The Influence of Firm Size, Corporate Governance, Green Accounting Disclosure on Sustainability Report Disclosure and Financial Performance and Its Impact on Value Company

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ARTICLE INFO

Article history:
Received: 13 Oct 2022
Accepted: 29 Nov 2022
Published: 30 Nov 2022

Keywords:
Company Size, Corporate Governance, Green Accounting Disclosure, Sustainability Report Disclosure, Financial Performance, Company Value

ABSTRACT

The purpose of this study was to determine the effect of Company Size, Corporate Governance Disclosure of Sustainability Report and Financial Performance as well as its impact on the Company's Corporate Values in Mining Companies listed on the Indonesia Stock Exchange. Samples are determined based on a purposive sampling technique, with a total sample of 15 companies. The study used secondary data obtained from the Indonesia Stock Exchange website in the form of financial statements from 2011-2021. The hypothesis in this study using path analysis with smart pls. The results show that Company Size and Corporate Governance influence the green accounting disclosure and sustainability report disclosure, then the sustainability report disclosure influences Financial Performance and has an impact on the Company's Value in Mining Companies listed on the Indonesia Stock Exchange during 2011-2021. This means that the frequent meetings of the board of directors and the audit committee as indicators of Corporate Governance will produce effective decision making in disclosure of sustainability reports and Financial Performance as measured by profitability will provide management motivation in reporting important information for the company’s sustainability to increase the company’s value.

1. INTRODUCTION

In the near future, regulations regarding business continuity reports will become an obligation for every company (Aggarwal, 2013). The existence of each company will have positive and negative impacts both on environmental, social and economic aspects (Elkington, 1997), therefore it must pay attention to the level of competition.

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Companies need to change the paradigm to be efficient and effective in managing available resources by way of comparative advantage to competitive advantage studies (Karsam, 2017). Environmental damage that occurs as a result of company business activities shows that companies that are currently developing in Indonesia are still much less concerned about the losses that must be borne by the community due to business activities (Aniktia and Khafid, 2015). About seventy percent of environmental damage in Indonesia is caused by mining companies (www.esdm.go.id , 2018).

Corporate sustainability is a major development issue for companies (Luthfia and Prastiiw, 2012). In order for the company to survive, it is necessary to make efforts to increase sales and reduce financial costs (Bary and Bouma, 2009), by balancing achieving profit, maintaining stakeholder interests, and fulfilling community welfare and preserving nature (Utomo et al., 2010). These three activities are commonly known as the concept of the triple bottom line or 3P.

GRI stated that European countries have made it mandatory for companies to publish sustainability reports. Companies in Indonesia, there is no obligation to publish sustainability reports (Natalia and Wahidahwati, 2016). However, the trend of making sustainability reports is increasing every year (Aziz, 2014). Based on information submitted by the National Center for Sustainability Reporting, by the end of 2016 there were 120 companies in Indonesia that had issued sustainability reports and eight of them were mining companies.

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Source: company official website

Submission of sustainability reports is usually an integral part of the annual report (Christi and Nugroho, 2014). Disclosure of sustainability reports will maintain good relations with external parties of the company and increase trust in the company, so that the company is recognized by the community (Natalia and Wahidahwati, 2016). The importance of thinking about the sustainability of a business and company value is very attractive to investors. Investors will choose companies that are not only profit-oriented, but companies that carry out social and environmental responsibilities for sustainable development (Astuti and Juwenah, 2017). The increased stock prices will provide prosperity for shareholders automatically increasing the value of the company (Nurlela and Islahuddin, 2008); (Putra and Wirawati, 2013), but companies must also pay attention to the interests of employees, consumers, and society (Saputro et al., 2013). Therefore companies must provide transparent, accountable
information, as well as good corporate governance regarding their social activities (Saputro et al., 2013). Environmental damage that occurs as a result of company business activities shows that many companies that are currently developing in Indonesia are still not concerned about the losses that must be borne by the community due to their business activities (Aniktia and Khafid, 2015), approximately seventy percent of environmental damage in Indonesia caused by mining companies Messwati (2012). Undisclosed information regarding corporate social responsibility towards the surrounding community indicates a lack of corporate concern for the environment (Idah, 2013) and Marlina on the Bisnis.com website states that in Indonesia, there are at least five mining companies that are suspected of polluting a number of rivers in which these companies operate. The five companies are PT Adaro Energy Tbk, PT Arutmin Indonesia, PT Freeport Indonesia, PT Kaltim Prima Coal and PT Kideco Jaya Agung.

