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The Influence of Corporate Governance Mechanisms on The Disclosure of Sustainability Reports in Companies with The Sri-Kehati Index

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Abstract

The purpose of this study is to find empirical evidence and determine the influence of the board of commissioners, managerial ownership, institutional ownership, and audit committee on the disclosure of sustainability reports on companies with the Sri-Kehati index listed on the Indonesia Stock Exchange (IDX) for 2020-2022. The sample used in the study amounted to 101 data from 35 companies selected by purposive sampling techniques. The type of data used is secondary data obtained from annual reports and corporate sustainability reports obtained through the official IDX website and the company. The data analysis technique used is multiple linear regression analysis. The results showed that the variables of the board of commissioners, institutional ownership and audit committee affected the disclosure of sustainability reports, while managerial ownership did not affect the disclosure of sustainability reports.

Introduction

Basically, the main goal of companies is to maximize profits, and one of the methods to achieve this goal is to improve the quality of their products. Although at first, the company believed that they had made sufficient contributions in the form of providing products and employment to the community, in fact, the company's impact on the surrounding environment was quite significant. To create long-term value and improve its quality, a company must remember that meeting needs through the provision of products alone is not enough, the company must also pay attention to the social impact that arises from all the activities it undertakes.

Corporate Social Responsibility (CSR) and sustainability are increasingly being talked about and are becoming the focus for businesses. These issues are of concern due to environmental tragedies that are evidence of the company's lack of responsibility for its business activities. Companies can make efforts to pay attention to social impact, namely by disclosing Sustainability Report which can help companies to provide information on organizational performance in economic, environmental, and social aspects. At the initial stage, the company is formed with the main goal of achieving maximum profit, which is represented by the symbol P (Profit). Over time, this paradigm underwent a transformation towards an emphasis on sustainable development (Aliniar & Wahyuni, 2017). Triple bottom line or 3P (profit, people, and planet) was first introduced by Elkington in 1997. 3P concept (Profit, People and Planet) become the main foundation in sustainable business practices and in sustainable development efforts (Oktaviani & Amanah, 2019)

Regulations regarding sustainability reports in Indonesia were only established in 2017 based on POJK No.51/POJK.03/2017. The Indonesian government's commitment to sustainable development in the capital market is reflected through the creation of the Sri-Kehati Index. This index is the result of collaboration between the Financial Services Authority (OJK) and the Kehati foundation. The focus of Sri-Kehati Index is in selecting companies that apply the Sustainable Responsible Investment Principle (SRI), which is expected to encourage sustainable business practices for issuers in the capital market. This index is also used as a measure for investors and investment managers to invest in companies that have good performance in economic, social, and environmental aspects. This is as an active support in sustainable development efforts. However, although there are written rules regarding the disclosure of sustainability reports, in 2020-2022 the disclosure of sustainability reports on companies included in the Sri-Kehati index is only around 18%, which means that these companies have not fully disclosed sustainability information.

This research refers to research (T. A. W et al., 2023). The difference in research lies in research variables, research objects, data analysis techniques and research periods. In this study, the authors added institutional ownership variables and removed environmental performance variables. Environmental performance variables were abolished because in previous studies (T. A. W et al., 2023) states that environmental performance has no effect on disclosure Sustainability Report Likewise with research conducted by (Indriastuti & Chariri, 2021) which also states that environmental performance has no effect on the disclosure of sustainability reports. Based on the description above, and the inconsistencies between the results of previous research related to the board of commissioners, managerial ownership, institutional ownership and audit committee, the author is interested in conducting research with the title: **"The Effect of Governance Mechanisms on Disclosure Sustainability Report on Companies with SRI-Kehati Index"**.

Term Stakeholders was first introduced by the Stanford Research Institute (SRI) in 1960. This theory is used to describe corporate behavior (corporate behavior) and social performance (Freeman, 1994). Theory Stakeholders states that the company is not just an entity operating for its own interests but must provide benefits to all interested parties (such as shareholders, creditors, consumers, suppliers, society, governments, analysts, and others). In other words, in carrying out its business activities, the company not only pays attention to its internal interests, but also must ensure that all parties involved such as shareholders, consumers, government, analysts, even the community around the company also benefit from its operations (Hanan & Faithful, 2023).

