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THE IMPACT OF FINANCIAL PERFORMANCE AND BOARD DIVERSITY ON SUSTAINABILITY REPORT DISCLOSURE

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ABSTRACT
The purpose of this research is to analyze how financial performance and board diversity affect the disclosure of sustainability reports. This study collects samples through purposive sampling technique. A total of 125 samples data were taken from companies in Indonesia that were included in Bursa Efek Indonesia, for six consecutive years, which disclosed sustainability reports. The year under study is the latest and closest year, 2017-2022. Disclosure of sustainability reports will use the GRI Standards 2016 with total assessment of 77 items, each item listed will be given a value of one. Financial performance proxied by return on assets, return on equity and Tobin's q. Board diversity is proxied by board gender, board independent and board education. The result showed that financial performance, board gender, board independent has significant positive effect on sustainability report disclosure. Board education has no effect on sustainability report disclosure. The research findings good financial performance indicates that management is good at managing the company and is responsible to stakeholders; this has an impact on sustainability disclosure. Existence and representation of women in the leadership of a company can be one of the drivers of companies to be more concerned with voluntary disclosures and larger independent board commissioners represents that their role to lead the strategy and policies related to sustainability issues. Meanwhile, diversity of educational background is unable to encourage management on better perspective to social and environmental concerns.

KEY WORDS
Profitability, board diversity, gender, education, sustainability report.

Environmental conditions are currently an increasingly important topic in the wider community, such as environmental damage ranging from deforestation, air and water pollution to climate change (Rahma et al., 2020). In the business world, the activities of companies engaged in utilizing natural resources, both directly and indirectly, will impact the environment due to the company's operational activities. The company's lack of responsibility for social and environmental conditions will raise awareness and awareness of the importance of maintaining environmental and social sustainability. Increasing concern for environmental issues and ecosystem preservation, sustainability reporting is becoming increasingly important for both developed and developing economies, thus sparking interest in the literature (Girón et al., 2021). Through sustainability reports, companies disclose information about the economic, environmental and social impacts generated by their activities. Companies are required to participate in realizing sustainable development, but the level of sustainability reporting in Indonesia is still deficient (Astuti& Harisa, 2019; Dayan, 2020; Farhana & Adelina, 2019; Shofiyah, 2021). Companies listed on the Indonesia Stock Exchange until 2022, do not all disclose sustainability reports. The company with the lowest percentage of participation is only 38% in technology companies and the highest but not 100%, amounting to 82% in mining companies.

The sustainability report is one of the main media for managers to convey and disseminate information on sustainability activities to all stakeholders (Shofiyah, 2021). Through sustainability reports, companies expand their attention to the welfare of society and the environment, not just pursuing financial profits. Disclosure of sustainability reports is the company's responsibility to its environment, social care by not ignoring its capabilities (Farha et al., 2020). The company's ability can be seen from the financial performance that describes the financial condition and welfare in a certain period, one of which is profitability. Profitability is the company's ability to generate profits to increase shareholder value. This is in accordance with stakeholder theory, which states the concept of corporate social responsibility, where stakeholders influence the company's survival.

Sustainability issues need to be considered by companies and discussed at the board level as they play an essential role in determining the company's sustainability responsibilities and strategies (Rashid & Barokah, 2022). A higher percentage of female boards in a company's management structure is positively associated with sustainability reporting (Anazonwu et al., 2018; Farida, 2019 and Girón et al., 2021). Female board members play an essential role in driving sustainability performance and gender diversity can have a direct and measurable effect on corporate sustainability practices. Not separated from its role, a large independent board of commissioners will increase the disclosure of sustainability reports. According Juwita & Honggowati (2022), Rukmana et al. (2022), Bejiet al. (2021), Damanik & Dewayanto (2021), Issa et al. (2022), Katmon et al. (2017), and Peng et al. (2021) state that the diversity of the educational background of the board of commissioners influences the disclosure of sustainability reports. A diverse educational background can increase creativity and innovation in solving complex problems.

