THE IMPACT OF CORPORATE GOVERNANCE ON SUSTAINABILITY PERFORMANCE WITH STRATEGIC ORIENTATION AS INTERMEDIATE VARIABLE

Mohamed Abdulrahim[1], Eko Ganis Sukoharsono[2], Erwin Saraswati[3], Imam Subekti[4]

[1]Misurata University, Faculty of Economics and Political Science, Department of Accounting
Town Centre, Alqushy Misurata, Libya
[2]Universitas Brawijaya, Faculty of Economics and Business, Department of Accounting
Jl. MT Haryono 165 Malang Indonesia 65145
[3]Universitas Brawijaya, Faculty of Economics and Business, Department of Accounting
Jl. MT Haryono 165 Malang Indonesia 65145
[4]Universitas Brawijaya, Faculty of Economics and Business, Department of Accounting
Jl. MT Haryono 165 Malang Indonesia 65145

Abstract

The debate in the existing literature substantiates that there is a relationship between the size of the board and the capability of the company, which means that the number of directors on the board affects the company's capability, a large number of independent directors or non-executive directors on the board relates to good corporate governance. In this study, four corporate governance factors are considered as the determinants of sustainability performance. Furthermore, the mediating role of managers' strategic orientation was proposed in this study to provide an explanation of how the corporate governance mechanism effect sustainability performance. The population in this study is all sector companies listed in Indonesia Stock Exchange. Companies are selected as sample are companies in all sectors listed in Indonesia Stock Exchange for ten consecutive years. The conclusion is board size has a significant positive effect on the managers' strategic orientation and sustainability performance, board independence has a significant positive effect on the managers' strategic orientation and on sustainability performance, ownership concentration has a significant positive effect on strategic orientation and sustainability performance, institutional ownership has a significant positive effect on strategic orientation and sustainability performance, strategic orientation has a significant positive effect on sustainability performance, strategic orientation mediates the impact of board size, board independence, ownership concentration and institutional ownership on sustainability performance.

Keywords: Sustainability performance, Corporate Governance, Strategic Orientation

1. Introduction

In the last few decades, communities realized the importance of organizations' contribution to the development of the society in which they operate, by assuming their social responsibilities. Social pressure has provided the impetus for these organizations to have a greater awareness and concern for socialist issues and to take responsibility for these issues (Richter et al., 2018). Furthermore increased public awareness about the role of companies in exacerbating sustainability problems has led customers to put pressure on companies to take responsibility

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for causing environmental and social issues. In response to these pressures, as evidence of willingness to accept accountability and responsibility towards sustainability, companies publish corporate sustainability reports to show that they are relatively good sustainability performers. However, as sustainability reporting is voluntary in many countries, it has sparked attention from both academics and practitioners to see whether companies are indeed acting in good faith to deserve their improved corporate public image.

Indonesia and other ASEAN countries agreed to address climate change, and consequently ASEAN members mandate that all publicly listed companies must integrate sustainability practices into their strategies (Amran et al., 2016; Wijaya et al., 2017). For example, in Indonesia, the National Center for Sustainability Reporting (NCSR), promotes the practice of sustainability reporting among local firm (Lawrence, 2018), through (1) Natural Resources and Ecosystems Control, (2) Watershed and Protected Forest Control, (3) Sustainable Productive Forest Management, (4) Pollution and Environmental Degradation Control, (5) Waste, Toxic, and Hazardous Material Control, (6) Climate Change Control, (7) Law Enforcement of Environment and Forestry.

Furthermore, from 2007, Bursa Indonesia mandated that all Indonesian publicly listed companies must report their corporate social responsibility. Such as practices relating to the marketplace, the environment, the workplace, and the community in their annual reports, which marked by the issuance of Law Number 40 the year 2007, regarding Corporation (Ridho, 2018). Although Indonesian companies have dramatically increased their sustainability reporting in response to institutional pressures, the quality of environmental and social information disclosed by Indonesian companies and the level of sustainability reporting is still at an early stage in comparison with international best practice (Othman, 2009);(Buniamin, 2012). As such, it is necessary to develop an understanding of factors other than institutional ones that may extend the level of sustainability reporting of companies in Indonesia as a developing country.