Legitimacy is a strategic factor for companies to develop the company going forward. Dowling and Pfeffer (1975) in (Hanna Septiani, Mukhzarudfa, 2018) Declare that legitimacy is important to an organization, with restrictions emphasized by social norms and values. The reaction to these limitations drives the importance of conducting an analysis of organizational behavior considering the dynamics of the surrounding environment. According to Hanna, Septiani & Mukhzarudfa (2018) Legitimacy theory explains that organizations routinely adapt to the norms and values accepted by the surrounding community, with the aim of gaining legitimacy. Legitimacy becomes an essential need in the social context and is considered one of the strategies that companies use to maintain their existence.

Agency theory is the basic theory in research on the disclosure of Sustainability Reports. This theory illustrates the relationship between agents and principals. The dynamics of this agency relationship are described by Meckling (1976), who describes the interaction between shareholders who act as principals and other parties, namely managers who act as agents. As agents, they are authorized by the principal to take business decisions. The principal, who provides capital in the form of funds and facilities for the company's operations, expects the agent to carry out the company's management well. The agent also has the responsibility to regularly submit reports to the principal regarding the progress of the business that has been carried out.

The Board of Commissioners acts as a shareholder representative in a company that has a legal form of limited liability company. Its function involves supervising corporate governance carried out by management (directors) and has the responsibility to assess whether management has fulfilled its obligations in designing and implementing the company's internal control (Oktaviani & Amanah, 2019).

According to Jensen and Meckling (1976) managerial ownership is the ownership of company shares by management. In a company, if there is managerial ownership, it is expected that more information will be provided to

JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

the public so that the company gains public legitimacy. When the ownership of managers in a company tends to be small, the conflict of interest in the company will increase. The manager will do things for his personal interests without thinking about the company. Conversely, the greater the manager's ownership of the company, the more productive the manager's actions in maximizing the value of the company. (Hanna Septiani, Mukhzarudfa, 2018).

Institutional ownership is the value of shares owned by a business entity. In the context of legitimacy theory, increasing institutional ownership in a corporate entity is believed to increase the level of disclosure of the Sustainability Report. According to Grace (2022) Institutional ownership can increase investor control over the company so that institutional ownership is considered to influence the company's decision to disclose sustainability reports. One of the supervisory boards in corporate governance is the audit committee. The Audit Committee plays an important role in assisting the board of commissioners to monitor and minimize risks that can occur between management and stakeholders. Based on Bapepam Decree No. Kep-643/BL/2012 which regulates the audit committee, it is mandatory to hold a meeting that is at least the same as the provisions based on the company's articles of association to lead to good management of the company. According to T. A. W et al. (2023) The presence of an audit committee in a company is believed to create conditions in reporting sustainability reports. With the encouragement of the audit committee to publish sustainability reports, the risk of information asymmetry can be minimized.

One of the factors in implementing good corporate governance is the board of commissioners who must be responsible to the company in accordance with the applicable principle, namely accountability. Overseeing management actions to be in accordance with what stakeholders want is the main duty and responsibility of the board of commissioners. Therefore, to facilitate coordination, it is necessary to have a board of commissioners meeting, where the more meetings of the board of commissioners is believed to facilitate the realization of good corporate governance through discussion and coordination. Research results (Ananda & Yusnaini, 2023) and (Habibie, 2023) Shows that the commissioner has an influence on the disclosure of the sustainability report.

H_1: There is influence between the Board of Commissioners on the Disclosure of Sustainability Report

Managerial ownership is defined as the percentage of shares owned by management which includes commissioners and directors who actively participate in company decision making. If there are shareholders who are leaders of the management team, it is expected to provide information disclosure related to economic, environmental, social, and corporate governance in the sustainability report published Research conducted by (T. A. W et al., 2023) and (Anisa, Dirvi Surya Abbas, 2023) shows that managerial ownership influences disclosure Sustainability Report.

H_2**:** There is an influence between Managerial Ownership and Sustainability Report Disclosure

Institutional ownership is share ownership by institutional investors which can be seen from the proportion of shares owned by institutions in the company. Institutional ownership has the potential to encourage companies to increase the level of disclosure of sustainability information. Research (Hidayah &; Yusuf, 2024) and (Effendi & Harahap, 2023) states that institutional ownership influences disclosure Sustainability Report.