Previous research shows inconsistent results in measuring financial performance and board diversity on sustainability reports. Conflicting results on the effect of financial performance on sustainability report disclosure by Putri& Pramudiati (2019), Saripudin & Hakim (2021), Shofiyah (2021) and Tobing et al. (2019) stated that the results had a significant effect. Meanwhile, research by Damayanti& Hardiningsih (2021), Hidayah et al. (2021), Muallifin & Priyadi (2016), Rakhman (2017), Wicaksono & Septiani (2020) state results that have no significant effect. Previous research also used limited proxies in measuring board diversity, including board gender proxies conducted by Anazonwu et al. (2018), Euginia (2022), Farida (2019), and Girón et al. (2021). Another proxy is board independent, conducted by Jamil et al. (2021). In addition, this research is interesting because Indonesia does not yet require sustainability reports for public companies listed on the Indonesia Stock Exchange. Still, an Asia-wide award ceremony has been held since 2018 till now, namely the Asia Sustainability Reporting Rating (ASRRAT) by the National Centre for Corporate Reporting.

This study intends to fill the gap in previous research that only examines financial performance from profitability alone. In addition, companies that disclose sustainability reports voluntarily require more effort in financial commitment and human resources than only disclosing annual report information. This study expands by measuring financial performance with return on assets, return on equity, Tobin's Q, and board diversity with board education. The importance of educational diversity is a significant source of board understanding and stakeholder demands to improve the quality of sustainability reporting in decision-making strategically. This research elaborates on the measurement of financial performance and board diversity. Thus, it can provide a comprehensive picture of financial performance and the role of board structure in disclosing sustainability reports.

LITERATURE REVIEW

The perspective of Jensen & Meckling (1976)’s agency theory is the existence of a contract or agreement between managers as agents and investors as principals. Agency theory bases the contractual relationship between members in the company, where the principal and agent are the main actors (Wardani& Januarti, 2013). Sustainability reports prepared by the GRI framework are essential in reducing information asymmetry between managers and stakeholders (Kuzey & Uyar, 2017; Orazalin & Mahmood, 2020). Agency theory is applied to reduce information asymmetry and agency costs incurred between agents and principals and establish an information balance. The impact of corporate activities and social and environmental management that are not applicable regulations can also cause problems and harm the surrounding community, disclosing sustainability reports as a form of corporate responsibility for environmental management.

Stakeholder theory, coined by Freeman (1984), says that stakeholders in an organization are a group or person who can influence or be influenced by the achievement of the goals of an organization or company. The activities carried out by the company aim to contribute and fulfil the wishes of stakeholders as a form of responsibility by disclosing information about financial and non-financial performance. The more powerful the stakeholders, the greater the company's efforts to adapt (Bangun et al., 2016). Based on stakeholder theory, the company's survival depends on stakeholder support. This support must be sought so that the company's activity is to seek this support by disclosing sustainability reports.

According to Spence (1974), signalling theory is a signal giving a signal to the sender (owned information) who tries to provide more extensive and relevant information that the recipient can utilize. The intended sender of information is company management, while the recipients of information are stakeholders. In other words, companies try to improve their disclosure practices to send signals to stakeholders through sustainability reports.

The stakeholder theory perspective states that the company's efforts in disclosing sustainable reports are a medium of communication with stakeholders (Wicaksono & Septiani, 2020). Its function is maintaining a harmonious relationship between the company and its stakeholders. Meanwhile, the signalling theory perspective states that companies with good financial performance tend to disclose more information through sustainability reports as a positive signal, which means good news for stakeholders. This argument is supported by the results of research by Jamil et al., (2021), Orazalin & Mahmood (2020), Putri& Pramudiati (2019), Shofiyah (2021), Saripudin & Hakim (2021), Tobing et al. (2019) which states that profitability has a positive influence on sustainability report disclosure. This condition is because companies with high profits will disclose more sustainability information. Thus, the higher the level of financial performance of the company, the higher the disclosure of sustainability reports because the level of profit obtained by the company influences the company to disclose sustainability information transparently and more broadly, especially for the benefit of stakeholders. Based on the above arguments, the hypothesis proposed in this study is as follows.

H_1: Financial performance has a positive effect on sustainability report disclosure.

The link between female boards and sustainability report disclosure is explained in agency theory. The existence of a female board of commissioners will increase the independence of the board of commissioners, reducing agency costs and, as a result, will affect the increase in firm value. Related to sustainability reporting intended to increase management supervision, companies that disclose sustainability reports are considered socially responsible. This situation will be able to improve the relationship between the company and stakeholders and ultimately reduce agency problems. Research shows a positive relationship between board gender and sustainability report disclosure (Anazonwu et al., 2018; Farida, 2019; Girón et al., 2021; Rashid & Barokah, 2022). This is because the supervision carried out by the female board of commissioners is more thorough and careful in making decisions and more to avoid decisions. Thus, the higher the proportion of female commissioners (board gender), the disclosure of sustainability reports will increase periodically. Due to the critical role of women in the company, they will respond well and effectively to sustainability reporting. Based on the above arguments, the hypothesis proposed in this study is as follows.

