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DETERMINANT OF SUSTAINABILITY PERFORMANCE: DIVERSIFICATION, CORPORATE GOVERNANCE AND INTELLECTUAL CAPITAL

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Abstract. *This study aims to examine whether diversification, impacts good corporate governance proxied by the board of directors, independent commissioners, audit committees, and institutional ownership and intellectual capital on sustainability performance. This research is an exploration of previous studies regarding sustainability performance. This study uses LQ45 index companies as a research sample in the 2020-2022 period. Determination of the sample was carried out using a purposive sampling method to obtain 22 companies that met the criteria. The analytical method used is Panel Data Regression Analysis. The results of the study show that independent commissioners and intellectual capital have a significant effect on sustainability performance, while diversification, board of directors, audit committees, and institutional ownership do not affect sustainability performance.*

Keywords: Sustainability Performance, Diversification, Corporate Governance, Intellectual Capital

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Introduction

Sustainability has become a critical problem for organization in recent years. The concept of sustainability emerged because stakeholder synergy with companies has increased not only in the economic aspect but also developed in the social and environmental aspects. High awareness of the public and entrepreneurs regarding business sustainability and the need for sustainable development and preservation of natural resources are the main triggers for implementing sustainability reports in Indonesia. Sustainability performance is a long-term aggressive benefit that is used to obtain economic advantages for the business enterprise by considering its effect on the environment and society and no longer sacrificing the desires of its stakeholders. Sustainability performance is disclosed in sustainability reports prepared based on GRI Standards.

In Indonesia, sustainability reports are mandatory reports for public companies based on Financial Services Authority Regulation Number 51/POJK.03/2017. Since this sustainability report has been made mandatory, the Indonesian Stock Exchange (BEI) has recorded an increase in sustainable investment in the Indonesian capital market which is in line with the increase in assets from issuers that apply good ESG (Environment, Social, Governance) principles. At the end of 2020, total managed funds reached IDR 3.06 trillion, while in the first semester of 2021, total managed funds reached IDR 2.54 trillion (Liputan6, 2021).

The first factor that influences sustainability performance is diversification. In portfolio theory, companies choose to use a diversification strategy to reduce risk and maximize profits so that they can improve the company's sustainability performance (Pertiwi and Suhartini, 2022). Corporate diversification is a form of business development by expanding the number of business segments and geographic segments as well as expanding existing market shares or developing various products to maximize the size and diversity of the business so that stakeholders can obtain high profits from several business segments they own (Wiwoho, 2014).

Previous research conducted by (Sumail and Mappamiring, 2015) concluded that diversification does not influence the sustainability of Sharia banking companies in Makassar City. Research conducted by (Fajriyanti, 2021) proves the positive influence of diversification on sustainability performance. Research conducted (Wiryani, 2019) succeeded in proving that diversification as proxied by the feminism of the board of directors has a negative influence on sustainability performance.

The second factor that may has impact on sustainability performance is corporate governance. Corporate governance itself can be proxied by the number of board of directors, independent commissioners, audit committees, and managerial ownership. Corporate governance itself is a term for the implementation of good corporate governance. Effective corporate governance shows that the company supports sustainable development through the quality of information disclosed in both financial reports and sustainability reports. Companies must convey information to their stakeholders accurately, timely and transparently regarding all company performance information (Katoppo and Nustini, 2022).

The third factor that may has impact on sustainability performance is intellectual capital. Intellectual capital is a company's internal resources with certain characteristics that can create value for the company based on a resource-based view. Companies that possess valuable and rare resources are more likely to gain sustainable competitive advantage. Intellectual capital is considered a driver of company performance, creating competitive advantage and sustainability in business (Agustia, 2021).

Previous research conducted by (Agustia, 2021) shows that intellectual capital has a significant effect on sustainable growth. Research conducted by (Fajriyanti, 2021) proves the positive influence of intellectual capital on sustainability performance.

Based on the background described above and the importance of research on sustainability performance to answer the phenomenon of increasing investment as a result of the implementation of sustainability reports in public companies, the author is interested in researching sustainability performance with variables, samples and research methods that are different from previous researchers.

Literature Review and Hypothesis Development

Stakehoder Theory

According to Ghozali and Chariri (2007) in Devi, et al (2017): Stakeholder theory states that a business enterprise isn't an entity that handiest operates for the gain of the organization, however should provide other benefits to stakeholders of entities (shareholders, lenders, consumers, suppliers, analysts, personnel, authorities, and other parties such as society who are a part of the social surroundings).

Sustainability Report

According to Manisa & Defung, (2018) Sustainability Report (SR) is a form of company responsibility towards the environment for social care and environmental responsibility without ignoring the company's capabilities. In carrying out this obligation, the company must pay attention to and respect the cultural traditions of the community around the location of the business activities.

A sustainability report is a report published by a company to provide information on company activities and the results of a company's social and environmental responsibility.

Sustainability Performance

Based on the AA1000AS standard, corporate sustainability performance is the total of organizational performance which includes organizational policies, decisions taken and organizational actions in creating economic, social and environmental value for the company. The triple bottom line which simultaneously integrates economic, social and environmental performance is widely applied to operationalize sustainability performance.

