The Effect of Company Size and Audit Committee on Sustainability Reporting

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Abstract. This research aims to empirically tested the influence of the size of company on the disclosure of sustainability reports with the audit committee as moderating. The research population is 61 companies listed in LQ45 from 2017 to 2019. The sample is selected using the purposive sampling technique to obtain 21 companies with 51 units of analysis. The data are analyzed using descriptive statistics and moderated regression analysis test. The results show that the company size harms the disclosure of sustainability report and the committee of audit can improve the effect of size on sustainability report disclosure.

Keywords: Sustainability Report, Company Size, Audit Committee, LQ 45

1 Introduction

Initially, the company only focuses on maximizing its profit or profit (single P), but now the single P paradigm has shifted to a broader direction, where the company also focuses on economic, social, and environmental aspects or often referred to as the triple bottom line concept (Profit, People, and Planet). With the presence of that concept, the company must contribute to nature, wealth, and society aspects, as well as achieve sustainable development. Information regarding the company's economic, environment and social responsibility activities can be disclosed in a sustainability report. The sustainability report serves as a means to provide transparent information about how the company manages its business properly.

Based on current phenomena, there are still many cases of environmental pollution carried out by many companies in Indonesia, reflecting that their environemt and society's responsibility level is still low. For example, PT Adaro Energy Tbk's waste polluted the Balangan River that flows in Dahai Village, Paringin District,

Balangan Regency, South Kalimantan [1]. The pollution of PT Adaro Energy Tbk's waste resulted in the death of thousands of fish kept by local people. In the same way, The Department of Environment and Land (DLHP) South Sumatera gave administrative sanctions to PT Bukit Asam Tbk for not managing air quality and controlling water pollution in The Lawai River resulting in a decrease in river water quality (detiksumsel.com, 2019).

Environmental pollution cases conducted by large companies are triggered because the company has not fully implemented the triple bottom line concept. The environmental damage that occurs reflects that the responsibility of company's social and environmental is still low. Meanwhile, stakeholders are increasingly paying great attention to the company's social and environmental responsibilities. Companies should not only report their financial condition, but should also report their social and environmental responsibilities [2]. Financial statements are

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no longer sufficient for stakeholders because they do not provide information on the social and environmental aspects of the company [3]. Information on the impact of the company's economic, social and environmental activities can be disclosed through sustainability report as a voluntary report presented separately from the annual report [4].

The level of sustainability report disclosure in Indonesia is still relatively low. This is based on the finding by Khafid et al. [5] who examined the firms listed in LQ45 index over the period 2015-2017. The finding shows that average disclosure of sustainability reports is only 32%. On the other hand, the Financial Services Authority (OJK) finally issued Regulation Number 51/POJK.03/2017 Thus, the company needs to disclose the company's responsibility activities with purpose to gain legitimacy from stakeholders and increase transparency and accountability of the company [6].

There has been much research that tries to investigate sustainability reports, which reflects that there are many researchers that want to examine which factors that influence companies in the disclosure of their sustainability reports. Research on company size on sustainability report disclosure also shows different results. Bhatia and Tuli [7], Dizar et al. [8], Kilic and Kuzey [9], Lucia and Panggabean [2] and Pujiastuti [10] determined that the size of company has a positive influence on sustainability report disclosure. This is not matched with Diono and Prabowo [11], Hardika et al. [12] and Hidayah et al. [13] who stated that the company size harms the sustainability report disclosure. They are also in contrast to Ariyani and Hartomo [14], Maryana and Carolina [15], Masum et al. [16] and Rahman [17] who explained that company size does not affect the sustainability reports disclosure. Dizar et al. [8] and Hidayah et al. [13] stated the outcome that audit committee had a signifificant effect to the sustainability reports. Adhipradana and Daljono [18] and Khafid and Mulyaningsih [19] revealed that audit committee can not affect the the sustainability report.

Due to the existence of research gaps among some studies regarding the factors that influence the sustainability reports disclosure, the researchers try to conduct another study related to the influence of company size on the sustainability reports disclosure with the audit committee as a moderating variable. The novelty of this research is the use of the audit committee as the moderating variable because the audit committee plays an important role in the disclosure of the sustainability report. In-depth supervision from the audit committee can encourage the companies to carry out better supervision so that GCG principles can be fulfilled, one of which is the principle of transparency, where the companies are required to be open to all business activities carried out and then report them transparently [20]. Thus, the audit committee is expected to improve the effect of company size on the sustainability report disclosure.

