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Corporate Governance and Sustainability in Indonesia: The Moderating Role of Institutional Ownership

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Abstract
Research purposes: This paper aims to empirically investigate the impact of corporate governance on sustainability disclosure in Indonesia and explore whether institutional ownership moderates the relationship between corporate governance and firm performance.
Methods: This study uses panel data, and Generalized Least Square (GLS) regression models to test the hypothesized relationships. This study covers 2014 to 2020 for 45 listed Indonesian firms with 292 observations in the consumer goods sector on Indonesia Stock Exchange (IDX).
Results: The results revealed that corporate governance positively influences sustainability disclosure. However, institutional ownership is not moderate this relationship. Further, the robustness model confirmed the relationship between corporate governance and sustainability disclosure.
Novelty: This study is the first that exclusively chose institutional ownership to moderate the relationship between corporate governance and sustainability disclosure from the Indonesian perspective. Such new insights into this relationship provide helpful information to the government, academics, policymakers, and other stakeholders.

Keywords:
Corporate Governance, Indonesia, Institutional ownership, Sustainability Disclosure

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INTRODUCTION

At present, the issue of sustainability is a concern of academics and practitioners around the world. Environmental damage, labor exploitation, gender discrimination, and many other socio-economic problems are the causes of this issue. Be a critical issue and essential to discuss (Salvioni et al., 2016; Bae et al., 2018; Zhang et al., 2020; Hamad et al., 2020). Then, in 2015, countries that are members of the United Nations formulated the Sustainable Development Goals (SDGs) and required their members to apply the principles therein (Tjahjadi et al., 2021). Although maximizing the welfare of shareholders is the primary goal of the company (Boachie, 2021; Suhadak et al., 2020; Ciftci et al., 2019). However, in the SDG era, companies are no longer required to pursue financial gain, but companies must pay attention to community life and environmental sustainability (Shahbaz et al., 2020).

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Sustainability is a long-term vision that characterizes a socially responsible company and refers to global corporate responsibility, including legal, economic, social, and environmental aspects. This approach implies balancing the interests of all those who contribute to the current and future success of the company through the creation of sustainable value that satisfies both shareholders and other stakeholders in the long term (Dahlsrud, 2008; Salvioni et al., 2018). To convey the message of its sustainability activities, the company makes sustainability disclosures (SD) in a report containing economic, environmental, and social activities (Naw aw i et al., 2020; Endiana et al., 2022; Rudyanto, 2021).

In its operational activities, the company is faced with agency problems caused by the separation of powers between owners and management, which creates a conflict of interest (Aldhamari et al., 2020; Rodriguez-Fernandez, 2015; Wahyudin & Solikhah, 2017). In the perspective of agency theory, managers are assumed to prioritize their interests over the interests of shareholders and other stakeholders, which will ultimately affect the disclosure of sustainability (Said et al., 2017; Naciti et al., 2021). Therefore, to solve these problems, good corporate governance (CG) is needed (Hussain et al., 2018; Jamil et al., 2020). Good corporate governance will reduce the possibility of irregularities caused by conflicts of interest. Good corporate governance will establish a system of checks and balances within the company, thereby tightening the monitoring function and suppressing fraud (Shaukat & Trojanowski, 2018; Amanda et al., 2020).

In addition, good corporate governance will increase public confidence and trust (Lin et al., 2020; Aras et al., 2017; Tjahjadi et al., 2021). Conversely, when a company does not have good corporate governance, there will be a failure to communicate with different stakeholders resulting in lower market visibility and higher agency costs (de Villiers et al., 2011; Bae et al., 2018; Aldamen et al., 2020). This is in line with the legitimacy theory, which views that the company will need support from the surrounding community. This reasonable view and support are obtained by the company when it can operate to the demands of society (Khan, 2010; Nguyen & Trinh, 2020; Devie et al., 2020). Thus, sustainability disclosure is very much needed in fulfilling this legitimacy.

