AKRUAL: Jurnal Akuntansi *Vol 14, issue 2, April 2023*
p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

Corporate Governance and Sustainability Report in Indonesia: Systematic Literature Review Approach

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Abstract

This study examines the literature on corporate governance with sustainability reports to respond to the subsequent questions: How is the development of corporate governance research integrated with sustainability reports in Indonesia, and what governance mechanisms affect sustainability reporting. This study uses a systematic literature review approach to answer the research problem. Using the keywords: sustainability reporting and sustainability report, 19 articles were found sourced from national accounting, economic and business journals in the SINTA 1 to SINTA 4 categories from 2016 to 2020. This review finds governance variables associated with the sustainability report, categorised as Audit Committee, Board of Directors, Board of Commissioners, Ownership, Stakeholders Pressure, and other variables that do not fall into the five categories. The most widely used variables were the audit committee meeting (8 articles), the Boards of Directors Meeting, Managerial ownership, and the Independent Board of Commissioners variables (4 papers). The amount of research in the accounting field about governance and sustainability reports is still minimal with mixed results, so sustainability report researchers need to conduct a broader and in-depth study. Further research opportunities can be directed by examining the role of governance in sustainability reports for the public sector. Research priorities can be directed toward Audit committee independence, Effectiveness of the Board of Commissioners, Family and Foreign ownership, and Stakeholder pressure.

Keywords: *corporate governance; sustainability report; systematic literature review*

JEL Classification: M40; M41

Article History: Received: October, 20st 2021 Revised: February 7th 2022 Accepted: September 19th 2022 Published: April 2nd 2023
How to cite: Daud, R. et al. (2023). Corporate Governance and Sustainability Report in Indonesia: Systematic Literature Review Approach. *AKRUAL: Jurnal Akuntansi, 14(2), 161-175 DOI: 10.26740/jaj.v14n2.p161-175*
Conflict of Interest Statement: There is no conflict of interest in the articles resulting from this research.

INTRODUCTION

In the 20th century, sustainability quickly became an important business activity. The initiation of corporate sustainability requires skills, knowledge, and insight. This critical part cannot be separated from the decision-making process, accounting practices, and reporting in public and private sectors (Landrum & Ohsowski, 2018; Adams et al., 2014).

Many researchers analyse the issue of sustainability because this issue has become an essential issue for companies (Zairi, 2002). Some research focuses on sustainability topics in specific countries (O. Augustine et al., 2020; Laskar & Gopal Maji, 2018), while other studies address general issues (Hahn & Kühnen, 2013). Several studies were analysed on sustainability and dissimilar sustainability topics (Meutia et al., 2021).

Several studies on sustainability reporting in Asia were found to be conducted in China (Shen et al., 2020), India (Aggarwal & Singh, 2019), Pakistan (Iqbal et al., 2018), Singapore (Hamid & Othman, 2019), and Malaysia (Ismail & Latiff, 2019). Meanwhile, there are only a few studies found in other Asian countries. Belal and Cooper (2011) stated that sustainability reports research conducted in Asian countries is still lacking. The study was instead regarded as "underdeveloped" and poorer.

Companies are expected to increase shareholder value in the long term while mitigating their respective relationships with society and reducing negative impacts on the environment. Corporate governance fights for stakeholders' interests by managing their interactions with diverse environmental conditions (Bhatt & Bhatt, 2017). The principles of accountability and transparency in corporate governance have an essential role in supporting the sustainability reports initiations.

The commitment of corporate governance to sustainability is significant for the organisation. However, this area is still not much explored (Mashayekhi, 2019; Dienes et al., 2016). Sustainability analysis is still in its embryonic stage, and critical issues regarding the convergence of corporate governance, frameworks, measurements, and empirical methods remain to be addressed (Landrum & Ohsowski, 2018; Önder & Baimurzin, 2020).

Research on the relevance of governance to sustainability reporting in Indonesia is essential. Nevertheless, very few studies in Indonesia have provided evidence of progress in sustainability reporting related to governance. Previous research has only identified accounting research topics in Indonesia and the agenda for future accounting research (SeTin et al., 2016). Based on the phenomenon of previous studies and the assumption that analysis on sustainability reports will increase and become an important topic, this paper analyses the relevance of corporate governance to sustainability report research in Indonesia for the 2016-2020 period.

