American International Journal of Business Management (AIJBM)
*ISSN- 2379-106X, **www.aijbm.com** Volume 07, Issue 07 (**July-2024**), PP 340-346*

The Effect of Corporate Governance on Company Value with Sustainability Report as a Mediating Variable

Ferlini Indah Saputri[1], Didik Susetyo[2], Relasari[3]
[1234]*Master of Economic, Sriwijaya University, Indonesia*
**Corresponding Author: Ferlini Indah Saputri[1]*

ABSTRACT*: This study aims to empirically examine the effect of corporate governance on company value with sustainability report as a mediating variable. The population in this study are all go public companies listed on the Indonesia Stock Exchange for the period 2018 - 2022. The sample was taken using purposive sampling by determining certain criteria so that a sample of 47 companies was obtained. The analysis technique uses path analysis using the Eviews application with hypothesis testing using the t test, F test, and sobel test. The results showed that corporate governance proxied by Managerial Ownership, Institutional Ownership, Board of Commissioners Size and Audit Committee had an effect on Sustainability Report. Corporate Governance proxied by Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners and Audit Committee has no effect on Company Value. Sustainability Report has no effect on Company Value. Sustainability Report is not able to mediate the influence of Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners and Audit Committee on Company Value. Simultaneously Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners and Audit Committee have a significant effect on Sustainability Report. However, Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners and Audit Committee simultaneously have no effect on Company Value.*

KEYWORDS – *Corporate Governance, Sustainability Report, Company Value*

I. INTRODUCTION

Companies that aim to realize good company performance in order to increase company value will require a corporate governance mechanism. In implementing good corporate governance, there are several mechanisms, namely managerial ownership, institutional ownership, audit committees, independent commissioners, and external auditors (Perdana & Raharja, 2014). The implementation of corporate governance is carried out by following the corporate governance mechanism itself in order to produce the expected results. According to Fauzi et al., (2016) with the corporate governance mechanism there are those who oversee the activities of company managers to be more effective in improving financial performance. Increased financial performance will make the company's shares also increase, this can illustrate that the implementation of corporate governance provides long-term benefits for the company, namely a direct financial impact such as an increase in net profit and will make the company healthy (Windah & Fidelis, 2013).

Research on the effect of corporate governance and Sustainability Report on company value has been conducted extensively. Several studies examine the effect of corporate governance on company value. Research by Siagian et al., (2013); Clarista & Devie, (2017); Gustiana, (2019) found that corporate governance has a positive effect on company value. Another study also conducted by Susbiyani et al., (2022) found the effect of corporate governance as measured by independent commissioners, managerial ownership, institutional ownership, and audit committee on company value. Independent commissioners, institutional ownership, and audit committees each have an effect on company value, while managerial ownership has no effect on company value.

Other studies examine the influence of corporate governance on sustainability reports, such as research conducted by Janggu, (2014) which concluded that corporate governance as measured by the size of the board of commissioners, professionalism and board goals has a significant influence on sustainability disclosure. Meanwhile, the independence of the board of commissioners and board ownership have no significant effect on sustainability disclosure. Similar research has also been conducted by Jouha, (2015) which states that there is a positive influence of corporate governance as measured by managerial ownership, institutional ownership, independent board, audit committee on Sustainability Reporting. Research by Githaiga & Kosgei, (2022) found that board size is negatively associated with Sustainability Reporting.

Other research on the effect of sustainability report disclosure on company value, such as that conducted by Kurniawan et al., (2018) which states that disclosure of sustainability reports from both economic, environmental, and social categories has a positive effect on company value. Research by Kuzey & Uyar, (2017) found that there is a positive influence between sustainability reporting and company value. Meanwhile, research conducted by Gunawan & Mayangsari, (2015) states that sustainability reporting has no effect on company value.

The differences in research results found both the effect of corporate governance on company value, the effect of corporate governance on sustainability reports, and the effect of sustainability reports on company value cause the authors to be interested in researching these variables. In this study, the authors will analyze the effect of Corporate Governance on company value by using Sustainability Report as a mediating variable. The reason for using the sustainability report as a mediating variable is to find out whether the sustainability report will affect the relationship between corporate governance and company value. The author considers that companies that have good governance can increase their company value, so that the disclosure of the Sustainability Report can play a role in providing information to stakeholders. Sustainability Report disclosure is needed by stakeholders in seeing the innovations made by the company so that it can increase company value.

