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# The Corporate Governance Moderates Determinants Affecting Sustainability Report Disclosure

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**Abstract:** This research aims to gather empirical evidence on how profitability and leverage affect sustainability report disclosure while considering the moderating variables of independent commissioners and gender diversity on the board of directors. The study included 45 companies from the manufacturing, mining, property, real estate, and building construction industries listed on the IDX from 2019 to 2021, chosen through purposive sampling. The research data was analyzed using multiple regression analysis methods. According to the findings, profitability favours sustainability report disclosure, while leverage has a negative influence. The presence of independent commissioners does not moderate the relationship between profitability, leverage, and sustainability report disclosure. Although gender diversity on the board of directors does not significantly impact the relationship between profitability and sustainability report disclosure, it does reduce the negative impact of leverage on sustainability report disclosure.
**Keywords:** Sustainability Report; Profitability; Leverage; Independent Commissioner; Gender Diversity on The Board of Directors.

**Abstrak:** Tujuan dari penelitian ini adalah untuk mengumpulkan bukti empiris tentang bagaimana profitabilitas dan leverage mempengaruhi pengungkapan laporan keberlanjutan, dengan mempertimbangkan variabel moderasi yaitu komisaris independen dan keberagaman gender di dewan direksi. Studi ini melibatkan 45 perusahaan dari sektor manufaktur, pertambangan, properti, real estate, dan konstruksi bangunan yang terdaftar di IDX dari tahun 2019 hingga 2021, dipilih melalui metode purposive sampling. Data penelitian dianalisis menggunakan metode analisis regresi berganda. Menurut temuan penelitian, profitabilitas memiliki dampak positif terhadap pengungkapan laporan keberlanjutan, sedangkan *leverage* memiliki dampak negative terhadap laporan keberlanjutan. Kehadiran komisaris independen tidak memoderasi hubungan antara profitabilitas, *leverage*, dan pengungkapan laporan keberlanjutan. Meskipun keberagaman gender di dewan direksi tidak memiliki dampak signifikan pada hubungan antara profitabilitas dan pengungkapan laporan keberlanjutan, namun mampu mengurangi dampak negatif *leverage* pada pengungkapan laporan keberlanjutan.
**Kata Kunci:** *Sustainability Report;* Profitabilitas, *Leverage;* Dewan Komisaris Independen; Keberagaman Gender Dewan Direksi.

## INTRODUCTION

The rapid progress and various kinds of development in the business industry are becoming more and more evident from the establishment of new companies, different new business sectors starting to emerge, as well as many types of new products entering Indonesia. This continuous development requires every company to adapt to endure and thrive in their operational activities. In addition, this development has also established competition between companies in various business sectors, which creates an obligation for those companies to plan an effective strategy in dealing with their competitors. Therefore, companies should not only focus on their financial profit alone but should

broaden their views to environmental and social aspects that are equally essential for the company's sustainability (Febriyanti, 2021). The environmental aspect includes preserving the environment to improve future generations' welfare and create shareholder value. At the same time, the social aspect focuses on fulfilling corporate responsibilities to the community, intending to align company and community goals so that potential conflicts can be avoided due to differences in interests (Rezaee and Fogarty, 2019).

Environmental and social conflicts have occurred many times in Indonesia, and one of them occurred in PT Toba Pulp Lestari, a company with a factory located in Toba, North Sumatra. Since its establishment in 1983, PT Toba Pulp Lestari has been entangled in various problems due to its committed violations. Some violations include expropriating customary land, polluting rivers, and dredging the soil, causing landslides. The PT Toba Pulp Lestari case went on for a long time. The most recent issue was the mistreatment of residents by PT Toba Pulp Lestari employees. For more than 30 years, there have been many demonstrations by residents, which have become increasingly violent yearly. This prolonged conflict caused various losses to the company and external parties, especially the local community (Amalia and Yudiana, 2021).

Companies must disclose economic and non-economic performance through sustainability reporting to avoid conflicts. Companies must carry out their business activities using sustainability principles and disclose their sustainability performance transparently (Nagel et al., 2017). Companies can improve their reputation by presenting financial and non-financial performance information in a sustainability report. In addition, sustainability reporting also plays an important role in maintaining public trust, including investors. However, according to data from the Indonesia Stock Exchange, the number of companies on the IDX have published a sustainability report as of 30 December 2021 are 154 companies.

Meanwhile, according to data from the IDX, 766 companies were listed on the IDX as of 30 December 2021 (Indraini, 2021). The companies that have published a sustainability report and listed on the IDX are separated by a very large number. The contributing factor is the COVID-19 pandemic, which has disrupted all business activities in Indonesia. This resulted in OJK issuing SEOJK number 4/SEOJK.04/2022, in which this circular letter provides for an extension of the deadline for preparing and submitting their sustainability reports.

Sustainability report disclosure cannot be separated from a company's financial performance. According to (Triwacananingrum et al., 2020), financial performance is related to sustainability reports because disclosing economic, environmental and social performance in sustainability reports requires costs, where these definite costs are a deduction from company income. Profitability and leverage are important indicators that describe a company's financial condition. Profitability focuses on the ability of an organization or company to earn profits. This affects company practices in disclosing sustainability reports. The more capable a company is in collecting and earning profits, the higher the quality of its sustainability report disclosure will be (Maryana and Carolina, 2021). In addition, with high profits, companies can allocate them to the sustainability report disclosure costs.

Other than profitability, another financial performance indicator, namely leverage, also impacts the disclosure of the sustainability report. Leverage can be interpreted as the level of corporate funding sourced from debt. When the company's financial condition related to the level of leverage is higher, the liabilities that the company must repay are also greater. Furthermore, the level of leverage, which tends to be high, also increases the

potential for risk if the company cannot pay off its debts. A company would want to report higher profits in its financial statement to maintain its reputation. For this reason, companies limit the disclosure of their performance in sustainability reports to reduce expenses so that reported profits are higher (Dissanayake et al., 2016).

Various research studies investigating the link between sustainability reports and profitability have yielded ambiguous results. While some studies conducted by (Menassa and Dagher, 2019; Orazalin and Mahmood, 2020) suggest that profitability has a beneficial influence on the disclosure of sustainability reports, (Tobing et al., 2019) discovered the opposite outcome, indicating that profitability harms sustainability report disclosure. Conversely, other studies by (Dissanayake et al., 2016) and (Kumar et al., 2023) claim that profitability does not impact sustainability report disclosure. Similarly, the findings on the relationship between leverage and sustainability report disclosure could be more consistent. While (Febriyanti, 2021) suggests that leverage positively influences sustainability report disclosure, (Coffie et al., 2018) found that leverage has a negative effect. However, research by (Arisandi and Mimba, 2021) indicates that leverage does not impact sustainability report disclosure.

