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Sustainability Reporting Disclosure: Assessing The Role of Governance Committee and Ownership Concentration

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ABSTRACT: The purpose of this study is to examine the role of the Governance Committee, ownership concentration, and the interaction between the two variables in promoting sustainability reporting disclosure. Firm samples were selected from Indonesian Capital Market for the period of 2013-2016 and logistic regression analysis was run for the test of hypotheses. Estimation of a model that excludes an interaction variable shows that Governance Committee and ownership concentration are significantly associated with sustainability reporting disclosure at a 1% level of significance. The findings suggest that companies having Governance Committees and ownership concentration are more likely to issue sustainability reports. As for control variables, results suggest that larger-sized companies, more profitable, and higher profile are also more likely to disclose sustainability reports. On the other hand, the estimation of a model that includes an interaction variable shows that it has no effect on sustainability reporting disclosure. However, the Governance Committee and ownership concentration remain significant at 10% and 1% levels respectively. The findings suggest that the function of the Governance Committee is not affected by large shareholders.

Keywords - Corporate Governance, Governance Committee, Ownership Concentration, Stakeholder Theory, Sustainability Reporting.

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1. INTRODUCTION

Discourse on global warming has become the most heated topic in various print and electronic media in the last few decades (O'Neill, Boykoff, Niemeyer, & Day, 2013). People are now more concerned about the negative impact of climate change on human health (Weathers, 2013). This trend is leading to increased pressure on businesses to utilize renewable resources to preserve the natural environment (Jones, 2017). Sustainability issues should become a priority in business decision-making (Harms, Hörisch, Schaltegger, & Windolph, 2014). Companies should pay more attention to environmental issues due to the negative impact of their business activities on the natural and social environment (Janggu, Darus, Zain, & Sawani, 2014). Discourse on global warming has become the most heated topic in various print and electronic media in the last few decades (O'Neill, Boykoff, Niemeyer, & Day, 2013). People are now more concerned about the negative impact of climate change on human health (Weathers, 2013). This trend is leading to increased pressure on businesses to utilize renewable resources to preserve the natural environment (Jones, 2017). Sustainability issues should become a priority in business decision-making (Harms, Hörisch, Schaltegger, & Windolph, 2014). Companies should pay more attention to environmental issues due to the negative impact of their business activities on the natural and social environment (Janggu, Darus, Zain, & Sawani, 2014).

Stakeholder awareness of environmental issues has put pressure on businesses to disclose sustainability reporting (Hahn & Kuhnen, Determinants of sustainability reporting: A review of results, trends, theory, and opportunities in an expanding field of research, 2013). Companies must not only focus on customer needs but also on the needs of other stakeholders who are affected by the company's strategic business decisions (Ihlen, Jennifer, Bartlett, & May, 2011). According to the Legitimacy theory, companies should maintain good relations with society and the relationship can be depicted as a social contract (Nurunnabi, 2016). The aspirations and expectations of the community are implicitly contained in the social contract. In order to gain respect and a positive image in the community, companies must comply with existing regulations and respect the norms and values that live in the community. Consistent with this view, previous empirical research showed an improvement in corporate reputation after the release of the first sustainability-related reporting (Brown, Guidry, & Patten, 2010).

Although sustainability reporting can help companies improve the company image in the eyes of stakeholders, such reporting has become mandatory in Indonesia only since 2017 under OJK regulation no. 51/POJK.03/2017. In a 2021 webinar a speaker from Collaborative Partner for Sustainability Strategy said that prior to the enactment, sustainability implementation by several companies was nothing more than a ‘nice to have’ strategy (Septania, 2021). Firms are compelled to disclose sustainability reports due to pressure from stakeholders. Despite the somber assertion, however, efforts to willingly disclose the ecological impact of firm business activities send positive signals to stakeholders about the credibility and honesty of firm management. In addition, disclosure may increase reputation, and brand value, and can motivate employees (Herzig & Schaltegger, 2006). The Global Reporting Initiative has designed global-scale sustainability reporting guidelines that can be used in the preparation of sustainability reports (GRI, Pedoman Pelaporan Keberlanjutan G4. Global Reporting Initiative, 2013).

