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The Effect of Corporate Governance Structure on Sustainability Development: Study of Empirical Manufacturing Companies in Indonesia

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Abstract:- His study aims to examine the effect of corporate governance structures on environmental disclosure. The environmental disclosures studied are the company's sustainable development of the environment. The results showed that the board size, independent commissioners, female board, and institutional ownership variables had a significant effect on environmental disclosure.

***Keywords**:- Board size, independent non executive directors, female board of commissioners, institutional ownership and environmental disclosure.*

I. INTRODUCTION

The development of the industrial sector in addition to having a positive impact on the economic conditions in a country, also has a negative impact on environmental conditions in the country. The company's operational activities were allegedly contributing to environmental damage around the production area (Ridwan, 2010). The damage occurs due to extractive industry activities that cause environmental pollution from the procurement of raw materials to the production process. Industrial activities also cause land damage, ecosystem damage, water pollution, air pollution and noise pollution (Walhi, 2019).

The impact of the company's production activities on environmental damage has become a phenomenon in many countries. In the Indonesian context, the case of PT. Lapindo Brantas Sidoarjo shows the damage to the environmental system by over-exploiting resource behavior. This Lapindo case resulted in more than 11 villages, factories, schools and various other public facilities being submerged in hot mud and not functioning (Tempo, 2012; Mongabay, 2013; Kompas, 2014). In addition, the majority of cases of deforestation owned by corporations have resulted in several regions in Indonesia such as Riau and Kalimantan experiencing forest fires almost every year (Mongabay, 2012).

Environmental disclosure is disclosure of information related to the environment in the company's annual report (Nurleli, 2016). Environmental disclosure is also a form of corporate social responsibility. Through environmental disclosures in annual reports, the public can monitor the activities carried out by the company (Effendi et al., 2012). Wailanduw (2017) also explains that environmental disclosure is a company disclosure of the impact of company activities on the physical or natural environment in which the company operates. Therefore, companies are required to not only contribute to economic growth, but also help in solving problems related to risks and threats to sustainability in the scope of social, economic and environmental relationships through environmental disclosure (GRI, 2013).

There are several media that can be used by companies to disclose environmental reports, such as annual reports, sustainability reports and company websites. However, these various media have not been used optimally by companies in Indonesia in environmental disclosures. This is caused by many factors including; disclosure of environmental information that is still voluntary (Supatminingsih and Wicaksono, 2016), as well as weak rules regarding environmental sustainability (Tijow, 2013).

One effort can be made to expand and strengthen environmental disclosure through the implementation of good corporate governance (Vira and Wirakusuma, 2019). There are 5 principles that support the creation of good corporate governance, namely transparency, accountability, responsibility, independence and fairness (KNKG, 2006). The five principles have a central role in the implementation of good governance in Indonesia. The implementation of good governance will also have an impact on increasing the implementation and disclosure of corporate social responsibility (Achmad, 2008). The corporate governance framework also ensures that the disclosure of a company must be timely and accurate (OECD, 2004) The environmental information presented by management is addressed to the board of directors and shareholders for decision making (Millstein, 1991 in Rupley et al., 2012). In accordance with legitimacy theory, companies will communicate information to stakeholders to adjust to the expectations of society (Rupley et al., 2012). Disclosure of environmental information can also protect stakeholders from the opportunistic behavior of managers as agents in the company. Wider disclosure of information is also one of the mechanisms carried out to reduce information asymmetry between agents and principals (Solikhah and Winarsih, 2016).

This research uses sustainable development from environmental disclosure index scorecard (Rupley et al., 2012). using this index can show more detailed environmental disclosures. This index is based on environmental strategy management. When the company is able to reach the sustainable development stage, the company has made good environmental disclosures. Research with the continuous development of environmental disclosure index scorecards is still rarely done in Indonesia. In this study extending and developing previous research conducted by Solikhah and Winarsih (2016).

II. LITERATUR REVIEW

A. Agency Theory

Agency theory is a theory that explains the relationship between agents and principals. Agents are management companies and principals are investors or shareholders (Jensen and Meckling, 1976). This theory states that agency relationships arise when one party (principal) hires another party (agent) to do some services for its interests which involve delegating some decision-making authorities to the agent (Yushita, 2010). Agency theory is the basis for managing corporate governance mechanisms. One important organ in corporate governance is the existence of a board of commissioners (Nuswandari, 2010). With the concept of corporate governance, the management (agent) is expected to be trusted in managing the owner's wealth (principal), and the owner is also sure that the agent acts appropriately and does not commit fraud in the interests of the agent himself so as to minimize conflict and agency costs (Hamdani, 2016). Thus, if it is in accordance with the expectations of agents and principals, it will increase environmental disclosure.

