khafid and Aniktia, (2015), the duties of independent commissioner function become not maximal because of the low competence and knowledge, different background, and have many other activities outside the company. This is an obstacle for independent commissioners to encourage the disclosure of SR in the company because it still does not understand well the existence and benefits of SR. This study supports the results of research from Aziz (2014), Janggu et al. (2014), Khafid and Aniktia (2015) and Mahmood and Orazalin (2017).

4.3.1.3. The size of the audit committee on SR disclosure

The audit committee serves to assist the board of commissioner's duties. In this variable, researchers use the intensity of meetings in a period as an indicator of the audit committee's performance on the interests of the company. Judging from the agency theory, the audit committee serves to help reduce the presence of asymmetric information in GCG through internal control systems. However, this study produced insignificant influences. This means that the intensity of meetings by the audit committee does not affect management in expressing the SR maximally. The Company undertakes SR reporting only to fulfill the obligations of Law No. 40 of 2007 concerning the Company regardless of the entity's responsibility on an ongoing basis. This study supports the research of Aziz (2014) and Hussain et al. (2016) partially.

In the study of Hussain et al. (2016), only from the social point of view affecting SR disclosure. This happens because the company only considers the legitimacy of the community to keep going concern (Khafid & Aniktia, 2015). In terms of environment and economy, the company is still focusing on improving the reporting framework. In line with the change in GRI G4, there is a change of 78% economic items (Hussain et al., 2016) impacting on the results of this study.

This is contrary to the findings of Khafid and Aniktia (2015) stating that there is a significant relationship between the audit committee and the SR disclosure. The function of the audit committee as a communication medium can help the company to gain investor confidence in obtaining the required information. However, in this



study reveals that SR reporting can not describe stakeholder desire for any information that has been published, so asymmetry information is still found. Thus, this can lead to the opening of management opportunities to hide information held to stakeholders and investors.

4.3.1.4. Managerial share ownership of SR disclosure

Based on the results of research related to the agency theory, the company still can not reduce the conflict of interest causing higher agency costs, so companies need to be careful in disclosing information in SR (Iriyanto & Nugroho, 2014). Moreover with the policy of voluntary disclosure, encourage companies to reduce the publication of negative information to the public about conflicts within the company. The research findings support the results of research by Khafid and Aniktia (2015) and Hussain et al. (2016). The absence of a significant influence from this variable is due to not all company management having ownership rights over a company or owning shares but small (Khafid & Aniktia, 2015), so managers are not motivated to disclose company performance to SR reporting.

This is contrary to Aziz (2014) study, which states that managerial share ownership affects SR disclosure. Given the managerial ownership of a company, managers will seek to disclose company information because the manager also acts as a shareholder within the company. Increasingly open and transparent information can increase shareholders' confidence in the company's management of asymmetric information.

4.3.2. The Effect of GCG Mechanism on Stock Performance

4.3.2.1. The size of the board of commissioners to stock performance

Associated with agency theory, the large number of board of commissioners can determine the course of control and supervision of the management company (Agustia, 2013b). Low control and supervision lead to a conflict of interest between the agent and the principal. In this case, researchers suspect that the board of commissioners may still be less professional in overseeing the performance of management in decision making (Junggu et al., 2014), so the opportunity for small going concern.

Board of commissioners has an important role in improving stock performance through supervision with future-oriented strategy and prospective. The view is different if the number of the board of commissioners of a company is not proportional to the size of the company. According to Agustia (2013b), coordination between members becomes less systematic and structured due to too much the number of boards of commissioners, so the company's performance becomes less maximal. The results of this study support Bhutta et al. (2014).

Listed in the Company Law No. 40 of 2007 article 108 (5), that for the company go public board of commissioners has a minimum of 2 members. However, good corporate performance also depends on the professionalism of the board of commissioners and proportional in determining the number of boards of commissioners.

4.3.2.2. Proportion of independent commissioners to stock performance

The proportion of independent commissioners has a significant influence on stock performance, meaning that the commissioner has fulfilled the duties and functions as an independent commissioner. Minority rights have been well submitted by independent commissioners. Thus, the signal given by the company is able to attract investors and increase stock prices in the capital market.

In agency theory, especially on stakeholders such as an independent commissioner has a broader responsibility to the company's policy of rate of return (Agustia, 2013b). As a neutral party, the effort to increase the performance



of shares through stock returns can be well executed while maintaining minority rights in every decision. The improvement of the company's performance is able to increase the confidence of the capital market (Agustia, 2013b) so that shareholder return will increase (Sharifi, 2017). The results of this study are in line with the research of Agustia (2013b), Ali et al. (2017), and Sharifi (2017).