Because there are inconsistencies related to the results of previous studies, which are assumed to be due to other variables that affect sustainability reports, corporate governance is added as a moderating variable. This is the significance of this research: the selection of corporate governance as a moderating variable because it is based on its role in achieving company goals by meeting the needs of stakeholders (Adu, 2022). The principles of corporate governance encourage companies to disclose sustainability reports to meet the needs of stakeholders (Dewi and Ramantha, 2021). In this research, corporate governance is represented by independent commissioners and gender diversity on the board of directors, as both are vital organs that determine the effectiveness of corporate governance implementation in a company. The second consideration why this research used corporate governance as the significance of this research is empirical. Previous research used corporate governance as an independent variable and sustainability as the dependent variable, and the result is significant. Research conducted by (Susadi and Kholmi, 2021; Dewi and Ramantha, 2021) indicates that having an independent commissioner benefits sustainability report disclosure. Additionally, (Herawaty et al., 2021; Anazonwu et al., 2018) found that the gender diversity of the board of directors has a favourable impact on sustainability report disclosure.

Based on the research background and the phenomena presented, this study aims to provide empirical evidence relating to the effect of profitability and leverage on sustainability report disclosure with independent commissioners and diversity on the board of directors as moderators. This research contributes to increasing the awareness of the importance of disclosing sustainability reports. In addition, it enriches reference sources that are useful for academic purposes. What distinguishes this research from previous studies is the use of moderating variables, independent commissioners and gender diversity on the board of directors. The research data was taken from the years of publication of the most recent report, which are 2019 to 2021, which increases the relevance of the research.

## THEORETICAL REVIEW

**Stakeholder Theory**. Freeman discovered stakeholder theory, and according to (Rezaee and Fogarty, 2019), stakeholder theory explains the concept where companies

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maximize performance related to sustainable business, optimize long-term corporate value, and fulfil each stakeholder's interests. Freeman's theory also argues that companies cannot continuously focus on creating value for shareholders and other stakeholders (Goman et al., 2021). In other words, companies need to manage and balance the interests of all stakeholders related to the company (Farida, 2019). Companies can only carry out their business activities with stakeholders' involvement. As (Sudaryanti and Riana, 2017) have previously explained, obtaining support from stakeholders is one of a company's objectives because the sustainability of the company relies on its stakeholders' backing. The disclosure of sustainability reports is connected to the stakeholder theory. By disclosing sustainability reports, companies can demonstrate their responsibility to their stakeholders by providing the necessary information to fulfil their informational needs (Freudenreich et al., 2020). It also helps maintain good relations between the company and stakeholders so that both parties benefit one another. A good relationship with stakeholders brings plenty of benefits to the company, and one of them is escalating the level of sustainability in the company (Sidiq et al., 2021). When the interests of all stakeholders are fulfilled, good integration and synergy will be created in the company, which will help maintain the company's existence and achieve a sustainable business.

**Legitimacy Theory**. Legitimacy Theory was discovered by Dowling and Pfeffer, which explains that a company has a close relationship with the community and the environment around it and can be said to be bound by a social contract (Orazalin and Mahmood, 2020). This means that there is a relationship that influences each other between the company and the surrounding community. When a company carries out its activities, it must protect the community's interests in its environment. Companies need to understand the culture and values the surrounding community adopts and make boundaries so that company activities do not conflict or violate community norms (Kouloukoui et al., 2019). If the company is indifferent to the values trusted by the community, it will increase the potential for conflicts that can harm the company.

Conversely, if the company can run harmoniously with social values, the surrounding community will be more supportive and cooperative. Legitimacy Theory also explains the importance of presenting company performance in sustainability reports. This theory explains that stakeholders need economic, environmental and social performance information. Companies disclose sustainability reports to gain legitimacy and fulfil social contracts to gain support from the community (Rezaee and Fogarty, 2019). Disclosure of economic, environmental and social performance is a form of company credibility to the public in providing information about company activities' environmental and social impacts. Sustainability reports can improve a company's reputation among the public, which will positively affect the legitimacy and continuity of the company.

**Sustainability Report**. Based on the definition of the (Global Reporting Initiative, 2016), sustainability reporting is the practice of an entity in publicizing economic, environmental and social behaviour and the resulting impacts, as well as the entity's contribution to sustainable development. Sustainability reports play a very important role as a source of information about company performance that internal and external parties will use. Sustainability reporting will help improve the company's reputation and the trust of various parties. This is because by reporting a sustainability report, the company provides stakeholders with an understanding of the impact of sustainability on the company's main activities and the strategic actions taken to respond to these impacts (Onder and Baimurzin, 2020). According to the Global Reporting Initiative, a sustainability report has three aspects or dimensions. The first aspect is the economic

aspect, vital to business sustainability. Every company aims to create value for shareholders through sustainable economic performance. To support the achievement of business sustainability, according to (Rezaee and Fogarty, 2019), companies must prioritize business activities that bring long-term benefits rather than only profitable in the short term. The next aspect is environmental. While focusing on its economic goals, companies also need to consider the impact that may result from their operational activities on the surrounding environment. The environmental aspect helps companies to find a balance between achieving economic goals without causing impacts that could damage the environment (Rezaee et al., 2019). The social aspect is the third aspect, which explains the company's way of aligning its social goals with the interests of society. In the social aspect, the company pays attention to the interests of many parties, starting from customer satisfaction with products or services, increasing employee welfare, guaranteed product quality, and improving the quality of life for the next generation (Rezaee et al., 2019).

**Profitability**. As stated by (Arianandini and Ramantha, 2018), a company's profitability is its capacity to generate profits during a specific timeframe. Profitability is typically employed as an indicator or assessment of a company's performance, serving as a point of reference regarding its prospects. Furthermore, profitability indicates the effectiveness of a company's financial policies and operational activities, as noted by (Amalia and Yudiana, 2021). Profitability garners the attention of shareholders the company's owners, as it reflects company managers' performance utilizing shareholder investment funds (Rahayu, 2018).