One of the challenges of change in the era of globalization is that companies are required to assist long-term development (Astuti and Juwenah, 2017). According to the Global Reporting Initiative (GRI), stated that the goal of sustainable development is to meet the needs of the present and pay attention to the needs of future generations. The form of economic, social and environmental responsibility by companies is the implementation of good corporate governance as a barometer of a company’s accountability (Sukamulja, 2004). To improve the performance of a company, it is necessary to apply the principles of good corporate governance (Aprilia, 2013). Daniri (2014) a company cannot only think about its financial performance, but must also include an assessment of its social and environmental performance as one of the consequences of implementing the principles of good corporate governance, even though it requires costs to reveal social information (Belkaouï and Karpik, 1989).

2. LITERATURE REVIEW AND HYPOTESIS DEVELOPMENT

The Value Of The Company

Samuel (2000) explains that firm value is an important concept for investors, because it is an indicator for the market assessing the company as a whole. Firm value provides management with an overview of investors' perceptions of past performance and future prospects of the company (Brigham and Houston, 2003). Meanwhile, Wahyudi (2005) states that the value of the company is the price that prospective buyers are willing to pay if the company is sold. Firm value is a form of company achievement that maximizes its managerial performance. Increasing the value of the company is an achievement that is in accordance with the company’s goals. High corporate value is the desire of the company (Mayogi and Fidiana, 2016: 3). Firm value can provide maximum shareholder prosperity if the company's stock price increases (Nurlela and Islahuddin, 2008).

Firm value is basically influenced by several indicators, including the Price Earnings Ratio and Price Book Value. In this study, the measuring tool used to assess the company is to use the calculation of Tobin’s Q. Firm value is measured by calculating Tobin’s Q which is formulated as Tobin’s Q = MVE+DEBT/TA. MVE is the market value of equity or the market value of equity obtained by multiplying the closing price by the number of shares outstanding. DEBT is the book value of the total debt obtained from short-term liabilities plus long-term liabilities. TA is total assets or total assets.

Sustainability Report

Sustainability report is a general term first popularized by Elkington (1997) which explains that companies that want to be sustainable must pay attention to the concept of the triple bottom line or 3P. Elkington (1997) gives the view that companies that want to be sustainable must pay attention to 3P, namely profit to increase company revenue; people to provide welfare to employees and society; and the planet to maintain and enhance the quality of nature and the environment in which the company operates.
The Global Reporting Initiative defines sustainability reporting as a practice of measuring, disclosing and accountability efforts of an organization's performance in achieving sustainable development goals to both internal and external stakeholders. Sihotang (2006) defines a sustainability report as reporting on the economic, social and environmental aspects of the regulatory impact and performance of companies and their products in the context of sustainable development. Through sustainability reporting, companies show their accountability and transparency in implementing social and environmental responsibilities based on the reporting framework issued by GRI (Gunawan and Mayangsari, 2015). According to the World Business Council for Sustainable Development, the benefits to be gained from a sustainability report include:

1) provide information to stakeholders
2) help build a reputation
3) become a reflection of the company in managing its risks;
4) as a stimulation of leadership thinking and performance
5) developing and facilitating the implementation of better management systems in managing environmental, economic, and social impacts;
6) reflects directly the ability and readiness of the company to meet the wishes of shareholders,
7) build shareholder interest.

Financial Performance

Financial performance is an overview of the conditions and circumstances of a company which is analyzed with financial analysis tools so that good and bad financial conditions and financial achievements of a company can be identified at a certain time (Wibowo and Faradiza, 2014). The company's financial performance is reflected in the financial statements of a certain year or used as a comparison with previous years so that it can be seen the development or decline that has occurred from year to year and what the difference is to find out whether the company is consistent (Soelistyoningrum and Prastiwi, 2011). According to Ross et al. (2003), financial performance can be reflected through the analysis of financial ratios. There are five dimensions of financial ratios that are often used to measure a company's financial performance, which include the dimensions of asset management, profitability, leverage, liquidity, and market dimensions.
Corporate Governance

The Organization for Economic Cooperation and Development (OECD) defines corporate governance as a system used to direct and control the company’s business activities. Corporate governance regulates the division of tasks, rights and obligations of those with an interest in corporate life. The Indonesian Institute for Corporate Governance defines corporate governance as the processes and structures that are implemented in running a company with the main goal of increasing shareholder value in the long term, while taking into account the interests of other stockholders. The National Committee on Governance Policy (KNKG) stated that the implementation of good corporate governance is also expected to support the government’s efforts to uphold good governance in general in Indonesia.