Prior to OJK regulations, only a few Indonesian companies voluntarily disclosed sustainability reporting. According to the National Center for Sustainability Reporting (NCSR), as many as 120 public and non-public companies published sustainability reports at the end of 2016. The fact that only a few companies disclose sustainability reports raises research questions on factors that encourage companies to disclose sustainability reporting. Several prior studies have shown corporate governance practices (Janggu, Darus, Zain, & Sawani, 2014); (Ong & Djajadikerta, 2020); (Anazonwu, Egbunike, & Gunardi, 2018), and share ownership structures (Muttakin & Subramaniam, 2015); (Angelstig & Gustavsson, 2016); (Masud, Nurunnabi, & Bae, 2018) are significantly associated with sustainability reporting disclosure.

Various efforts have been made to enforce good corporate governance, including the establishment of a Governance Committee. However, an observation of current corporate governance literature shows that the existence of this committee has not yet been recognized worldwide. So far there is no mandatory requirement for Indonesian companies to form a Governance Committee. However, close observations of annual reports of Indonesian public companies show that more and more companies have voluntarily established Governance Committees. From a stakeholder theory perspective, forming a Governance Committee sends favorable signals to stakeholders about the company's attempts to be more transparent, including its ecological responsibility. PT United Tractor is one example of a company that has already established a Governance Committee. In its annual report, the company states that the main function of the Governance Committee is to provide support for the implementation of good corporate governance (GCG). In general, it can be expected that companies having a Governance Committee are to be more transparent and responsible for environmental issues and thus more likely to disclose sustainability information.

Another important pillar in upholding good corporate governance is shareholders. However, previous studies linking the role of large shareholders and disclosure of sustainability reporting have shown conflicting results. A study shows that firms with concentrated ownership are less likely to disclose sustainability reporting (Kuzey & Uyar, 2016). These large and concentrated shareholders may block the flow of information to protect their own interests. They can coerce management not to disclose too much information for fear of negative consequences on their welfare as controlling shareholders. However, another study finds the opposite result, indicating that firms with concentrated ownership are more likely to disclose sustainability reporting (Matoussi & Chakroun, Board Composition, Ownership Structure and Voluntary Disclosure in Annual Reports Evidence from Tunisia, 2009). Given the conflicting results, it can be argued that the existence of concentrated ownership may moderate the association between the governance committee and sustainability reporting disclosure.

The purpose of this study is to examine the role of Governance Committees, Ownership Concentration, and its moderating effect in promoting sustainability reporting disclosure. Several control variables are also included to control for firm size, profitability, growth, and industry differences. This study offers knowledge and practical contribution. First, it provides additional evidence to support stakeholder theory. Second, companies are advised to establish a Governance Committee to promote sustainability reporting. Three, Indonesian Financial Services Authority (OJK) should consider making the establishment of a Governance Committee mandatory for all public companies. Four, OJK should also recognize the importance of concentrated ownership in upholding good corporate governance practices. (10)

2. LITERATURE REVIEW AND HYPOTHESIS

Various arguments have been developed to explain the motivation behind the disclosure of sustainability reporting. However, only three theories are considered in this study as the basis for developing arguments, namely legitimacy theory, agency theory, and stakeholder theory.