Several previous studies on the implementation of corporate governance, such as the board of directors, the percentage of directors with sustainability-related experience, and the greater presence of independent board members in an organization positively affect the practice of sustainability disclosure (Inekwe et al., 2021; Jamil et al., 2021; Colakoglu et al., 2021). On the other hand, control concentration in the groups was also found to have a negative relationship (Correa-Garcia et al., 2020; Dwekat et al., 2020; Zeng, 2020; Worokinasih et al., 2020). In addition, pressure from shareholders, the CEO's education, and family ownership were non-effect on sustainability (Rudyanto & Siregar, 2018; Tjahjadi et al., 2021). The difference in results is due to different measurements, so the analysis is still very open for further investigation. Thus, it is essential to conduct this research to fill the gaps found in previous research. In addition, previous research has weaknesses, such as only measuring SD as a dummy variable (Devie et al., 2020; Rahman, 2015; Correa-Garcia et al., 2020; Bae et al., 2018). This study will explore the CG-SD relationship comprehensively by using measurements that accommodate the weaknesses of previous measurements.

Then, because of the difference in these results, the authors suspect a moderating variable between corporate governance and sustainability disclosure, namely institutional ownership. Institutional ownership plays an important role in the implementation of corporate governance. In addition, the presence of large institutional ownership will generally provide a better level of awareness of sustainability disclosure in a company. This increase in awareness occurs because of a strong interest in gaining public sympathy and encouraging companies to obtain good performance, ultimately benefiting shareholders. Based on the analysis of previous research, it is recommended to consider the ownership structure (Ibrahim & Hanefah, 2016; Kabir & Thai, 2021) and be carried out in the context of other developing countries and different theories (Al Amosh & Khatib, 2021; Zaid et al., 2020). Thus, this research will accommodate the suggestions and development by making institutional ownership a moderating variable.

This study aims to examine the effect of corporate governance on sustainability disclosure in the Indonesian setting, especially in the consumer goods industry sector. Where Indonesia has a unique socio-political side. Then in terms of corporate governance, Indonesia is weak and relatively new to a sound corporate governance system (Laskar & Gopal Maji, 2018; Tanjung, 2020). Furthermore, the disclosure of sustainability separately from the annual report in Indonesia is still voluntary, so it is still limited (Rudyanto & Siregar, 2018). The novelty of this research is that the measuring instrument used uses measurements developed based on ASEAN CG to be more comprehensive because previous studies only measured CG on specific structures. For example, control concentration (Dwekat et al., 2020), board characteristics (Jamil et al., 2021), family ownership (Rudyanto & Siregar, 2018), and CEO's education (Tjahjadi et al., 2021).

Then, an analysis is also carried out on each element of sustainability disclosure, namely economic, social and environmental, so that the analysis will expand the study on previous research. Furthermore, this study also considers the effect of institutional ownership as a moderating variable, which is still very rarely done in previous studies in the context of Indonesian companies. Although institutional ownership does not empirically moderate the CG-SD relationship in the Indonesian context, this finding provides a new insight that shows that there is uniqueness in the Indonesian context. In theory, institutional ownership can increase sustainability disclosure. However, there are certain conditions, such as the number of ownerships that are not too large and the lack of institutional influence on the company in determining the company's strategic decisions. Furthermore, it is suspected that institutional ownership in Indonesia has an insignificant role due to their inability to manage their interests and those of other stakeholders in the company. In addition, it is due to an unsupportive culture and inadequate personnel capacity within the institution.