This study aims to empirically examine the effect of Corporate Governance proxied by Managerial Ownership, Institutional Ownership, Board of Commissioners Size and Audit Committee on Company Value with Sustainability Report as a mediating variable.

II. LITERATURE REVIEW

2.1. Corporate Governance

Corporate governance is a mechanism that can be used to ensure that financial suppliers or owners of the company's capital get a return or return from activities carried out by managers, or in other words how the company's financial suppliers control managers (Boediono, 2015). Good Corporate Governance is a process and structure used by company organs to provide added value to the company on an ongoing basis in the long term for shareholders, while taking into account the interests of other stakeholders, based on applicable laws and norms (Capital Market Supervisory Agency, 2002).

2.2. Sustainability Report

According to Global Sustainability Standards Board, (2016) sustainability report is the practice of publicly reporting organizations regarding their economic, environmental, and / or social impacts, which have both positive and negative contributions with the aim of sustainable development. This shows that the sustainability report is a form of corporate responsibility by measuring organizational performance that is disclosed to both internal and external stakeholders with the aim of sustainable development.

2.2.1. Company Value

Company value is defined as market value. because company value can provide maximum prosperity or profit for shareholders (Yuliusman & Kusuma, 2020). Company value is very important because high company value indicates the high prosperity of shareholders (Febriyanti, 2021). Meidawati & Mildawati, (2016) reveal that the existence of investment opportunities will be a positive signal for the company's future development which can cause the stock price to be higher.

Based on existing theory and supported by previous research, the hypotheses in this study are:

H1 : Corporate Governance affects Sustainability Report

H2 : Corporate Governance and Sustainability Report have an effect on Company Value

H3 : Sustainability Report is able to mediate the influence of Corporate Governance on Company Value

III. METHOD

The population of this study are all companies listed on the Indonesia Stock Exchange for the period 2018 - 2022. The sampling technique uses purposive sampling, which is a technique in determining a sample from a population with predetermined criteria (Muhammadinah & Litriani, 2018). Based on this, a sample of 47 companies listed on the Indonesia Stock Exchange was obtained so that there was data on 235 sustainability reports and company annual reports.

The data analysis technique used in this research is panel data regression analysis and path analysis, where data processing uses the Eviews application. Hypothesis testing uses the t test, F test, R test and for path analysis testing using the sobel test.

IV. FIGURES AND TABLES

4.1. The Effect of Corporate Governance on Sustainability Report

4.1.1. Chow Test

Table 1. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.087415	(46,184)	0.0000
Cross-section Chi-square	217.373658	46	0.0000

Based on the Chow Test results in table 1, it shows that the *cross-section Chi-square* probability value is 0.0000 <0.05, meaning that the most appropriate model in estimating is the *Fixed Effect Model* (FEM).

4.1.2. Hausman Test

Table 2. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.572150	4	0.0057

Based on the Hausman Test results in Table 2, it shows that the *cross section random* probability value is 0.0057 <0.05, meaning that the most appropriate model in estimating is the *Fixed Effect Model* (FEM). So for this regression equation there is no need to do the Lagrange Multiplier Test, because the Chow Test and Hausman Test have chosen the most appropriate model, namely the *Fixed Effect Model* (FEM).

4.1.3. Fixed Effect Model

Table 3. Fixed Effect Model

Dependent Variable: Sustainability Report
Method: Panel Least Squares
Sample: 2018 2022
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.389475	0.128197	3.038088	0.0027
Managerial Ownership	-4.456284	1.499005	-2.972829	0.0033
Institutional Ownership	0.080864	0.163869	0.493469	0.6223
Board of Commissioners	-0.014700	0.009960	-1.475817	0.1417
Audit Committee	0.039708	0.017133	2.317651	0.0216
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.631254	Mean dependent var		0.464128
Adjusted R-squared	0.531051	S.D. dependent var		0.167417
S.E. of regression	0.114647	Akaike info criterion		-1.304521
Sum squared resid	2.418493	Schwarz criterion		-0.553717
Log likelihood	204.2812	Hannan-Quinn criter		-1.001832
F-statistic	6.299768	Durbin-Watson stat		1.276367
Prob(F-statistic)	0.000000			

Based on table 3, the results of the F test show that the F *statistic value* is 6.299768 and the significance value is 0.000000 <0.05, meaning that the variables of Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners and Audit Committee Size simultaneously (together) affect the *Sustainability Report*.

