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EFFECT OF CORPORATE GOVERNANCE ON CORPORATE FINANCIAL AND MARKET PERFORMANCE WITH *SUSTAINABILITY REPORTING* AS INTERVENING VARIABLE

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ABSTRACT

This study aimed to analyze the effect of corporate governance on Sustainability Reporting Disclosure and corporate performance, to analyze the effect of Sustainability Reporting Disclosure on corporate performance with Sustainability Reporting as an intervening variable. The population in this study were all companies listed on the Stock Exchange 2010-2012. Based on the result the conclusion are: There is a positive effect of corporate governance as measured by managerial ownership, institutional ownership, independent board, audit committee on the Sustainability Reporting, there is a positive effect of Sustainability Reporting on financial performance (ROA), There is a positive influence on the performance of markets Sustainability Reporting firm (MBV), There is a positive effect of corporate governance on financial performance (ROA), There is a positive effect of corporate governance on the performance of the enterprise market (MBV), There is a positive effect of corporate governance on the performance of the enterprise market with the Sustainability Reporting as an intervening variable.

Key words*:* Sustainability reporting, Corporate Performance, Corporate Governance.

Introduction

AEC (ASEAN Economic Community) is a community of nations in Southeast Asia in ASEAN for the realization of more advanced economies. These countries impose a free market, one of them on the field of services. There are seven professions that are exempt Doctors, Dentists, Nurses, Accountants, Architects, Surveyors and Engineers. With the release of the seventh profession there will be competition. For that Indonesia should prepare themselves to excel so it can be hosted in our own country even expand to other ASEAN countries. If the preparation is not done carefully, it is feared the area of work in Indonesia will be dominated by other Asean members.Investors and multinational companies would be interested in doing business in Indonesia as a result of the implementation of the AEC. These conditions present opportunities for local accountants for the entry of multinational companies that require accounting services. On the other hand also presents a challenge even a threat to the local accountant having to deal with foreign accountants.

This research is interesting because of the emergence of the theory of the previous updates from the various theories about the reporting of company financial reporting, management reporting becomes, green reporting and sustainability reporting. Currently sustainability reporting becomes an interesting phenomenon to study. Jackson et al (2011) stated that it is sustainability reporting and triple bottom line concept is very interesting to study because they both have a very close relationship. If companies care about the concept of the triple bottom line, the company also has the full attention to sustainability reporting. Wang and Lin (2007) states that the concept of sustainability reporting is an important thing for investors in making investment decisions. Sustainability Reporting (SR) was first initiated by the Global Reporting Inisiatives (GRI) in 1999 which presents the reporting of social, environmental and financial integrated corporate reporting in one package.

In practice, the issue of Sustainability Reporting is not widely applied to the company so that it becomes an interesting phenomenon to study. The uniqueness of this study is to focus on the analysis of Sustainability Reporting in manufacturing companies on the Stock Exchange on the grounds that the importance of Sustainability Reporting firm in ISRA rank, but whether in fact it’s Sustainability Reporting impacted the company's strategy in the future. The company is a manufacturing company with the production of high intensity and with different activity generated will be prone to produce a variety of pollution and waste for the environment than companies in other sectors such as banking or finance, then this research will focus on manufacturing companies as companies in the sector required to be more concerned with the Sustainability Reporting. In a manufacturing company consists of various sectors or areas such as food and beverages, tobacco companies, textile, paper, pharmaceutical, plastic, cement, metal, cable, automotive, consumer goods, all of which are companies with characteristics that are different but have one thing in common which is a process production requires a long process that will be vulnerable in its operation to produce waste for the environment so that the company manufactures more deserving of attention on Sustainability Reporting compared to non-manufacturing companies (Syafrudin and Ratman, 2010).