B. Legitimacy Theory

The demands of stakeholders on corporate transparency and accountability are increasing, especially social and environmental disclosures (Rupley et al., 2012). Various actions by the company are increasingly aimed at providing information to stakeholders. This action is in accordance with the legitimacy theory. Legitimacy theory is a social contract of an organization with society, according to this theory the survival of the company will be threatened if the community feels a company has violated its social contract (Hadi, 2011). Environmental disclosure aims to get companies to gain legitimacy from stakeholders, and increase transparency and accountability of the company (Villiers et al., 2009). Companies continually try to ensure that they carry out their activities in accordance with the boundaries and norms of society where the organization is located (Hadi, 2011). Community norms always change with changes in time so the company must follow its development. The process of gaining legitimacy is related to social contracts made by companies with various parties in the community (Harsanti, 2011). Legitimacy in organizations can be seen as something that is given by society to companies and something that is desired or sought by companies from the community (O'Donovan, 2002). Thus the legitimacy has the benefit of supporting the survival of a company. One form of corporate survival is through CSR programs which are expressed in three categories, namely, social, environmental and economic, which are reported in the annual report or sustainability report (Lindawati and Puspita, 2015).

C. Corporate Governance

The concept of good corporate governance (GCG) is increasingly gaining attention in the business community. Since the reform era began, the community has become increasingly critical and able to exercise social control over the business world. According to Monks and Minow (2001) cited by Dewi (2008), good corporate governance (GCG) is a corporate governance that explains the relationship between various participants in the company that determines the direction and performance of the company. The implementation of GCG (good corporate governance) has been widely applied in various companies in Indonesia. The implementation of GCG in Indonesia dates back to the signing of a Letter of Intent (LOI) in collaboration with the IMF in which there was an inclusion of a schedule for improving the management of companies in Indonesia. In addition, the National Committee on Governance Policy (KNKG) (2006) explained that companies in Indonesia have a responsibility to implement GCG standards that have been implemented at the international level. According to KNKG (2006) there are five principles in GCG, namely transparency, accountability, responsibilty, independency, fairness.

D. Corporate Governance Structure

➢ *Board Size*

Based on the limited liability company law No.40 of 2007 paragraph 2, KNKG (2006) and Sembiring (2005), it can be concluded that the size of the board of commissioners is the number of all commissioners in the company who supervise the directors in running the company. The board of commissioners of a company is appointed at a general meeting of shareholders (GMS) of people who are appropriate and appropriate for the company.

➢ *Independent Non Executive Directors*

Based on the regulation number 33/ POJK.04 / 2014, one of the control functions is on the board of commissioners. Based on the Financial Services Authority Regulation Number 33 / POJK.04 / 2014, companies on the stock exchange must have proportional independent commissioners. Proportion here is to have a number of comparisons equal to the number of shares held by minority shareholders. In the regulation, it was explained that the proportion of independent commissioners was 30% of all members of the board of commissioners.

➢ *Female Board Commissioner*

The importance of the female board of commissioners in the position of the board of commissioners has been raised in recent proposals for corporate governance reform (Adams and Ferreira, 2004 cited by Rao et al., 2012). Huse and Solberg (2006) found that women were more committed and involved, more prepared, more diligent, asking questions and finally creating a good atmosphere within the board of commissioners. Adams and Ferreira (2004) in Rao et al. (2012) explain more women in the board of commissioners will improve the decision making process, board effectiveness and better participation. This shows that women significantly influence the board of commissioners (Paramita, 2014).

➢ *Institutional Ownership*

Institutional ownership of each company has a different level of need for environmental disclosure (Emmanuel et al., 2018). Kabra and Ganapathy (2017) also find evidence that institutional ownership varies in their preferences for the type of environmental disclosure provided by the company. Habib and Jiang (2009) state that long-term institutional ownership requires the disclosure of the potential for environmental growth, climate change, environmental obligations and environmental permits to operate the company. This means that institutional ownership that has long-term storage time prefers companies that have quality environmental disclosures. For example, pension fund companies, the characteristics of the company's operations, have a long duration of community savings management, so that when pension funds companies want to invest, the main choice is companies that have more quality environmental disclosures (Rupley et al., 2012).