At the company level, three dimensions (economic, social, environmental) are accepted descriptively as the company's performance in sustainability or corporate sustainability performance (Saufi et al, 2016).

Corporate Governance

According to KNKG (2006) the implementation of good corporate governance (GCG) can be encouraged from two sides, namely ethics and regulations. Ethics (ethical driven) is the awareness of individual business actors to carry out business activities that prioritize the survival of the company, the interests of stakeholders, and avoid ways of creating temporary profits. Meanwhile, regulations (regulatory driven) are forced to comply with applicable laws and regulations.

Corporate Governance is a term that defines the implementation of good corporate governance. The effectiveness of corporate governance shows that the company supports sustainable development through the quality of the information it discloses.

Intellectual Capital

According to Abidin (2000), intellectual capital is still not widely known in Indonesia. Until now, companies in Indonesia tend to use conventional bases in building their business so that the products produced are still poor in technological content. On the other hand, these companies have not paid more attention to human capital, structural capital and customer capital. In fact, all of this is an element of building the company's intellectual capital. This conclusion can be drawn because of the lack of information about intellectual capital in Indonesia.

Hypothesis Development

The Effect of Diversification on Sustainability Performance

Portfolio theory explains why companies or investors choose a diversification strategy because diversification can reduce risk which can maximize profits and help companies improve performance so that it will have an effect on the company's sustainability. The aim of this diversification is to create a competitive advantage by generating other new income. Research results (Fajriyanti, 2021) prove that there is a positive influence of diversification on sustainability performance.

The Influence of Corporate Governance Indicators on Sustainability Performance

The theory related to this research is stakeholder theory. Stakeholder theory states that a company is not an entity whose activities are only for its own benefit, but must also provide benefits to its stakeholders, including shareholders, creditors, consumers, suppliers, government, society, analysts and other parties. According to this theory, the survival of a company depends on the company's treatment of its stakeholders. The company will give its best to improve the company's image so that it is better known to stakeholders. One way is to implement good corporate governance and disclose information to communicate with stakeholders. This information is summarized in a sustainability report.

Several studies related to good corporate governance and ownership structure on sustainability report disclosures, namely research by Nugroho and Purwanto (2013), the results show that leverage, type of industry, size of the board of commissioners and audit committee have a significant effect on triple bottom line disclosure.

The Effect of Intellectual Capital on Sustainability Performance

Intellectual capital is the main driving force for sustainable company growth. Intellectual capital components such as scarce physical capital give companies a competitive advantage and direct companies to have good long-term performance. Companies need all the abilities of employees to be efficient in production, create competitive advantages and achieve maximum sustainability performance. Research conducted by (Fajriyanti, 2021) proves the positive influence of intellectual capital on sustainability performance.

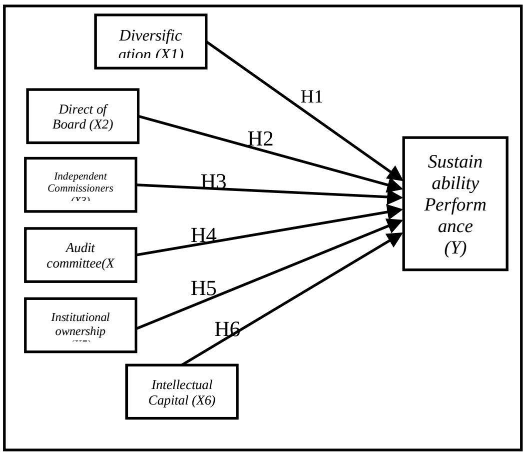

Fig. 1 Research framework

Research Methods

This research is research with an associative causality approach using quantitative data. The population in this research is the LQ45 index companies listed on the Indonesia Stock Exchange during 2020-2022, totaling 45 companies. After going through purposive sampling, the sample in this study was selected as 22 companies, and with 3 years of observation the total number of observations was 66. The operational variables used in this study include the following:

Table 1. Operational Variables

Variable	Indicator	Scale
Sustainability Performance (Katoppo dan Nustini, 2022)	$SRDi = \frac{SSRDi}{SSRMAX}$	Ratio
Diversification (Pertiwi dan Suhartini, 2022)	$\text{IDIV} = 1 - \frac{(Net\ Interest\ Income - Other\ Operating\ Income)}{Total\ Operating\ Income}$	Ratio
Board of Direct (Malik,2022)	$Direct\ of\ Board = \sum Direct\ of\ Board$	Ratio
Komisaris Independen (Katoppo dan Nustini, 2022)	$KI = \frac{\sum Independent\ commissioner}{\sum board\ of\ commissioner}\ x\ 100\%$	Ratio
Komite Audit (Katoppo dan Nustini, 2022)	$KA = \sum committee\ Audit$	Ratio
Kepemilikan Institusional (Tanasya dan Handayani, 2020)	$KIns = (\sum Institutional\ Ownership)/(\sum number\ of\ shares\ outstanding)$	Ratio
Intellectual Capital (Pertiwi dan Suhartini, 2022)	$VAIC™ = VACA + VAHU + STVA$	Ratio

Source: Data processed by the author, 2023

The data processing technique used in this research uses panel data regression by testing several models including CEM, FEM and REM. These models were selected by testing the Chow test, Hausman test and LM test, then the selected models will be used to analyze the answers to the research hypothesis. To answer the research hypothesis, the data analysis used is the T test, F test and coefficient of determination.

