CHAPTER I

INTRODUCTION

A. BACKGROUND

Companies are business organizations that carry out their economic activities to advance a nation's economy. The company has a main goal, namely giving a significant impact on the progress of a country and in the end it will have a direct impact on the welfare of people's lives without harming the community itself. Companies play a very important role in the economic development. This is due to the active behavior of one of the contributors to the large national income of the country. The number of companies that are successful in carrying out business and their responsibilities as one of the public welfare organizations can increase the value of tax payments, which is one of the largest state revenues.

The main purpose of establishing a company is to make a profit. However, in achieving these goals, companies often ignore the social and environmental impacts resulting from corporate waste. For example, a case related to the environment, namely Lapindo Brantas, which is the source of the mudflow in the Sidoarjo area (Dewi, 2015). The case of environmental damage raises awareness for the community and companies regarding the importance of paying attention to environmental and social aspects. This illustrates how the company only cares about increasing profits without paying attention to the condition of the surrounding environment. Thus, the existence of a company does not contribute to the prosperity of the community and its environment but experiences a decline in social conditions instead.

In general, in conventional accounting, the focus of the company is stockholders, while other parties are often ignored. With the increasing demands of the company these days, the company is expected not only to be concerned with the interests of management and capital owners but also to care for employees, consumers, and society. The company also has social and environmental responsibilities to parties outside of management and owners of capital. One of the demands that companies must do is how corporate governance can function to encourage the creation of a market that is efficient, transparent, and consistent with laws and regulations based on several basic principles, namely accountability, transparency, equality, and fairness. (Rosadi, 2011). As a form of accountability and transparency in company management. It is essential to provide detailed information about the company's current condition in several areas.

According to Rachmandy (2012), corporate governance is a series of mechanisms that reflect a company management structure that determines the distribution of rights and responsibilities among various participants in the company, including shareholders, the board of commissioners, the board of directors, managers, employees, and interested parties (other stakeholders). Usually, companies only rely on a single bottom line, that is, companies only report the company's financial condition. However, with the emergence of the triple bottom line theory, companies not only provide financial information but also provide social and environmental information which is then called the sustainability report (Ratnasari, 2011). Especially the SDGs issues are being implemented very aggressively in Indonesia. Companies need to implement SDGs that are sustainable with the triple bottom line (profit, people, planet) and need to be balanced between one another. Therefore, the company has a responsible to disclose these 3 aspects in the form of sustainability report.

Sustainability reports are reports made by companies voluntarily, which report the company's contributions to the community in terms of 3 aspects, namely economic, social, and environmental aspects. The sustainability report describes the company's concern for the community about the aspects. It reports and bridges the needs of stakeholders for decision-making information (Pratiwi, 2013). Stakeholders are people, groups, or organizations that are outside the control of the company who are involved in the company's operations (Thomsett, 2006). The company is responsible to stakeholders, which are consumers, employees, suppliers, and the community. Sustainability lies in the meeting of three aspects, people-social; planet-environment; and profit-economic. Therefore, according to Elkington, the company must be responsible for the positive and negative impacts on economic, social, and environmental aspects (Adhima, 2012).

Reporting the sustainability report is a form of company concern for the environment. Allah SWT commands his people to be able to maintain and manage resources as well as possible without disturbing the survival of other creatures. Thus, every human being is obliged to protect the environment and not allowed to cause damage to the earth. This is stated in Q.S. Ar-Rum verses 41-42:

ظَهَرَ ٱلْفَسَادُ فِى ٱلْبَرِّ وَٱلْبَحْرِ بِمَا كَسَبَتْ أَيْدِى ٱلنَّاسِ لِيُذِيقَهُم
بَعْضَ ٱلَّذِى عَمِلُوا۟ لَعَلَّهُمْ يَرْجِعُونَ ﴿٤١﴾ قُلْ سِيرُوا۟ فِى ٱلْأَرْضِ فَٱنظُرُوا۟
كَيْفَ كَانَ عَـٰقِبَةُ ٱلَّذِينَ مِن قَبْلُ ۚ كَانَ أَكْثَرُهُم مُّشْرِكِينَ ﴿٤٢﴾

The meaning:

> “Corruption has spread on land and sea as a result of what people’s hands have done, so that Allah may cause them to taste ˹the consequences of˺ some of their deeds and perhaps they might return ˹to the Right Path˺.” (41)
> “Say, ˹O Prophet,˺ “Travel throughout the land and see what was the end of those ˹destroyed˺ before ˹you˺—most of them were polytheists.” (42).