The Framework in this study is illustrated below:

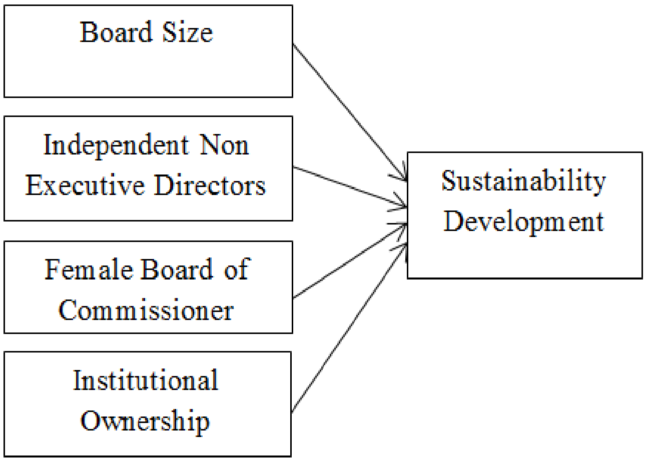

Fig 1:- Research Framework

The Hypotheses of the models built avove are as follows:

- ➢ H_1: The board size has a positive effect on sustainability development.
- ➢ H_2: Independent non executive directors has a negative effect on sustainability development.
- ➢ H_3: The female board of commissioners has a negative effect on sustainability development.
- ➢ H_4:Institutional ownership has a positive effect on sustainability development.

III. RESEARCH METHODS

In this study the population is all manufacturing companies that are listed as active based on the classification on the Indonesia Stock Exchange (IDX) for the period 2015-2017. Determination of the sample using purposive sampling method, which is the determination of samples from the existing population based on criteria. In this study using secondary data sourced from company documentation. Secondary data in this study are annual reports and the sustainability report for the 2015-2017 period.

In this study the measurement of variables by:
Board size= The number of board members in the company.
Independent non executive directors= The proportion of independent commissioners owned by the company.
Boards of woman= The proportion of female board of commissioners owned by the company.
Institutional ownership= Institutional shares divided by outstanding shares owned by the company.
Sustainability development= Number of sustainable indicators in the sustainability report or annual report.

IV. RESULT AND DISCUSSION

A. *Descriptive Analysis*

Descriptive statistics is the process of transforming research data in tabulated form so that it is easily understood and interpreted (Suyonto, 2013).

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
BS	120	2,00	12,00	4,0333	1,71466
IND	120	,20	,67	,4019	,09639
WB	120	,08	,75	,3344	,13120
KI	120	,05	,95	,5499	,22977
DQ_SUSDEV	120	,00	3,00	1,2417	,84013
Valid N (listwise)	120				

Table 1:- Descriptive Statistics

Based on descriptive statistical test in table 1, it shows that the board of commissioners has a maximum number of 12 people on the board. For a minimum size of 2 people. But this minimum amount is according to POJK No. 33 of 2014 that a minimum number of board of commissioners is 2 people. The average company has 4 commissioners. Whereas the independent commissioner variable has a maximum proportion of 67%, with a minimum proportion of 20%. This minimum value is still lacking based on POJK regulation No.33 of 2014, which is a minimum proportion of independent commissioners of 30%. While for the female board of commissioners variable has a maximum proportion of 75%, with a minimum proportion of 8%. The average company has a 33% female board of commissioners. Independent variable institutional ownership with a maximum value of ownership of 95% and a minimum of 5%. The average company has a share ownership of 54%.

In terms of sustainable development for environmental disclosures with maximum disclosure of 3 items of disclosure. While the minimum is 0 items of disclosure. This minimum value is caused by PT. Siwani Makmur Tbk because the company moved to a new location and has not been directly related to the environment.

B. Classic Assumption Test

a. Normality Test

Jumlah Sampel	120
Kolmogorov Smirnov Z	0,575
Asymp. Sig. (2-tailed)	0,896

Table 2:- Results of The Normality Test

The results of the normality test using the Kolmogorov-Smirnov (K-S) test in table 2 show a value of 0.896 with a significance level of 0.896. The Kolmogorov-Smirnov result shows significance above 0.05, indicating that the residual data is normally distributed.

b. Multicollinearity Test

Variabel	Tolerance	VIF
BS	0,768	1,302
IND	0,993	1,007
WB	0,768	1,301
KI	0,993	1,007