As the sustainability reporting level varies considerably among companies (Hahn and Kühnen, 2013) and the decision on sustainability reporting level depends on how the organization is governed, the study on the impact of corporate governance on sustainability reporting is important. Although, there are many studies on the potential impact of corporate governance on the level of financial reporting (Firth et al., 2006);(Haniffa and Hudaib, 2006), only recently this type of research has expanded to include non-financial reporting (Jo and Harjoto, 2012);(Majumder et al., 2017). These studies showed the importance of corporate governance structures in enhancing the level of corporate social and reporting (Jo and Harjoto, 2012). However, research on the relationship between corporate governance and non-financial reporting has mainly focused on corporate social and environmental reporting, and studies on sustainability reporting are lacking. Such as, testing the impact of corporate governance on sustainability reporting is the first objective of this study. More specifically, a contribution of this study to the existing literature is to investigate how governance structure relates to sustainability reporting in annual reports.

The previous studies found a board governance structure as one of the critical determinant of firms' non-financial reporting level (Haniffa and Cooke, 2005); (Jo and Harjoto, 2012).

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However, the studies cannot explain how a board governance structure of firms affects non-financial reporting. Based on the previous literature on this subject (Alvarez et al., 2007), the current research assumes organizational decisions are based on managers' strategic orientation. Thus, in this study, the mediating effect of managers' strategic orientation was tested to explain the reason that the board governance structure affects environmental and social performance. The findings of this study extend the literature on the relationship between the managers' strategic orientation and non-financial performance.

The other parts of this paper are structured as follows. First, the theoretical background of the study was reviewed. Second, the conceptual framework was developed, and hypotheses were formulated. Later, the research method of this study was explained, and the analysis was reported. Lastly, the findings were discussed, and implications, limitations, and future potential studies were suggested.

1.1 Theoretical background

1.1.1 Corporate governance and sustainability performance

Sustainability performance is the company's activities that influence the physical or natural environment and social, which they operate (Wilmshurst and Frost, 2000). Subsequently, the sustainability performance of companies can be assessed through sustainability reports (sustainability disclosure). Sustainability report focuses on the statement of information related to economic performance, social performance, and environmental performance of the company. There is an increasing trend among firms throughout the world to voluntarily disclose information of their sustainability activities (Gibson and O'Donovan, 2007), and there is also evidence that the quality of such sustainability reporting is improving gradually (Ballou et al., 2006). The increase in the quantity and quality might be a result of the company's growing awareness of the importance of sustainability reporting, stakeholder demand, or the introduction of mandatory reporting. (Daud, 2007) and (Branco and Rodrigues, 2008) stated that most companies disclose sustainability reporting due to concerns from stakeholders and society.

In the Indonesian context, the guidelines in making sustainability report which adopted from Indonesian companies are GRI G4 (GRI of fourth-generation) set by GRI (Global Reporting Initiative). Although there are these guidelines, however, the sustainability reporting in Indonesia is still limited to voluntary disclosure. Thus, there are still a few companies that adopt sustainable performance (Astuti et al., 2019). Since Indonesia is among the rapidly developing Asian countries, it is likely in the coming years to face increasing tension between incentives for rapid economic development, on the one hand, and ethical considerations concerning the sustainability, on the other. Currently, the requirements of reporting within companies are broader than financial reporting. Considering the recent dramatic increase in negative impacts on climate change and the proven role of sustainability reporting on improving the sustainability performance of firms, a study on the determinants of sustainability performance is highly relevant. There are few existing studies on the underlying factors which motivate firms to adopt sustainable performance, especially in developing countries (Saleh et al., 2010).

The investigation of social and environmental performance in emerging economies has revealed that the main motivation behind adopting sustainable performance in emerging economies is driven by both external and internal forces, such as stakeholders' pressure, institutional pressure, and corporate governance (Elijido-Ten, 2010);(Ionel-Alin, 2012). Adopted sustainable performance is considered a significant part of a company's responsibility to its stakeholders. The relationship between community concern and adopted sustainable performance has been verified: Sustainable performance is associated positively with societal concerns and awareness of environmental concerns (Deegan, 2002). Moreover, society and stakeholders' awareness of these environmental issues influences a company's behaviour and strategies to implement sustainability practices such as reporting (Gadenne et al., 2009).