Additionally, management requires information concerning the company's profitability to determine if any evaluations are necessary to improve performance in the following period. Profit is usually compared to other accounts, such as income, total assets, and total capital (equity), known as the profitability ratio. According to (Onder and Baimurzin, 2020), profitability ratios are valuable in evaluating the effectiveness of a company's management in generating profits. Then, the interest of enterprises in sustainability reporting is increasing.

**Leverage**. According to (Putriningsih et al., 2019), leverage is a ratio that measures the amount of company financing that originates from debt. Leverage is a valuable ratio in the company's evaluation process related to its finances, especially regarding the use of debt as a source of funding (Nadhilah et al., 2022). Leverage is an important financial indicator and is considered by potential investors before investing in a company because a high level of leverage increases investment risk if the company cannot fulfil its obligations (Marbun and Malau, 2021). Conversely, a low level of leverage will attract investors to invest because the risk associated with debt repayment is also lower. Leverage ratios can be used to measure financing sourced from debt. In short, this ratio provides an overview of the company's financial health for those who need it, such as investors and creditors.

**Independent Commissioner**. According to the findings of previous research (Fadillah, 2017), an independent commissioner is an individual who serves on the board of commissioners without any ties to controlling shareholders, fellow commissioners, or members of the board of directors and who does not hold any directorship in a company that is related to the parent company. The independent commissioner represents stakeholders' interests and is expected to provide objective supervision, thereby enabling the principles of good corporate governance to be upheld, as noted (Wahyudi, 2021; Pratomo and Rana, 2021). The role of the independent commissioner includes monitoring policies and offering advice and guidance to the management team.

**Gender Diversity on The Board of Directors**. In a company, every human resource has different characteristics that distinguish each individual. These differences can be classified into several types, one of which is gender differences. Gender is one of the differences in individual characteristics biographically (Maisyura and Ameliany, 2021). Gender is a status formed from cultural, social, and psychological influences (Ionascu et al., 2018). In this study, gender diversity focuses on the proportion of women on the board of directors to all members of the board of directors. Implementing board diversity in the company's top management invites more diverse ideas, insights, and points of view, which is helpful in the problem-solving process (Thoomaszen and Hidayat, 2020).

**The Effect of Profitability on Sustainability Report Disclosure**. A business with good profitability is very effective in managing the availability of resources to optimize profits from these sources. Information regarding profitability is included in the material considerations that potential investors analyze before making investment decisions. Apart from being one of the company's attractions that encourages potential investors, disclosing a good level of profitability can also build stakeholder trust in the company (Orazlin and Mahmood, 2020). The better the profitability performance of a company, the more it will increase its performance disclosure to stakeholders, which is in line with stakeholder theory. Stakeholder theory also emphasizes that high profitability reflects how well a company earns profits, which companies can use to increase disclosure of economic, environmental and social information (Kumar et al., 2023). Based on research from (Arisandi and Mimba, 2021), profitability positively affects the disclosure of sustainability reports. This can be interpreted that the higher the profitability, the higher the quality of sustainability report disclosure.

**H1:** Profitability has a positive effect on sustainability report disclosure.

**The Effect of Leverage on Sustainability Report Disclosure**. Leverage is one of the financial measurements that affect the trust of stakeholders in the company. If the level of leverage is relatively high, the company will tend to reduce expenses, which can reduce its income, including costs for disclosing sustainability reports (Kumar et al., 2023). This is the same as the explanation (Arisandi and Mimba, 2021), where a high level of leverage will encourage companies to minimize expenses for disclosing sustainability reports. This is done to report profit as high as possible because a better performance in generating profit will raise the stakeholders' trust in a company (Sonia and Khafid, 2020). This argument is supported by research results from (Orazalin and Mahmood 2020; and Kumar et al., 2023), which is also in line. The findings suggest that sustainability report disclosure quality decreases as leverage increases. According to (Orazalin and Mahmood, 2020), high leverage may prompt companies to limit their sustainability reporting to only what is required to minimize costs and present higher profit figures because they focus more on their short-term goals than sustainability report disclosure.

**H2:** Leverage hurts sustainability report disclosure.

**The Effect of Profitability on Sustainability Report Disclosure Moderated by Independent Commissioner**. A company must include independent commissioners to supervise its running more objectively and without any influence from any party. According to (Dewi et al., 2018), because there is no connection with the company, an independent board of commissioners is appropriate for supervising and monitoring the

company's activities to build good governance. Moreover, based on the stakeholder theory, independent commissioners are considered to focus more on stakeholders' interests. They are more likely to increase transparency and demand the disclosure of sustainability reports to meet the stakeholders' information needs (Herawaty et al., 2021). The research conducted by (Dewi and Ramantha, 2021; Susadi and Kholmi, 2021) shows that independent commissioners have a favourable effect on the disclosure of sustainability reports. Moreover, an effective monitoring process by independent commissioners is beneficial for the company's financial performance. According to research conducted by (Sofia and Januarti, 2022), an independent board of commissioners can lead to a more critical and unbiased oversight process that significantly affects the management's efforts to enhance financial performance, including profitability.

**H3:** Independent commissioner strengthens the positive effect of profitability on sustainability report disclosure.

**The Effect of Leverage on Sustainability Report Disclosure Moderated by Independent Commissioner**. According to (Kumar et al., 2023), a company's level of leverage negatively impacts sustainability report disclosure. High leverage can lead to lower sustainability report disclosure as companies minimize costs to maximize profits. According to the stakeholder theory, Independent commissioners are responsible for monitoring these activities and fulfilling stakeholder needs for sustainability reports (Wahyudi, 2021). Independent commissioners can play a crucial role in maintaining the quality of sustainability reports despite high corporate leverage levels. Several studies, including (Dewi and Ramantha, 2021; Susadi and Kholmi, 2021), have shown that independent commissioners positively affect sustainability report disclosure. In summary, the presence of independent commissioners can ensure the fulfilment of stakeholder needs for sustainability reports while maintaining the quality of disclosure even in the face of high levels of corporate leverage.

**H4:** Independent commissioner weakens the negative effect of leverage on sustainability report disclosure.

**The Effect of Profitability on Sustainability Report Disclosure Moderated by Gender Diversity on The Board of Directors**. According to research by (Anazonwu et al., 2018), having a diverse gender representation on the board of directors benefits the disclosure of sustainability reports. Diversity, including gender diversity, can lead to increased understanding, creativity, and innovation due to the varying skills and knowledge brought to the decision-making process. In addition, companies with gender-diverse boards are more likely to have relevant sustainability reports than those with male-dominated boards. Other studies, such as (Herawaty et al., 2021; Febriyanti, 2021), also support the positive influence of gender diversity on sustainability report disclosure. (Febriyanti, 2021) suggests that the presence of women on the board can enhance environmental and social responsibilities and promote sustainability report disclosure, in line with the feminist ethical theory that prioritizes the welfare of others. Moreover, (Brahma et al., 2021) indicate that having female board representation is associated with increased financial performance, which can encourage companies to disclose their sustainability performance.