Table 3:- Results of Multicollinearity Test

Based on table 3 above, the tolerance value is> 0.1 and the VIF value is small than 10. Thus, the regression model is free from multicollinearity.

c. Heteroscedasticity Test

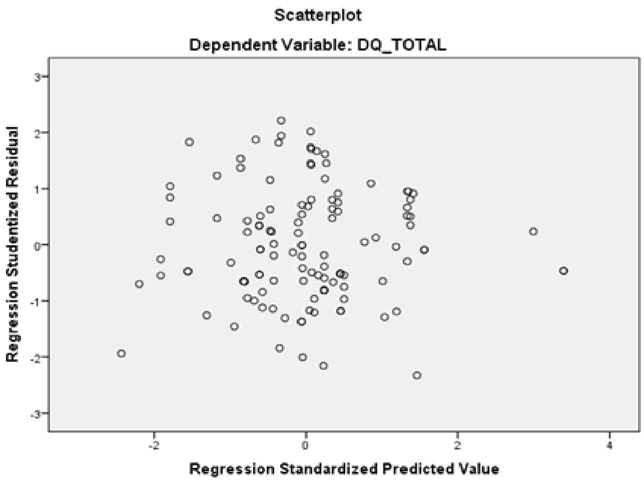

Fig. 2:- Result of heteroscedasticity test

The heteroscedasticity test results with a scatterplot show the points that spread randomly at the top or irregularly carried the number 0 on the Y axis. Thus, it can be concluded that there is no heteroscedasticity in the regression model, so the regression model is feasible to use.

d. Autocorrelation Test

Model Summary[b]			
Model	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,2120	0,74592	1,902

Table 4:- Results of Autocorrelation Test

Based on the table above, it is known that the calculated value (Durbin Watson) is located between -2 to +2 which means there is no autocorrelation (Santoso, 2012). Table 4.5 shows that the DW value of 1,903 means that it is between -2 <1,902 <+2. It can be concluded that there is no autocorrelation in the regression model.

C. Regression analysis results

Variabel	Coefficients	t	sig
(Constant)	3,038	3,242	0,003
BS	0,231	2,482	0,014
IND	-0,224	-2737	0,007
WB	-0,197	-2,119	0,036
KI	0,240	2,935	0,004
Adjusted R^2 DQ_SUSDEV (%)	21,20		

Table 5:- Results of Regression Analysis

Based on table 4.6 R2 DQ_SUSDEV adj test results is 21.20%, independent commissioners, female board of commissioners, and institutional ownership can explain the dependent variable 21.20%, while the remainder is explained by others outside of research, based on table 5 of a small significance value of 0.05, so that H1, H2, H3, and H4 are found to influence sustainable development in environmental disclosures.

D. Discussion

The variable size of the board of commissioners has a significant positive effect. This is shown in the category of sustainable development, namely companies undertaking reforestation programs, the existence of environmental scores, and so on. Independent commissioner variables affect sustainable development. What's interesting in the category of sustainable development is that the female board of commissioners has a significant negative effect. This means that women's board of commissioners can reduce sustainable development. This result is also in line with the results of the study (Triani, 2018) that the proportion of minority women in the council has little influence in the company's sustainable development. Sustainable development related to disclosure of environmental programs and policies is still entrusted to male commissioners as company leaders (Solikhah and Winarsih, 2016).

Same is the case with institutional ownership in influencing the improvement of sustainable development. This is because institutional ownership by shareholders takes into account the greening policies and programs made by the company.

V. CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

This study aims to examine the effect of corporate governance structure on sustainability development (environmental disclosure). The corporate governance structure variables are represented by board size, independent commissioners, female commissioners and institutional ownership. Sustainability development based on environmental disclosure index scorecard remains guided by GRI G4. The results of the study concluded that the board size, independent commissioners, female board of commissioners, institutional ownership had an effect on sustainable development in environmental disclosure.

In this study there are several limitations and suggestions that can be taken into consideration in subsequent research in order to obtain better results. First, only companies that are sampled are companies listed on the Indonesia Stock Exchange which are engaged in the manufacturing sector for the period 2015-2017. It is better for future research, adding years of research and expanding the corporate sector that is directly at risk to the environment such as mining companies, and so on. Second, the test results of the coefficient of determination show that the independent variables are only able to explain environmental disclosures of 21.20%, which means there are many other variables that can be used. Then further research can add other variables such as audit committees, multiple directorship and others. Third, this research examines corporate governance structure, so that future research can examine corporate governance in terms of the mechanism.

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