Corporate governance is defined as "the system by which companies are directed and managed" (Abor, 2007), is the principal means by which managers can be effectively controlled to prevent self-interested behaviour. The mechanisms it employs can be used to solve agency problems (Eng et al., 2003; Shan, 2009) as well as to mitigate a lack of commitment on the part of management due to agency problems (Berglof and Pajuste, 2005). Hence, corporate governance has been recognized as one of the most important features of modern corporations today.

Where an effective corporate governance system is in place, positive effects across the financial, as well as non-financial, aspects of a corporation can be expected. Corporate governance is not only recognized as a potential solution to agency problems but also, as protection of stakeholder interests (Donnelly and Mulcahy, 2008);(Wise and Ali, 2008). Companies with effective corporate governance system are more likely to promote fairness, transparency, and accountability, that is, ethical transactions, in their business (Jamali, 2008). This, in turn, gives rise to a disclosure-based environment wherein shareholder and stakeholder interests are protected (Hamilton, 2005). When corporate governance is ineffective; however, such as where mandatory requirements are absent, companies were found to omit material information relevant to stakeholders (Mathews, 2008). Such a problem could be rectified by an effective board of directors which would implement good corporate governance (Donnelly et al., 2008). Studies have shown that firms which have effective governance structures have the intention to disclose more documents to the market (Beekes et al., 2006). In short, corporate governance encourages transparency and accountability and enhances the disclosure behaviour of a company. Hence, the present study focuses on the potential influence of corporate governance on the disclosure behavior of organizations, with particular reference to sustainability disclosure, which reflects the sustainable performance of the organization.

The debate in the existing literature substantiates that there is a relationship between the size of the board and the capability of the company, which means that the number of directors on the board affects the company's capability (Wincent et al., 2013). According to Welford (2007), a large number of independent directors or non-executive directors on the board relates to good corporate governance. Independent directors have the capacity to enhance management attention to take into consideration environmental and social responsibilities (Sun et al., 2010). Further, many studies have demonstrated that the presence of independent non-executive directors on the board has a vital impact on voluntary corporate reporting, such as sustainability reporting(Barako et al., 2006; Brammer et al., 2008).

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Many studies have also referred to as the dispersion and type of ownership as vital factors influencing sustainability reporting (Roberts, 1992; Ullmann, 1985). Brammer et al. (2006) stated that ownership dispersion, which means that company stock is dispersed among many investors, is likely to lead to an increased risk of agency conflict, with the expectation of increased sustainability reporting. Moreover, Cormier et al. (2005) claimed that closely-held ownership or concentration of ownership is not likely to be responsive to public reporting since the main shareholders typically tend to be able to access the information they require. Besides, Reverte (2009) remarked that diffused ownership is expected to enhance a company's financial reporting policy through the establishment of social and environmental reporting. In contrast, companies with concentrated ownership are most likely to disclose additional information related to sustainability issues.

The type of ownership is also expected to have a vital impact on environmental reporting. Different kinds of shareholders are more likely to require different information. For instance, institutional investors such as banks, insurance companies, and pension funds have a strong motivation to monitor corporate reporting practices and affect corporate values due to their large portion of ownership stake (Barako et al., 2006). Based on the literature, corporate governance can be manifested and classified into the following: board size, board independence, ownership concentration, and institutional ownership.

1.1.2 Strategic orientation and sustainability performance

Managers' strategic orientation refers to top managers' attitudes towards sustainability reporting. Ullmann (1985) categorized strategic orientation to active and passive orientation s. Where there is an active strategic orientation, the manager and senior management team have a progressive attitude, actively searching to satisfy stakeholders' claims, and consequently pursue both a competitive advantage and business opportunism. In other words, the managers' attitudes demonstrate a proactive pattern of behavior. On the other hand, when the management team adopts a passive strategic orientation, a conservative attitude gives rise to greater risk aversion, a tendency to maintain the status quo, and a general reactive pattern of behavior(Crant, 2000; Karake, 1995). Thus, it is expected that those companies with an active strategic orientation are more likely to adopts more sustainable performance (Ullmann, 1985).

Conversely, firms with a passive orientation are likely only to disclose information about sustainability outcomes of the firm's activity where there is pressure from within or outside the organization. Because they cannot escape notice, they react by disclosing the sustainability information. In some cases, the management itself may be disinterested in sustainability performance, resulting in a passive orientation; this is labelled as "management innate (Luoma et al., 1999). In contrast, the manager of a proactive firm takes the initiative to adopt a sustainable performance, rather than waiting for pressures to force him to do so. In this study, strategic orientation was considered as a mediator to explain the reason that corporate governance has a significant effect on sustainability performance.