Theoretically, this research contributes to the development of literature that discusses the relationship between CG-SD by expanding and deepening the analysis of the relationship between the two. Then, practically this research will provide beneficial information for policymakers to encourage companies to implement good corporate governance. For managers, investors, and other stakeholders, the results of this study can be used as a basis for consideration in formulating strategic plans to be taken.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory

Agency theory talks about the potential for irregularities committed by company managers due to conflicts of interest. If it is pulled back, this conflict of interest occurs due to the separation of powers between the owner and manager (Musallam, 2020; Wahyudin & Solikhah, 2017). Therefore, it will cause information asymmetry between the principal and the agent. Information asymmetry is when one party has an information advantage over the other (Fama & Jensen, 1983; Rodriguez-Fernandez, 2015; Devie et al., 2020). When information asymmetry occurs, managers will have more opportunities to take advantage of this information advantage.

Furthermore, agency theory assumes that corporate managers take actions that do not maximize shareholder wealth but instead put their interests first (Jensen and Meckling, 1976; Said et al., 2017; Wahyudin & Solikhah, 2017; Worokinasih et al., 2020). This theory emphasizes that it is essential for shareholders to represent their authority in managing the company to management who have professional expertise and are more understanding in carrying out their business (Worokinasih et al., 2020; Boachie, 2021).

Legitimacy theory

Legitimacy theory holds that companies need community support in the form of legitimacy. Legitimacy is a form of acknowledgment that the community sees the company as good (Khan, 2010; Kouaib et al., 2021). The social contract of the company and the community related to the company's operations must also pay attention to the sustainability of community life and the

preservation of environmental functions (Nguyen & Trinh, 2020; E-Vahdati et al., 2019). In other words, corporate governance and all its activities must be oriented toward the community, the environment, and other stakeholders

Corporate governance and sustainability disclosure

One of the company's challenges in operating is financial issues. As explained by agency theory, managers will tend to prioritize their interests due to the superiority of their information (Jensen and Meckling, 1976). This agency problem will harm all company activities, ultimately impacting its sustainability disclosure (Naciti, 2019). Therefore, to suppress these problems, corporate governance is needed (Tjahjadi et al., 2021). Corporate governance will improve the supervisory function through a system of checks and balances. So that the possibility of managers making deviations can be minimized (Hamad et al., 2020). In addition, corporate governance will increase the effectiveness and efficiency of the company operating to achieve its company goals because the implementation of corporate governance will form a system of direction, control, and supervision that is right on target (Wahyudin & Solikhah, 2017; Hamad et al., 2020). Furthermore, these sustainability activities will gain the community's positive image and legitimacy towards the company. Previous research (Inekwe et al., 2021; Jamil et al., 2020; Ludwig & Sassen, 2022) found that the implementation of CG will bind sustainability disclosure.

H_1: Corporate governance has a positive effect on sustainability disclosure.

Corporate governance, institutional ownership, and sustainability disclosure

As agency theory explains, conflicts of interest that cause high agency costs can be overcome by implementing good corporate governance (Rodriguez-Fernandez, 2015; Chakroun et al., 2020; Aldhamari et al., 2020). However, there are still inconsistencies in the results on the CG-SD. Relationship (Rudyanto & Siregar, 2018; Correa-Garcia et al., 2020) then this study suspects a role for company owners in the relationship between the two. This study highlights that corporate governance practices depend on the firm's ownership structure.

Although basically, the company adopts good corporate governance practices to deal with agency issues for the benefit of the company's stakeholders. However, companies' good governance practices depend on the type of owners (Boachie, 2021). This means that the type of ownership plays a vital role in determining the relationship between corporate governance and sustainability disclosure. Where institutional ownership is one type of ownership in the company. Institutional ownership is seen as a type of ownership that is a strong mitigator in agency problems and has

Table 1. Sample selection criteria

No	Description	Number of Firms
1.	Companies listed on the IDX in the consumer goods sector during 2014-2020 consecutively:	
	2014	42
	2015	43
	2016	42
	2017	41
	2018	46
	2019	46
	2020	43
2.	Companies that do not have complete data related	(11)
	Total Sample Companies for 2014-2020	292