3.1. Legitimacy Theory

Legitimacy theory explains the relationship between organizations and society under a social contract (Nurunnabi, 2016). The advantage of this theory relative to the other two theories is its strong arguments as a basis for legitimizing the existence of companies in society (Guthrie, Cuganesan, & Ward, 2007). Business activities have economic, social, and environmental consequences and bring a significant impact on the community's ability to meet its needs. Carelessness in handling industrial waste that results in water, air, and soil pollution creates negative sentiment and public pressure on the company. To reduce the pressure on the company and win the hearts of the people, various social programs are offered to the community (Khan, Muttakin, & Siddiqui, 2013). Companies must ensure that their business activities do not violate existing regulations and respect the norms and values that live in society. In other words, a social contract occurs between companies and communities to ensure companies' going concern. The contract can be stated explicitly or implicitly. The rules, laws, and regulations that companies must comply with constitute an explicitly stated social contract (Guthrie, Cuganesan, & Ward, 2007). Meanwhile, expectations of communities on how companies run are implicitly stated in a social contract.

People's expectations are not permanent and change all the time, so companies must be responsive to changing people's expectations. Companies must show that they are responsive to changes and willing to fulfill the public’s expectations. Sustainability reporting can be used as a tool to communicate to the public and as a basis for legitimizing environmental performance to various stakeholders (Comyns, 2016). When the company's legitimacy decreases due to violations of the social contract, sustainability reporting can be used to reduce public pressure (Masud, Nurunnabi, & Bae, 2018).

3.2. Agency Theory

Agency theory provides a framework to explain the relationship between owners (shareholders) and agents (managers) in which agents are given responsibilities to manage companies (Jensen & Meckling, 1976). However, the interests of managers and shareholders are not always congruent which results in conflicts of interest. The potential conflict is triggered by asymmetry information between managers and shareholders.
Having an information advantage, managers are motivated to control the company's resources for the sake of short-term interests. Therefore, various control mechanisms have to be established to prevent the uncontrolled exploitation of company resources and incurring additional costs, which are ultimately borne by shareholders. Monitoring costs arise when the principal attempts to mitigate a conflict of interest. One monitoring mechanism is to form a Governance Committee, which is responsible for establishing a reliable governance system so that it can oversee operational activities at every level of the organization and ensure that corporate governance is carried out consistently. According to (Shamil, Shaikh, Ho, & Krishnan, 2014), the efforts made by shareholders to reduce conflicts of interest through internal monitoring mechanisms encourage companies to disclose sustainability reporting.

3.3. Stakeholder Theory

Stakeholder theory explains the relationship between management and other stakeholders such as creditors, employees, suppliers, customers, and the government (Masud, Nurunnabi, & Bae, 2018). When stakeholders with different aspirations demand companies to improve environmental performance and implement better investment policies, sustainability reporting bridges the interests of management and stakeholders (Comyns, 2016). In addition, sustainability reporting is a medium for reporting the ecological responsibility of the organization to the community and various stakeholders. Social and environmental disclosure increase transparency, company reputation, and investor confidence (Baral & Pokharel, 2017). Environmental groups of national and international scales have actively encouraged companies to invest in environmentally friendly companies (Hoque, Clarke, & Huang, 2016). Pressure from stakeholders increases sustainability reporting trends around the world (GRI, Carrots & Sticks: Global Trends in Sustainability Reporting Regulation and Policy, 2016). Apart from the pressure, sustainability reporting disclosure is an effective means of communication to show that companies pay serious attention to social and environmental issues.

3.4. Hypothesis Development

Two important principles of GCG contained in the general GCG guidelines for Indonesian companies issued by the National Committee for Governance Policy (KNKG) in 2006 are transparency and responsibility. Companies are required to provide relevant information to stakeholders and be responsible for society and the environment to maintain long-term business continuity. Therefore, implementing strong governance structures is very crucial to anticipate current environmental challenges (Masud, Nurunnabi, & Bae, 2018). A strong and adaptive corporate governance structure can only be achieved if the company has a strong commitment to upholding healthy and environmentally friendly business practices. One example of good corporate governance practices is the establishment of a Governance Committee.