Today many Indonesian companies voluntarily disclosure Sustainability Report in its reporting. As a form of corporate accountability to stakeholders the company or its shareholders. Sustainability Report is used as a communication tool for management and companies to provide clear and transparent information for stakeholders. Sustainability report is a means of communication and management tools to gain legitimacy from stakeholders. Legitimacy is one reason for the company to publish its sustainability report. Legitimacy is essential for the existence of a company. Therefore, various kinds of methods are used by companies to gain legitimacy. Deegan (2006) explains that the organization seeks to ensure that their activities are recognized (legitimate) by outsiders that is the way the company operates in accordance with the limitations and the prevailing norms. Carruthers (1995) also stated that the company is trying to find and gain legitimacy, not just to obtain it is of the stakeholder.

Sustainability reporting as recommended by the Global Reporting Initiative (GRI) focused on three aspects, namely economic performance (economic), environment (environmental), and social (social). These three aspects known as the Triple Bottom Line. This form of reporting is expected to have a positive relationship to performance is between corporate social responsibility and Corporate Financial Performance (CFP) In line with the increasing global awareness of sustainability issues, the demand for sustainability reporting by investors is also increasing, especially investors who are interested in fund social-minded businesses and environmentally friendly (GRI Reports, 2006).

Sustainability reporting is the practice of measurement, disclosure and accountability efforts of the organization's performance in achieving the goals of sustainable development to the stakeholders both internally and externally. 'Sustainability Report' is a general term that is considered synonymous with other terms to describe the report on the impact of economic, environmental, and social (eg, triple bottom line, corporate responsibility reports, and so forth). A sustainability report should provide a balanced picture and make sense of an organization's sustainability performance, both positive and negative contributions.

Research conducted by Jackson et al (2011) stated that the Sustainability Reporting is an important thing that must be considered by every company in order to improve its performance in the future. Research and Serafiem Ioannou (2012) used a sample of 58 countries and shows that regulation or legislation concerning social disclosure in increased business and a priority for the company. It also concluded that the increase in corporate social disclosure, also increased improvements in corporate governance and corporate practices to become more ethical and credible. The study also revealed that the influence of increasing employee training at companies that have implemented the adoption of sustainability reporting rules. Research Farneti and Guthrie (2008) stated that the company meets the standards of the public sector GRI sustainability reporting and disclosing information to their shareholders. The annual report or the annual report to be one of the media in the disclosure of corporate sustainability reporting and corporate activity.

Bartlett (2012) found results that not only the company's sustainability reporting positive effect of increasing the value of the company, but also that the degree of impact is very down during the recession. These findings indicate that the Sustainability Reporting tool can be a lucrative business during a stable economy but not nearly as important in terms of increasing the value of the company during the recession.

Muller (2012) concluded that two of the three proxy information asymmetry has a significant negative effect on the disclosure of Sustainability Reporting. Company size also affects investors' assessment as a moderating factor. There is a significant relationship between sustainability reporting to the investors' assessment.

Krechovska and Prochazkova (2013) states that companies in the Czech who has a good level of disclosure sustainability report indicated having good corporate governance, which leads to good management performance anyway. While research Dedu and Chitan (2013) concluded that the Coporate governance negatively affect bank performance. This indicates a need for service will need for improved implementation of the independent members of the bank's better to lower the risk.

Gupta and Sharma (2014) stated that there is a significant effect of corporate governance on corporate performance. The better the implementation of corporate governance, it will further improve the company's performance. Janggu et al (2014) concluded that the board size, professionalism and purpose of the board has a significant influence on sustainability disclosure. The independence of the board of commissioners and the ownership does not significantly influence the sustainability disclosure.

The difference in this study with previous studies is the use of a proxy for firm performance, namely financial performance and market performance, and the use of sustainability reporting as an intervening variable, but it is also used samples and different years.