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**H5:** Gender Diversity on the board of Directors strengthens the positive effect of profitability on sustainability report disclosure.

**The Effect of Leverage on Sustainability Report Disclosure Moderated by Diversity on The Board of Directors**. A high level of leverage indicates high financing originating from debt. If the level of leverage is high, there will be potential risks when the company cannot repay the loan on time (Marbun and Malau, 2021). This certainly affects the company's reputation among the public, especially stakeholders. Related to this issue, gender diversity on the board of directors can contribute positively to the company. As stated by (Thoomaszen and Hidayat, 2020), the existence of gender diversity in a company's top management, including on the board of directors, can provide many benefits. One of them is that gender diversity on the board of directors adds to the variety of ideas, insights, and points of view, which can contribute to solving various problems in the company. According to (Febriyanti, 2021) justifications, having female members on a board of directors can promote the publication of sustainability reports since they are more likely to consider the interests of all stakeholders. The disclosure of sustainability reports is positively impacted by gender diversity on the board of directors, according to various research (Herawaty et al., 2021; Farida, 2019).

**H6:** Gender diversity on the board of directors weakens the negative effect of leverage on sustainability report disclosure.

Based on the hypotheses development that has been described, a research model is formulated as shown in **Figure 1**.

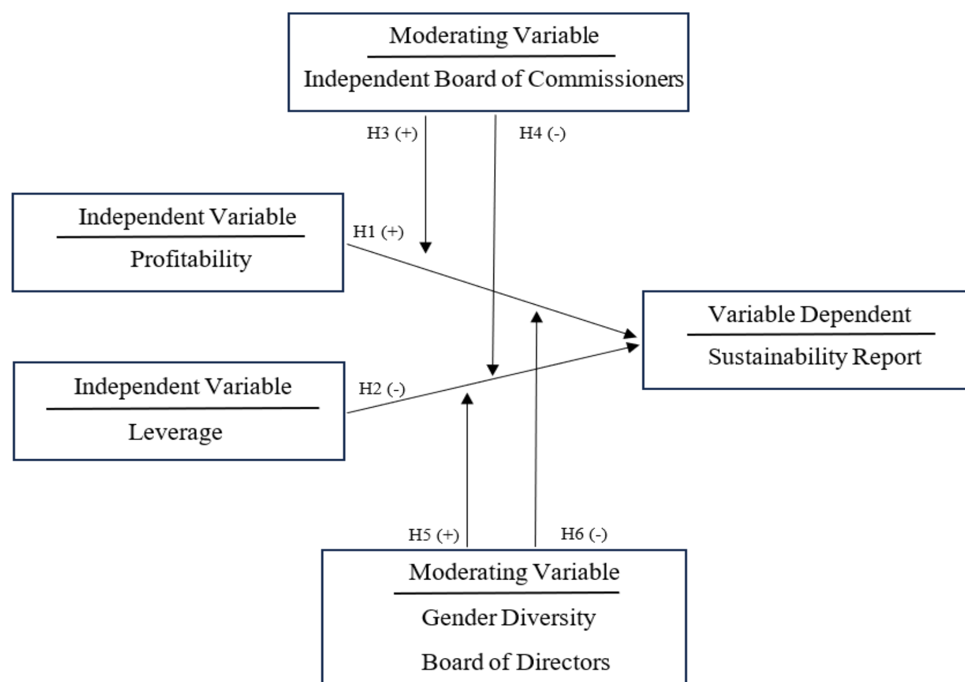


**Figure 1**. Research Model
Sources: Processed Data, 2023

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## METHODS

This research used a quantitative approach, where the research data was collected using the documentation technique, defined as taking or recording data already contained in documents or archives as a data collection method (Djaali, 2020). The information used in this study was obtained from sustainability and financial reports on the official websites of the Indonesia Stock Exchange and SandP Capital IQ. The sample was chosen using a purposive sampling technique with four particular criteria, with the research focusing on businesses in the mining, manufacturing, property, real estate, and building development sectors. To meet these requirements, companies had to be listed on the Indonesia Stock Exchange between 2019 and 2021, consistently publish sustainability reports that adhered to the 2016 GRI Standards, provide the data required for the study (such as profitability, leverage, board members, growth, size, age, and current ratio), and provide financial statements in Rupiah. These standards were used to identify 45 businesses for the research sample.

This study used the method of multiple linear regression to analyze the data and examine how different independent variables affected a dependent variable. This study used EViews 9 as the analysis tool. Descriptive statistics, correlation analysis, traditional assumption testing (normality, multicollinearity, heteroscedasticity, and autocorrelation), and the testing of hypotheses (determination coefficient, F-test, and t-test) were the four stages of the statistical data analysis process. In this investigation, two models of regression were applied. While the second model looked at the moderating impact of the link between the independent and dependent factors, the first model investigated the impact of independent variables on the dependent variable. The Ordinary Least square was used to analyze the multiple regression models in this study. Below is a presentation of the regression models:

$$SRDI_{i,t} = \alpha + \beta_1 Prof_{i,t} + \beta_2 Lev_{i,t} + \beta_3 DKI_{i,t} + \beta_4 Gender_{i,t} + \beta_5 Growth_{i,t} + \beta_6 Size_{i,t} + \beta_7 Age_{i,t} + \beta_8 CR_{i,t} + e \quad (1)$$

$$SRDI_{i,t} = \alpha + \beta_1 Prof_{i,t} + \beta_2 Lev_{i,t} + \beta_3 DKI_{i,t} + \beta_4 Gender_{i,t} + \beta_5 Prof*DKI_{i,t} + \beta_6 Lev*DKI_{i,t} + \beta_7 Prof*Gender_{i,t} + \beta_8 Lev*Gender_{i,t} + \beta_9 Growth_{i,t} + \beta_{10} Size_{i,t} + \beta_{11} Age_{i,t} + \beta_{12} CR_{i,t} + e \quad (2)$$

Where SRDI is Sustainability Report Disclosure Index; α is Constant; $\beta_1$ until $\beta_{12}$ are Coefficient; Prof is Profitability; Lev is Leverage; DKI is Independent Commissioner; Gender is Gender Diversity on The Board of Directors; Growth is Sales Growth; Size is Firm Size; Age is Firm Age; CR is Liquidity; and e is Error.