Table 1. Variables definition and measurement

Variable	Measurement
Sustainability Report Disclosure (SRD)	Content analysis using the Global Reporting Initiatives (GRI) measure
Independent variable	
Corporate Governance (CG)	Content analysis based on the ASEAN CG Scorecard
Moderating variables	
Institutional ownership (INSTOWN)	Total institutional ownership divided by total equity
Control variables	
Companies' Size (SIZE) (Subramaniam & Wasiuzzaman, 2019)	Natural logarithm of total assets
Leverage (LEV) (So et al., 2021)	Debt book value divided by Total assets
Return on Assets (ROA) (Setiawan et al., 2016)	Net income divided by asset
Companies' age (AGE) (Wahyudin & Solikhah, 2017)	Annual report's year – Firm establishment years

high motivation in monitoring manager behavior and company performance. Furthermore, they will effectively supervise and minimize conflicts between agents and principals because they have sufficient resources with relevant skills (Mertzanis et al., 2019).

H_2: Institutional ownership strengthens the positive relationship between corporate governance and sustainability disclosure.

METHODS

The analysis was performed using unbalanced panel data with Generalized Least Square (GLS) regression. Because the model has heteroscedasticity problems, thus the model used is Generalized Least Square (GLS) regression.The following is a sample selection stage. The sampling technique used in this research is purposive sampling.

Variables definition and measurement

Dependent variable

The dependent variable of this study is the Sustainability Disclosure (SD). SD was measured by content analysis using the Global Reporting Initiatives (GRI) measure. The assessment is carried out by assigning a graded score to each indicator item in the GRI G4 Guidelines or standards; which consists of 9 economic indicators, 34 environmental, and 48 social indicators. The scoring criteria are; 0 = if the item is not disclosed, 1 = if the item is disclosed but not comprehensively, 2 = if the item is disclosed comprehensively but not following the GRI G4 Guidelines criteria or standards, 3 = if the item is disclosed comprehensively and by the GRI G4 Guidelines criteria or standards (Tjahjadi et al., 2021).

Independent variable

This study uses Corporate Governance (CG) as an independent variable. CG is measured using content analysis based on the ASEAN CG Scorecard (ASC). This measurement has been used in research by (Utama et al., 2017), where this instrument is a comprehensive and efficient alternative measure of CG. The basis for developing this instrument refers to the results of the development of the Asian Development Bank-ASEAN Capital Market Forum in 2011 but

Table 2. Descriptive Statistics

Variable	Obs	mean	Std. Dev.	Min	Max
SD	289	0.168	0.071	0.053	0.484
GCG	258	43.266	12.210	18.196	71.109
INSTOWN	261	0.644	0.221	0.113	0.9830
LEV	292	0.829	1.084	-9.447	5.370
ROA	292	0.074	0.127	-0.255	0.921
SIZE	292	21.897	1.645	18.424	25.818
AGE	292	40.377	15.871	5.000	91.000

is more straightforward than the ASC and can be used for time-series research (Utama et al., 2017). Assessment is done by examining the following five categories; the right of shareholders, the Equitable Treatment of Shareholders, the role of Stakeholders, disclosure, transparency, and responsibility with a total of 117 items. In addition, bonuses and penalties are also assessed with a total of 13 items.

Moderating Variable

The moderating variable in this study is institutional ownership (INSTOWN). INSTOWN is measured by dividing the total equity ownership by the institution divided by the total equity (Zaid, Abuhijleh, et al., 2020).

Control variables

This study uses control variables, namely Leverage (LEV), Return on Assets (ROA), firm size (SIZE) firm age (AGE). This study uses the control variable to ensure the calculation results are not biased. The variables LEV, ROA, SIZE, and AGE were chosen because they closely relate to characteristics.