Based on the background is there, then the problem is the result of previous studies are inconsistent regarding the effect of sustainability reporting, corporate governance and corporate performance. So the research question can be formulated as follows:

1. Is there any effect corporate governance on Sustainability Reporting?
2. Is there any effect corporate performance on Sustainability Reporting?
3. Is there any effect of corporate governance on firm performance?
4. Is there any effect of corporate governance on corporate performance with Sustainability Reporting as an intervening variable?

LITERATURE REVIEW AND RESEARCH DEVELOPMENT MODEL

Stakeholder theory

Stakeholder approach emerged in the mid 1980s. Background stakeholder approach is the desire to build a framework that is responsive to the issues faced by managers when it is changes in the environment (Freeman and McVea 2001). The purpose of stakeholder management is to devise a method for managing a variety of groups and relationships resulting in a strategic way (Freeman and McVea, 2001).

Stakeholder theory states that the success and survival, a company relies heavily on its ability to balance the various interests of the stakeholders or stakeholder. If able, the company will achieve ongoing support and enjoy a growing market share, sales and profits. In the perspective of stakeholder theory, society and the environment is a core stakeholder that must be considered (Lako, 2010).

The survival of the company depends on the support of stakeholders and support should be sought so that the activity of the company is to seek such support. Social disclosure is considered as part of the dialogue between the company and its stakeholders (Gray, et al., 1986). The company is not the only operating entity for its own interests, and to gain the support of the stakeholders of the company must provide benefits to its stakeholders.

Definition of stakeholders according to Freeman and McVea (2001) is any group or individual who can affect or be affected by the achievement of organizational goals. Stakeholders can be divided into two based on their characteristics are the primary stakeholders and secondary stakeholders (Clarkson, 1995). The primary stakeholder is a person or group without which the company could not survive for a going concern, including: shareholders and investors, employees, customers and suppliers, together with stakeholder groups defined as public, namely: government and community. Secondary stakeholder groups are defined as those who influence, or be influenced by the company, but they are not related to the transaction with the company and is not essential continuance.

Stakeholder theory is a theory that describes to any parties (stakeholders) responsible company Freeman (2001). Companies must maintain relationships with stakeholders to accommodate the wants and needs of its stakeholders, especially stakeholders who have the power to availability of resources used for the operational activities of the company, such as labor, the market for the product companies and others (Chariri and Ghozali, 2007). One strategy to maintain the relationship with the stakeholders of the company is to implement CSR, the CSR implementation expected willingness of stakeholders can be accommodated so that it will produce a harmonious relationship between the company and its stakeholders. Harmonious relationship will result in a company can achieve its sustainability or sustainability (sustainability).

Legitimacy theory

The legitimacy of the organization can be seen as something that is given to the company and the community something to be desired or sought the company of the people (Ghozali and Chariri, 2007). The legitimacy of an organization can be said to be a benefit or a potential source for firms to survive (Chariri, 2007).

The company and the surrounding community have close social relations as both are engaged in a "social contract". The social contract states that the company's presence in an area as politically supported and guaranteed by government regulations as well as the parliamentary representation of the community as well. Thus, there is indirect social contract between the company and the communities in which society assigns these costs and benefits for the sustainability of a corporation. Therefore, CSR is a fundamental obligation of the company that are not voluntary (Lako, 2010)

Based on this it can be seen that the activities of the company should have a social value that is consistent with community values. When the values espoused a different company with the values of society, the legitimacy of the company will be in a position of danger.

Additionally, Ghozali and Chariri (2007) also said that the company's activities could pose environmental and social impacts, so that the social and environmental disclosure practices is a managerial tool used by companies to avoid social and environmental conflicts. In addition, social and environmental disclosure practices can be viewed as a form of corporate accountability to the public to explain the social and environmental impacts caused by the influence of the company both in the good and bad effects.

