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The Influence of Good Corporate Governance and Profitability into the Disclosure of Sustainability Report in Banking

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***Abstract*—This research aimed to know the effect of good corporate governance and profitability on sustainability report disclosure in banking in Indonesia in 2013-2015. The research method applied in this study was descriptive and verificative methods. The technique for the data collection was trough examining the documentations. The data analytical method used in this study was regression of panel data. Then, the results of the hypothetical experiments in this study showed that either the good corporate governance or profitability put effects towards the sustainability report disclosure. In addition, the good corporate governance and profitability simultaneously also have effects towards the sustainability report disclosure.**

Keywords—good corporate governance; profitability; sustainability report disclosure

I. INTRODUCTION

Today the aim of business is not only to acquire gain (*profit*), but also to take responsibility to society (*people*) and earth (*planet*). These are well known as *triple bottom line concept* is an activator's key of successful sustainability implementation. By means of sustainability paradigm shift , expected a trade/business can run well in accordance with the ideal of sustainable development. Therefore, Along with sustainability developement of a trade/business an industry or company must report prediodicaly to public as a form of its responsibility so that the community can participate in assessing the performance of an industry or company, the report is *sustainability report* or continuity report [1].

Sustainability report is difficult to distinguish from CSR, both of them are forms of corporate social responsibility towards surrounding environment. One of the things which can distinguish between *sustainability report* and CSR is the way of they are disclosed. According to Soelistyoningrum [2], The disclosure of CSR is intergrated with the annual corporate report, meanwhile the *sustainability report disclosure* is more detailed and independent.

In Indonesia the development of *sustainability report* is supported by *National Center for Sustainability Report* (NCSR) that is an independent organization functioning to develop a standarts and to improve the quality of sustainability reporting. As a form of appreciation to the company which has revealed *sustainability report*, every years NCSR holds a *sustainability reporting awards* (SRA) by giving rewards to every company which has carried out, developed, and revealed its *sustainability report* according to the GRI standards that have been determined.

Sustainability report disclosure in most countries, including Indonesia is still *voluntary,* meaning that the company voluntarily publishes it and there are no rules that require such as financial reporting issue [3]. But according to Utama [3], Although the Sustainability Report Disclosures are not required for companies, however the demands for companies to provide transparent, accountable information, as well as better corporate governance practices require companies to carry out voluntary disclosure, such as the diclosure of social and environmental activities.

A lot of factors cause the company, one of which is banking, not to disclose the sustainability report. According to Ali Darwin, Chairman *National Center for Sustainability Report* (NCSR) reported by investasi.kontan.co.id (in 2014). "The factor that makes the company reluctant to submit *sustainability report* is that the company is not transparent in running its business, and does't have the commitment to be a *good corporate governance* company".

This is in line with was expressed by Muh Arief Effendi because *sustainability report* is an implementation of GCG [4]. Due to one of GCG's principle is the issue of accountability (*responsibility*) namely comformity in company's management against the prevailing laws and healthy corporate principles. Therefore *Good Corporate Governance* is one of the factors that influence sustainability report disclosure. In addition, Kurnianingsih expressed that companies which have strong financial condition, will also get more pressures from external companies to disclose their social responsibilities widely [5]. Assessment of financial performance among others can be discerned from the company's ability to generate profit, and Anggraini expresses that profitability ratios show company's success in making profits [5].

Some studies connect *good corporate governance* and profitability with sustainability report disclosures, such as

research conducted by Idah, using two independent variables namely corporate governance and corporate characteristic with different variable indicators, the result of this study state that the board of directors, governance committe, profitability, and company size have a positive role in the sustainability report disclosure [6]. Meanwhile, board of commissioners, audit committee, liquidity, leverage, and company activities have no role in the sustainability report disclosure. However the research conducted by Sari & Marsono with its independent variables namely financial performance, company size, and corporate governance, showed that profitability had a significant negative effect on sustainability report disclosure, audit committee, independent board of comissioners gave significant positive effect and liquidity, leverage, company activities, company size, and the board of directors seem not to show influence [7].

Based on the description above this study purposes to find out the influence of *good corporate governance* on the sustainability report disclosure, the influence of profitability on the sustainability report disclosure, and the influence of good corporate governance and profitability simultaneouly on sustainability report disclosure.