Several studies have investigated the impact of a strategic orientation or orientation towards environmental and social issues and practices (Ullmann, 1985); (Galbreath, 2010; Magness, 2006). Ullmann (1985) framework indicates a positive relationship between an active strategic orientation and a high level of sustainability performance. This key article has been followed by several empirical studies which examined this relationship(Bateman et al., 1993). The notion of strategic orientation in Ullmann (1985) framework shows the manner in which companies deal with the social demand of stakeholders, including whether managers follow a pro-active strategic orientation rather than a less-active strategic orientation (Crant, 2000). Bateman and Crant (1993) stated that managers adopting a pro-active strategic orientation have a tendency to create changes in environmental and social issues.

In the context of sustainability behaviour and its relation with active managerial orientations, several studies assert that for organizations to gain a thorough competitive advantage, linkages must be made between management and the natural environment (Hart, 1995; Russo et al., 1997). Moreover, several studies have found a positive relationship between strategic orientation and environmental reporting. For example, Prado-Lorenzo et al. (2009) found that the influence of stakeholders upon a strategic orientation has a vital impact on establishing a CSR report. Additionally, findings show that an active orientation towards social and environmental issues leads to a greater level of sustainability reporting. In the Indonesian context, a study conducted by Orbaningsih et al. (2018) to investigate the determinants of sustainability by listed companies found that a strategic orientation is considered to be the main determinant in the establishment of sustainability by Indonesia listed companies.

1.2 Hypotheses development

In this study, based on the literature review, four corporate governance factors are considered as the determinants of sustainability performance (Fig. 1); namely, board size (e.g., Abeysekera (2010); Allegrini et al. (2013)), board independency (e.g., Eng and Mak (2003); Shan (2009)), ownership concentration (e.g., Brammer and Pavelin (2008); Reverte (2009)), and institutional ownership (e.g., Donnelly and Mulcahy (2008); Laidroo (2009)). Furthermore, the mediating role of managers' strategic orientation was proposed in this study to provide an explanation of how the corporate governance characteristics affect sustainability performance.

1.2.1 Board size

Two opposite stances regarding board size and efficiency can be found in the literature. One views large boards positively while the other advocates smaller boards. Large boards may enhance the board's monitoring capabilities and reduce the discretionary power of managers (De Andres et al., 2008). Large boards may also reflect a range of backgrounds, contributing broader knowledge and different ideas to the discussion(Ahmed Haji, 2013).

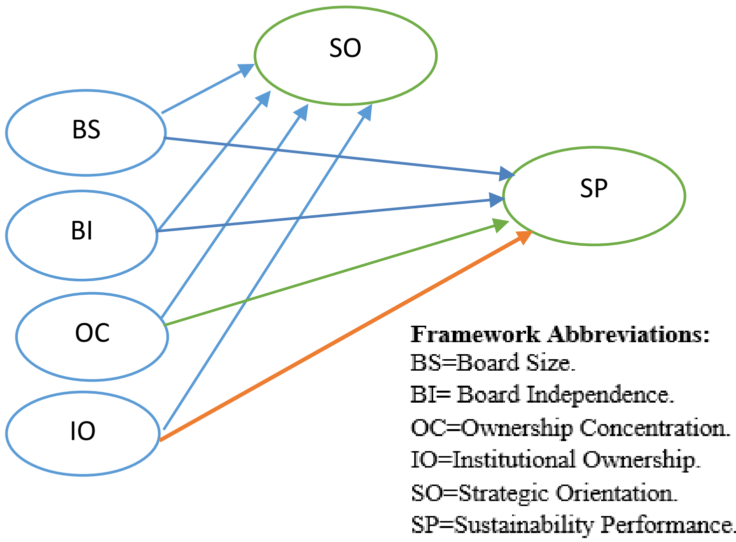

Figure 1: Theoretical Framework.

Board size is a corporate governance attribute commonly used in sustainability studies(Esa et al., 2012; Rao et al., 2012). However, the relationship between performance and board size has not been fully resolved, and further empirical research is required (Kaymak et al., 2017). The first line of research has shown that board size has no impact on sustainability performance(Dienes et al., 2016; Dyduch et al., 2017).