Agency Theory

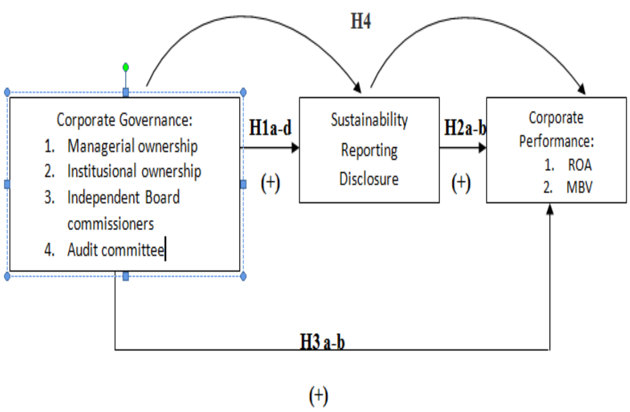
Agency theory describes the relationship between two parties where one party becomes agents and other parties acting as principals. This theory states that an agency relationship arises when one party (the principal) hire another party (the agent) to perform some service on his behalf which involves delegating some decision making authority to the agent (Jensen and Mecking, 1976). The meaning is the principal shareholder or investor in question while the managing agent is a management company.

In addition, agency theory also explains the problem of information asymmetry (asymmetric information). Manager as the manager of the company has more complete information about the company's internal and prospects of the company in the future than the owners (shareholders). As a manager, the manager is obliged to provide a signal about the state of the company to the owner. However, sometimes the information submitted does not match the actual conditions of the company. This condition is known as information asymmetry. It can provide an opportunity for managers to act opportunistically as earnings management (earnings management) to maximize his personal gain that can harm shareholders.

Corporate governance is a management mechanism that is based on agency theory. The application of the concept of corporate governance is expected to provide confidence in the agent (management) in managing the wealth of the owners (shareholders), and the owners become more confident that the agency will not do a fraud to welfare agencies so as to minimize conflicts of interest and to minimize agency costs.

EMPIRICAL RESEARCH MODEL

Figure 1: Research Model



The hypothesis in this study are:

H1a: There is a positive effect of corporate governance as measured by managerial ownership of the Sustainability Reporting
H1b: There is a positive effect of corporate governance as measured by institutional ownership of Sustainability Reporting
H1c: There is a positive effect of corporate governance as measured by the independent board of the Sustainability Reporting
H1d: There is a positive effect of corporate governance as measured by the audit committee of the Sustainability Reporting
H2a: There is a positive effect of Sustainability Reporting on financial performance (ROA)
H2b: There is a positive influence on the performance of markets Sustainability Reporting firm (MBV)
H3a: There is a positive effect of corporate governance on financial performance (ROA)
H3b: There is a positive effect of corporate governance on the performance of the enterprise market (MBV)

H4: There is a positive effect of corporate governance on the performance of the enterprise market with the Sustainability Reporting as an intervening variable

RESEARCH METHODOLOGY

Population and Sample

The population in this study were all companies listed on the Stock Exchange 2010-2012. Sampling technique using purposive sampling technique. While the sample is a company manufacturing sectors reported sustainability reporting in 2010-2012.

Data Collection Techniques

Data collection techniques used in this research is the study of the documentation, by getting the data in the form of financial statements and Sustainable (SR) obtained from the web site of each company. To support the research data in this study, researchers used secondary data from the manufacturing company.

Types and Sources of Data

Data used in this study is a secondary data. Secondary data, such as: financial report and sustainability report (SR) obtained from the website of each company. In this study, secondary data sources used were: balance sheet, income / (loss), the details of the load, the calculation of cost of goods sold, the ratio of the market and fundamentals, as well as sustainability reports from 2010 to 2012.