The General Guidelines for good corporate governance are a reference for companies to implement good corporate governance in the framework of:

1) Encouraging the achievement of corporate sustainability.
2) Encouraging empowerment of functions and independence of each organ of the company.
3) Encouraging shareholders, members of the board of commissioners and members of the board of directors to make decisions and carry out their actions based on moral values and comply with laws and regulations.
4) Encouraging the emergence of corporate social awareness and responsibility towards society and environmental sustainability.
5) Optimizing company value for shareholders.
6) Increasing the competitiveness of companies nationally and internationally.

The KNKG states that every company must ensure that the principles of good corporate governance are applied to every aspect of business and at all levels of the company. The principles of good corporate governance are transparency, accountability, responsibility, independence as well as fairness and equality needed to achieve corporate sustainability by taking into account stakeholders.

Company Size

Lang and Lundholm (1993) and Wallance (1994), divide the characteristics of the company into three categories: structural variables, performance variables and market variables. Haniffa and Cooke (2002) say that company characteristics are divided into three categories: (i) structure which includes company size, leverage, diversification, complexity, and ownership structure; (ii) performance (profitability), and (iii) market which includes industry type, listing status, auditor type, length of listing, and foreign trade activity.

One of the characteristics of the company is the size of the company, which shows the size of the company. Basically, company size is divided into 3 categories, namely large firms, medium-size firms and small firms. Company size is a scale where companies are classified into large, medium and small according to various ways, including: total assets, log size, market value of shares and others.

Machfoeds (1994) stated that company size is a scale in which the size of the company can be classified according to various ways, including: total assets, log size, market value of shares, and others. Riyanto (1995) defines company size as the size of the company seen from the value of equity, company value, or the total value of assets. Watts and Zimmerman (1986) state that firm size is a guideline for political costs and political costs increase as firm size and risk increase. Hasibuan (2001) states that company size can be in the form of fixed assets, intangible assets, and other assets owned by the company until the end of the financial reporting period.

Framework

Based on the description that has been stated previously and the literature review, the variables involved in this study can be formulated through a framework as follows:
3. RESEARCH METHOD

The research object is an attribute or characteristic or value of a person, object or activity that has certain variations determined by the researcher to be studied and then drawn conclusions (Sugiyono, 2009). The objects of this research are company size, corporate governance, financial performance, disclosure of sustainability reports, and firm value. This research was conducted on mining companies listed on the Indonesia Stock Exchange in 2011-2017. The research variable is anything in any form determined by the researcher to be studied, so that information is obtained about it and then a conclusion is drawn (Sugiyono, 2009). The types of variables used in this study are independent variables or independent variables and dependent variables or dependent variables. The independent variables used in this study are: (a) Company size is a scale where companies are classified into large, medium and small according to various ways, including: total assets, log size, market value of shares and others. In this study, company size is measured using the total assets indicator. (b) Corporate Governance which is focused on the board of commissioners, audit committee, board of directors, and governance committee; and (c) Financial performance focused on profitability, leverage and liquidity. The dependent variables used in this study are: (1) Disclosure of Sustainability Report, is a practice of measuring, disclosing, and accountability efforts of organizational performance in achieving sustainable development goals. Be measured with the disclosure of the sustainability report what should be and what is expected through disclosure of (a) environmental, (b) social, (c) economic aspects. (2) The value of the company. Firm value can provide maximum prosperity for shareholders if the company's stock price increases (Nurlela and Islahuddin, 2008).

4. RESULTS AND DISCUSSION

Based on the processing carried out, there were five companies that met the research sample criteria and obtained a sample analysis unit of 35 sustainability reports. The five companies that meet the research sample criteria are as follows: (1) PT Tambang Batubara Bukit Asam Tbk (PTBA); (2) PT Petrosea Tbk (PTRO); (3) PT Vale Indonesia Tbk (INCO); (4) PT Timah (Persero) Tbk (TINS); (5) PT Perusahaan Gas Negara (Persero) Tbk (PGAS).

From statistical data regarding GCG, there are seventeen units of analysis in JRKA which are below the average or 48.57%. The other eighteen units which were above the average of 51.43% were able to make more informed decisions because audit committee members exchanged ideas and knowledge more frequently. The financial performance of each company is shown by the ROA value which has decreased from year to year, there are
eighteen units of analysis which are below the average or 51.43%. Seventeen units that are above the average of 48.57% disclose more company information, and motivate investors to invest more because they have a higher level of profitability in the opinion of Almilia (2008).