Similarly, Chen and Courtenay Cheng et al. (2006) found no connection between the board's size and sustainability performance. Said, Said et al. (2009) concluded that board size does not affect sustainability but that other contingencies do affect the relationship between the two.

Furthermore, the board of directors can create strategies and policies for managers to adopt (Chen et al., 2000), and the actions of corporate governance influence management direction, leading management to adopt or to avoid a specific strategy(Baysinger et al., 1991). As such, an increase in the number of directors is expected to affect managers' strategic orientation towards sustainability performance positively.

Empirical evidence on this variable can be explained under two views. Some of the studies have argued that having larger boards results in inefficiencies in managing the business and incurring high agency costs. Although the facts are as above when determining the relationship between board size and sustainability performance, it has revealed that there is a positive association between these two variables (Laksmana, 2008; Ntim et al., 2013).

Though the smaller boards are highly efficient, they are influenced by the management, as a result of that previous researches has emphasized that having larger boards will increase the board expertise as well as the sustainability performance(Laksmana, 2008; Said et al., 2009). Based on the above discussion we hypothesis that,

H1a: Board size has a significant positive effect on strategic orientation.

H1b: Board size has a significant positive effect on sustainability performance.

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1.2.2 Board independence

The representation of independent directors on a board is considered a key element of corporate governance. A director who has no business and family linked to the top management of a company is generally considered independent (Banks, 2003). A board with a high percentage of independent directors is assumed to be more effective in monitoring and controlling management (Abdullah et al., 2008).

The importance of having independent outside directors has been highlighted due to they have a non-official position, and they can better monitor the management (Donnelly & Mulcahy, 2008). In addition to that, they have the incentive of being expert monitors; they are discouraged from colluding with directors of the organization (Carter et al., 2003). Outside board members acting as representatives of the shareholders have a strong motivation to monitor management and drive it to embrace sustainable performance (Abdullah et al., 2008). This is potentially motivated by that, and the directors wish to protect their reputations as stakeholders by ensuring that monitoring of management is in place, as the market for directors penalizes those associated with corporate disasters or with poor performance. Besides, from a legal perspective, directors who fail to implement due care in exercising their monitoring responsibilities may be liable and also subject to harsh sanctions(Abdullah et al., 2008). Such as, it is expected that independent board members will have a tendency to give more consideration to an active strategy orientation.

Empirical evidence concerning the importance of non-executive directors on the board is mixed. Jermias (2007) believed that inside directors are able to motivate managers in a better way to implement environmentally active strategies. On the other hand, many scholars have found board independency to be a positive driver of both mandatory and voluntary disclosure behaviour about sustainable performance (Eng & Mak, 2003; Shan, 2009). Cheng and Courtenay (2006) and Shan (2009) found a positive relationship between board independence and voluntary disclosures. Since independent directors tend to voluntarily disclose additional sustainability information, thus improving sustainable performance (Donnelly & Mulcahy, 2008); therefore, it expected that more independent directors on company boards would ensure companies to engage in sustainability performance (Brooks et al., 2009). The firms which have more independent directors have strong, sustainable performance, as they tend to pressure managers to favour environmental and social activity (De Villiers et al., 2010). On the other hand, inside directors who focus on the financial performance of organization tend to disclose less and are less concerned about sustainability issues(Kassinis et al., 2002). Based on the above, therefore, the following hypotheses were developed:

H2a: Board independence has a significant positive effect on strategic orientation.

H2b: Board independence has a significant positive effect on sustainability performance.

1.2.3 Ownership concentration

Ownership concentration is a phenomenon that dominates in Asian countries and is an effective mechanism for monitoring agents because the corporate governance implementation and investor protection are still weak(Cahan et al., 2015; Farooque et al., 2010). Agency theory claims that agency conflicts result from the separation between control and ownership (Jensen et al., 1979).

This separation is greater when the shares are widely held. It is known as ownership dispersion, in comparison to the situation when they are closely held, which is known as ownership concentration (Fama et al., 1983).

