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THE INFLUENCE OF CORPORATE GOVERNANCE ON SUSTAINABILITY REPORTING OF INSURANCE COMPANIES REGISTERED ON THE IDX

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ABSTRACT

In the contemporary business landscape, prioritizing sustainability is not merely an ethical choice but a strategic imperative for companies seeking long-term viability. Recognizing the multifaceted nature of sustainability, companies engage in sustainability reporting to address the concerns of various stakeholders and to secure their sustained success. This study, conducted over the period 2015-2021, focused on 15 insurance companies, employing a quantitative methodology with purposive sampling. Sustainability reporting, represented by dummy variables, served as the dependent variable, while corporate governance factors such as independent commissioners, gender diversity among commissioners, audit quality, and institutional ownership constituted the independent variables. The empirical analysis, executed using SPSS version 25, yielded nuanced findings. Firstly, the presence of independent commissioners within insurance companies did not exhibit a statistically significant impact on sustainability reporting. Conversely, the inclusion of female independent commissioners displayed a positive correlation with enhanced sustainability reporting. Additionally, the study found that being audited by KAP BIG 4 had no discernible influence on sustainability reporting. However, institutional ownership emerged as a factor significantly affecting sustainability reporting within insurance companies. These research insights contribute to the evolving discourse on corporate sustainability and offer valuable guidance for companies navigating the complex intersection of financial performance and environmental, social, and governance considerations.

Keywords: *corporate governance, sustainability, insurance*

INTRODUCTION

Companies expand their actions beyond simple profit maximization goals, by implementing commitments to social, and environmental issues and corporate governance (Giannarakis et al., 2014). Concerns regarding CSR practices and corporate sustainability are increasing with the need to expand corporate transparency and accountability. Therefore, companies are increasingly required to carry out activities beyond just financial aspects, including reporting on various non-financial dimensions that influence the value-creation process. In particular, environmental, social, and governance (ESG) information is very important to meet the expectations of various stakeholders regarding corporate sustainability (Tamimi & Sebastianelli, 2017).

ESG disclosure practices among companies still vary, there are differences between countries and companies(Qureshi et al., 2020). Previous literature argues that corporate governance mechanisms, through certain board composition, play a role in influencing non-financial disclosure practices. Arayssi et al. (2020). Gender diversity on the board, in the proportion of women, is considered to play an important role in increasing ESG disclosure (Arayssi, M., Jizi, M. and Tabaja, H.H. (2020)

According to resource dependency theory, the presence of women provides heterogeneous skills, competencies, experiences, professionals, leadership styles, knowledge, and opinions

(Venturelli et al., 2019). Institutional experts have argued that the relationship between corporate governance and sustainability reporting not only differs in terms of company-level characteristics but can be influenced by country-level differences related to culture, corporate governance, corporate sustainability, and institutional and legal differences (Young & Thyil, 2014).

Therefore, the effectiveness of corporate governance mechanisms depends on the institutional characteristics of each country (Aguilera et al., 2008). Our research tries to examine the influence between different corporate governance variables and sustainability reporting in insurance companies in Indonesia. Business organizations have a significant impact on society through their activities. Therefore, nowadays, companies are adopting CSR strategies and carrying out various CSR-related activities to ensure sustainable business practices.

CSR strategies help companies create a balance between social and economic goals and efficient use of limited resources. CSR considers the interests of all stakeholders, not just business interests but being competitive in the market (Mittal et al., 2008). A company can position itself as a responsible corporation, differentiate itself from competitors, and achieve competitive advantage (Porter & Kramer, 2006; G. Smith, 2007; N. C. Smith, 2003; W. Smith & Higgins, 2000), the company does not only carry out its social and environmental responsibilities. but can also communicate superior socio-environmental performance to relevant stakeholders. In this case, stakeholders are very important for business success and increasingly care about the company's social and environmental performance (Hossain & Alam, 2016). Regarding sustainability reporting, previous studies mostly focused on non-financial companies and ignored the financial sector; and in particular, insurance companies.