**Table 1** shows describes the operational details of the variables for this study. Table 1 also explains the details of the variable's operationalization, like the proxy and formula of the variables, description and reference sources.

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**Table 1.** Variable Operationalization

| Variable | Proxy and Formula | Description | Sources |
|---|---|---|---|
| Sustainability Report | $SRDI = \frac{n}{k}$<br>n = total disclosed items<br>k = total items of GRI Standards 2016 (247 items)<br>SRDI was measured by giving a score of 1 to the presence of SR disclosure and a score of 0 to the absence of SR disclosure. | Continuous Variable | (Febriyanti, 2021) |
| Profitability | $ROA = \frac{\text{Net Income}}{\text{Total Assets}}$ | Continuous Variable | (Kieso et al., 2020) |
| Leverage | $DER = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$ | Continuous Variable | (Orazalin and Mahmood, 2020). |
| Independent Commissioner | $DKI = \frac{\text{Independent commissioner}}{\text{Total board of commissioners}}$ | Continuous Variable | (Tobing et al., 2019) |
| Gender Diversity on The Board of Directors | $Gender = \frac{\text{Female Director}}{\text{Total board of directors}}$ | Continuous Variable | (Farida, 2019) |
| Sales Growth | $\text{Sales Growth} = \frac{Sales_i - Sales_0}{Sales_0}$ | Continuous Variable | (Wahyuni and Wahyudi, 2021) |
| Firm Size | Firm size = Ln (Total Asset) | Continuous Variable | Ayu Indriyani and Sudaryati (2020) |
| Firm Age | Firm Age = Tahun perusahaan menjadi sampel penelitian - Tahun perusahaan berdiri | Continuous Variable | (Orazalin and Mahmood, 2020) |
| Liquidity | $CR = \frac{\text{Current assets}}{\text{current liabilities}}$ | Continuous Variable | (Kieso et al., 2020) |

Sources: Processed Data, 2023

## RESULTS

There were 45 companies as research samples with an observation period from 2019 to 2021. The sample selection procedure is provided in **Table 2**.

**Table 2.** Sample Selection

| Criteria | Amount |
|---|---|
| Companies in the manufacturing, mining and property, real estate and building construction sectors are listed on the Indonesia Stock Exchange. | 453 |
| Companies that do not publish sustainability reports consistently from 2019 to 2021 based on the 2016 GRI Standards | (406) |
| Companies that do not provide the necessary information needed by the research | (0) |
| Less by Companies that do not use the Rupiah as the currency to present financial statements | (2) |
| Total companies that meet the criteria | 45 |
| Observation period | 3 |

| Total data for testing | 135 |
|---|---|

Sources: Processed Data, 2023

**Descriptive Statistics**. **Table 3** shows, the data were subjected to a descriptive statistics test, which yielded a description of the data that included the minimum, maximum, mean, and standard deviation values. This study uses four variables: the profitability and leverage of the independent variable, the independent commissioner, the gender diversity of the board of directors, and the control variables of sales growth, firm size, age, and liquidity. The dependent variable in this study is the sustainability report. Table 3 below displays the outcome of the descriptive statistics test used to address the issue of the classical assumption test before any treatment is applied.

**Table 3.** Descriptive Statistics Results

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| SRDI | 135 | 0.174 | 0.709 | 0.428 | 0.133 |
| Prof | 135 | - 0.499 | 0.416 | 0.043 | 0.100 |
| Lev | 135 | - 10.826 | 10.521 | 1.554 | 2.013 |
| DKI | 135 | 0.222 | 0.833 | 0.430 | 0.110 |
| Gender | 135 | 0.000 | 0.500 | 0.098 | 0.138 |
| Growth | 135 | - 0.704 | 0.897 | 0.011 | 0.285 |
| Size | 135 | 14.078 | 19.722 | 16.652 | 1.289 |
| Age | 135 | 6.000 | 103.000 | 47.733 | 22.425 |
| CR | 135 | 0.296 | 6.024 | 1.790 | 1.028 |

Sources: EViews9, 2023

SRDI ratings for sustainability reports vary from 0.174 to 0.709, with an average value of 0.428, indicating that, on average, 42.801 per cent of the 2016 GRI Standards items were disclosed. The value of the standard deviation is 0.133. The range of profitability as measured by ROA is -0.499 to 0.416, and the average value of 0.043 shows that the average net income for all sample firms is 4.3 per cent of their total assets. The value of the standard deviation is 0.100. As measured by DER, the average value of leverage is 1.554, meaning that the average total liabilities of the sample enterprises are 155.400 per cent more than the average total equity. Leverage varies from -10.826 to 10.521, with a range of -10.826 to 10.521. The value of the standard deviation is 2.013.

The independence of commissioners is measured using the independent commissioners to the entire board of commissioners ratio, which varies from 0.222 to 0.833. The average is typically 0.430, which indicates that independent commissioners make up 43.020 per cent of the board of commissioners. The difference from the mean is 0.110. Calculating the ratio of female board members to all board members—with values ranging from 0.000 to 0.500—is how gender diversity on the board of directors is measured. The score is typically 0.098, which indicates that 0.098 of the directors are women overall. 0.138 is the standard deviation.

According to the statistical analysis, sales growth ranges from -0.704 to 0.897, with negative values indicating a decrease in revenue. The mean sales growth is 0.011, and the standard deviation is 0.285. Logarithmic total assets are used to measure firm size, ranging from 14.078 to 19.722. The mean value is 16.652, with a standard deviation of 1.289. Firm age is calculated by subtracting the year of research from the year of the company's founding, with values ranging from 6.000 to 103.000. The mean age is 47.333, with a

standard deviation of 22.425. Liquidity is measured using the current ratio, ranging from 0.296 to 6.024. The average amount of current assets to current liabilities is 179.025 per cent, with a mean value of 1.790 and a standard deviation of 1.028.

**Normality Test**. A normality test aims to determine if the data on a variable are distributed normally. The Jarque-Berra test was utilized in this work as the normality test. The probability must be greater than 0.050 for the research data to be regarded as normally distributed.

The outcome of the initial research model's normality test. The probability is 0.135, which is greater than 0.050, as can be seen. The data is, therefore, assumed to be regularly distributed.