Agency theory argues that concentrated ownership can be an incentive for shareholders to direct the manager to improve performance and shareholder value (Jensen & Meckling, 1979). The greater of concentrated ownership and fewer investors are then more easily owners to control corporation (Shleifer et al., 1997). Such as, it is expected that ownership dispersion will positively affect managers' strategic orientation toward sustainability performance. An important factor proposed to have an important impact on disclosure policy is ownership concentration, which can be concentrated or dispersed (Roberts, 1992; Ullmann, 1985). When ownership is concentrated, shareholders can obtain information directly from the firm, thus reducing the motivation of owners towards sustainability activities and policies (Brammer et al., 2007).

In contrast, when there are many owners, a corporation is expected to disclose more information to maintain close links between the organization and its shareholders with respect to sustainability information (Prencipe, 2004). Several previous studies indicate that the mechanism ownership concentration is effective and efficient in monitoring the management to act according to the desire of shareholders. Celenza et al. (2013) found that ownership concentration a positive impact on performance. Gaur et al. (2015) argue that concentrated ownership can improve performance and reduce agency problems. In light of the above results, the following hypotheses were developed:

H3a: Ownership concentration has a significant positive effect on strategic orientation.

H3b: Ownership concentration has a significant positive effect on sustainability performance.

1.2.4 Institutional ownership

Institutional shareholders are considered influential stakeholders because they generally hold large shares, and thus, substantial voting rights. Agency theory suggests that an institutional owner can closely monitor management and encourage them to disclose more information, including sustainability information (Ntim & Soobaroyen, 2013). Most institutional investors are concerned with long-term profitability, which can be enhanced by sustainability practices (Chung et al., 2002; Mahoney et al., 2007). As such, institutional investors use their voting power and place pressure on managers to disclose more information on sustainability performance.

Considering public awareness about sustainability issues and their pressure on companies to take responsibility for the impact of their activities on the internal and external environment; large institutional shareholders have a positive attitude towards sustainability performance. Consequently, place pressure on managers to have an active strategic orientation towards the adoption of sustainable performance(Welford, 2007). Ajinkya et al. (2005) argued that institutional investors desire and demand more awareness of sustainability issues. Institutional investors can control the board and appoint experienced, resource-based directors to be more attentive to the organization's strategic decisions regarding its environmental policies and strategies. As public awareness and demand for sustainable-friendly activities have increased gradually in the past few years, a positive relationship between institutional ownership and sustainability performance. Furthermore, it is generally viewed that institutional investors are savvy; they are highly experienced, with a high level of technical expertise to scrutinize managers in a manner which is effective (Lawal, 2012).

The empirical studies showed a positive relationship between institutional ownership and sustainability performance level (Khlif et al., 2017; Oh et al., 2011; Qa'dan et al., 2019). Thus, the following hypotheses were developed:

> **H4a:** Institutional ownership has a significant positive effect on strategic orientation.
>
> **H4b:** Institutional ownership has a significant positive effect on sustainability performance.

1.2.5 Strategic Orientation

An organization which adopts an active strategic orientation seeks to continuously monitor and manage its relationship with the key stakeholders, whereas one which has a passive strategic orientation makes no such attempt. Therefore, a high level of sustainability performance is expected in an organization with an active strategic orientation (Ullmann, 1985) in order to fulfill stakeholder needs. Studies which have examined the impact of environmental behaviour on an active managerial orientation found a relationship between management, the decision-making process, and decisions towards sustainability practices (Hart, 1995; Russo & Fouts, 1997).

The existing relationships reveal the positive impact of corporate governance on managers' strategic orientation (e.g., Michelon et al. (2012) and Welford (2007)). Furthermore, as mentioned above, there is extensive literature that examines the association between a strategic orientation and sustainability reporting, which indicates that a strategic orientation has a vital role in enhancing sustainability performance (Bateman & Crant, 1993; Crant, 2000; Roberts, 1992; Ullmann, 1985). Based on the integrated view of the dynamic capabilities and a natural resource-based view in the related literature, Aragón-Correa et al. (2003) formulated a framework which indicated that a pro-active strategy, in the context of sustainability issues, could mediate the relationship between organizational resources and capabilities with a comparative advantage. Furthermore, Prado-Lorenzo et al. (2009) affirmed that companies which disclose more information about social and environmental issues, such as those that have a clear, proactive strategy, are backed strongly by the support of their main stockholders. Therefore, corporate governance factors are expected to be the scrutinizing mechanisms influencing management to follow a specific strategy to meet stakeholders' concerns, which, in turn, leads to an enhanced level of sustainability performance. Therefore, in this study, the indirect effect of corporate governance on sustainability performance through strategic orientation was proposed. Thus, the following hypotheses were developed:

> **H5:** Strategic orientation has a significant positive effect on sustainability performance.
>
> **H6**: Strategic orientation mediates the impact of (a) board size, (b) board independence, (c) ownership concentration, and (d) institutional ownership on sustainability performance.