In general, corporate governance is important in allocating profitability and growth of the company effectively and efficiently, providing a higher return than the cost of company capital. In this case contrary to the research of Bhutta et al. (2014) which states that the proportion of independent commissioners does not affect stock performance.

4.3.2.3. The size of the audit committee on stock performance

In agency theory, the audit committee is a neutral party in a conflict of interest. As a neutral party, the audit committee has a role in separating the differences of interests between managers and stakeholders (Ali et al., 2017). Measurement through the intensity of meetings indicates good coordination among members to improve the company's internal controls to avoid fraud (Ali et al., 2017). In research shows that the relationship can support the level of progress of the company, so that the signal given is able to attract investors. In regular meetings, the audit committee is able to coordinate well in minimizing internal conflicts. The lack of conflict of interest, will result in increase of investor's confidence in increasing stock return company.

In this variable, it supports the results of Ali et al. (2017) which states that the size of the audit committee can influence stock performance. Otoritas Jasa Keuangan (2011) states are not in line because it is caused by mistakes investors in choosing the right company and profitable in investing. This study is in accordance with the Financial Services Authority (2011) statement, that the audit committee is able to support government reforms, by assisting in solving problems and developing corporate governance through the company's financial statements in Indonesia. This study contradicts the research of Bhutta et al. (2014), which states that the size of the audit committee has no effect on stock performance. This is caused by the mistake of investors in choosing the right company and profitable in investing.

4.3.2.4. Managerial share ownership of stock performance

In this research, managerial share ownership can not be a tool to avoid conflicts of interest and does not affect investor reactions on stock returns obtained (Bhutta et al., 2014). This is presumably because most companies do not implement a Management Stock Option Plan (MSOP) policy or have a small amount (Khafid & Aniktia, 2015). The policy is shown as the company's efforts to reduce manager misconduct in fulfilling its personal interests (Agustia, 2013b). With this personal interest cause agents to limit the information that corporate management has to stakeholders. This study supports the research of Agustia (2013b) and Bhutta et al. (2014).

In contrast to research Sharifi (2017) states that managerial share ownership effect on stock performance. Managerial share ownership has the efficiency in encouraging managers to work more productively and increase the return as expected by investors. Stock ownership is able to provide an important role to the company's effective and efficient performance in order to improve long-term going concern.

4.3.2.5. The Effect of SR Disclosure To Stock Performance

The disclosure of SR has no significant effect on stock performance due to the company issuing the SR still not delivering the information maximally or still less open so that the signal given by the company has not reached the investor's understanding (Stekelenburg et al., 2015).



According to Stekelenburg et al. (2015), views that companies that invest in Corporate Sustainability Performance (CSP) always show higher and more prominent financial performance. Investors recognize the advantages of these companies. However, investors still do not have the enthusiasm for sustainable information (Prayosho & Hananto, 2013). The company's current management focuses on corporate policies that will enhance the capabilities of corporate organizations (Lo & Kwan, 2017). Thus, it is necessary to develop an understanding in integrating sustainable systems that impact on investor valuation considerations.

By issuing SRs can improve the relevance of company performance on an ongoing basis (Du et al., 2017). However, this view is contrary to the results of the study. This is due to the speculative stock price that is always changing so that the effects of high performance on the company's performance is only temporary (Stekelenburg et al., 2015). Although this sustainable system is popular among firms, investors are still difficult to define as to the impact of the assessment on the definition of sustainable returns that investors will receive (Lo & Kwan, 2017). This study supports Prayosho and Hananto (2013), Stekelenburg et al. (2015), and Lo and Kwan (2017) research.

This study is incompatible with the research of Jones et al. (2007), Iriyanto and Nugroho (2014), and Du et al. (2017). Companies that earn greater profits encourage management to disclose wider social information Iriyanto and Nugroho (2014). Thus, investor interest will increase and demand on the capital market will be greater so that the stock price becomes high and the return earned gets bigger. According to Du et al. (2017), SR is used by stakeholders, especially investors, to influence the company's performance in the short and long term because the information presented is able to include the valuation of stock price. In this regard, SR is considered an important source of information and has broader information.