This study contributes to providing evidence on the relevance of governance to sustainability report research to support sustainability reporting activities that can positively contribute to running its business (Keiner, 2006; Visser, 2007). A deeper analysis of sustainability report research must be conducted to explore this phenomenon. Indonesia's uniqueness and situation also demand more investigation that applies various research methods to develop insights and get a holistic view of the study of sustainability reports (Barkemeyer et al., 2015).

This study examines the literature on corporate governance and integration with sustainability reports to answer these research questions (1) Question 1. How is corporate governance research integrated with sustainability reports in Indonesia?, (2) Question 2. What governance mechanisms affect sustainability reporting?

In the next section, this paper will discuss theory and literature review, followed by the method used in conducting this systematic literature review. The following section will present the data from the review and discuss the direction of research on sustainability

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

reports concerning corporate governance. The final section will show this study's conclusions, limitations, and implications.

There are three theories related to corporate governance. These three theories (agency, stewardship, and resource dependence) help researchers understand how a company's sustainability performance is affected by the Board of directors. Agency Theory explains that the Board of directors can monitor the company on behalf of shareholders (Fama & Jensen, 1983). According to Stewardship Theory, managers are not agents as understood in Agency Theory but are custodians of company assets.

Meanwhile, the idea of resource dependence explains how the Board distributes limited resources. The dominance of Agency Theory in governance research has emerged since the writings of (Jensen & Meckling, 1976). This theory has very well explained the relationship between manager and owner. The separation of ownership and control causes a mismatch between the interests of managers and the interests of shareholders.

According to Stewardship Theory, managers are parties who are trusted to manage company assets. As described in agency theory, the relationship between managers and company owners is not an agency relationship. In the Stewardship Theory, the duality of CEO and chairman is essential so that the power and authority of the company focus on one person. While Agency Theory supports separating these two functions (Rahim, 2019).

Resource Dependency Theory is a theory that also discusses corporate governance, specifically related to the role of the Board of directors. Pfeffer and Salancik first put the theory forward (1978), which has become one of the most influential theories in corporate governance research. Hillman et al., (2009) stated that Resource Dependence Theory provides a more appropriate perspective to explore the role of the Board of directors.

Several researchers have also analysed the governance role in the company's sustainability performance, both in developed countries (Baraibar-Diez & D. Odriozola, 2019; Arayssi et al., 2016; Ong & Djajadikerta, 2018) as well as in developing countries (Jamil et al., 2020; Kocmanová & Šimberová, 2014). According to Elsayed and Ammar (2020), good governance should positively influence sustainability performance. This is because the implementation of governance and sustainability are met through a "triple bottom line" in the company's boardroom (Vig & Datta, 2021).

RESEARCH METHOD

This study uses a structured literature review (SLR) method. SLR is a method to examine the corpus of scientific literature and develop insights, critical reflection, and future research paths. SLR is typical in disciplines dominated by quantitative approaches, but SLRs can be adapted in accounting studies because quantitative and qualitative methods are generally accepted (Massaro et al., 2016). SLR is a method that has been widely used in accounting research such as (Manetti et al., 2021; Azzari et al., 2020).

This research uses the keywords: sustainability reporting, sustainability report, and sustainability report to find articles. Sources of articles come from national accounting, economic and business journals accredited by the Ministry of Research, Technology, and Higher Education SINTA 1 to SINTA 4. This process resulted in 122 articles. Then in the next stage, two researchers read the title and abstract of the article to find out whether there were keywords: governance, governance, or other elements of governance such as audit committee, Board of directors, ownership structure. This process eventually resulted in 19 articles.

RESULTS AND DISCUSSION

Descriptive Analysis

The figure below shows the trend of sustainability report research related to governance since 2016. In 2016 there was no sustainability report research in Indonesia related to governance. However, in the following year, sustainability report research in Indonesia began to identify governance variables as variables that were thought to affect sustainability reports. There was a doubling of articles in 2020 compared to 2017. In 2017 there were 4 articles, 2018 (2 articles), 2019 (5 articles); 2020 (8 articles).