The following is an empirical model used:

$$SD_{it} = \alpha_0 + \alpha_1 CG_{it} + \alpha_2 INSTOWN_{it} + \alpha_3 CG*INSTOWN_{it} + \alpha_4 LEV_{it} + \alpha_5 ROA_{it} + \alpha_6 SIZE_{it} + \alpha_7 AGE_{it} + e_{it} \quad \text{....................} (1)$$

RESULTS AND DISCUSSION

Descriptive statistics

Table 2 displays the results of descriptive statistics for each variable in this study. Based on the table, it can be seen that the average sustainability disclosure is still relatively low in seven years. Obviously, this must be evaluation material for the government to formulate policies that encourage companies to comply and disclose their sustainability activities. Furthermore, when

Table 3. Descriptive Statistics Sustiability Disclosure by years

Year	SD	ECO	ENVI	SOC
2014	0.169	0.087	0.082	0.166
2015	0.169	0.082	0.080	0.164
2016	0.175	0.092	0.080	0.174
2017	0.188	0.102	0.087	0.205
2018	0.147	0.118	0.077	0.074
2019	0.160	0.132	0.091	0.084
2020	0.172	0.144	0.105	0.095

Table 4. Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) SD	1,000						
(2) GCG	0.300	1,000					
(3) INSTOWN	0.055	-0.174	1,000				
(4) LEV	-0.038	-0.040	-0.014	1,000			
(5) ROA	0.261	0.301	-0.082	-0.050	1,000		
(6) SIZE	0.050	0.305	-0.095	0.125	0.215	1.000	
(7) AGE	0.136	0.255	-0.065	0.216	0.487	0.025	1.000

looking at developments every year, SD has shown an increasing trend, and the social category is the highest compared to other categories (Table 3). The implementation of CG illustrates that implementation is still deficient; namely, the average implementation does not reach 50%. Then, the moderating variable (INSTOWN) shows that, on average, 64 percent of company shares are owned by institutions. It is considered relatively high, considering that the proportion of share ownership is almost more than half of the total shares in the company.

Then, Table 4 shows the results of the multicollinearity test as a classic assumption test in the research model. The research model has a low Pearson correlation (<0.80), which means that there is no multicollinearity problem in the model. Because the heteroscedasticity and autocorrelation tests are problematic; namely Prob> F and Prob> Chi2 less than alpha. Generalized Least Square

Table 5. Main Results of regression

	(1)	(2)	(3)	(4)
	SD	**SD**	**SD**	**SD**
GCG		0.003***		0.003***
		(6.71)		(5.300)
INSTOWN			0.023*	0.073*
			(1.730)	(1.740)
CGxINSTOWN				-0.001
				(-0.990)
LEV	0.006	0.002	0.000	0.001
	(1.570)	(0.580)	(0.010)	(0.170)
ROA	0.110***	0.076*	0.119**	0.084*
	(3.130)	(1.850)	(3.140)	(1.880)
SIZE	0.002	-0.004	0.003	-0.004
	(0.860)	(-1.560)	(0.970)	(-1.420)
AGE	0.000	0.000	0.000	-0.000
	(0.580)	(0.190)	(0.700)	(-0.030)
Years effect	Yes	Yes	Yes	Yes
Intercept	0.104	0.154**	0.084	0.113
	(1.860)	(2.660)	(1.380)	(1.760)
N	289.000	257.000	258.000	233.000

*t*statistics in parentheses

*p < 0.1, ** p < 0.05, *** p < 0.01

Table 6. Results of additional regression

	(1)	(2)	(3)
	ECO	SOC	ENVI
CG	0.001	0.004***	0.004***
	(1.33)	(5.610)	(3.170)
INSTOW	-0.021	0.099**	0.041
	(-0.36)	(2.140)	(0.520)
CGxINSTOWN	0.001	-0.001	-0.001
	(0.500)	(-1.11)	(-0.430)
LEV	-0.006	0.007	-0.005
	(-0.69)	(1.04)	(-0.450)
ROA	-0.008	0.004	0.111
	(-0.120)	(0.08)	(1.330)
SIZE	-0.000	-0.006*	-0.014**
	(-0.040)	(-1.77)	(-2.560)
AGE	0.000	0.000	0.000
	(0.380)	(0.420)	(0.050)
Years effect	Yes	Yes	Yes
Intercept	0.041	0.022	0.341**
	(0.450)	(0.31)	(2.820)
N	233.000	233.000	233.000

*t*statistics in parentheses

*p < 0.1, ** p < 0.05, *** p < 0.01

(GLS) is used as the estimation solution.