4.3.3. The Effect of GCG Mechanism on Stock Performance through SR Disclosure

This hypothesis is not answered because of the statistical test results for direct influence between variable disclosure of SR (Z) to stock performance (Y) showed insignificant influence. The insignificant influence of the direct influence of Z to Y is not eligible for mediation.

Based on Baron and Kenny (1986) theory, mediation describes the causal relationships of the two variables. Mediation is used as a bridge of the relationship between independent and dependent variables significantly. A variable is said to successfully mediate the relationship with the terms have significant influence between GCG mechanism to mediator and mediator to stock performance. In this study, the relationship of both has no significant influence, so the disclosure of SR is considered not qualified as a mediator.

From the results of this study SR disclosure is said not as a mediator. This is because SR reporting is a stand-alone variable and is still voluntary disclosure, so not all companies disclose this reporting and indicate the immature readiness of the company in issuing the SR.

There are companies that already have mandatory disclosure on SR, such as Singapore, Japan, France, Holland and so on. The growth of companies with countries that have mandatory disclosure has dominated but growth in voluntary disclosure is also strong. From research conducted by King et al. (2016), about two-thirds of identifiable disclosure is mandatory and about one-third voluntary, the remainder of about one in ten instruments using the 'obedient or clear' approach. Research of Loh et al. (2016) states that virtually every country has weaknesses and advantages with different levels in SR report disclosure.



Guidance from a changing GRI can be one of the factors of non-fulfillment of SR disclosure as a mediation variable. Research Iriyanto and Nugroho (2014) revealed a significant influence of SR disclosure on company performance by using GRI G3.1 as the research index. This means the company is still not ready with the new guidelines. Moreover in 2018, GRI has set new guidelines with GRI Standards in the hope of adjusting the conditions of every company worldwide.

Conclusions

Based on hypothesis testing, the result of research as follows:

- 1) The influence of the size of the board of commissioners has no significant effect on SR disclosure, since the board of commissioners still need adaptation with the existence of SR to be able to direct the company toward going concern through sustainability improvement.
- 2) The effect of independent commissioners' proportion has no significant effect on SR disclosure, since it comes from external company and has different background.
- 3) The effect of audit committee size has no significant effect on SR disclosure, in every meeting among audit members the result can not meet the needs of stakeholders.
- 4) The effect of managerial share ownership has no significant effect on SR disclosure, because not all management companies have ownership rights of shares of company or own shares but small amount.
- 5) The influence of the size of the board of commissioners has no significant effect on stock performance, because it has an unproportionate number of board commissioners so that the structure becomes less systematic and well structured.
- 6) The influence of the proportion of independent commissioners has a significant effect on stock performance, as neutral party able to pay attention to the right of minority well and able to attract investor interest through the signal given by the company.
- 7) The influence of audit committee size has a significant effect on stock performance, coordination among audit members is able to provide good internal control so as to minimize conflicts of interest and internal fraud of the company.
- 8) The effect of managerial share ownership has no significant effect on stock performance, since not all companies implement the Management Stock Option Plan (MSOP) policy so that the ownership of top managers is still small.
- 9) The effect of SR disclosure does not have a significant effect on stock performance, because investors still do not consider SR reporting as well as speculative stock prices have an effect on the assessment of potential investors
- 10) The SR disclosure variable is not an appropriate mediation variable, as seen from the statistical analysis of the research indicating that the mediation variable to the dependent variable has no significant effect, so it does not qualify for the mediation variable.

Overall, it can be concluded that the role of GCG mechanism is able to fulfill its duties and functions by using high ability and professionalism with high integrity. GCG mechanisms that have a significant effect on stock performance are the proportion of independent commissioners and the size of the audit committee, both roles act as neutral parties within the company. Therefore, the number of influences that are not significant in this study because there is an interest in the internal company and can not be integrated well.

In doing a research of course the results as a finding will not be perfect due to the limitations that exist in the study. (2) Researchers use GRI G4 guidelines for sustainability report disclosure variables and (3) GRI indicator G4 has some rare items on the company.



For further research, may replace other independent variables such as market reaction or firm characteristics and consider the use of the latest GRI indicator, GRI Standard. For the government, the lack of corporate governance's role in SR disclosure should be able to encourage governments to take a firm stand against reporting practices. In SR reporting that promotes sustainability in the future, it is necessary to get attention from the public and government. Therefore, to improve the reporting in Indonesia, the government can establish regulations by changing voluntary disclosure to mandatory disclosure.

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