In contrast to manufacturing companies, the socio-environmental impact of the insurance business may not be visible due to its indirect and intermediary activities. By accepting the risk of loss, insurance companies greatly support individuals, other businesses, and society at large (Greenbaum and Thakor, 2007). Scott (2004) argues that insurance companies consider social, ethical, and environmental conditions in selling their products and making investments. Insurance companies also have a major impact on society (by eradicating poverty and inequality) through their core activities and social performance. Insurance companies have a special social role as managers of medium and long-term risks according to the life cycle of individuals and society. Insurance companies, especially life insurance companies, promote sustainability and social welfare through their medium and long-term products (Atchinson, 2004).

Through an active monitoring role, insurance companies encourage other companies to implement good and socially responsible corporate governance practices (Marsiglia & Falautano, 2005; Scholtens, 2011). By accepting the risk of loss, insurance companies support individuals and businesses to carry out their activities smoothly. Therefore, the CSR of insurance companies is very important to encourage social solidarity and inclusive growth.

(Akinlabi, 2017) found that insurance companies in Nigeria engage in CSR-related activities through their involvement in community-based projects. (Olowokudejo et al., 2011) revealed that consumer affairs receive the greatest attention from insurance companies.

Previous research shows that a company's corporate governance can influence CSR practices which are part of a company's sustainability reporting (Haniffa & Cooke, 2005; Khan

& Instruction, 1997). However, none of these studies have explored the influence of corporate governance and sustainability reporting in insurance companies. Like other business organizations, corporate governance is also important for insurance companies. A company's corporate governance plays an important role in adopting and implementing CSR strategies in insurance companies. Insurance companies with good corporate governance will most likely uphold the interests of all stakeholders, including shareholders, policyholders, and the general public.

Good corporate governance encourages sustainability reporting. Therefore, this research seeks to address the gap in the sustainability reporting literature by exploring the influence of corporate governance, namely independent commissioners, gender of female commissioners, audit quality, and institutional ownership using data from insurance companies listed on the IDX. The results of our research, based on the latest data from insurance companies in Indonesia, show that there is no significant influence between independent commissioners and sustainability reporting.

Independent commissioners are usually expected to represent the interests of all stakeholders. They can put pressure on insurance companies to become more involved in social activities and disclose this to ensure the company's legitimacy. However, what is happening in a company has not contributed optimally to the company's sustainability reporting. The research results found that the gender of female commissioners has a positive influence on sustainability reporting, which shows that insurance boards with gender diversification are more responsible to stakeholders (Amis et al., 2018).

This study makes several contributions. In contrast to previous research on sustainability reporting in insurance companies, which was mostly qualitative in nature, this research provides empirical evidence regarding sustainability reporting using archival data. Although previous corporate governance and corporate sustainability reporting studies have mainly focused on non-financial companies, in our research we emphasize the financial sector; and in particular, insurance companies. Empirical evidence from research results shows that in non-financial companies, corporate governance attributes such as institutional ownership and the gender of female commissioners are important factors in sustainability reporting by insurance companies (Nurrahman & Sudarno, 2013; Zahra & Stanton, 1988).

Overall, this research helps increase the level of understanding regarding the importance of corporate governance and sustainability reporting in Indonesian insurance companies. Burke et al. (2019) show that board commitment is positively related to corporate social performance. Brammer et al. (2012) investigated the relationship between companies' corporate governance practices and environmental disclosure, while Zhang et al. (2013) added social disclosure. Therefore, insurance companies must pay more attention to good corporate governance practices as part of insurance company operations, for the benefit of all stakeholders and the continuity of the insurance company's business. There are values, behaviors, and actions that support the creation of compliance with applicable laws and regulations. From the description of the background to the problem above, the researcher conducted research with the title "The influence of corporate governance on sustainability reporting in insurance companies listed on the IDX"

METHOD

This research uses quantitative methods using data in the form of numbers as a tool to analyze and obtain information about what you want to know. Research variables to carry out relevant analysis in this study, three independent variables: independent commissioner, gender of the independent commissioner, and institutional ownership which is proxied by the percentage of institutional ownership. The dependent variable in this research is sustainability reporting which uses a dummy variable, measurement is carried out by giving a value of 1 for companies that carry out and disclose sustainability reporting and 0 for companies that do not carry out and do not disclose sustainability reporting.