Table 1. Papers by Theory

Theories	Articles	Percentage
Agency theory	2	11%
Legitimacy Theory	3	16%
Legitimacy Theory and Agency Theory	1	5%
not spesific	2	11%
Signalling Theory	1	5%
Stakeholder Theory	2	11%
Stakeholder Theory and Legitimacy Theory	5	26%
Stakeholder Theory and RBV Theory	1	5%
Stakeholder theory, Legitimacy Theory, and Agency Theory	2	11%
Total	19	100%

Source: data processed

There are four theories used in research regarding the relevance of governance to SR. These four theories are Legitimacy Theory, Agency Theory, Stakeholder Theory, and Signal Theory. However, some studies use two theories at once: Legitimacy Theory and Agency Theory (Diono et al., 2017) or Stakeholders and Legitimacy Theory (Sinaga, 2017; Sonia & Khafid, 2020). In addition to the theory commonly used in research on sustainability reports, one theory, namely the Resources - Based View (RBV) Theory, is used in one study (Tangke & Habbe, 2017). This research uses Stakeholder Theory as the leading theory and RBV as a supporting theory. RBV Theory is used to derive specific asset variables.

According to Calvo and Calvo (2018), Agency Theory and Stakeholder Theory are two views with different approaches to corporate governance. Agency Theory analyses the relationship between shareholders and managers to ensure that investors get the maximum return (Eisenhardt, 1989; Donaldson & Davis, 1991). The basis of Stakeholder Theory is formal and informal relationships, discussing controls and how stakeholders benefit according to the risks they have to bear (Calvo & Calvo, 2018; Zolotoy et al., 2021).

Based on the research methods used in research on Governance and SR, eighty-four percent of the studies used a content analysis approach (16 articles). Only sixteen percent use a non-content analysis approach or are classified as an archival method (3 articles).

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

Archival research does not conduct a content analysis on sustainability reports but uses data from financial statements.

Table 2. Sustainability Report Measurement

SR Measurement	Articles	Percentages
Content analysis, pages, and assurance statement	3	16%
GRI Index	11	58%
SR Adopting	4	21%
Tobin's Q	1	5%
Total	19	100%

Source: data processed

Table 2 shows how researchers measure the sustainability report variables. The GRI index is the most common measurement technique used in research on sustainability. This index is obtained by calculating the item's disclosures in the sustainability report or also in the company's annual report. Then the number of items disclosed is divided by the amount that should be disclosed according to the guidelines. The result of this division produces an index or ratio. In the articles reviewed, apart from finding measurements using an index, measurements of the SR variable were also found using a dummy, namely in the research (Safitri & Saifudin, 2019; Madona & Khafid, 2020; Triwacananingrum, 2018; Lucia & Panggabean, 2018). These papers only examine whether companies adopt sustainability reports or not.

Different measurements of the sustainability variable are found in research (Alfaiz & Aryati, 2019; Herawaty et al., 2021; Rudyanto & Veronica Siregar, 2018). These three studies use sustainability report quality. In determining the quality of SR using factors from content analysis, the number of pages, and sustainability report assurance. One of the articles uses Tobin's Q to measure sustainability, considering the value comes from operating value, debt value, and equity value. So, according to researchers, Tobin's Q can be a proxy for sustainability.

Corporate Governance Mechanism

Following the research objectives, to identify the relevance of governance to the sustainability report, the researchers grouped all independent variables related to governance. The results of these groupings are shown in figure 1 below.