H_2: Board gender has a positive effect on sustainability report disclosure.

Research showing a positive relationship between board independent and sustainability report disclosure was conducted by (Putri& Pramudiati (2019), Euginia (2022) and Anazonwu et al. (2018). This condition is because the characteristics of the independent board of commissioners have an important role in supervising management to disclose sustainability reports. Thus, the greater the number of independent board members, the easier it will be to control and oversee management more effectively. Associated with the disclosure of sustainability reports, the pressure on management will also be greater to disclose them. Based on the above arguments, the hypothesis proposed in this study is as follows.

H_3: Board independent has a positive effect on sustainability report disclosure.

The relationship between board education and sustainability report disclosure is explained in agency theory. A board of commissioners with a high educational background can provide a good understanding of management, conduct careful supervision, and make effective decisions. This condition is what can parse information asymmetry because the board of commissioners has good quality. Research that shows a positive relationship between board education and sustainability report disclosure by Bejiet al. (2021), Damanik & Dewayanto (2021), Issa et al. (2022), Katmon et al. (2017), Peng et al. (2021), Rukmana et al. (2022). This condition is because educational diversity is essential for corporate sustainability, which will encourage better sustainability disclosure. Thus, the proportion of the board of commissioners with high educational diversity will disclose more extensive information through sustainability reports. This condition is because a board of commissioners with diverse education will produce better performance. Based on the above arguments, the hypothesis proposed in this study is as follows.

H_4: Board education has a positive effect on sustainability report disclosure.

In accordance with the formulation of the hypothesis, the conceptual framework of this study is as follows:

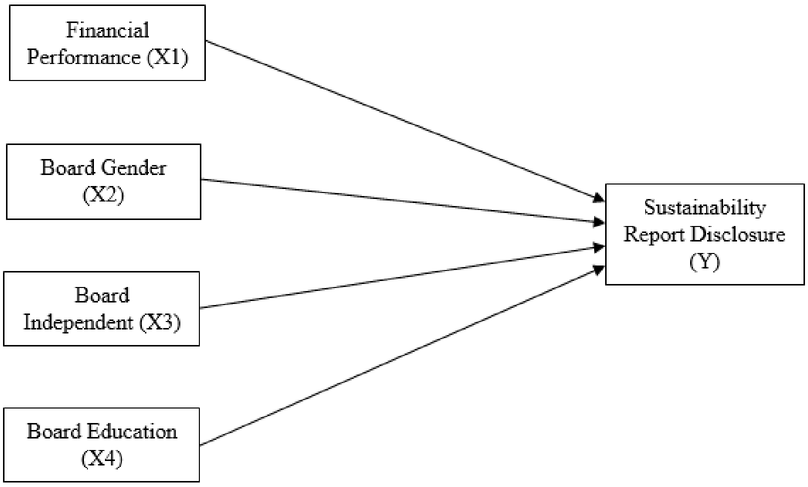

Figure 1 – Research Conceptual Framework

METHODS OF RESEARCH

The population in this study were all public companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022, namely 842 companies. The sampling technique for this study was carried out using a purposive sampling technique. The samples used in this study were 125 from 29 companies. The proportion of the highest percentage of research samples in financial sector companies is 24.14%, and the lowest is in properties and real estate and financial sector companies of 3.45% each. Secondary data is taken from each company's website in the form of financial, annual, and sustainability reports consistently from 2017-2022. The data is processed using the Chow test, and Hausman test by selecting the regression model estimation method using panel data can be done through three approaches, namely the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). Sustainability report disclosure is a dependent variable measured using indicators of Global Reporting Initiatives (GRI) 2016. Sustainability report disclosure is measured by the number of disclosure items fulfilled divided by the maximum number of item scores (77 items) (Alit Ariawan & Budiasih, 2020; Alviorizka & Supratiwi, 2021; Heryanto & Juliarto, 2017; Maryantiet al., 2022).