Results and Discussions

In this research, the population used was all 45 LQ45 index companies on the Indonesia Stock Exchange (IDX) during 2020-2022. Determining the sample in this research use a non-probability sampling, namely purposive sampling. The sample selection process is presented in table 2, as follows:

Table 2. Selection of Sampling

	Criteria	Total
1	LQ45 index company listed on the Idx.	45
2	Companies that are not included in the LQ45 index in a row during 2020-2022.	(12)
3	Publish audited financial reports consecutively for the 2020-2022 period.	(0)
4	Publish sustainability reports consecutively for the 2020-2022 period.	(8)
5	The data needed for consecutive research for the 2020-2022 period.	(3)
Number of Research Samples		**22**
Research Year (2020-2022)		**3**
Total Research Period 2020-2022 (22 samples x 3 years of research)		**66**

Source: www.idx.co data processed by the author, 2023

Table 3. Results of Common Effect Model Panel Data Regression Analysist

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.331563	0.207281	1.599585	0.1150
X1	0.100930	0.231640	0.435721	0.6646
X2	-0.014456	0.011788	-1.226311	0.2250
X3	0.473634	0.218210	2.170540	0.0340
X4	0.028774	0.014381	2.000865	0.0500
X5	0.172749	0.194147	0.889785	0.3772
X6	0.001084	0.000409	2.653626	0.0102

Root MSE	0.141949	R-squared	0.243361
Mean dependent var	0.794505	Adjusted R-squared	0.166414
S.D. dependent var	0.164438	S.E. of regression	0.150134
Akaike info criterion	-0.854579	Sum squared resid	1.329865
Schwarz criterion	-0.622343	Log likelihood	35.20110
Hannan-Quinn criter.	-0.762811	F-statistic	3.162731
Durbin-Watson stat	1.246699	Prob(F-statistic)	0.009313

Source: Eviews 9.0

Hypothesis testing in this research uses panel data regression analysis with the Common Effect Model (CEM).

The Effect of Diversification on Sustainability Performance

The research results show that diversification has no effect on sustainability performance. Differences types of company revenue do not affect the company's sustainability performance, because having too many sources of income can have a negative effect on the company, namely not focusing on product excellence and superior product innovation.

This research are in line with research conducted by (Sumail and Mappamiring, 2015) where diversification has no influence on the sustainability of sharia banking companies in Makassar City.

The Impact of the Board of Directors on Sustainability Performance

The research results show that the board of directors has no effect on sustainability performance. Management of the company does not directly has impact on sustainability performance, but there are other factors outside the company such as environmental and social factors that cannot be predicted and cannot be controlled by internal management alone.

This research are in line with research conducted by (Purbandari and Suryani, 2021) which concluded that the board of directors has no effect on sustainability reporting.

The Impact of Independent Commissioners on Sustainability Performance

The research results show that independent commissioners have an impact on sustainability performance. Supervision by independent parties who are impartial and have no personal interest in the company is considered to be more critical and firm regarding weaknesses in the company's internal controls and the company's business plans. This supports better sustainability performance when the company makes improvements to the weaknesses highlighted by the independent commissioner.

This research are not in line with research conducted by (Abdulrahim, 2020) which succeeded in proving that independent commissioners have an effect on sustainability performance.

The Effect of the Audit Committee on Sustainability Performance

The research results show that the audit committee has no effect on sustainability performance. The number of audit committees in the company does not affect how effective the monitoring of the company's internal control is, so this is not enough to provide strong support for the company to improve its sustainability performance.

This research are not in line with research conducted by (Purbandari and Suryani, 2021) which concluded that the audit committee has an impact on sustainability reporting.

The Impact of Institutional Ownership on Sustainability Performance

The research results show that institutional ownership has no impact on sustainability performance. Ownership of a company by another company does provide support both financially and managerially for the company, but this does not necessarily support increased company performance.

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The ownership of other companies is not always in the same type of business, so it is possible that intervention from the owning company will make differences in management so that the company does not have its own identity that supports the company's progress.

This research are not in line with research conducted by (Abdulrahim, 2020) which succeeded in proving that institutional ownership has an effect on sustainability performance.

The Impact of Intellectual Capital on Sustainability Performance

The research results show that intellectual capital has an impact on sustainability performance. The intellectual capital owned by the company helps the company survive in industrial business competition. A company's ability to survive depends on the capital it has, both from capital resources and the company's employees within it.

This research are in line with research conducted by (Agustia, 2021) showing that intellectual capital has a significant effect on sustainable growth. Research conducted by (Fajriyanti, 2021) proves the positive impact of intellectual capital on sustainability performance.

Conclusions

This research shows that independent commissioners and intellectual capital have a significant effect on sustainability performance. Meanwhile, diversification, board of directors, audit committee and institutional ownership have no effect on sustainability performance.

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