Regression results

Table 5 shows that CG has a significant positive effect on sustainability disclosure; thus, H1 is accepted. This means that when a company implements good governance, it will increase its sustainability disclosures. This result confirms and supports the agency theory that when a company can manage the opportunistic actionss of managers through good governance, it will increase its sustainability disclosures. Good governance will create a good system for monitoring and supervision functions that make managers take the right steps. In addition, as explained by the theory of legitimacy, the company will try to carry out activities under community norms; this will later have a positive impact on the company (Schrobback & Meath, 2020). The findings of this study are in line with the previous one, which also found that corporate governance will increase the disclosure of corporate sustainability (Naciti, 2019; Ludwig & Sassen, 2022; Jamil et al., 2021; Colakoglu et al., 2021)

Then, based on table 5 above, it can be seen that institutional ownership does not moderate the relationship between corporate governance and corporate sustainability disclosure; therefore, H2 is rejected. This means that the company has a proportion of institutional ownership; it cannot increase the positive relationship between CG and sustainability disclosure. Although, institutional ownership is a type of ownership with good enough resources in terms of skills and a strong drive to oversee the company's operation (Mertzanis et al., 2019). However, if not the implementation of good governance, their function will not be optimal. It is what happened to the sample companies of this study, namely that their CG implementation was generally less

than 50 per cent. Furthermore, it is suspected that institutional ownership in Indonesia has an insignificant role due to their inability to manage their interests and those of other stakeholders in the company. In addition, it is due to an unsupportive culture and inadequate personnel capacity within the institution.

Additional test

Table 6 shows that the test results for each SD category consisting of economic (ECO), social (SOC), and environmental (ENVI) categories found mixed results. Our findings show that CG has a significant positive relationship with SOC and ENVI. Then, it was also found that CG does not affect sustainability disclosure at ECO category. These results indicate that companies that carry out sustainability disclosure activities focus on social and environmental categories. Furthermore, Indonesian companies tend to comply with sustainability regulations related to social and environmental categories. It happens because more substantial pressure, regulations, and effects are pretty clear on external parties compared to the financial category.

CONCLUSION

This study examines the relationship of corporate governance to sustainability disclosure with institutional ownership as a moderating variable. In addition, it also performs additional analysis on each category of sustainability disclosure, namely in the economic, social, and environmental categories.

Our findings show that CG positively affects corporate sustainability disclosure, which means that H1 is supported. This finding confirms that companies that implement good governance will reduce the possibility of irregularities by company managers based on agency theory and legitimacy theory. Companies will carry out elementary school activities to get a positive image from the public. While the findings in each category indicate a positive relationship between CG and SD in the social and environmental categories, there is no effect on the economic category.

This research contributes to the development of accounting literature, especially those that discuss the relationship between corporate governance and sustainability disclosure with a more comprehensive analysis and using developed measuring tools. Then practically, the results of this research can be used to consider companies in managing their strategic steps. In addition, for the Indonesian government, these findings can be used as material for consideration in formulating policies so that companies increase their awareness of sustainability issues and implement good governance.

This research is, of course, not without limitations. Some of the limitations of this research are that the scope of research is still limited to companies in the consumer goods sector, so it cannot be generalized to other sectors that have their uniqueness. In addition, the author only uses a model with one moderating variable. It is suspected that there are still many moderating variables closely related to CG and SD. So that further research can develop this research by increasing the sample area and using mediating variables or other moderating variables.

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