Financial report as an independent variable is proxied by ROA, ROE, and TQ. ROA is measured by profit after tax divided by total assets owned by the company (Damayanti& Hardiningsih, 2021; Hidayah et al., 2021; Kiswanto et al., 2020; Muallifin & Priyadi, 2016; Putri& Pramudiati, 2019; Saripudin & Hakim, 2021; Wicaksono & Septiani, 2020). ROEis measured by net profit after tax divided by total equity owned by the company (Shofiyah, 2021). TQ is measured by the market value of equity plus total debt and divided by total assets (Girón et al., 2021; Muallifin & Priyadi, 2016). Board diversity as an independent variable is proxied by board gender, board independent, and board education. Board gender was measured by the number of female board commissioners by total board members (Anazonwu et al., 2018; Farida, 2019; Girón et al., 2021; Rao & Tilt, 2016), while board independence was measured by the number of independent board members divided by all board members (Girón et al., 2021; Rao & Tilt, 2016; Saripudin & Hakim, 2021; Tobing et al., 2019). Board education was measured by the number of commissioners with educational backgrounds in accounting, business, finance, management, economics, law, and engineering divided by the total number of commissioners (Kagzi& Guha, 2018; Katmon et al., 2017; Khan et al., 2019; Alviorizka & Supratiwi, 2021).

RESULTS AND DISCUSSION

The results of descriptive statistics are presented in table 1 below. Based on descriptive statistics can be seen that the average value of sustainability report disclosure (SRD) is 0.3672 which relatively indicates the low disclosure index of SR. It means that sustainability report disclosure index is relatively low in the public firms in Indonesia. Financial performance (FP) proxied by ROA, ROE and TQ has average of each 0,0459, 0,1152 and 1,4529. Board gender (BG) has an average of 0,1872, which indicates the number of women in a number of board commissioner is relatively low or 1 person for each company. The proportion of independent board commissioners (BS) showed an average of 0,4509 or 45,09 % of board of commissioners in board member are independent board, which meets the Indonesia capital market requirements which requires at least 30 % of board of commissioners should be an independent commissioner. Average board education is 0,8163 or 81,63% which indicates almost entirely of board members have educational backgrounds in accounting, business, finance, management, economics, law and engineering.

Table 1 – Descriptive Statistics

Description	SRD	ROA	ROE	TQ	BG	BS	BE
Mean	0,3672	0,0459	0,1152	1,4529	0,1872	0,4509	0,8163
Median	0,3247	0,0258	0,0896	0,9993	0,1667	0,4286	0,8333
Maximum	0,9221	0,4500	1,4020	1,6263	0,5000	0,8333	1,0000
Minimum	0,0519	-0,5803	-1,2746	0,5312	0,0909	0,2857	0,2000
Std. Dev.	0,1927	0,1097	0,3047	2,1132	0,0751	0,1317	0,1749
Observations	125	125	125	125	125	125	125

Before conducting regression analysis, firstly tested model selection. The test result showed that for chow test is p value< 0.05, then fixed effect model selected for this test. The next stage for Hausman test is p value< 0.05 then fixed effect model selected for this test. Conclusion for model selection analysis is fixed effect model. Secondly, tested the model assumption for the results obtained are not biased; consists of normality test, multicollinearity and heteroscedasticity test. The test result showed that all independent variable has p value< 0.9, so that all of independent variables are non multicollinearity.

Based on the result of regression analysis can be seen in table 2, goodness of fit model is indicated by Adjusted R-Squared value of 0,5556 or 55,56%; which means that the variance of sustainability report disclosure (SRD) is affected by financial performance proxied by ROA, ROE and TQ, board independent variable (board gender, board independent and board education) of 55,56%. Result of hypothesis testing showed that the financial performance proxied by ROA and ROE has significantly positive effect on sustainability report disclosure, while TQ has no influence on it. Board gender and board size consistently significantly positive effect on sustainability report disclosure can be seen in formula 1, 2 and 3. Meanwhile the board education has no effect on sustainability report disclosure. These findings indicate that only hypothesis 4 is not supported, while hypothesis 1, 2 and 3 are supported. The following is a discussion of research findings.