H_3: There is an influence between Institutional Ownership and Sustainability Report Disclosure

The main task of the audit committee is to support the board of commissioners in carrying out supervisory duties, so that the company can avoid misappropriation. Through the supervisory mechanism played by the audit committee, it is expected to increase the company's efficiency in achieving profits, which in turn can be the basis for the company to carry out disclosures in Sustainability Report. According to (Safitri & Saifudin, 2019) The Audit Committee Has a Significant Influence on Disclosure Sustainability Report. Research (Salim et al., 2023) disclose that the Audit Committee influences disclosures Sustainability Report. According to (Risty & Sany, 2015) State that the number of

JMAR
JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

members of the audit committee and the frequency of meetings have an influence on the level of voluntary ethical disclosure.

H_4: There is influence between the Audit Committee on the Disclosure of Sustainability Report

Methodology

This research can be categorized as quantitative research, considering the type of data collected and the analysis methods applied. The population in this study is companies with the Sri-Kehati index listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022 totaling 35 companies. The sampling approach is carried out through the purposive sampling method, with the criteria used as the basis for sample selection as follows: 1) Companies listed in the SRI-KEHATI index for 2020-2022 listed on the Indonesia Stock Exchange (IDX); 2) Companies listed in the SRI-KEHATI index that have complete information on data related to variable measurements used in 2020-2022. The analytical technique used to process and test the hypothesis in this study is by multiple linear regression analysis with the following equations:

$$Y=\alpha+\beta1.x1+\beta2.x2+\beta3.x3+\beta4.x4+\varepsilon$$

Information:

Y	= Disclosure Sustainability Report
α	= Constant
β1-4	= Regression Coefficient
x1	= Board of Commissioners
x2	= Institutional Ownership
x3	= Managerial Ownership
x4	= Audit Committee
ε	= Error

The disclosure of a comprehensive sustainability report is influenced by the obligations of the board of commissioners to stakeholders, as an effort to support the continuity of the company's operations. According to (Ananda & Yusnaini, 2023) The Board of Commissioners in this study can be measured based on the number of meetings held in the current year. Managerial ownership is the share of shares owned by the company's management from the total available shares. According to (Kholmi & Nizzam Zein Susadi, 2021) Managerial ownership can be measured by comparing the percentage of shares owned by management with the total outstanding shares in the company.

Institutional ownership refers to the position of share ownership in a company owned by institutions or institutions such as insurance companies, banking entities, investment entities, and other institutional institutions. According to (Kholmi & Nizzam Zein Susadi, 2021) Institutional ownership can be measured by comparing the percentage of institutional shares with the total shares outstanding in the company. The Audit Committee is a committee initiated by the board of commissioners with the aim of supporting supervision and examination of the implementation of the director's function in managing the company's operations. According to (Kholmi & Nizzam Zein Susadi, 2021) The audit committee can be measured using the average number of members attending meetings compared to the number of meetings in one year.

In this study, sustainability report is measured by the Sustainability Report Disclosure Index (SRDI). SRDI is used as an indicator to assess the extent of a company's responsibility to GRI standards, which include economic, environmental, and social dimensions. The total number of sustainability report disclosure indicators is 91, which is then adjusted to the characteristics of each company. The SRDI calculation process is carried out by giving a score of 1 if the company discloses an item, and a score of 0 if it does not disclose. After all items are scored, the scores are added together to get the company's final score. According to the Global Reporting Initiative (2014), the SRDI

JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

calculation formula is as follows:

$$SRDI = \frac{V}{M}$$

Information:
SRDI = Sustainability Report Company Disclosure Index
V = Index fulfilled
M = Number of items expected to be disclosed

Result And Discussion

Results

Based on the sapel determination technique that has been carried out, the research sample was found as many as 101 data that met the criteria of 35 companies. Then, an outlier of 20 data was carried out, so that 81 data were obtained. The following is the result of a descriptive statistical analysis that provides an overview of the factors that influence disclosure rates Sustainability Report in companies with the Sri-Kehati index listed on Bursa Efek Indonesia in 2020-2022:

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Council Commissioner	81	4,00000	43,00000	12,9382716	8,73548178
Managerial	81	,00000	,00385	,0001977	,00056028
Institutional	81	,00024	,96590	,6699504	,15260832
Committee Audit	81	,00000	1,33333	,7690331	,29567465
Sustainability Report	81	,04396	,62637	,1816578	,14326955
Valid N (listwise)	81				

Source: Secondary data processed with SPSS, 2024

The result of the descriptive statistical test can be known that the value of N on each valid variable is 81. Details regarding the results of descriptive statistics including minimum values, maximum values, mean values, and standard deviations on each variable are as follows: 1) The variables of the board of commissioners have a minimum value of 4, a maximum value of 43, an average value of 12.9382716 and a standard deviation value of 8.73548178.; 2) The managerial ownership variable shows a minimum value of 0.00000, a maximum value of 0.00385, an average value of 0.0001977 and a standard deviation value of 0.00056028.; 3) The institutional ownership variable shows a minimum value of 0.00024, a maximum value of 0.96590, an average value of 0.6699504 and a standard deviation value of 0.15260832.; 4) Audit committee variables show a minimum value of 0.00000, maximum value of 1.33333, average value of 0.7690331 and standard deviation value of 0.29567465.; 5) The variable of sustainability report disclosure is the mean value of 0.1881188 and has a standard deviation of 0.15468599, the highest value (maximum) of 0.62637 is present and the lowest value (minimum) is 0.04396.

The normality test is a test that aims to determine whether the residual value has a normal distribution or not in the regression model (Ghozali, 2018). In this study using the Kolmogorov-Smirnov normality test. The normality test results are as follows:

Multiparadigm Accounting Research (JMAR)
Vol.2 Issue 1 (2024) Hal:1 – 11
ISSN: 3047-3144

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		81
Normal Parametersa,b	Mean	,0000000
	Std. Deviation	,09073805
Most Extreme Differences	Absolute	,087
	Positive	,087
	Negative	-,069
Test Statistics		,087
Asymp. Sig. (2-tailed)		,200c,d

Source: Secondary data processed with SPSS, 2024

Multicollinearity test is a test conducted to test the correlation between independent variables or not in the regression model (Ghozali, 2018). The regression model is free from multicollinearity symptoms if it has a tolerance value of > 0.1 and a VIF value of < 10. Here are the results of the multicollinearity test:

Table 3. Multicollinearity Test

Type		Collinearity Statistics	
		Tolerance	VIF
	Dewan_Komisaris	,819	1,220
	Managerial	,936	1,069
	Institutional	,926	1,080
	Komite_Audit	,907	1,103

Source: Secondary data processed with SPSS, 2024

Based on table 3 above, it shows that the entire independent variable has a tolerance value of > 0.1 with a VIF value of < 10. It can be concluded that the regression model does not occur symptoms of multicollinearity which means there is no relationship or correlation between variables so that the regression model can be used for further tests.

The heteroscedasticity test is a test carried out to test for similarities or inequalities in variance between residuals of one observation with other observations in a regression model (Ghozali, 2018). In this test, a semi-log regression model was used to overcome indications of heteroscedasticity.

Table 4. Heterokedasticity Test

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	,585	,198		2,957	,004
	Dewan_Komisaris	,001	,004	,044	,358	,721
	Managerial	-44,242	57,092	-,089	-,775	,441
	Institutional	-,050	,211	-,027	-,236	,814
	Komite_Audit	-,213	,110	-,225	-1,934	,057

Source: Secondary data processed with SPSS, 2024

Based on Table 4, the results of the heteroscedasticity test on the board of commissioner's variable have a sig value. 0.721, in the managerial ownership variable has a sig value. 0.441, in the institutional ownership variable has a sig value. 0.814, in the audit committee variable has a sig value. 0.057. Based on the results of the heterokedasticity test

Multiparadigm Accounting Research (JMAR)
Vol.2 Issue 1 (2024) Hal:1 – 11
ISSN: 3047-3144

after the semi-log transformation, it can be interpreted that the regression model does not exist or is free from symptoms of heteroscedasticity because all variables have sig values. > (0.05).