Data Analysis Technique

Regression analysis is an analysis to determine the effect of variable X to Y. To simplify the calculation researcher using SPSS (Statistical Package for Social Science). This study used the regression equation with the following models:

$Y1 = a + + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X4 + e$ ....(H1a-d)

Whereas:
Y1 = *Sustainability Reporting Disclosure*
X1 = managerial ownership
X2 = Institutional ownership
X3 = independent commissioners
X4 = audit committee
a = constant
β1-4 = regression coefficient
e = error term

$Y2 = a + + \beta5.X5 + e$ ....(H2a)

Whereas:
Y2 = ROA
X5 = *Sustainability Reporting Disclosure*
a = constant
β5 = regression coefficient
e = error term

$Y3 = a + + \beta5.X5 + e$ ....(H2b)

Whereas:
Y3= MBV
X5 = *Sustainability Reporting Disclosure*
a = constant
β5 = regression coefficient
e = error term

$Y2 = a + + \beta6.X6 + e$ ....(H3a)

Whereas:
Y2 = ROA
X6 = *Corporate Governance*
a = constant
β6 = regression coefficient
e = error term

$Y3 = a + + \beta6.X6 + e$ ....(H3b)

Whereas:
Y3= MBV
X6 = *Corporate Governance*
a = constant
β6 = regression coefficient

e = error term

To test H4 using Path Analysis. A variable functions as an intervening variable (mediating) if: (1) the independent variable significantly associated with mediating variables, (2) the mediating variable significantly associated with the dependent variable, and (3) The relationship between the dependent and independent variables decreased after the controlled variable mediating. The role of mediating variables can be grouped into two general categories: (1) partial mediation; (2) Full Mediation. Mediation terhadi if after deduction of partial mediating variable regression coefficient relationship between the independent variables decreased but still significant. Full mediation occurs if after the mediating variable regression coefficients calculated the relationship between the independent variable decreases and becomes insignificant.

RESULT

Hypothesis statistical test basically shows whether the independent variables included in the model has a partial effect on the dependent variable. Based on SPSS output partial effects of the independent variables on dependent variables (see the appendix).

H1a: There is a positive effect of corporate governance as measured by managerial ownership of the Sustainability Reporting

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance as measured by managerial ownership of the Sustainability Reporting.

H1b: There is a positive effect of corporate governance as measured by institutional ownership of Sustainability Reporting

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance as measured by institutional ownership of Sustainability Reporting.

H1c: There is a positive effect of corporate governance as measured by the independent board of the Sustainability Reporting

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance as measured by the independent board of the Sustainability Reporting.

H1d: There is a positive effect of corporate governance as measured by the audit committee of the Sustainability Reporting

H2a: There is a positive effect of Sustainability Reporting on financial performance (ROA)

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of Sustainability Reporting on financial performance (ROA).

H2b: There is a positive influence on the performance of markets Sustainability Reporting firm (MBV)

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive influence on the performance of markets Sustainability Reporting firm (MBV).

H3a: There is a positive effect of corporate governance on financial performance (ROA)

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance on financial performance (ROA)

H3b: There is a positive effect of corporate governance on the performance of the enterprise market (MBV)

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance on the performance of the enterprise market (MBV).

H4: There is a positive effect of corporate governance on the performance of the enterprise market with the Sustainability Reporting as an intervening variable

From the result shows that the significant value is lower than 0.05 and the coefficient regression is positive so hypothesis accepted. This mean there is a positive effect of corporate governance on the performance of the enterprise market with the Sustainability Reporting as an intervening variable.

CONCLUSION

The conclusion are: There is a positive effect of corporate governance as measured by managerial ownership of the Sustainability Reporting, There is a positive effect of corporate governance as measured by institutional ownership of Sustainability Reporting, There is a positive effect of corporate governance as measured by the independent board of the Sustainability Reporting, There is a positive effect of corporate governance as measured by the audit committee of the Sustainability Reporting, There is a positive effect of Sustainability Reporting on financial performance (ROA), There is a positive influence on the performance of markets Sustainability Reporting firm (MBV), There is a positive effect of corporate governance on financial performance (ROA), There is a positive effect of corporate governance on the performance of the enterprise market (MBV), There is a positive effect of corporate governance on the performance of the enterprise market with the Sustainability Reporting as an intervening variable

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