Managerial Ownership produces a *t-statistic* value of -2.972829 and a significance value of 0.0033 <0.05. This means that Managerial Ownership has a significant negative effect on *Sustainability Report*.

Institutional Ownership produces a *t-statistic* value of 0.493469 and a significance value of 0.6223> 0.05. This means that Institutional Ownership has a positive but insignificant effect on *Sustainability Report*.

The size of the Board of Commissioners produces a *t-statistic value* of -1.475817 and a significance value of 0.1417> 0.05. This means that the size of the Board of Commissioners has a negative and insignificant effect on the *Sustainability Report*.

Audit Committee Size produces a *t-statistic* value of 2.317651 and a significance value of 0.0216 <0.05. This means that the Audit Committee Size has a significant positive effect on the *Sustainability Report*.

The coefficient of determination (R^2) shows that the *adjusted* R^2 is 0.531051, meaning that the *Sustainability Report* variable is influenced by Managerial Ownership, Institutional Ownership, Size of the

Board of Commissioners and Audit Committee Size by 53.10 percent and the remaining 46.90 percent is influenced by other factors not included in this study.

4.2. The Effect Corporate Governance and Sustainability Report on Company Value

4.2.1. Chow Test

Table 4. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	66.184600	(46,183)	0.0000
Cross-section Chi-square	674.443977	46	0.0000

Based on the Chow Test results in Table 4, it shows that the *cross section Chi-square* probability value is 0.0000 <0.05, meaning that the most appropriate model in estimating is the *Fixed Effect Model* (FEM).

4.2.2. Hausman Test

Table 5. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.516722	5	0.6209

Based on the Hausman Test results in Table 5, it shows that the *cross section random* probability value is 0.6209> 0.05, meaning that the most appropriate model in estimating is the *Random Effect Model* (REM). The selection of the *Random Effect Model* (REM) requires a Lagrange Multiplier Test to determine the type of model to be selected between the *Common Effect Model* and the *Random Effect Model*.

4.2.3. Lagrange Multiplier Test

Table 6. Lagrange Multiplier Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided

	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	391.1364 (0.0000)	0.998836 (0.3176)	392.1352 (0.0000)
Honda	19.77717 (0.0000)	-0.999418 -	13.27787 (0.0000)
King-Wu	19.77717 (0.0000)	-0.999418 -	4.635220 (0.0000)
Standardized Honda	20.92724 (0.0000)	-0.768124 -	9.767875 (0.0000)
Standardized King-Wu	20.92724 (0.0000)	-0.768124 -	2.234073 (0.0127)
Gourieroux, et al.*	-	-	391.1364 (< 0.01)

Based on the results of the Lagrange Multiplier Test in Table 6, it shows that the probability value is 0.0000 <0.05, meaning that the most appropriate model in estimating is the *Random Effect Model* (REM).

4.2.4. Random Effect Model (REM) Regression Model

Table 7. Random Effect Model (REM) Test Result

Dependent Variable: Company Value
Method: Panel EGLS (Cross-section random effects)
Sample: 2018 2022
Periods included: 5
Cross-sections included: 47
Total panel (balanced) observations: 235

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.639003	2.419855	1.090562	0.2766
Managerial Ownership	16.79505	22.17715	0.757313	0.4496
Institutional Ownership	0.813601	2.518532	0.323046	0.7470
Board of Commissioners	0.084411	0.159896	0.527913	0.5981
Audit Committee	-0.187176	0.293853	-0.636971	0.5248
Sustainability Report	0.048926	0.460714	0.106196	0.9155
Effects Specification			S.D.	Rho
Cross-section random			7.583009	0.9350
Idiosyncratic random			1.999064	0.0650
Weighted Statistics				
R-squared	0.004701	Mean dependent var		0.362058
Adjusted R-squared	-0.017030	S.D. dependent var		1.974983
S.E. of regression	1.991729	Sum squared resid		908.4393
F-statistic	0.216328	Durbin-Watson stat		1.656205
Prob(F-statistic)	0.955323			
Unweighted Statistics				
R-squared	0.009782	Mean dependent var		3.092255
Sum squared resid	13549.89	Durbin-Watson stat		0.111039

Based on table 7, the results of the F test show that the F statistic value is 0.216328 and the significance value is 0.955323> 0.05, meaning that the variables of Managerial Ownership, Institutional Ownership, Board of Commissioners Size, Audit Committee Size and Sustainability Report simultaneously (together) have no effect on Company Value.