To detect the possibility of autocorrelation, statistical testing can be carried out using the Durbin-Watson Test (DW test). The Autocorrelation Test aims to assess whether there is a correlation between confounding errors in period t with confounding errors in previous periods (t-1) in the context of linear regression models. In this study, the method Cochrane-Orcutt used in regression models as an attempt to overcome the possibility of autocorrelation. (Ghozali, 2018).

Table 5. Autocorrelation Test

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	.745a	,554	,531	,47940	1,844

Source: Secondary data processed with SPSS, 2024

Based on the results of the autocorrelation test after the Cochrane-Orcutt transformation in table 4.11, it can be known that the DW value is 1.844, in the Durbin Watson table it is obtained dl = 1.5372 and du = 1.7438. It can be concluded that dU < DW < 4-dU or 1.7438 < 1.844 < 2.2562. So, it can be concluded that in this study there was no autocorrelation.

Multiple linear regression analysis has the aim of knowing the relationship between the dependent variable and the independent variable Ghozali (2018). This analysis was conducted to determine how much influence the variables of the board of commissioners, managerial ownership, institutional ownership, and audit committee. Based on the calculation results using the SPSS 25 program, the following data were obtained:

Table 6. Multiple Linear Regression Analysis

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,030	,264		-7,695	,000
	LAG_X1	,056	,007	,636	7,660	,000
	LAG_X2	-165,543	104,639	-,126	-1,582	,118
	LAG_X3	,965	,394	,195	2,451	,017
	LAG_X4	-,757	,200	-,303	-3,788	,000

Source: Secondary data processed with SPSS, 2024

Based on the calculation results in the table above, it is known that the multiple linear regression equation is as follows:

$$SR = -2.030 + 0.056.X_1 - 165.534.X_2 + 0.965.X_3 - 0.757.X_4$$

Model feasibility test (Goodness of Fit) Conducted to see if there is an overall significant effect on the regression model Ghozali (2018). A regression model can be said to be good or feasible (fit) if the significance value of the regression is less than 0.05. Based on table 5 above, the significance value in this study of 0.000 is less than 0.05 (0.000<0.05). These results can be interpreted that the regression model in this study is feasible to be used to predict disclosure variables Sustainability Report.

The R2 test is used to determine how far the model can explain the variation of the dependent variable Ghozali

JOURNAL MULTIPARADIGM ACCOUNTING RESEARCH
http://jurnal.upnyk.ac.id/index.php/jmar

(2018). Test the coefficient of determination using data after treatment of autocorrelation symptoms using the method Cochrane – Orcutt. Based on table 5, the adjusted value of R2 is 0.554 or 55.4%. The results show that independent variables, namely the board of commissioners, managerial ownership, institutional ownership, and audit committee, can explain the dependent variable, namely disclosure Sustainability Report 55.4%, while 44.6% was explained by independent variables in other studies.

T-test analysis is used to determine the extent of the impact of an independent variable on the dependent variable, assuming that the other independent variable is considered fixed. The data used in this t-test are data after treatment of autocorrelation symptoms using the Cochrane – Orcutt method. Analysis of the results of the t test in Table 5 regarding the effect of each independent variable on the dependent variable is that the board of commissioner's variable has a significance value of 0.000 smaller than 0.05 (0.000<0.05). Based on these results, it can be interpreted that the board of commissioners affects the disclosure of sustainability reports so that hypothesis 1 (H_1) is accepted and managerial ownership affects financial distress. The managerial ownership variable has a significance value of 0.118 greater than 0.05 (0.118>0.05).

Based on these results, it can be interpreted that managerial ownership has no effect on the disclosure of sustainability reports so that the 2nd hypothesis (H_2) is rejected, and managerial ownership has no effect on the disclosure of sustainability reports. The institutional ownership variable has a significance value of 0.017 less than 0.05 (0.017<0.05). Based on these results, it can be interpreted that institutional ownership affects the disclosure of sustainability reports so that the 3rd hypothesis (H_3) is accepted, and institutional ownership affects the disclosure of sustainability reports. The audit committee variable has a significance value of 0.00 less than 0.05 (0.000<0.05). Based on these results, it can be interpreted that the audit committee affects the disclosure of sustainability reports so that the 4th hypothesis (H_4) is accepted, and the audit committee affects the disclosure of sustainability reports