However, it should be noted that the establishment of a Governance Committee has not become a common practice in companies worldwide, including Indonesia. Until now, the existence of the Governance Committee in Indonesia is still voluntary and there is no authoritative reference to describe the Governance Committee. Moreover, no prior literature can be used as a reference to describe the function of the Governance Committee. In this research, the description of the Governance Committee’s function relies solely on information available in the company's annual report. For example, PT United Tractor established a Governance Committee to provide support for the implementation of good corporate governance (GCG) and provide advice on policy changes in accordance with the law. Meanwhile, the Governance Committee of PT PP (Persero) is responsible for reviewing the mechanism for information releases and assessing the implementation of GCG.

Although the functions and responsibilities of the Governance Committee may differ from one company to another, the main function is to enforce GCG in every line of business. The description of the Governance Committee in the company's annual report indicates that the Governance Committee promotes transparency and supports best business practices. Thus, companies having a Governance Committee can be expected to be more responsible for environmental issues and more likely to disclose sustainability information. The fact that companies are willing to disclose sustainability reporting sends a signal to stakeholders that the company is responsible for social and environmental issues and the decision-making process has considered this aspect from the lowest level to the management level. This is in line with the principle of responsibility stipulated by (KNKG, 2006) which encourages companies to become good corporate citizens.

Based on the above arguments, the relationship between the existence of the Governance Committee and the disclosure of sustainability reporting is stated in the following hypothesis:

H_1: Firms with Governance Committee are more likely to disclose sustainability reporting.

Close scrutiny by large shareholders reduces the information asymmetry between companies and external parties (Bai, Liu, Lu, Song, & Zhang, 2004). Large shareholders are expected to create a balance of control and influence. This is consistent with findings that firms with concentrated ownership exhibit lower agency problems and are less likely to experience a stock price crash (Gao, Qiannan, & Anne, 2017). Moreover, firms with more concentrated ownership structures tend to have better performances (Mitton, 2002). Large shareholders also play a significant role in promoting transparency of financial reporting (Gao, Qiannan, & Anne, 2017). However, studies on the relationship between ownership concentration and sustainability reporting disclosures show inconsistent results. A study finds that ownership concentration is positively related to sustainability reporting disclosures (Matoussi & Chakroun, Board Composition, Ownership Structure and Voluntary Disclosure in Annual Reports Evidence from Tunisia, 2009). The finding suggests that large shareholders have the capabilities and resources to coerce companies to be more transparent and disclose necessary information regarding the economic, social, and environmental aspects of the company.

However, an opposite argument has also been proposed stating that concentrated ownership can hinder sustainability reporting due to the ease of access to all relevant information (Hahn & Kuhnen, Determinants of Sustainability Reporting: A Review of Results, Trends, Theory, and Opportunities in An Expanding Field of Research, 2013). Majority shareholders have access to all important information related to economic, social, and environmental aspects, making them less motivated to pressure companies to disclose sustainability reporting unless it benefits their own interests as majority shareholders. This argument is consistent with a finding that increasing ownership concentration results in less motivation to disclose sustainability reporting (Lee, 2009). He then concluded that concentrated ownership has a significant influence on strategic decision-making, including information transparency. Another author reports similar findings that firms with concentrated ownership are unlikely to disclose sustainability reporting (Kuzey & Uyar, 2016).

Given the two conflicting arguments, the association between ownership concentration and sustainability reporting disclosure is stated in the non-directional hypothesis.

H_2: Ownership Concentration affects sustainability reporting disclosure.

As previously argued, the Governance Committee is expected to encourage companies to implement good business practices and to prevent companies from causing harm to surrounding communities and environments. Thus, the possibility for companies to disclose sustainability reporting is higher for firms that have established a Governance Committee. However, the dominance of large shareholders may influence disclosure decisions despite the support of the Governance Committee. They can use their influence to restrain the release of social and ecological information that they perceive to have negative consequences on their well-being (Kuzey & Uyar,

2016). Therefore, the influence of the Governance Committee on sustainability reporting can be altered by the strong influence of the dominant shareholder.