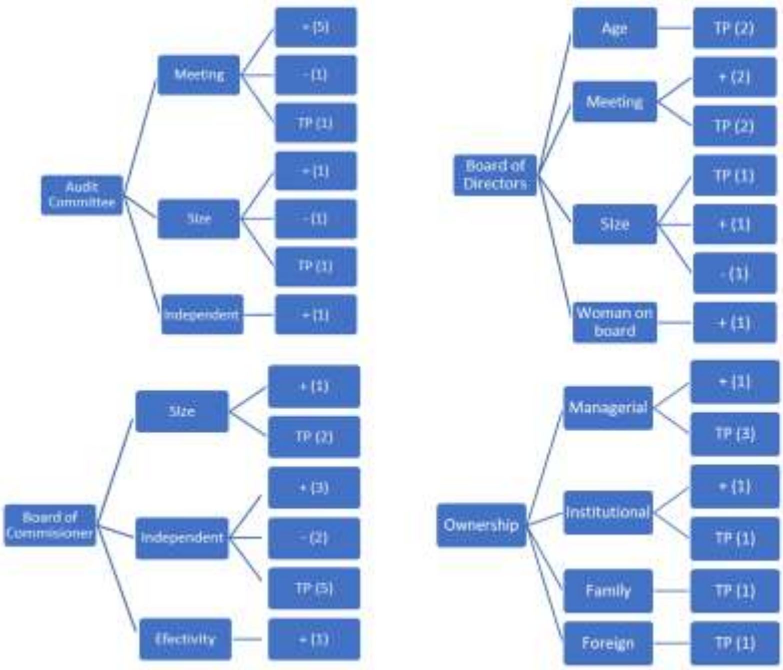

Figure 1. Findings of Governance Mechanism

Audit Committee

Regarding the relationship between the Audit committee meeting and the Sustainability Report, five articles showed positive results, two articles failed to prove any influence, and one article showed a negative effect. Of the 19 articles that examine the relevance of governance to sustainability reports, only three articles explore the relationship between audit committee size and sustainability reports. These three articles show different results. Yunan et al., (2021) proved a negative relationship, Sonia and Khafid (2020) found a positive relationship, and (Aliniar & Wahyuni, 2017) failed to demonstrate any relationship. The inconsistency of these results requires further evidence to confirm the actual results.

Only one article analyses the relationship between the Independent Audit Committee and the Sustainability Report (Latifah et al., 2019). This study proves that Independent Audit Committee and the Sustainability Report have a positive relationship. This research was conducted in state-owned enterprises with a minimal number of units of analysis, namely 43 units of analysis. Further proof of this variable is still needed with different samples and units of study that need to be expanded.

Board of commissioners

Board of commissioners' size and Sustainability Report of the three articles that tested the variable Board of commissioners size, only one proved a positive relationship (Diono et al., 2017). Two papers (Aliniar & Wahyuni, 2017; Safitri & Saifudin, 2019) cannot verify the relationship between these two variables. This finding needs to be confirmed to prove the influence of the Board of commissioners size on sustainability reports considering that the unit of analysis in the study (Aliniar & Wahyuni, 2017) is minimal, less than 50. Meanwhile, Safitri and Saifudin (2019) use the LQ45 company. Meanwhile, research (Diono et al., 2017) uses all listed companies as the object of research.

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

The Board of commissioners' independent is a variable that attracts a lot of attention from researchers. However, of the ten articles using this variable, five of them failed to prove the relationship between the Independent Board of commissioners and the Sustainability Report (Indrianingsih & Agustina, 2020; Herawaty et al., 2021; Triwacananingrum, 2018; Latifah et al., 2019; Sinaga, 2017). Three articles prove a positive influence (Yunan et al., 2021; Aliniar & Wahyuni, 2017; Diono et al., 2017), while two other articles (Madona & Khafid, 2020; Hamidah & Arisukma, 2020) prove a negative influence.

The research by Rudyanto and Siregar (2018) is the only one of the articles reviewed that uses this variable and has succeeded in proving the positive influence of the Board of commissioner effectiveness on the Sustainability Report. However, further exploration of this variable is needed in a different context. It is crucial to provide more robust evidence regarding the relevance of the Board of commissioner effectiveness to the Sustainability Report.

Boards of Directors

Two articles (Amaliyah & Solikhah, 2019; Herawaty et al., 2021) try to examine the influence of the Board of Directors' Age on the Sustainability Report. But unfortunately, these two writings can not prove the existence of any impact.

Four articles that examine the relevance of Boards of Directors Meeting to the sustainability report, two articles found a positive influence (Latifah et al., 2019; Sinaga, 2017), while two other articles failed to prove any effect (Lucia & Panggabean, 2018; Indrianingsih & Augustine, 2020).