Discussion

Based on the results of the t test, the commissioners variable has a significance value of 0.000 smaller than 0.05 (0.000<0.05). Based on these results, it can be interpreted that the board of commissioners has an influence on disclosure Sustainability Report. In the t test, a regression coefficient of 0.56 was obtained, which can be interpreted that the board of commissioners has a positive effect on disclosure sustainability report. So, it can be concluded that the more the board of commissioners meeting will encourage the company to disclose environmental and social values in Sustainability Report. The results of this study are in line with research conducted by (Ananda & Yusnaini, 2023) and (Anisa, Dirvi Surya Abbas, 2023) which states that the Board of Commissioners influences disclosure Sustainability Report.

Based on the results of the t test, the managerial ownership variable has a significance value of 0.118 greater than 0.05 (0.118>0.05). Based on these results, it can be interpreted that managerial ownership has no effect on disclosure Sustainability Report. This suggests that low managerial shareholding can be an obstacle for companies in their efforts to disclose sustainability information through Sustainability Report. The results of this study are in line with research that has been conducted by (Grace, 2022) and (Hanna Septiani, Mukhzarudfa, 2018) which states that managerial ownership has no effect on disclosure sustainability report.

Based on the results of the t test the board of commissioner's variable has a significance value of 0.017 smaller than 0.05 (0.017<0.05). Based on these results, it can be interpreted that institutional ownership affects disclosure Sustainability Report. In the t test, the result of the repression coefficient of 0 is obtained,965 which means that institutional ownership positively affects disclosure Sustainability Report. This can be interpreted that if institutional ownership increases, it affects the increase in sustainability report disclosure. This research is in line with previous

Multiparadigm Accounting Research (JMAR)
Vol.2 Issue 1 (2024) Hal:1 – 11
ISSN: 3047-3144

research that has been conducted by (Nurrahman, 2013) and (Kholmi & Nizzam Zein Susadi, 2021) which states that institutional ownership influences disclosure sustainability report.

Based on the results of the t test the audit committee variable has a significance value of 0.000 less than 0.05 (0.000<0.05). Based on these results, it can be interpreted that the audit committee has an influence on disclosure Sustainability Report. In the t test, a regression coefficient of -0.757 was obtained, which means that the audit committee has a negative effect on disclosure Sustainability Report. Based on the test results, it can be concluded that if the audit committee experiences an increase, it will affect the decrease in sustainability report disclosure. The results of this study are in line with previous research conducted by (Dewi, Ananda Pravista & Maidani, 2024) which states that the Audit Committee negatively affects disclosures Sustainability Report.

Conclusions

This study aims to find empirical evidence regarding the influence of the board of commissioners, managerial ownership, institutional ownership, and audit committee on the disclosure of sustainability reports on companies with the Sri-Kehati index listed on the Indonesia Stock Exchange in 2020-2022. Based on the results of multiple linear regression analysis that has been carried out, it can be concluded that: 1) The Board of Commissioners has an influence on the disclosure of sustainability reports. 2) Managerial ownership has no effect on the disclosure of sustainability reports. 3) Institutional ownership affects the disclosure of sustainability reports. 4) Audit committee negatively affects sustainability report disclosure.

Limitations

In this study, there are limitations in this study, namely, based on the results of the tests that have been carried out, it was found that the influence of research variables, namely the board of commissioners, managerial ownership, institutional ownership, and audit committee together on the sustainability report was 53.1%. That is, 46.9% were influenced by other variables outside the study. In addition, the disclosure of sustainability reports made by companies with the Sri-Kehati Index during the period 2020 – 2022 contained in this study has not completely revealed the items that must be disclosed in accordance with GRI G4.

Research Contribution

The suggestions in connection with this study are: In the next study, it can add other independent variables that can further improve research results, such as sustainability committees, types of industries, company size and so on. In addition, future research is expected to use a larger number of samples by choosing the object of research, namely the type of company that most of them have routinely published sustainability reports periodically per year. Then, the government is expected to make stricter regulations such as consequences for companies that do not publish sustainability reports. In investing, investors are advised to consider companies that pay attention to environmental and social concerns through sustainability reports. Companies should improve their sustainability report disclosures as a form of corporate commitment to the environment, social and stakeholders

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