According to the second research model's normality test results, the obtained probability is 0.205, higher than 0.050. The data is, therefore, assumed to be regularly distributed. According to the testing of the two models, there is no problem with this study's normality.

**Multicollinearity Test**. The goal of the multicollinearity test is to determine whether the independent variables in the research regression model have a very close relationship with one another. VIF values serve as the basis for the assessment of multicollinearity issues. There is no multicollinearity issue if the VIF value is lower than 10.

**Table 4.** Multicollinearity Test Result

| Variable | Tolerance (Model 1) | VIF (model 1) | Tolerance (Model 2) | VIF (model 2) |
|---|---|---|---|---|
| Prof | 1.798 | 1.511 | 19.319 | 16.231 |
| Lev | 2.098 | 1.311 | 30.434 | 19.019 |
| DKI | 18.438 | 1.156 | 40.781 | 2.556 |
| Gender | 1.884 | 1.247 | 5.164 | 3.420 |
| Growth | 1.183 | 1.181 | 1.291 | 1.288 |
| Size | 207.569 | 1.227 | 211.679 | 1,252 |
| Age | 8.245 | 1.431 | 8.692 | 1.510 |
| CR | 5.122 | 1.266 | 5.854 | 1.444 |
| Prof*DKI | | | 16.218 | 13.858 |
| Lev*DKI | | | 35.337 | 22.944 |
| Prof*Gender | | | 2.302 | 2.147 |
| Lev*Gender | | | 5.228 | 4.126 |

Sources: EViews9, 2023

The outcomes of the multicollinearity test for the initial regression model are shown in **Table 4.** There is no multicollinearity concern because the VIF values are fewer than 10. Therefore, the model's multicollinearity is manageable.

**Table 4** shows also displays the results of the multicollinearity test in the succeeding research model. The tolerance value for the Prof variable is 19.319, but the VIF value is 16.231. The tolerance value for the Lev variable is 30.434, and the VIF value is 19.019. The tolerance value for the Prof*DKI variable is 16.218, while the VIF value is 13.858. The tolerance value for the Lev*DKI variable is 035.337, while the VIF value is 22.944. It can be seen from these four variables that they do not meet the requirements to pass the multicollinearity test. Therefore, the conclusion that can be drawn is that the second regression model has a multicollinearity problem. In this study, the multicollinearity problem has a very high potential to occur. This happens because there are several

interactions in the research model in the form of multiplication between the independent and moderating variables. The multiplications between several variables create a strong relationship between the independent variables, which is the background to the emergence of multicollinearity problems. Therefore, researchers will not carry out any treatment and will include this problem as a research limitation.

**Heteroscedasticity Test**. To determine whether there is a heteroscedasticity problem, the white test is performed based on each independent variable's significance value. If the probability chi-square is greater than 0.050, there is no heteroscedasticity problem. The results of the white test are listed in **Table 5.**

**Table 5.** Heteroscedasticity Test: White Result

| Description | Model 1 | Model 2 |
|---|---|---|
| F-Statistic | 1.547 | 1.745 |
| Prob. F | 0.041 | 0.016 |
| Obs*R-squared | 58.129 | 98.188 |
| Prob. Chi-Square | 0.075 | 0.094 |

Source: EViews9, 2023

**Table 5** displays the white test results for the first regression model. Based on the test findings, the probability Chi-Square value has a sig—value of 0.075, greater than 0.050. As a result, the first regression model has no heteroscedasticity problem.

**Table 5** shows the results of the white test on the second regression model. Based on the test results, the probability Chi-Square value is greater than 0.050, which is the probability Chi-Square has a sig—value of 0.094. Therefore, heteroscedasticity is acceptable in the second regression model.

**Autocorrelation Test**. The research model can be good if no autocorrelation is detected. In this study, to determine whether there is autocorrelation in the regression model, the Breusch-Godfrey Serial Correlation Test is used. The research model that does not have autocorrelation symptoms meets the criteria if the probability Chi-Square is greater than 0.050.

**Table 6.** Autocorrelation Test Result

| Description | Model 1 | Model 2 |
|---|---|---|
| F-Statistic | 2.433 | 1.914 |
| Prob. F | 0.092 | 0.152 |
| Obs*R-squared | 5.097 | 4.174 |
| Prob. Chi-squared | 0.078 | 0.124 |

Sources: Eviews9, 2023

**Table 6** is the result of the Breusch-Godfrey Serial Correlation Test of the first research model, where there are 135 research samples and eight variables. The probability Chi-square is 0.078. From the test results, the probability of the Chi-square value is 0.078, where this value doesn't meet the autocorrelation test criteria (0.078 greater than 0.050). Therefore, the first regression model is free from autocorrelation issues.

**Table 6** shows the Breusch-Godfrey Serial Correlation Test result on the second research model, with 135 research samples and 12 variables. Thus, The probability Chi-square of 0.1241. From the test results, the probability of the Chi-square value is 0.1241,

where this value doesn't meet the autocorrelation test criteria (0.1241 greater than 0.050). Therefore, there is no autocorrelation problem in the second regression model.

**Determination Coefficient Test**. The determination coefficient test seeks to determine the extent of the independent variables' contribution to explaining the dependent variable in a regression model. If the value of R square approaches one, it can be assumed that the independent variables have a greater influence in explaining the dependent variable. Table 7 displays the R Square test results.

**Table 7.** Determination Coefficient Test Result

| Model | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|
| 1 | 0.174 | 0.122 | 0.124 |
| 2 | 0.221 | 0.143 | 0.123 |

Sources: Processed Data, 2023

The determination coefficient test for the first regression model shows an R square value of 0.174 and an adjusted R2 value of 0.122. From the test results, it can be interpreted that all independent variables can explain or give an effect of approximately 17 per cent on the dependent variable, and the remainder is explained by other variables that are not included in the regression equation.

**Table 7** show, The determination coefficient test result from the second regression model indicates an R square value of 0.221 and an adjusted R2 value of 0.145. According to the test results, all independent variables can explain or give an effect of around 22 per cent on the dependent variable by being influenced by moderating variables, with the remainder explained by other variables not included in the regression equation.

**F-Test**. The F-test is a test that assesses the research regression model's fitness and also aims to obtain information about the effect of all independent variables on the dependent variable simultaneously. This test is based on a significant value, where the significance value must be less than 0.100, so the research can be conducted using the regression models. The following are the results of the F-test on the two regression models.