Based on data obtained from the Report of The Judges-12th Sustainability Reporting Award 2016 in Dewi's research (2015), it shows that the number of sustainability report disclosures for companies in Indonesia has increased every period. It was recorded that from 2005 only one company reported a Sustainability Report and increased in 2016 to 55 companies. The increasing number of companies participating in the Sustainability Reporting Award (SRA) shows that the existence of SRA can encourage companies to report Sustainability Reporting. Sustainability Reporting Award (SRA) is an award given to companies that have made and reported sustainability reporting covering economic, environmental, and social aspects, both published separately and integratedly into the company's annual report. Companies in Indonesia also participate in the Asia Sustainability Award to compete with many companies in the Asian continent. Therefore, on this study the author uses samples from companies that were listed on the Indonesia Stock Exchange in 2018-2020 and published a sustainability report in 2018-2020, in order to compare all the companies listed whether they had already implemented good corporate governance in disclosing the sustainability report.

Large companies that have many activities will be in the spotlight of the stakeholders. Large companies will be the higher in disclosing social responsibility and pay more attention to the environment around. It also will impact the company's operating activities. In addition, legitimacy will also be obtained by the company from stakeholders. Therefore, the bigger the company is, the higher the responsibility for publishing a sustainability report will be.

Many studies are related to the disclosure of sustainability reports. One of the studies conducted by Reni and Anggraini (2006) states that companies will disclose certain information if there are regulations that require it. Then, the research conducted by Pratiwi (2013) regarding the effect of corporate governance on sustainability reporting shows the results studied using the institutional ownership variable, the board of commissioners, the proportion of the independent board of commissioners, the board of directors, and the audit committee have no effect on sustainability report. According to Nurkin (2009), Suryono and Prastiwi (2011), and Nugroho (2013), the sustainability report is affected by the audit committee, the board of directors, and the board of commissioners.

Based on the background and differences in the results of previous research, researcher is interested in reexamining the study entitled **"The Effects of Corporate Governance on The Sustainability Report Disclosures (Empirical Study on Companies Listed in Indonesia Stock Exchange Period 2018-2020)"** to establish the impact of corporate governance on sustainability report disclosures empirically.

B. RESEARCH PROBLEM LIMITATION

The limitations of the problems contained in this study will be described as follows :

1. The independent variables that will be tested empirically are five variables including Institutional Ownership, Public Ownership, Audit Committee, Board of Directors, and Board of Commissioners.
2. Companies that were listed on the Indonesia Stock Exchange in 2018-2020 and published a sustainability report in 2018-2020 are the samples that will be empirically examined in this study.

C. RESEARCH QUESTIONS

Based on these reviews, the researcher formulated the following research questions:

1. Does institutional ownership effect the disclosure of sustainability reports?
2. Does public ownership affect the disclosure of sustainability reports?

3. Does audit committee affect the disclosure of sustainability reports?
4. Does board of directors affect the disclosure of sustainability reports?
5. Does board of commissioners affect the disclosure of sustainability reports?

D. RESEARCH OBJECTIVES

This study aims to test and obtain empirical evidence about:

1. To examine the effect of institutional ownership on disclosure of sustainsability reports.
2. To examine the effect of public ownership on disclosure of sustainability reports.
3. To examine the effect of audit committee on disclosure of sustainability reports.
4. To examine the effect of the board of directors on the disclosure of the sustainability reports.
5. To examine the effect of the board of commissioners on the disclosure of the sustainability reports.

E. RESEARCH BENEFITS

Research conducted by researchers is expected to provide contributions and benefits, which are:

1. Theoretical Field
    a. This research is expected to gain a better understanding of how sustainability report disclosure relates to corporate governance.
    b. This research is expected to add to the literature and become a reference for future research.
2. Practical Field
    a. For stakeholders, this research can be used as information in making decisions related to reporting with the extent of sustainability report disclosure.
    b. For companies, this research is expected to motivate companies in publishing annual company reports related to social, environmental, and economic responsibility.
    c. For the government, this study can provide recommendations so that the government can prepare a guideline or indicator for disclosing the sustainability report as best as possible.