Based on the arguments, the moderating effect of ownership concentration on the relationship between the Governance Committee and sustainability reporting disclosure is formulated in the following hypothesis:

H_3: Ownership concentration affects the association between the Governance Committee on sustainability reporting disclosure.

3. RESEARCH METHODS

3.1. Population and Sample

The sample was collected from Indonesia Stock Exchange (IDX) in the period of 2013 – 2016 by employing a purposive sampling technique. The sampling period is limited to 2016 due to OJK's decision to require public companies to publish sustainability reports in 2017. Since the focus of this study is to investigate the factors behind voluntary sustainability disclosures, it is not valid to include the period during which sustainability reporting becomes mandatory.

The criteria for selecting the sample are as follows: companies must be listed sequentially during the sample period; company annual reports are available from data sources. The annual report provides the information needed to measure all research variables, and there is no stock split event during the sample period. No stock splits during the sample period are imposed because the company growth variable is measured using the price-to-book ratio. Data was collected from www.idx.co.id, the Indonesian Capital Market Directory (ICMD), and company websites. Sustainability reporting disclosure information was obtained from the Sustainability Reporting Awards website, www.srs.ncsr-id.org, and the company's website. Firms were excluded from the sample if annual reports were not available from the data sources. A total of 1438 firm-year observations were available during the sample period after imposing the sample criteria.

3.2. Research Model Equations and Operational Definitions

A logistic regression model was employed for the test of the hypothesis because the dependent variable is a dummy that takes 1 if a company discloses sustainability reporting and 0 otherwise. Note that logistic regression does not generally impose assumptions about regression residuals as multiple regression does. As previously explained, the focus of this research is to examine the role of the Governance Committee in encouraging sustainability reporting by considering the effect of ownership concentration. For this purpose, the test is carried out using two models. Model 1 describes the relationship without interaction variable and Model 2 with interaction variable as shown below.

Model 1: $SUSTAIN_i = \beta_0 + \beta_1 GOVERN_i + \beta_2 CONCEN_i + \beta_3 ROA_i + \beta_4 GROWTH_i + \beta_5 SIZE_i + \beta_6 IND_i + \varepsilon$

Model 2: $SUSTAIN_i = \beta_0 + \beta_1 GOVERN_i + \beta_2 CONCEN_i + \beta_3 GOV{*}CON_i + \beta_4 ROA_i + \beta_5 GROWTH_i + \beta_6 SIZE_i + \beta_7 IND_i + \varepsilon$

Where: SUSTAIN: Sustainability Reporting Disclosure; GOVERN: Governance Committee

CONCEN: Ownership Concentration; GOV* CON: interaction variable; ROA: Return on Asset (Profitability); GROWTH: Growth opportunity (price to book value); SIZE: Firm Size (Ln total assets); IND: Type of Industry (low profile versus high profile).

As stated earlier, sustainability reporting disclosure is a dummy variable that takes 1 if the company reports sustainability reports and 0 otherwise. Observations are made directly from the annual report to determine whether the company discloses or does not disclose the sustainability report. Governance Committee is also a dummy variable that takes 1 if a company has a Governance Committee and 0 otherwise. Ownership Concentration is measured as the highest percentage of share ownership by institutional/managerial/foreign shareholders (Lourenco & Branco, 2013).

Four control variables are included in the logistic regression model: profitability, growth, firm size, and industry type. Previous studies have found that firms with higher profitability are more likely to disclose sustainability reporting (Legendre & Coderre, 2012). Profitability is measured as the ratio of net income to total assets, which is commonly called return on assets (ROA). Firms with higher growth are more likely to disclose sustainability reporting (Artiach, Lee, Nelson, & Walker, 2010). Growth is measured as a ratio of price to book value. Firm size was reported to affect the likelihood of companies disclosing sustainability reporting (Lourenco & Branco, 2013). Firm size is measured as the natural logarithm (Ln) of total assets. Industry type was also found to correlate with sustainability reporting disclosure (Liu & Anbumozhi, 2009). The industry type is a dummy variable that takes 1 if the company belongs to a high-profile group and 0 otherwise. High (lower)-profile companies have higher (lower) levels of consumer visibility, political risk, and competition (Roberts, 1992). The grouping is based on the observation of annual reports with regard to consumer visibility, level of political risk, and level of competition. More specifically, high-profile companies belong to regulated industries which include oil and gas, mining, paper, agribusiness, and telecommunications industries (Ahmad, 2014).