Managerial Ownership produces a t-statistic value of 0.757313 and a significance value of 0.4496> 0.05. This means that Managerial Ownership has a positive but insignificant effect on Company Value.

Institutional Ownership produces a t-statistic value of 0.323046 and a significance value of 0.7470> 0.05. This means that Institutional Ownership has a positive but insignificant effect on Company Value

The size of the Board of Commissioners produces a t-statistic value of 0.527913 and a significance value of 0.5981> 0.05. This means that the size of the Board of Commissioners has a positive but insignificant effect on Company Value.

Audit Committee Size produces a t-statistic value of -0.636971 and a significance value of 0.5248> 0.05 This means that Audit Committee Size has a negative and insignificant effect on Company Value

Sustainability Report produces a t-statistic value of 0.106196 and a significance value of 0.9155 > 0.05. This means that Sustainability Report has a positive but insignificant effect on Company Value

The coefficient of determination (R^2) shows that the adjusted R^2 is -0.017030, meaning that the variables of Managerial Ownership, Institutional Ownership, Size of the Board of Commissioners, Size of the Audit Committee and Sustainability Report cannot explain variations in the Company Value variable

4.3. The Effect of Corporate Governance on Company Value Through Sustainability Report

Table 8. Sobel Test

Variabel	t hitung	p-value	Keterangan
Managerial Ownership * Sustainability Report → Company Value	-0.1061	0.9155	Hypothesis Rejected
Institutional Ownership * Sustainability Report → Company Value	-0.1038	0.9173	Hypothesis Rejected
Board of Commissioners * Sustainability Report → Company Value	-0.1059	0.9156	Hypothesis Rejected
Audit Committee * Sustainability Report → Company Value	0.1061	0.9155	Hypothesis Rejected

The results of the Sobel Test show that the effect of Managerial Ownership on Company Value through the Sustainability Report as a mediating variable produces a p-value of 0.915480> 0.05 with a Sobel Test Statistic of -0.106128. This means that Managerial Ownership has no significant effect on Company Value through Sustainability Report or indirectly Sustainability Report is not able to mediate the effect of Managerial Ownership on Company Value.

The Sobel Test results show that Institutional Ownership on Company Value through the Sustainability Report as a mediating variable produces a p-value of 0.917313> 0.05 with a Sobel Test Statistic of 0.103819. This means that Institutional Ownership has no significant effect on Company Value through Sustainability Report or indirectly Sustainability Report is not able to mediate the effect of Institutional Ownership on Company Value.

The results of the Sobel Test show that the effect of the Size of the Board of Commissioners on Company Value through the Sustainability Report as a mediating variable produces a p-value of 0.915644> 0.05 with a Test Statistic Sobel Test -0.105922. This means that the size of the Board of Commissioners has no significant effect on the Company's Value through the Sustainability Report or indirectly the Sustainability Report is not able to mediate the effect of the size of the Board of Commissioners on the Company's Value.

The results of the Sobel Test show that the effect of Audit Committee Size on Company Value through Sustainability Report as a mediating variable produces a p-value of 0.915515> 0.05 with a Sobel Test Statistic of 0.106085. This means that Audit Committee Size has no significant effect on Company Value through Sustainability Report or indirectly Sustainability Report is not able to mediate the effect of Audit Committee Size on Company Value.

V. CONCLUSION

The conclusion shows that Managerial Ownership an Audit Committee Size have a significant effect on Sustainability Report, but Institutional Ownership and Board of Commissioners Size have no significant effect on Sustainability Report. Managerial Ownership, Institutional Ownership, Board of Commissioners Size, Audit Committee Size have no significant effect on Company Value. Sustainability Report has a positive but insignificant effect on company value. Sustainability report is not able to mediate the influence of Managerial Ownership, Institutional Ownership, Board of Commissioners Size, Audit Committee Size on Company Value. Managerial ownership, institutional ownership, board of commissioner size and audit committee size simultaneously (together) affect the Sustainability Report. Managerial ownership, institutional ownership, board of commissioner size, audit committee size and Sustainability Report simultaneously (together) have no effect on Company value.

This study is only limited to the observation year, namely only five years from 2018 to 2022, so that the sample used is still small. For future researchers, it is hoped that they can increase the research time period.

REFERENCES

[1]. Boediono. (2015). Earnings Quality: A Study of the Effect of Corporate governance Mechanisms and the Impact of Earnings Management Using Path Analysis. *Simposium Nasional Akuntansi*, 15–26.