Table 2 – Result of Regression (Fixed Effect Model)

Variable	ROA	ROE	TQ
C	-0,3218	-0,2403	-0,1715
	-0,0417	-0,1237	-0,2944
FP	0,549	0,2116	-0,0268
	(0,0033)**	(0,0166)**	-0,2311
BG	0,7899	0,834	0,7874
	(0,0015)**	(0,0010)**	(0,0028)**
BS	0,9537	0,8029	0,7406
	(0,0001)**	(0,0006)**	(0,0017)**
BE	0,1052	0,0796	0,118
	-0,3932	-0,5265	-0,3586
R-*squared*	0,6703	0,6597	0,6433
Adjusted R-squared	0,5556	0,5413	0,5192
F-*statistic*	5,8437	5,5731	5,1847
Prob (F-*statistic*)	0,0000	0,0000	0,0000

*Statistically significant: *=10%, **=5%, ***=1%.*

The results showed that financial performance using ROA and ROE proxies positively and significantly affected sustainability report disclosure. Profitable companies can disseminate more information about sustainability performance to enhance a strong corporate image and a positive impression among stakeholders (Orazalin & Mahmood, 2020). his indicates that companies with funds with a high level of financial performance show a high level of disclosure of sustainability reports. This is a form of management responsibility to stakeholders regarding the company's sustainability through sustainability reports. This can be seen from the descriptive analysis test that the average ROA and ROE values are 10.55% and 11.52%, which means that the company has good financial performance. Stakeholder theory aligns with this research, where companies with high financial performance can increase the disclosure of sustainability information. The results of this study are also in line with signalling theory, where companies provide signals of good financial performance to stakeholders, namely by disclosing more extensive information about the economy, environment, and social in sustainability reports. The results of this study are consistent with research conducted by Jamil et al., (2021), Orazalin & Mahmood (2020), Putri& Pramudiati (2019), Shofiyah (2021), Saripudin & Hakim (2021), Tobing et al. (2019) and contrary to research conducted by Damayanti& Hardiningsih (2021), Hidayah et al. (2021), Muallifin & Priyadi (2016), Rakhman (2017), Wicaksono & Septiani (2020). Good financial performance indicates that management is good at managing the company and is responsible for stakeholders. This has an impact on sustainability disclosure.

The results of financial performance research using the TQ proxy state that it has no positive and insignificant effect on sustainability report disclosure. Financial performance using the TQ proxy is inversely proportional to the results of financial performance research using ROA and ROE proxies. This condition shows that the high and low value of TQ does not indicate how good a company's financial performance is. This condition shows that the high and low value of TQ does not indicate how good a company's financial performance is. This shows that the company's market conditions do not affect or denote the level of disclosure of sustainability reports. Investors do not make market performance the primary focus for making investment decisions. This condition is due to the low sustainability report disclosure of the company, making it difficult for stakeholders to obtain the required corporate sustainability information (Muallifin & Priyadi, 2016). It can be seen from the descriptive analysis test that the average TQ value is 1.4529, while the average sustainability report disclosure value is 36.72% and still below 50%. Stakeholder theory is different from the results of this study, where companies with high or low levels of market performance do not affect the disclosure of sustainability information in sustainability reports. The results of this study are also not in line with signaling theory, where market performance is not a signal of good financial performance to stakeholders. Instead, stakeholders are interested in counting performance (ROA and ROE). This condition also affects companies disclosing economic, environmental, and social information in sustainability reports. The results of this study are consistent with research conducted by Damayanti& Hardiningsih (2021), Hidayah et al. (2021), Muallifin & Priyadi (2016), Rakhman (2017), Wicaksono & Septiani (2020) and contrary to research conducted by Jamil et al., (2021), Orazalin & Mahmood (2020), Putri& Pramudiati (2019), Shofiyah (2021), Saripudin & Hakim (2021), Tobing et al. (2019). Market performance is not investors' main focus, and sustainability reports have yet to receive appreciation or attention from investors in making investment decisions.

The results showed that board gender has a positive and significant effect on sustainability report disclosure, meaning that the greater the number of women on the board of commissioners, the higher the disclosure of sustainability reports. The proportion of female board commissioners shows that the role of women in the board of commissioners is recognized and successful so that company management is motivated to disclose open information through sustainability reports. This condition can be seen from the proportion of high female board commissioners followed by more extensive disclosure of sustainability reports. Following the descriptive analysis, the average value of board gender is 18.72%. Agency theory is in line with this research, where companies with many board commissioners can increase company awareness to disclose sustainability reports. The results of this study arein line with research conducted by Anazonwu et al. (2018), Farida (2019), Girón et al. (2021) and Rashid & Barokah (2022), but not in line with Euginia (2022). The existence, amount, and representation of women in a company's leadership can be one of the drivers of companies to be more concerned with voluntary disclosures so that it can positively impact sustainability report disclosure.