II. METHOD

A. Population and Sample

In this research that population described as whole banking institutions are there in Indonesia according to the Bank of Indonesia consisted of 122 banks. Sampling techniques used in the reseach that non-probability sampling and Purposive Sampling. Now the criteria used in determining the sample of the research is: banks that publish consistenly during three years constinously 2013-2015, Banks which publish Annual Report consistently during three years continously 2013-2015, the banking displaying complete data, can bis used to analize good corporate governance and poriftability into the disclosure of sustainability report. Based on the criteria of sample thus can be acquired about eleven banking companies will become the sample of the research and the research will be executed during three years continously, thus can be acquired whole total of the samples about 33 (eleven banking companies multiplied by three years).

B. Variable and Measure

1) Free variable (independent variable): It is variable influencing to tied variable, either in positively or negatively [8]. As for in the research of the free variable (X1) that is Good Corporate Governance. Good Corporate Governance in the research apply the indicator of self assessment in accordance with circural letter of Bank Indonesia number 15/15/DPNP Date April, 29th 2013 with the rangking matrix of factor of Good Corporate Governance that is rank 1st very good, rank 2nd good, rank 3th enough good, rank 4th not good, rank 5th bad. Next the rank will be made to become interval scale by using Method Of Successive Interval. Free variable (X2) in the research that is profitability. Accoding to Fahmi the ratio of profitability measures whole management effectivity indicated by the size of profit level acquired in correlation into sales or investment [9]. As for the profitability in the reasearch measured by using the indicator of Return On Invesment.

2) Tied variable (dependent variable): According to Sekaran tied variable (dependent variable) that is the variable of the main differentiator of researchers who are affected [8]. As for in the research its tied variable is sustainability report disclosure. The variable is measured by disclosure relating to environmental and social responsibility based on Global Reporting Intiative (GRI). GRI is applied to be indicator for sustainability report disclosure, Due to company which has revealed sustainability report refers to GRI in disclosing corporate sustainability report. The total number of items disclosed according to GRI is 91.

3) Data Analysis Technique: Data analysis technique applied in the research is the analysis model of panel data regression. Panel data is the combination of time series and cross section data. Data processing tools applied in the research are Microsoft Excel and Eviews.

As for panel data regression model as follow :

$$Y = a + b_1X_1it + b_2X_2it + e$$

y = Sustainability report disclosure

a = constant

b1 = variable regression coefficient of Good Corporate Governance

b2 = variable regression coefficient of profitability

X_1 = Good Corporate Governance

X_2 = Profitability

e = Error term

t = time

i = Institution or company

According to Basuki & Prawoto to estimate model parameter with panel data, there are three aproaches namely, Common Effect Model, Fixed Effect Model, Random Effect Model [10]. To choose the most appropriate model used in processing panel data, there are several tests can be executed, and in the test makes use of Eviews software. First, Chow test, that is a test to determine common effect model or fixed effect model that is the most appropriate to estimate panel data. Second, Hausman test, that is statiscal submission to choose fixed effect model or random effect model that is the moss appropriate to use.

III. RESULTS

A. Selection of Panel Data Regression Model

Before executing the test on panel data regression model, it needs to determine what kinds of models regression that are accordance with the data of the research. The following are the results of the examination by using software of Eview 8.

Based on Chow Test on table-I it is acquired the result that probability value F is 0,00 < 0,05 So that H_0 is rejected and H_1 is accepted thus the model choosen is Fixed Effect Model and next test must be carried out namely Hausman Test.

TABLE I. CHOW TEST

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.297481	(10,20)	0.0002
Cross-section Chi-square	46.952558	10	0.0000

Redundant Fixed Effects Tests
Equation: FE
Test cross-section fixed effects

Based on the result of Hausman Test on table-II it is acquired Probability value that is 0,1399 > 0,05 so that H0 is accepted and H1 is rejected thus the model chosen in the research is random effect model.