4. FIGURES AND DISCUSSION

As previously described, a total of 1438 firm-year observations were available for hypothesis testing during the sample period. Table 1 presents descriptive statistics for all variables including the mean, minimum, maximum, and standard deviation.

Table 1. Descriptive Statistics (n=1438)

Variables	Minimum	Maximum	Mean	Std. Deviation
SUSTAIN	0	1	0.100	0.310
GOVERN	0	1	0.110	0.307
CONCEN	0.55	0.990	0.511	0.214
ROA	-0.158	1.852	0.030	0.122
GROWTH	-0.378	2.664	0.023	0.103
SIZE	22.93	34.580	28.927	1.797
IND	0	1	0.460	0.499

Source: Processed Data, 2023.

The mean for sustainability reporting disclosure (SUSTAIN) is 0.100. Since the sustainability reporting variable (SUSTAIN) is a dummy variable that takes 1 if a firm discloses sustainability reporting and 0 otherwise, the mean suggests that only 10% of firm samples have reported sustainability reporting. The Governance Committee (GOVERN) is also a dummy variable which is coded 1 if a firm has a Governance Committee and 0 otherwise. Thus, the mean value of 0.110 suggests that only 11% of firm samples have formed a Governance Committee. This rather small amount is reasonable considering no mandatory requirement for public companies to establish a Governance Committee. Ownership concentration (CONCEN) has a mean value of 0,511, suggesting that the majority of firm stocks are owned by institutional investors. As for control variables, the means suggest that firm samples are less profitable (ROA = 0.030), less growing (GROWTH = 0.023), medium size (SIZE = 28.927) firms, and 46% of the firm samples are categorized as low-profile firms (IND=0.46).

To gain a better understanding of the characteristics of sample firms, table 2 presents the Wilcoxon test for differences between disclosing and non-disclosing firms. The table shows that disclosing companies have established a Governance Committee more than non-disclosing companies, indicating the influence of the Governance Committee in encouraging companies to disclose sustainability reporting. In addition, disclosing firms tend to be more concentrated than non-disclosing firms, suggesting that large shareholders have played a significant role in encouraging firms to disclose sustainability reporting. For the control variables, the Wilcoxon test results suggest that the disclosing firms have higher profitability, higher growth opportunities, larger sizes, and belong to high-profile industries.

Table 2. Wilcoxon Test of Firm Characteristics Differences

Variables	SUSTAIN=1 (n =155) Mean	SUSTAIN= 0 (n=1283) Mean	Mean Different	*Wilcoxon-test (P-Value)*
GOVERN	0.438	0.065	0.373	0.000
CONCEN	0.607	0.499	0.108	0.000
ROA	0.045	0.029	0.016	0.071
GROWTH	2.657	2.282	0.375	0.000
SIZE	31.351	28.634	2.717	0.000
IND	0.522	0.456	0.066	0.116

Source: Processed Data, 2023.

The Wilcoxon-Test results presented in Table 2 suggest that sustainability reporting companies have more Governance Committees and concentrated ownership relative to non-sustainability reporting companies. The findings provide preliminary evidence of the role of the Governance Committee and concentrated ownership in encouraging disclosure of sustainability reporting. However, a more convincing conclusion should be made by employing logistic regression analysis. Table 3 presents the results of the logistic regression analysis. Note that logistic regression is a regression model in which the dependent variable is qualitative in nature (Gujarati, 2003). Therefore, the resulting conclusions must be viewed from a probability perspective. To facilitate a meaningful interpretation of the moderating variables, results are presented in two models. Model 1 presents results excluding moderating variables (GOVERN * CONCEN) and Model 2 includes moderating variables.
The estimation of Model 1 shows that the Governance Committee and ownership concentration are positively related to sustainability reporting disclosures at a significant level of less than 1%. This finding suggests that companies with Governance Committees and ownership concentration are more likely to disclose sustainability reports. As for control variables, three (ROA, SIZE, and IND) of the four control variables are positively related to sustainability reporting disclosure at a 1% level. The findings suggest that profitable companies, larger in size, and belonging to high-profile industries are more likely to disclose sustainability reports.