2 Literature Review and Hypothetical Development

The sustainability reports disclosure can be explained using legitimacy theory and stakeholder theory. Legitimacy theory views that the alignment of corporate social values community social values is a condition that must be created by the company [21]. The business activities of each company should be in line with the values and norms of the society and in accordance with the expectations of the society [6]. The Company needs the legitimacy of the community to be able to use the resources needed by the company in carrying out its business operations. Companies that conduct their business operations in accordance with the prevailing norms in society can create situations to support the company's operational activities.

Legitimacy theory underlies the influence of company size on the sustainability reports disclosure.

Based on Stakeholder theory, Company is not only operates for full fill this own but must give more return shareholders, creditors, consumer, suppliers, government, society, analysts and others, that we called stakeholders [22]. Support from stakeholders is the important thing to the sustainability of the company so that the company strives to get support from stakeholders. The Company will reassure stakeholders that in carrying out its business operations always consider the expectations of the stakeholders. Stakeholder theory underlies the role of audit committee in increasing the positive impact of the size on the sustainability reports.

This research is based on the theory of legitimacy as the theoretical framework. Big companies will surely get more attention from the public, because the more business operation is done, the greater the impact caused by their activities [23]. The sustainability report aims to maintain the good image and good name of the company [7]. Large companies make sustainability reports as their legitimacy strategy and large companies tend to have the resources to collect and disclose information in sustainability reports [24]. This statement is matched with the legitimacy theory which states that the company has an invisble contract with the community, where their business operations take place and the resources used by the company are located in the middle of the local community [22]. The more social and environmental activities carried out, the more information will be revealed in the sustainability report so that the company can maintain legitimacy from the community. The legitimacy can be realized through the disclosure of sustainability reports [25]. Bhatia and Tuli [7], Dizar et al. [8], Kilic and Kuzey [9], Lucia and Panggabean [2] and Pujiastuti [10] states that company size has a positive effect on sustainability report disclosure. So, the first hypothesis is:

H1: Company size has a positive effect on sustainability report disclosure.

Effectiveness of communication between members of the audit committee through meetings conducted indicating the quality and supervision of the audit committee [4]. Large-sized companies generally have competent and intelligent audit committees so that they can encourage the companies to report sustainability reports as the basis for stakeholder decision-making. This is matched with stakeholder theory, which the bigger the company, the wider the stakeholder's interest in the company [19], and the greater the stakeholder's attention to the company. The good quality of the audit committee makes the company can better understand the strategic meaning of information disclosure and what stakeholders need broadly, such as a separate sustainability report from the annual report [26]. So, the second hypothesis is:

H2: Audit committee moderates the effect of company size on sustainability report disclosure.

3 Method

This research uses a quantitative method that analyses the annual and sustainability reports from the company's official website. The data are examined using descriptive statistical analysis test, classical assumption test, and moderated regression analysis through absolute difference test. The sample criteria used in this research show in Table 1.

Table 1. Criteria of Sample

No	Sample Criteria	Reduction	Total
1.	Companies listed on LQ45 from 2017-2019.		61
2.	Companies consistently listed on LQ45 from 2017-2019	(29)	32
3.	Companies that provide complete information related to research variables in the form of total assets, net income, and number of audit committee meetings	-	32
4.	Companies that consistently publish sustainability reports for three consecutive years (2017, 2018, and 2019)	(11)	21
	Research Sample		21
	Research Year		3
	Units of Analysis (21 x 3 years)		63
	Outlier	(12)	51

(Processed secondary data, 2021)

The operational definitions of the research variables show in Table 2.

Table 2. Operationalization of Research Variables

No	Variable	Measurement
1.	Disclosure of Sustainability Report (Y)	Disclosure of SR $\frac{\text{Total of disclosed items}}{\text{total items}}$ (Diono & Prabowo, 2017)
2.	Company Size (X)	Company Size= Ln (Total Assets) (Khafid & Mulyaningsih, 2017)
3.	Audit Committee (Z)	Audit committee= number of audit committee meetings (Hidayah et al., 2019)

(Processed from various sources, 2021)

4 Results and Discussions

Table 3. Descriptive Statistical

	N	Min	Max	Mean	Std. Deviation
SR	51	.0649	.5174	.254878	.1152478
SIZE	51	30.4414	34.8151	32.181194	1.3325924
KA	51	4	43	15.75	11.287
Valid N (listwise)	51				

(Output SPSS, 2021)

The results of classical assumption test is described in this table:

Table 4. Summary of Classical Assumption Test

Classical Assumption Test	Tolerance Value	VIF Value	Sig	Result
Normality Test distributed	-	-	≥0.05	Normally

Classical Assumption Test	Tolerance Value	VIF Value	Sig	Result
Avoids the symptoms of Multicollinearity Test	≥ 0.10	≤ 10	-	
Avoids the symptoms of Heteroscedasticity Test	-	-	≥0.05	
Avoids the symptoms of Autocorrelation Test	-	-	≥0.05	

The results show that the data is normally distributed. The results of the multicollinearity test show that the tolerance value is higher than 0.10 and the VIF value is lower than 10, which means the research successfully avoids the symptoms of multicollinearity. The heteroscedasticity test which uses the Glejser test concludes that each independent variable has a significance level higher than 5% or 0.05. The results of the autocorrelation test using the Run Test show a significance value of 0.323 which is higher than the alpha value of 0.05, and this indicates that this research is free from autocorrelation symptoms. The summary of the outcome of hypothesis testing is described in Table 5.