The results showed that board independent positively and significantly affects sustainability report disclosure. The existence of an independent board of commissioners has a significant impact on sustainability report disclosure. This condition can be seen from the descriptive test analysis results that the independent board's average value is 45.09%. In line with agency theory, companies with a higher number of independent commissioners will disclose high sustainability information as well, due to the encouragement given by the independent board of commissioners to company management. The results of this study are also in line with research conducted by Putri& Pramudiati (2019), Euginia (2022) and Anazonwu et al. (2018), and contrary to the study of Hidayah et al. (2021), Jamil et al. (2021), Saripudin & Hakim (2021), and Tobing et al. (2019). The larger independent board commissioners represent that their role is to lead the strategy and policies related to sustainability issues so it can improve sustainability report disclosure.

The results showed that board education has a negative and insignificant effect on sustainability report disclosure. The board of commissioners with diverse educational backgrounds does not impact sustainability report disclosure. This condition can be seen from the results of the descriptive test analysis that the average value of board education is 81.63%. Agency theory is not in line with the results of the study. Companies that have some commissioners with a variety of educational backgrounds will reduce the information disclosed by the company because the more diverse the educational background of the board of commissioners, the more irrelevant it is to the decision-making and unable to encourage management to have a good perspective on social and environmental issues. The results of this study are also in line with research conducted by Khan et al. (2019) and contrary to research conducted by Bejiet al. (2021), Damanik & Dewayanto (2021), Issa et al. (2022), Katmon et al. (2017), Peng et al. (2021), Rukmana et al. (2022). Diversity of educational background cannot encourage management to have a better perspective on social and environmental concerns, so the number of commissioners with diverse educational backgrounds does not affect the disclosure of sustainability reports.

RESEARCH IMPLICATIONS

The results of this study support the stakeholder theory relating to the disclosure of sustainability reports. This theory proves that good financial performance indicates good management performance, so it is disclosed through sustainability reports as a form of corporate responsibility. Signaling theory, in line with the results of this study, states that good financial performance is considered a signal to stakeholders and can encourage management to disclose sustainability information, thereby influencing investment decision-making decisions for stakeholders. The role of the diversity of the board of commissioners in the disclosure of sustainability reports supports the agency theory that management is an agent and the owner is a principal who has a conflict of interest. For this reason, the need for disclosure of sustainability reports as corporate responsibility in solving agency problems reduces information asymmetry and increases transparency.

The research results provide insight into company management. This condition shows that the company's awareness to disclose sustainability information is a form of responsibility in managing the resources owned by the company determining the direction of policies and strategies through sustainability reports. For the board of commissioners, sustainability information is crucial for the company's sustainability, where the board of commissioners acts as a supervisor while providing instructions to management to determine long-term strategies through sustainability reports. For investors, the information in the sustainability report is essential to note and review. Due to the less information disclosed by the company, investors will think twice in making investment decisions. The results of this study also provide input to the community that the impact offered by company operations directly affects society both socially and environmentally, so that the community must demand the rights that should be obtained.

Evaluation for companies that cause social and environmental impacts related to the Financial Services Authority Regulation Number 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies in encouraging sustainability practices requires public companies to disclose sustainability reports.

CONCLUSION

This study aims to analyze financial performance and board diversity's role in sustainability report disclosure in companies listed on the Indonesia Stock Exchange for 2017-2022. Financial performance has a positive and significant effect on sustainability report disclosure using the return on assets and return on equity proxies. This condition is because companies in good financial situations or high levels of financial performance are a positive signal for stakeholders and disclose sustainability reports as a form of corporate responsibility. Board gender has a positive and significant effect on sustainability report disclosure, meaning that the existence of a female board of commissioners can overcome agency problems with its advantages in overseeing company management and providing encouragement to disclose social and environmental information. Board independence positively and significantly affects sustainability report disclosure, meaning that many independent commissioners will encourage management to disclose sustainability reports. Board education has a negative and insignificant effect on sustainability report disclosure. This condition is because the board of commissioners with educational backgrounds in accounting, business, finance, management, economics, law, and engineering make it less effective in terms of decision-making to disclose sustainability information.

This research has several limitations. The sample of companies used in this study is the entire public company sector listed on the Indonesia Stock Exchange, so it does not focus on companies that are the core problem of environmental and social impacts. The board gender variable proxied by the number of female commissioners to the total board of commissioners but did not use a sample with no female commissioners, so the research results did not see the difference between the absence of a female board of commissioners and the presence of a female board of commissioners. Instead, it is seen from the number of female commissioners even though it has one female commissioner. When processing data using e-views software, samples with a value of 0 can affect or damage other variables, so it is not successful when running data.

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