**Table 8.** F-Test Result

| Model | | Sum of Squares | F | Significant |
|---|---|---|---|---|
| | Regression | 0.124 | 3.310 | 0.002 |
| 1 | Residual | 1.949 | | |
| | Total | 2.073 | | |
| | Regression | 0.123 | 2,869 | 0,002 |
| 2 | Residual | 1.840 | | |
| | Total | 1.963 | | |

Sources: Processed Data, 2023

**Table 8** shows the resulting significant value is 0.002 or less than equals 1 per cent, indicating that the study model is valid at 1 per cent significance level. As a result, the independent variables in this study have a concurrent impact on the sustainability report as the dependent variable.

**Table 8** shows, the F-test on the second regression model yielded a significance value of 0.002, or less than 1 per cent. As a result, the research model is valid at a 1 per

cent significance level, and it can be inferred that in this study, the independent variable with the moderating variable has a simultaneous influence on the sustainability report as the dependent variable.

T-Test. T-test intends to prove or test the significance of the effect of the independent variables separately on the dependent variable. **Table 9** shows the results of the t-statistical test on both regression models.

**Table 9.** Hypothesis Test Result (Model 1)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.011 | 0.176 | 0.061 | 0.476 |
| Prof | 0.199 | 0.132 | 1.508 | 0.067 |
| Lev | -0.009 | 0.006 | -1.406 | 0.081 |
| DKI | -0.104 | 0.104 | -0.999 | 0.160 |
| Gender | 0.227 | 0.087 | 2.615 | 0.005 |
| Growth | -0.002 | 0.041 | -0.051 | 0.480 |
| Size | 0.031 | 0.009 | 3.329 | 0.001 |
| Age | 0.001 | 0.001 | 0.030 | 0.488 |
| CR | -0.039 | 0.012 | -3.275 | 0.001 |

Source: EViews9, 2023

The previous section explained that the first regression model tested the effect of profitability and leverage on the sustainability report disclosure (hypotheses 1 and 2). The profitability (Prof) variable has a significance value of 0.134 in the first model's t-statistical test table. Because the proposed hypothesis is one-tailed, the significance value must be divided by two, yielding a value of 0.067. At a 10 per cent significance level, profitability significantly affects sustainability report disclosure. Furthermore, the value, which is 0.199 (positive) based on the test findings, can be used to establish the direction of the effect. As a result, profitability favours sustainability report disclosure; therefore, hypothesis 1 is accepted.

**Table 9** shows, the importance of leverage (Lev) is 0.162. Because the proposed hypothesis is one-tailed, the significance value must be divided in half first, yielding a value of 0.081. It can be established that leverage considerably affects 10 per cent of the disclosure of sustainability reports. Furthermore, the value of, which controls the direction of the leverage impact, results in a negative value of -0.009. As a result, the test results suggest that leverage had a detrimental effect on the disclosure of sustainability reports. Hypothesis 2 is accepted as a result of this test.

**Table 10.** Hypothesis Test Result (Model 2)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -0.004 | 0.185 | -0.024 | 0.491 |
| Prof | 0.646 | 0.427 | 1.511 | 0.133 |
| Lev | -0.028 | 0.023 | -1.196 | 0.117 |
| DKI | -0.134 | 0.152 | -0.880 | 0.190 |
| Gender | 0.480 | 0.142 | 3.381 | 0.001 |
| Prof*DKI | -0.932 | 0.860 | -1.085 | 0.140 |
| Lev*DKI | 0.056 | 0.052 | 1.077 | 0.142 |
| Prof*Gender | -0.570 | 0.673 | -0.847 | 0.199 |
| Lev*Gender | -0.125 | 0.061 | -2.021 | 0.023 |
| Growth | 0.003 | 0.042 | 0.067 | 0.473 |
| Size | 0.032 | 0.009 | 3.509 | 0.001 |

| | | | | |
|---|---|---|---|---|
| Age | 0.001 | 0.001 | 0.207 | 0.418 |
| CR | -0.047 | 0.012 | -3.755 | 0.001 |

Source: EView9, 2023

The second model looks into how the relationships between profitability and leverage with sustainability report disclosure, proposed as 3, 4, 5, and 6, are affected by independent boards of commissioners and gender diversity on the boards of directors. The ProfDKI variable has a significant value of 0.280 according to the findings of the second model's t-test, which when divided in half, results in a matter of 0.140. Given that this number is higher than 0.100, hypothesis 3 is disproved because independent commissioners have no moderating influence on the relationship between profitability and sustainability report disclosure.

The Lev*DKI variable's significance value is 0.283; when it is divided in half, the result is 0.142. As hypothesis 4 is invalid, this value is greater than 10 per cent, indicating that independent commissioners have no moderating effect on the relationship between leverage and sustainability report disclosure. The Prof*Gender variable's significance value is 0.399, which becomes 0.199 when divided in half. Given that this number is higher than 10 per cent, it is implied that hypothesis 5 is unsupported and that there is no moderating influence of gender diversity upon the board of directors over the relation between profitability and sustainability report disclosure.

Based on **Table 10**, The significance level for the Lev*Gender variable is 0.045. The significance value must first be divided in half since the suggested hypothesis has a direction (one-tailed), giving a value of 0.023. The findings indicate that gender diversity on the board of directors greatly reduces the impact of leverage on the disclosure of sustainability reports at a significant level of 5 per cent. The coefficient's effect is created in a negative (-0.125) direction. Therefore, the influence of leverage on the calibre of sustainability report disclosure is diminished by gender diversity on the board of directors. The findings demonstrate that hypothesis 6 is accepted.

## DISCUSSION

**The Effect of Profitability on Sustainability Report Disclosure.** The success of a business in making a profit is defined as its profitability. A company's profitability is directly proportional to its profit level, as it effectively utilizes its resources. The hypothesis test findings are related to stakeholder theory. This theory highlights the impact of a company's profitability on the extent of disclosure of its performance in the sustainability report. According to (Arisandi and Mimba, 2021), the greater a company's profitability, the more detailed information it will provide in its sustainability report, encompassing economic, social, and environmental performance. The company does this as its responsibility to maintain transparency by providing information needed by stakeholders. In addition, in reporting sustainability reports, there must be costs that need to be allocated by the company. Companies with good profitability performance have high financial resources. Companies are, therefore, better able to submit sustainability reports because profits can cover the expenses associated with doing so. The quality of sustainability report disclosure was positively correlated with profitability in studies by (Manessa and Dagher, 2020; Orazalin and Dagher, 2020), meaning that the more profitable a company is, the better the quality of sustainability report disclosure will be. The opposite

finding is supported by research (Dissanayake et al., 2016; Kumar et al., 2023), which explains that profitability has no bearing on the calibre of sustainability report disclosure.