**Company Size on Sustainability Report Disclosure**

Company size is measured by calculating Ln Total Assets, the results of data processing show that Total Assets significantly influence the disclosure of sustainability reports. The significance value obtained is greater than 0.005 (0.047 < 0.005) and the coefficient of determination (R Square) is 0.09. Thus, the hypothesis which states that company size has an effect on Sustainability Report Disclosure is accepted. Mining sector companies are companies that have large company sizes and have a large impact on the environment, so they should disclose a sustainability report because it is still mandatory. Jensen and Meckling (1976) argue that large companies will have incentives to withhold information that contains relevant values to avoid the pressure of political costs in law and tax increases, as well as pressure to carry out social responsibility. The existence of companies in the mining sector must disclose their social, economic and environmental responsibilities in a sustainability report.

**Good Corporate Governance towards Disclosure of Sustainability Report**

The results of data processing show that the coefficient value (β1) Number of Audit Committee Meetings (JRKA) is 0.007, coefficient value (β2) Number of Board of Directors Meetings (JRDD) is 0.008, JRKA significance value is 0.010, and JRDD significance value is 0.006. The significance value obtained is less than 0.05 (0.010 < 0.05; 0.006 < 0.05). GCG indicators, namely the audit committee and the board of directors, have an effect on the disclosure of the sustainability report with an R square of 23.5%. For every one increase in JRKA and JRDD units, it will increase 0.007 times plus 0.008 times the sustainability report disclosure plus a constant value of 0.719. The more often the board of directors and the audit committee hold meetings, the more often the members of the audit committee exchange ideas and knowledge regarding decisions that must be taken in the interest of all stakeholders; one of the decisions is regarding the disclosure of company information according to research by Anikti and Khafid (2015), Aziz (2014) and encouraging companies to issue reports that are complete and have high integrity (Natalia and Wahidahwati, 2016). The results of the research prove that for companies in the mining sector and energy sub-sector, the number of meetings between members of the audit committee and the board of directors can easily realize the implementation of good corporate governance. That is, these companies can be said to have implemented sustainability report disclosures because they have implemented the principles of good corporate governance, such as transparency, accountability and responsibility in every aspect of their business.

**Disclosure of Sustainability Report on Financial Performance**

Based on the tests that have been carried out, the results show that the disclosure of sustainability reports has a significant effect on profitability. The significance value obtained is less than 0.05 (0.016 < 0.05) and the coefficient of determination (R Square) is 16.3%. Thus, the hypothesis which states that the Sustainability Report Disclosure affects financial performance with the Profitability indicator is accepted. The results of this study are in line with research conducted by Idah (2013). That every one unit increase in profitability will increase the sustainability report disclosure variable by 1,082 plus 0,520. The results of this study prove that profitability makes management more free and flexible in disclosing corporate social responsibility to stakeholders (Heinze, 1976). Management discloses more information because profitability is an indicator of good company management (Almilia, 2008).
Financial Performance on Firm Value

The results of the study show that financial performance has a significant effect on firm value. Financial performance is measured by calculating the return on assets with a significance of 0.001 which is less than 0.05 (0.001 <0.05) and the coefficient of determination (R Square) is 0.298. The hypothesis which states that financial performance influences firm value is accepted. The results of this study are in line with research conducted by Wijaya and Linawati (2015). The company value will increase if the financial performance increases by 6,690. The results of this study prove that companies in the mining sector and the energy sub-sector have managed to record large profit levels, thus motivating investors to invest in stocks. Investment will increase stock prices and demand, and will affect the value of the company.

5. CONCLUSION

Company size as measured by total assets (ROA) influences the disclosure of sustainability reports, good corporate governance as measured by calculating JRKA and JRDD has an effect on the disclosure of sustainability reports, disclosure of sustainability reports affects financial performance as measured by calculating return on assets (ROA), and financial performance as measured by calculating ROA has an effect on firm value.

Research Limitations in this study: only uses three indicators, namely JRKA, JRDD, and ROA to measure the effect of the independent variables on the dependent variable. Meanwhile, there are many other indicators that can influence or be added, such as the existence of a governance committee for good corporate governance and debt to equity ratio for financial performance. This study only measures firm value as the dependent variable using a single proxy, Tobin’s Q. This study only obtained data from companies in the mining sector and the energy sub-sector, so that this study experienced limitations or lack of secondary data.

REFERENCES