Three articles examine the relevance of the Boards of Director's Size to the Sustainability Report; these three articles conclude with mixed results. Amaliyah and Solikhah, (2019) did not find any effect; Hamidah and Arisukma, (2020) proved a negative effect, while Herawaty et al., (2021) proved a positive influence. The inconsistency of these findings encourages further research on this variable.

Ownership Structure

Four ownership structures concern researchers in assessing their relevance to sustainability reports. The ownership structure is one factor that influences the sustainability report. Of the four articles that examine the relevance of managerial ownership to sustainability reports, one proves a positive influence (Amaliyah & Solikhah, 2019), the other three articles cannot prove there is any influence (Latifah et al., 2019; Madona & Khafid, 2020; Triwacananingrum, 2018).

Two articles that examine the relevance of institutional ownership to sustainability reports show inconsistent results. Aliniar and Wahyuni (2017) found a positive effect, while (Amaliyah & Solikhah, 2019) did not find any effect. Two other forms of ownership structure, namely family ownership and foreign ownership, were examined in one article (Rudyanto & Siregar, 2018; Tangke & Habbe, 2017), neither of which found any effect.

The existence of the Governance Committee

Of all the articles reviewed, three articles examine the relevance of the existence of the

Governance Committee to the sustainability report. Two articles, Safitri and Saifudin (2019) and Triwacananingrum (2018) prove the positive influence of this variable on sustainability reports, while one article (Hidayah et al., 2019) does not verify any effect.

Stakeholders Pressure

Many parties consider Stakeholder Pressure as one of the external mechanisms that may affect the company's sustainability report. Four types of stakeholder pressure are examined in the articles reviewed: Consumer pressure, Employee pressure, Environment pressure, and Shareholder pressure studied by (Alfaiz & Aryati, 2019). Consumer and employee pressure were found to have a positive impact, environmental pressure had no effect, and Shareholder pressure had a negative effect.

CEO duality

The Chief Executive Officer (CEO), who also serves as chairman of the Board, is commonly known as "CEO duality." In the last two decades, CEO duality has been one of the most discussed corporate governance issues since the Enron and WorldCom Inc scandals. This scandal points to the possibility that duality allows the CEO to have excessive influence over the Board, thereby compromising the ability of the Board to exercise proper control over essential company policies (Hsu et al., 2021). One article examines CEO duality, namely (Hamidah & Arisukma, 2020), but it does not prove any influence of CEO duality on sustainability reports.

Future Research Directions

Research on the relevance of governance to sustainability reports in the 2016-2020 period is still minimal. It is evidenced by the fact that only nineteen articles were found. This finding opens opportunities for researchers to conduct or develop research on the governance of sustainability reports in Indonesia.

Eighty-four percent of the articles reviewed used content analysis in analysing sustainability reports, while 16 percent only looked at whether the company compiles a sustainability report or not. Where all articles use a quantitative approach, this approach needs to be developed further by using other analytical techniques to examine the practice of sustainability reporting concerning corporate governance more deeply.

There are four theories used in the articles reviewed: Legitimacy Theory, Agency Theory, Stakeholder Theory, and Signal Theory. Considering that several theories have not been widely used, further testing is needed to study this phenomenon. According to Husain et al. (2018), two theories discuss the role of governance. The first theory, Agency Theory, analyses the relationship between shareholders and managers. Its main goal is to ensure maximum returns for investors. The second, Stakeholders Theory, is seen as the theory of society. The theory is based on formal and informal relationships, establishing how control is practised within the firm and how risks and benefits are shared among stakeholders.

Since governance is commonly related to companies listed on the stock exchange, it is not surprising that this review found that 95 percent of the sectors studied were private sectors. Five percent of the papers use companies registered with ISRA (Indonesia Sustainability Report Award). This phenomenon should encourage researchers further to

p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
e-ISSN: 2502-6380 https://journal.unesa.ac.id/index.php/aj

examine the relevance of governance in the public sector.

The public sector plays a significant role in society. To achieve good governance in the public sector, both government bodies and individuals working for public sector entities should seek to achieve this goal by acting in the public interest. Several studies examining sustainability reports in the public sector include: (Tommasetti et al., 2020; Uyar et al., 2021). It is certainly interesting to explore the relevance of governance to sustainability reports in the public sector in Indonesia.