**The Effect of Leverage on Sustainability Report Disclosure.** A high level of leverage indicates a high level of debt in a company. This can increase the risk when the company cannot fulfil its obligations. In addition, the high level of leverage shifts the company's priority: to pay off its debts first (Kumar et al., 2023). Therefore, the company's obligation to disclose sustainability reports will also be ruled out because sustainability reporting will incur additional costs. Maintaining a good reputation and quality is very important for a company because it needs internal and external funding (Sonia and Khafid, 2020). Therefore, the company will report the maximum profit possible to maintain a good reputation. High-profit reporting will foster trust from parties such as investors and creditors. Because of this, companies seek to reduce expenses that need to be considered urgent, including the costs of disclosing sustainability reports. To support the test results of the second hypothesis, there are several previous studies by (Kumar et al. 2023; Orazalin and Mahmood, 2020 Maryana and Carolina, 2021) with similar results that leverage has a negative effect on the quality of sustainability reports disclosure. However, this study's results differ from several studies by (Tobing et al., 2019; Arisandi and Mimba, 2021), who concluded that leverage does not affect the quality of sustainability report disclosure.

**The Effect of Profitability on Sustainability Report Disclosure Moderated by Independent Commissioner.** The independent board of commissioners are members unrelated to the controlling shareholder, the board of directors, or the fellow board of commissioners. Independent commissioners have a more critical and objective nature in carrying out their responsibilities in terms of supervision (Dewi et al., 2018). According to the stakeholder theory, the independent commissioners also prioritize the stakeholders' interests, including the need for the company's performance information. This description explains the fundamentals of the third hypothesis, where an independent commissioner strengthens the relationship between profitability and the quality of sustainability report disclosure. However, the opposite results were obtained, where having an independent commissioner does not affect companies with high or low profitability in disclosing sustainability reports. All research samples show that companies with many independent commissioners differ from high sustainability report disclosure levels. The researcher also suspects that when a company's profitability is high, it will be compelled to disclose its performance to improve its reputation, which is a natural reaction without interference from an independent commissioner. In addition, this can also be caused by an independent board of commissioners who are less effective in carrying out their responsibilities in monitoring activities (Onder and Baimurzin, 2020).

**The Effect of Leverage on Sustainability Report Disclosure Moderated by Independent Commissioner.** The basis of the fourth hypothesis is stakeholder theory, which argues that an independent commissioner tends to prioritize the interests of stakeholders as a whole, including the need for information regarding the company's performance. However, the hypothesis test shows the opposite result, where independent commissioners could not moderate the relationship between leverage and the quality of sustainability report disclosure. When viewed from the entire research sample, companies with a high proportion of independent commissioners are not necessarily offset by a high sustainability report disclosure. In addition, as previously explained, high leverage causes companies to prioritize paying off their obligations to creditors. Thus, companies will reduce expenses, including costs for disclosing sustainability reports (Kumar et al., 2023).

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**The Effect of Profitability on Sustainability Report Disclosure Moderated by Gender Diversity on The Board of Directors.** The board of directors is crucial to a company's sustainability report disclosure. The fifth hypothesis suggests that having a diverse gender representation among directors would benefit a company. Diversity in gender can bring new ideas and innovations and increase the board members' expertise, knowledge, and perspectives, thus leading to better decision-making processes and improved sustainability report quality (Herawaty et al., 2021). The hypothesis test results, however, show no moderating effect of the ratio of female board members on the relationship between profitability and the calibre of sustainability reports. This suggests that whether a company has a high or low level of profitability does not affect the disclosure of the sustainability report. The researchers hypothesize that the lower proportion of female board members compared to male board members may be the cause of the limited influence of gender diversity on the board of directors. According to descriptive statistics, there are just 9.840 per cent female board members, with more than 90% of the members being men. Also, organizations with more women on their boards of directors may only sometimes provide more in-depth sustainability reports. This study concludes that the influence of gender diversity on the board of directors as a moderator of the relationship between profitability and the standard of sustainability report disclosure is not very notable.

**The Effect of Leverage on Sustainability Report Disclosure Moderated by Diversity on The Board of Directors.** According to the sixth theory, it may be advantageous for a company's board of directors to include a mix of gender representation. It fosters new ideas and innovations while bringing in different views and knowledge to help decision-making (Anazonwu et al., 2018). Also, this diversity may raise the calibre of the company's sustainability reporting. According to research, having female board members promotes the publication of sustainability reports (Febriyanti, 2021). The hypothesis test results confirm this, demonstrating that the percentage of female board members can lessen the detrimental impacts of leverage on the calibre of sustainability reports. High-leverage circumstances may cause management to only provide sustainability reports when essential (Orazalin and Mahmood, 2020). As explained, gender diversity on the board of directors will stimulate the disclosure of sustainability reports. Therefore, a diverse board can mitigate this effect by encouraging gender diversity in sustainability report disclosure.

## CONCLUSION

The outcomes of the two models' multiple linear regression tests have been discovered. First, the H1 hypothesis is supported by the discovery that profitability favours the calibre of sustainability report disclosure. The H2 hypothesis is supported by the finding that leverage detrimentally affects the sustainability report disclosure quality. Third, the H3 hypothesis is disproved because it was discovered that the independent commissioner does not mitigate the impact of profitability on the quality of sustainability report disclosure. Fourth, the H4 hypothesis is disproved because it was discovered that the independent commissioner does not attenuate the impact of leverage on the disclosure quality of sustainability reports. Fifth, the H5 hypothesis is disproved because gender diversity on the board of directors does not attenuate the impact of profitability on the calibre of sustainability report disclosure. Sixth, the H6 hypothesis is supported by the finding that gender diversity on the board of directors minimizes the impact of leverage on

the integrity of sustainability report disclosure. There are research recommendations that can be considered for the following research. The first one is related to the R square value, which is still relatively low. Therefore, future researchers should consider other variables influencing the sustainability report to produce a more significant effect. The second one is to choose research objects with more specific sectors because the assessment of the quality of sustainability reports cannot be generalized to all company sectors. Lastly, consider the COVID-19 pandemic as one potentially impacting the research variables.

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