[2]. Capital Market Supervisory Agency, C. M. S. A. (2002). *Guidelines For Presentation And Disclosure Of Financial Statements Of Issuers Or Public Companies*. Capital Market Supervisory Agency.

[3]. Clarista, & Devie. (2017). The Effect of Corporate Governance on Firm Value with Earning Quality as an Intervening Variable in Companies Listed in LQ45. *Business Accounting Review*, *5*(1), 265–276.

[4]. Fauzi, A. S., Suransi, N. K., & Alamsyah. (2016). The Effect of GCG and CSR on Firm Value with Profitability as a Moderating Variable. *InFestasi*, *2*(1), 1–19. https://doi.org/DOI: https://doi.org/10.21107/infestasi.v12i1

[5]. Febriyanti, G. A. (2021). The Effect of Sustainability Reporting on Firm Value with Leverage as a Moderating Variable. *Jurnal Akuntansi Dan Pajak*, *22*(1), 366–378.

[6]. Githaiga, & Kosgei. (2022). Board characteristics and sustainability reporting. A case of listed firms in East Africa. *Corporate Governance International Journal of Business in Society*, *37*(4), 134–144.

[7]. Global Sustainability Standards Board. (2016). *GRI Sustainability Reporting Standards*.

[8]. Gunawan, & Mayangsari. (2015). The Effect of Sustainability Reporting on Firm Value with Investment Opportunity as a Moderating Variable. *Jurnal Akuntansi Trisakti*, *2*(1), 1–14.

[9]. Gustiana. (2019). The Effect of Corporate Governance and Company Size on Financial Performance and Firm Value with Sustainability Reporting as an Intervening Variable. *Jurnal Riset Akuntansi Dan Perpajakan*, *6*(2), 81–96.

[10]. Janggu, T. (2014). Does Good Corporate Governance Lead To Better Sustainability Reporting? An Analysis Using Structural Equation Modeling. *Procedia - Social And Behavioral Sciences*, *145*, 138–145.

[11]. Jouha, F. (2015). Effect Corporate Governance on Corporate Financial and Market Performance with Sustainability Reporting as Intervening Variable. *South East Asia Journal of Contemporary Business, Economics and Law*, *6*(2), 78–99.

[12]. Kurniawan, T., Sofyani, H., & Rahmawati, E. (2018). Sustainability Report Disclosure and Firm

Value: An Empirical Study in Indonesia and Singapore. *Jurnal Ilmiah Akuntansi*, *16*(1), 1–20.

[13]. Kuzey, A., & Uyar. (2017). Determinants of sustainability reporting and its impact on firm value: evidence from the emerging market of Turkey. *Journal of Cleaner Production*, *143*(1), 245–267.

[14]. Meidawati, & Mildawati. (2016). Effect of Size, Growth, Profitability, Capital Structure, Dividend Policy on Firm Value. *Jurnal Ilmu Dan Riset Akuntansi*, *5*(1), 1–16.

[15]. Muhammadinah, & Litriani, E. (2018). *Practical Econometrics for Economics and Business*. Intelegensia Media.

[16]. Perdana, & Raharja. (2014). Analysis of the Effect of Corporate Governance on Company Value. *Diponegoro Journal of Accounting*, *3*(3), 1–13.

[17]. Siagian, Ferdinand, Siregar, Sylvia, & Rahadian, Y. (2013). Corporate Governance, Reporting Quality, and Firm Value: Evidence From Indonesia. *Journal of Accounting in Emerging Economies*, *3*(1), 4–20.

[18]. Susbiyani, A., Agustin, A. D., & Maharani, A. (2022). The Effect of Good Corporate Governance on Firm Value in Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange. *Jurnal Riset Akuntansi Dan Bisnis*, *9*(1), 16–25.

[19]. Windah, & Fidelis. (2013). The Effect of Corporate Governance Implementation on the Financial Performance of Companies Surveyed by the Indonesian Institute Perception Governance (IICG) Period 2008-2011. *Jurnal Ilmiah Surabaya*, *20*(1), 236–254.

[20]. Yuliusman, & Kusuma. (2020). The Relationship between Good Corporate Governance and Firm Value Moderated by Corporate Social Responsibility Disclosure and Profitability. *Jurnal Akuntansi Dan Pajak*, *21*(1), 18–29.

Corresponding Author: Ferlini Indah Saputri[1]
[1]Master of Economic, Sriwijaya University, Indonesia