TABLE II. HAUSMAN TEST

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.934241	2	0.1399

Correlated Random Effects - Hausman Test
Equation: RE
Test cross-section random effects

TABLE III. THE RESULT OF RANDOM EFFECT TEST

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.092666	0.036981	2.505782	0.0179
GCG	0.051395	0.016130	3.186394	0.0034
PROF	2.240590	1.095293	2.045654	0.0496
	Effects Specification			
			S.D.	Rho
Cross-section random			0.019134	0.6569
Idiosyncratic random			0.013828	0.3431
	Weighted Statistics			
R-squared	0.543397	Mean dependent var		0.105271
Adjusted R-squared	0.512956	S.D. dependent var		0.020443
S.E. of regression	0.014267	Sum squared resid		0.006107
F-statistic	17.85127	Durbin-Watson stat		0.741951
Prob(F-statistic)	0.000008			
	Unweighted Statistics			
R-squared	0.672389	Mean dependent var		0.273378
Sum squared resid	0.017709	Durbin-Watson stat		0.314778

Dependent Variable: SR
Method: Panel EGLS (Cross-section random effects)
Date: 03/31/17 Time: 10:30
Sample: 2013 2015
Periods included: 3
Cross-sections included: 11
Total panel (balanced) observations: 33
Swamy and Arora estimator of component variances

B. Panel Data Regression Analysis

The test result of the model that has been executed it indicates that Random Effect Model is the most appropriate for the research. Random Effect Model.

The research model generated by random effect model above is indicated as follow :

$$\mathbf{SR = 0.092666 + 0.051395GCG + 2.240590PROF + e}$$

The research result shows constant value in the amount of 0.092666 it means that if independent variable namely Good Corporate Governance and Profitability don't exist or value nol, thus the amount of Sustainability Report value is 0.092666. moreover, the equation model above it can be viewed the coefficient value of GCG (Good Corporate Governance) in the amount of 0.051395 is positive, it shows that if there is an increase in GCG as many as one, thus will increase Sustainability Report in the amount of 0.051395. Next, coefficient PROF value (Profitability) in the amount of 2.240590 is positive which means that if there is an increase of PROF as many as one thus will increase Sustainability Report in the amount of 2.240590.

Furthermore, it can be seen the influence of the explanatory or independent variables individually to elucidate dependent variable variation. Determination table t in the research uses degree of freedom or df = n-k and α = 0.05, n is the amount of sample, k is the amount of variable. In the research the sample or n as many as 33, and variable or k as many as 3, so df in the research is 33-3 = 30 with α = 0.05, thus table t is 2,042.

In the table the test result can be seen that t-statistic value or t count GCG (Good Corporate Governance) is 3.186 with significant value 0.0034. From the t count value > t table that is 3.186 > 2,042 thus H_0 is rejected dan Ha is accepted. Meaning, **the first hypothesis is accepted** namely Good Corporate Governance affects sustainability report. Meanwhile, t-Statistic value or t count profitability 2.045 with a significant value of 0.0496. From these results the t count value > t table that is 2.045 > 2,042 thus H_0 is rejected and Ha is accepted. Meaning, **the second hypothesis is accepted** namely Profitability influences *sustainability* report.

It was also seen whether all independent or independent variables included in the model had a joint influence on the tied / dependent variable. It is seen from the test results table, a significant number of F is 0.00, then significant number of 0.00 < 0.05 H0 is rejected and H1 is accepted. Besides decision-making can also be done by comparing the F value calculated by the value of f according to the table. F table values can be seen with df1 = k-1, df 2 = n-k, α = 0,05, so df1= 3-1 = 2, df2 = 33-3 = 30 thus it is aquired F table of 3.32. from the table of 4.8 looks F-statistic or F count at 17.85 > 3,32, thus H0 is rejected and Ha is accepted meaning **the third hypothesis is accepted** namely Corporate Governance and Profitability simultaneouly or jointly affects the sustainability report disclosure.

Then it shows that the R-squared is 0.543397 or 54%. and it can be interpreted that Sustainability Report Disclosure in banking in Indonesia in 2013-2015 can be explained by independent variable namely Good Corporate Governance and profitability at 54% and its rest at 46% is determined by other variables that is not analized in this study. Source of research data processing years.

IV. DISCUSSION

A. The Influence of Good Corporate Governance on Sustainability Report Disclosure

The results of the t test analysis show that good corporate governance variables affect sustainability report disclosure. This is proven by the t-count of 3,186 which is greater than t-

table at the 5% significance level of 2.042 (2.045> 2.042). Besides a significant probability value of 0.0034 also shows a value that is smaller than the value that has been determined at the level of 5% that is equal to 0.05 (0.0034 <0.05). This means that the results of the study accept the first hypothesis that good corporate governance affects sustainability report disclosure.