Although slightly different, the Model 2 estimates that include the interaction variable (GOV*CON), show consistent results. While the relationship between ownership concentration and sustainability reporting remained significant at the 1% level, the relationship between the Governance Committee and sustainability reporting decreased to the 10% level. On the other hand, the interaction variable is not significantly associated with sustainability reporting disclosure. The control variables ROA, SIZE, and IND are also positively associated with sustainability reporting disclosure at a 1% level.

Table 3. Logistic Regression Results

	Model 1			Model 2		
Variables	Coefficient	Wald	*P-value*	Coefficient	Wald	*P-value*
GOVERN	1.844	48.055	0.000	1.265	2.395	0.061
CONCEN	0.030	25.741	0.000	0.027	16.116	0.000
GOV* CON	-	-	-	0.010	0.564	0.226
ROA	2.260	6.290	0.006	2.185	5.732	0,008
GROWTH	0.010	1.159	0.141	0.011	1.326	0.125
SIZE	1.129	151.795	0.000	1.130	151.426	0.000
IND	1.061	19.609	0.000	1.073	19.872	0.000

Source: Processed Data, 2023.

Hypothesis one predicts a positive relationship between the Governance Committee and sustainability reporting disclosure. The results reported in Table 4 support the prediction. Moreover, the positive effect of the Governance Committee on the disclosure of sustainability reporting is consistent with agency theory. Agency theory suggests the establishment of monitoring mechanisms is required to suppress dysfunctional behavior that may adversely affect firm value and ultimately harm shareholders. The Governance Committee is one of the mechanisms to ensure the implementation of good corporate governance in every line of the company. The results show that the Governance Committee increases transparency on environmental and ecological issues.
Not only consistent with agency theory, the existence of the Governance Committee is also consistent with stakeholder theory. Note that the Governance Committee is hierarchically under the Board of Commissioners which is the representative of shareholders. Stakeholder theory states that companies will seek and meet the needs of stakeholders who have different aspirations and expectations in order to gain credibility. The issuance of sustainability reporting reports enables stakeholders to assess the impact of the company's activities on the environment and society. Therefore, firms are expected to implement more environmentally friendly business practices. States that sustainability reporting aligns the differences between management and stakeholder interests (Comyns, 2016). Voluntary disclosure of sustainability reporting sends a signal to stakeholders that companies take full responsibility for the ecological implications of their business activities. It also articulates the company's efforts to be more transparent in the eyes of stakeholders. Social and environmental disclosure can increase investor confidence in making equity investment decisions (Baral & Pokharel, 2017).