This review finds governance variables associated with the sustainability report, categorised as Audit Committee, Board of Directors, Board of Commissioners, Ownership, Stakeholders Pressure, and other variables that do not fall into the five categories. The most widely used variables were the audit committee meeting (8 articles), the Boards of Directors Meeting, Managerial ownership, and the Independent Board of Commissioners variables (4 papers). At the same time, Audit committee size, Board of Commissioners size, Boards of Directors Size, Institutional ownership, and the existence of the Governance Committee are contained in 4 articles. Other variables are only found in one article of all reviewed articles.

Based on the results of this review, in the future, researchers can explore governance variables that have not provided much evidence of their relevance to sustainability reports. It is essential to ascertain which governance components may impact the sustainability report. One variable that has not been widely looked at in the articles reviewed is the woman on Board. There is only one article that uses this variable. Many studies show that female executives have different leadership styles and career paths from their male counterparts and prioritise organisational needs more (Mnif & Cherif, 2020). The interests and experiences of women are more directed at service organisations, community welfare, and philanthropy, while men are more focused on financial achievement (Ramon-Llorens et al., 2021; Srinidhi et al., 2020)

Therefore, the psychological characteristics of women create a smooth and loose communication network with stakeholders to avoid information asymmetry, misunderstanding, or ignorance (Kim et al., 2020). Having women on the Board of Directors increases opportunities for innovation and creativity in implementing corporate strategy (Abbott et al., 2012; Pandey et al., 2020). As a result, having women on the Board supports sustainability initiatives and offers the ability to deal effectively with sustainability-related issues (Bear et al., 2010).

Apart from the woman on Board, the stakeholder pressure variable has not received much attention from researchers. In contrast, stakeholders are an essential part of why organisations must implement good governance. The following studies prove that stakeholder pressure is a factor that determines companies' adoption of sustainability reports (Lucchini & Moisello, 2019; Rhee, Park, & Petersen, 2021). However, more evidence is needed for Indonesia, considering that very few researchers are exploring this.

CONCLUSION

This study aims to analyse the relevance of corporate governance to sustainability report research in Indonesia for the 2016-2020 period. Determining the direction of research on the relevance of governance and sustainability reporting in the field of accounting in the future contributes to the development of appropriate and quality research directions. Based on a review of nineteen research articles on the relevance of governance and sustainability reports, this review concludes the following. The amount of research in the accounting field related to governance and sustainability reports is still minimal with mixed results, so sustainability report researchers need to conduct a broader and in-depth study.

Further research opportunities can be directed by examining the role of governance in sustainability reporting in the public sector, besides deepening the role of governance in the private sector. A qualitative approach is an approach that future researchers can use to explore further the role of governance in supporting sustainability reports, considering that the review findings show that all articles reviewed use a quantitative approach. It is even possible that future researchers can develop the concept of governance or sustainability reports in the public sector in the Indonesian context.

Of the five categories of governance components: Audit committee, Boards of Directors, Board of Commissioners, Ownership, Stakeholders Pressure, additional research evidence is needed to support existing findings. However, research priority can be given to Audit committee independence, Effectiveness of the Board of Commissioners, Women on the Board, Family and Foreign ownership, and Stakeholder pressure.

Finally, this research cannot be separated from several limitations, including the lack of articles reviewed, limiting the exploration of the results of this review. Another limitation is that this review cannot be separated from the subjectivity of researchers, especially when screening articles that are worthy of review, even though this has been anticipated by involving two researchers in screening articles.

ACKNOWLEDGEMENT

The authors would like to acknowledge Universitas Sriwijaya for the financial support of this research. This research is supported under the Competitive Research Grant Scheme (FRGS) with reference code: 0022/UN9/SK.LP2M.PT/2021/21 July 2021

AUTHORSHIP CONTRIBUTION STATEMENT

All authors contributed to this article by compiling content, analyzing data, and making conclusions.

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p-ISSN: 2085-9643 DOI: 10.26740/jaj.v14n2.p161-175
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