The control variables in this research use company size and leverage to control the number of samples in the study. The population used in this research are insurance companies listed on the Indonesia Stock Exchange (BEI) from 2015-2021. The sample determination method uses a purposive sampling method. Data on the number of companies listed on the IDX in the insurance industry sector is 15 companies. There are 94 sample data from annual financial reports which will be the source of research data. In this research, the analysis technique uses the multiple linear regression method to see the influence of each variable.

RESULTS AND DISCUSSION

Based on the results of research conducted on 15 insurance companies. Corporate governance is based on independent commissioners, female gender commissioners, institutional ownership, and sustainability reporting

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
independent_commissioner	94	25.00	75.00	56.1170	12.53284
institutional_ownership	94	20.57	96.43	65.5789	21.01820
company_size	94	7.20	12.69	10.8495	1.44002
leverage	94	.17	4.93	1.5779	.91371
Valid N (listwise)	94				

Source: Processed data

variable	dummy	sample
commissioner gender	1	26
	0	68
audit quality	1	17
	0	77
sustainability reporting	1	17
	0	77

Based on the results of descriptive statistical tests in Table 4.1 above, it can be seen that the descriptive data of independent commissioners, female gender commissioners, audit quality, institutional ownership, sustainability reporting, company size, and leverage has a sample size (N) of 94 in this study.

Logistic Regression Analysis Test

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	independent_commissioner	.041	.031	1.793	1	.181	1.042	.981	1.107
	KAP	-.451	1.024	.194	1	.660	.637	.086	4.741
	institutional_ownership	.057	.025	5.420	1	.020	1.059	1.009	1.111
	gender_female	1.748	.683	6.555	1	.010	5.742	1.507	21.882
	company_size	.532	.301	3.123	1	.077	1.702	.944	3.068
	leverage	.163	.324	.253	1	.615	1.177	.624	2.221
	Constant	-14.536	5.191	7.840	1	.005	.000		

a. Variable(s) entered on step 1: independent_commissioner, KAP, institutional_ownership, female_gender, company_size, leverage.

Source: Processed data

The results of the regression coefficient on the influence of independent commissioners on sustainability reporting show a value of 0.041 and a value of sig. amounting to 0.181 > 0.05, thus it is concluded that independent commissioners do not have a significant influence on sustainability reporting. This research is in line with research by Michelon & Parbonetti (2012), and Allegrini & Greco (2013) concluded that independent commissioners do not have a significant influence on sustainability reporting.

The results of the regression coefficient on the influence of gender on sustainability reporting show a value of 1.748 and a value of sig. amounting to 0.010 < 0.05, thus it is concluded that gender has a significant effect on sustainability reporting. The results of this research are consistent with research by Al-Shaer & Zaman (2016); and Bravo & Reguera-Alvarado, (2019) who argue that female board members have different criteria and ethics compared to men, who are considered to apply a more caring approach, therefore will be more interested and provide better transparency regarding sustainability issues.

The results of the regression coefficient on the influence of audit quality on sustainability reporting show a value of -0.451 and a value of sig. amounting to 0.660 > 0.05, it is concluded that audit quality does not have a significant effect on sustainability reporting

The results of the regression coefficient on the influence of institutional ownership on sustainability reporting show a value of 0.057 and a sig. amounting to 0.020 < 0.05, thus it is concluded that institutional ownership has a significant effect on sustainability reporting. This research is in line with research by Zhou (2019) documenting that institutional share ownership is positively related to corporate sustainability reporting.

CONCLUSION

From the results of this research, it can be concluded that the first hypothesis, which states that insurance companies with independent commissioners do not affect sustainability reporting, must be rejected. However, the second hypothesis was proven correct, showing that the presence of female commissioners in insurance companies has a positive impact on sustainability reporting. Surprisingly, the third hypothesis which states that audit quality from Big 4 KAPs does not influence sustainability reporting must also be rejected. However, the interesting result is that the fourth hypothesis, which states that institutional ownership influences sustainability reporting, turns out to be true. Thus, these findings provide valuable insights for insurance companies in managing the sustainability of their business, emphasizing the importance of involving female commissioners and paying attention to institutional ownership as key factors that can strengthen their sustainability reporting.

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