Hypothesis two predicts that ownership concentration is associated with sustainability reporting disclosures. Hypothesis testing found that the relationship between the two was positive and significant at the 1% level. Note that hypothesis two is a non-directional hypothesis because of the conflicting arguments underlying the hypothesis. Prior studies have found inconsistent results. A study documented evidence that ownership concentration has a positive effect on the disclosure of sustainability reporting (Matoussi & Chakroun, Board Composition, Ownership Structure and Voluntary Disclosure in Annual Reports Evidence from Tunisia, 2009). The findings suggest that companies with more concentrated ownership tend to be more transparent which is reflected in voluntary efforts to disclose sustainability reporting. In addition, large shareholders seem to encourage companies to disclose sustainability reporting. On the other hand, another study reports that concentrated ownership reduces the motivation of companies to issue sustainability reporting (Kuzey & Uyar, 2016). Large shareholders have the capability to influence the decision-making process due to unrestricted access to information. Thus, they are more likely to exploit information for their own benefit and withhold information that may be detrimental to their interests.
The positive correlation between ownership concentration and sustainability reporting disclosure found in this study supports the argument that large and concentrated shareholders tend to encourage companies to be more transparent through sustainability reporting disclosure. The motivation may be driven by the desire to avoid investment losses due to the company's unfavorable image in the eyes of investors. The global warming discourse has raised public awareness of the negative impact of company activities on natural environments. To maintain public trust, firms are forced to implement environmentally friendly business practices to help reduce the earth's temperature. In addition, various groups are aggressively reminding investors not to buy shares of companies that damage the natural environment and this environmental campaign is becoming a worldwide trend. Therefore, companies should not ignore the collective demands of society to preserve the natural environment unless they are willing to be blacklisted and see the value of their shares decline. Overall, companies with more concentrated ownership tend to publish sustainability reports to demonstrate the company's ecological responsibility.

Hypothesis three predicts a moderating effect of ownership concentration on the relationship between ownership concentration and sustainability reporting disclosures. The test of hypothesis shows that the interaction variable is not significantly associated with sustainability reporting disclosures. Note that prior to the

inclusion of the moderating variable, Governance Committee, and ownership concentration had significant effects on sustainability reporting disclosure at 10% and 1% levels respectively. When the interaction variable is included in Model 2, ownership concentration remains significant at the 1% level but the Governance Committee turns out to be less significant. It seems that the moderating variable slightly alters the relationship between the Governance Committee and sustainability reporting disclosure, indicating that large shareholders have a dominant effect on sustainability reporting policy relative to Governance Committee. However, it can be concluded that both play an important role in promoting transparency, particularly with regard to ecological issues.

5. CONCLUSION

This study investigates the effect of the Governance Committee and ownership concentration on sustainability reporting disclosures. The fact that companies are willing to disclose sustainability reporting sends a signal to stakeholders that social and environmental issues have been considered in every decision-making process, from the lowest level to the management level. Companies that have a Governance Committee are expected to be more responsible for environmental issues and more likely to disclose sustainability information.

Large shareholders have the ability and resources to influence companies to be more transparent and disclose the necessary information regarding the economic, social, and environmental aspects of the company. However, concentrated ownership can hinder sustainability reporting due to easy access to all relevant information. Majority shareholders have access to all important information related to economic, social, and environmental aspects but they may be less motivated to pressure companies to disclose sustainability reporting unless it benefits their own interests. Therefore, this study also examines the moderating effect of ownership concentration on the relationship between the Governance Committee and sustainability reporting. Four control variables were included to control for differences in firm characteristics.

The sample was selected from Indonesian public companies for the period 2013-2016. The sample period is limited to 2016 because public companies have been required to publish a sustainability report since 2017. A total of 1438 firm years were available for hypothesis testing during the sample period. The results of logistic regression analysis show that companies having Governance Committees and concentrated ownership are more likely to issue sustainability reports. In addition, companies of larger size, more profitable, and higher profile are also more likely to disclose sustainability reports. Growth opportunities have no effect on sustainability reporting disclosure. Meanwhile, the interaction effect between the Governance Committee and concentrated ownership has no effect on the probability of companies issuing sustainability reports. Only 10% of the 1438 observations published a sustainability report. Unbalanced comparisons may affect test results. Therefore, the generalization of research results should be taken with caution. Another limitation of this study relates to the measurement of sustainability reporting. In this study, the sustainability reporting disclosure variable is measured as a dummy variable. One of the disadvantages of using discrete variables is that they cannot capture the extent to which changes in the independent variable affect the dependent variable. Therefore, future research might consider the sustainability reporting disclosure index issued by the Global Reporting Initiative as an alternative measurement of sustainability reporting.

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