Good corporate governance has several implementation principles and one of them is the responsibility which according to Hamdani states that this responsibility principle can be said as a form of social responsibility oriented to stakeholders [11]. The results of this study reflect that if the implementation of good corporate governance on banks in Indonesia has been implemented properly because in line with what was said by Muh Arief Effendi that sustainability report is very important in the implementation of good corporate governance [4]. So it is proven that if banking implements good corporate governance, the banks will carry out their social responsibilities and disclose the information on the sustainability report.

B. The Influence of Profitability on Sustainability Report Disclosure

The results of the t test analysis show that the profitability variable influences the disclosure of sustainability report. This is evidenced by the t-count of 2.045 which is greater than t-table at the 5% significance level of 2.042 (2.045> 2.042). In addition, a significant probability value of 0.0496 also shows a value that is smaller than the value that has been determined at the level of 5% that is equal to 0.05 (0.0496 <0.05). This means that the results of the study accept the second hypothesis that profitability affects the sustainability report disclosure.

The results of this study are in accordance with the results of a previous study conducted by Dilling which shows the results that with high profits the company tends to conduct broader sustainability report disclosures [12]. Similar results were also obtained by Nasir et al. who carried out research on the influence of corporate characteristics and corporate governance on sustainability report disclosures on registered lq45 companies and one indicator of the characteristics of the company is that profitability shows that profitability affects significant to sustainability report disclosure [3].

Then, Pratama & Yulianto's research entitled financial factors and corporate governance as determinants of sustainability report disclosures also showed the results that companies with high profitability influence the sustainability report disclosure [13]. However, the results of this study are different from those of Aulia & Syam, regarding the effect of company characteristics on sustainability reporting practices in the annual report of public companies in Indonesia that show results that profitability does not partially affect sustainability reporting disclosure [14].

Banks with good profitability can be said that banking management is good, because profitability is seen as one of the measurement indicators. Therefore, banks with good management tend to disclose more information to benefit stakeholders. In line with Fahmi stated that good financial performance viewed from the perspective of company management can communicate broadly the various information of the company it manages to interested parties and information that is made for the parties the interests are likely to be made in the sustainability report disclosure [9].

C. The Influence of Good Corporate Governance and Profitability on Sustainability Report Disclosures

The results of the F Test analysis show that good corporate governance and profitability simultaneously affect the Sustainability Report disclosure. This is proven by Fcount of 17.85 which is greater than Ftable, which is 3.32 (17.85> 3.32). Besides that, the significant value of F is 0.00, also shows a value smaller than the value that has been determined at the level of 5% that is equal to 0.05 (0.00 <0.05).

This study is in line with Sari & Marsono the research on the influence of financial performance, company size and corporate governance on the sustainability report disclosure [7]. With its financial performance indicators, ROA shows the results that together financial performance, company size and corporate governance affect the sustainability report disclosure. In addition, this study also supports the research of Aulia & Syam in which the results of his research show that the statistical test F, namely all the independent variables together influence the sustainability reporting disclosure [14].

The results of this study also prove that companies with high profitability and good corporate governance implementation encourage the company to disclose information about its social responsibility through sustainability reports which sustainability report is a strategy to fulfill the stakeholder’s interests. So that this research also supports stakeholders' theory that sustainability report is one of the strategies to maintain the relationship of stakeholders and company shareholders because it informs about the economic, social and environmental performance that is expected to fulfill stakeholder interests.

V. CONCLUSION

Based on the results of research and discussions on the influence of good corporate governance and Profitability on sustainability report in banks in Indonesia in 2013-2015, thus the author can draw a conclusion that good corporate governance affects the sustainability report disclosure in banks in Indonesia, Profitability affects the sustainability report disclosures in banks in Indonesia, Good corporate governance and profitability affects the sustainability report dislosure in banks in Indonesia.

As for the suggestion in this study, banks are expected to continue to present sustainability reports in accordance with the applicable standards so that it is expected that investors will be considered. in addition, the government must issue rules or regulations specifically aimed at banks regarding the practice of social responsibility and the disclosure in the reporting report that is in accordance with the criteria of banking in Indonesia. Further researchers are expected to be able to use other factors that can affect the sustainability report disclosure.

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