Table 5. Summary of Hypothesis Testing

Regression					
	Hypothesis	Coefficient	Sig	α	Result
H1	Company size has a significant positive effect on the disclosure of the sustainability report.	-0,065	0,000	0.05	Rejected
H2	The audit committee moderates significantly the effect of company size on the disclosure of the sustainability report.	0,071	0,007	0.05	Accepted

(Processed research data, 2021)

4.1 Effect of Company Size on the Sustainability Report

The outcomes of this research indicate that the company size harms the sustainability report disclosure. Based on descriptive statistical test, data shows that 62.74% of the sample companies have a company size level below the average. This shows that most of the total assets owned by LQ45 companies have low values. LQ45 companies may tend to be less invested in assets. Therefore, it can affect small companies in disclosing items in the sustainability report. Small companies feel that by disclosing many items in their sustainability reports, they can improve their images and gain additional value for the public. It is in contrast to large companies that already have a good image in and gain legitimacy from the communities [11]. This encourages them to tend to disclose fewer items in their sustainability reports.

This research contradicts the legitimacy theory which states that there is a social contract between the community and the company where the company's business operations take place and the resources used by the company are located in the environment around the community [22]. Large companies already have a good image in the community and have gained their legitimacy so they only disclose items required in their sustainability reports. The outcome of this research is matched with Diono and Prabowo [11], Hardika et al. [12] and Hidayah et al. [13].

4.2 Audit Committee Improves the Effect of Company Size on Sustainability Report

The results of this research indicate that the committee of audit can moderate the impact of company size on the sustainability report. From the descriptive statistical test, data shows that 54.90% of the sample companies have a frequency of meetings conducted by the audit committee level below the average. However, they have tried to carry out their obligations following Bapepam rules No. Kep-643/BL/2012 that audit committee meetings are held at least three monthsly. Based on the research sample data, LQ45 companies have fulfilled these obligations. Then, the data shows that 70.58% of the sample companies have a sustainability report disclosure level above the average. Based on these data the frequency of audit committee meetings can strengthen the influence of company size on the sustainability report disclosure. Large-sized companies have sufficient funds to carry out corporate responsibility activities so that a good corporate governance role is required in order for the company to manage the funds for various purposes [23], including sustainability report. The audit committee will encourage the companies to disclose more items in their sustainability reports to meet the needs of stakeholders.

The more often the audit committee conducts meetings, the more the audit findings will be reported to the manager, thus encouraging the manager to make better disclosures and to disclose more complete information, the audit committee also will inform management to disclose information in sustainability report as the additional information [13]. This research is in line with stakeholder theory that company must provide benefits to stakeholders [22]. The larger the company, the wider the stakeholder's interest and attention in it [19]. Large companies tend to have a qualified and independent audit committee. Audit committees in large companies can encourage the companies to publish their sustainability reports properly to sufficient the information needs of stakeholders.

5 Conclusions

The outcome of this research indicates that company size harms sustainability reporting, while the audit committee can moderate the influence of both. The finding of this research are that the sustainability report disclosure in Indonesian LQ45 companies are still relatively low, which is only 25.48%. Company size has a negative effect because large companies already have a good image in the community and have gained their legitimacy so they only disclose items required in their sustainability reports. Large companies are expected to increase the frequency of audit committee meetings to disclose sustainability reports and the audit committee is encouraged not only to discuss financial statements but also to focus on information that is useful for stakeholders such as sustainability reports. Investors are expected to make the sustainability report as the basis for consideration in decision making in investing their funds to economically, socially and environmentally responsible companies. Regulators are expected to formulate regulations for companies related to the disclosure of sustainability reports and triple bottom line implemented by the company.

This research limited to companies listed in LQ45 index. Further researches may focus on other sensitive industry which have serious impact on social and environmental responsibility such as mining, energy, chemical industries and others in order to get more accurate results. Further studies using this industry might impact the disclosure of sustainability report of firms.

Next researchers are expected to examine other variables outside of this research because these research variables are only able to explain 27.3% while 72.7% are explained by others.

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