2. Method

2.1 Population and Sampling Method

The population in this study is all sector companies listed in Indonesia Stock Exchange. Companies are selected as sample are companies in all sectors listed in Indonesia Stock Exchange for ten consecutive because of the up to date data for the last ten years. Technique sampling in this research is random sampling. Sample in this research are all of the companies are listed in IDX, the data are available and could be accessed and all companies that have data for corporate governance (board size, board independence, ownership concentration, institutional ownership), strategic orientation, and sustainability performance.

2.2 Data Collections

The data for this study used secondary data, such as the firm's annual reports, and the firm's website if there is one generated. The data are drawn from various corporations including, electric, and consumable fuels, and oil and gas exploration firms' existing in the world. This study gives a subjective measurement of the quality of accessible information since the firm's actual corporate social responsibility disclosure performance data is not available for checking the quality of the self-reported information. As well there is no certain database website to extract all information which is needs, that is led to extract the data individually. The data used in this research is secondary data. The method of data collection is documentation. The source of data is from www.idx.co.id and another supporting source, such as the website of the company for period 2009-2018.

2.3 Operational definition and measurements variables

2.3.1 Sustainability Performance

Sustainable Performance means the harmonization of financial, environmental and social objectives in the delivery of business activities to maximize value. In this research will be measure by GRI indicators (Montiel et al., 2014).

2.3.2 Board Size of Commissioners

The Board of Commissioners is the organ in charge of carrying out general and/or special supervision in accordance with the articles of association and giving advice to directors. The size of the board of commissioners is the total number of members of the board of commissioners in a company. Size of the board of commissioners here is the number of members of the board of commissioners of the company, which was set in the number of units (Bokpin et al., 2009), is formulated as follows (Conyon et al., 2011) :

Size of Board Commissioners = Number of Board Commissioners

2.3.3 Board Commissioners Meeting

The task of social responsibility outlines that the board of directors must have a clear written plan and focus on carrying out corporate social responsibility. The board of directors is one component of realizing corporate governance so that the board of directors needs to disclose information about responsibilities in accordance with corporate governance principles. If more

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and more meetings are held by the board of directors, it can improve coordination and the implementation of corporate social responsibility for the better. Board commissioners meeting is the number of meeting done by board commissioners in a year. The previous studies have used this measurement, such as (Ozkan, 2011). According to (Bokpin & Isshaq, 2009), the formulated is as follows:

$$\boxed{\text{Board of Commissioners Meeting} = \text{Number of Board Commissioners Meeting in a year}}$$

2.3.4 Independent commissioners

An independent commissioner and director is someone who is appointed to represent an independent shareholder (minority shareholder), and the party-appointed is not in the capacity to represent any party and is solely appointed based on his background knowledge, experience and professional expertise to fully carry out his duties in the interest of the company. An independent commissioner is the number of commissioners that are independent. The previous studies have used this measurement, such as Kren et al. (1997). According to Lee et al. (2008), the formula to calculated Independent commissioner is as follows:

$$\boxed{\text{Independent commissioners} = \frac{\text{Independent board of commissioners}}{\text{Total board of commissioners}}}$$

2.3.5 Institutional Ownership

Institutional ownership in the ownership structure has a monitoring management role; institutional ownership is the most influential party in decision making because of its nature as majority shareholder, besides that institutional ownership is the party that gives control over management in the company's financial policy. Institutional ownership is the percentage of share from the company owned by the outside institutional company. The institutional means the parties outside from the companies, such as banking, insurance companies, and ownership by outside or another company/another party except for the director and commissioners from inside the companies. The previous studies have used this measurement, such as Chen et al. (2006), the measurement is:

$$\boxed{\text{Institutional ownership} = \%\ \text{Institutional ownership}}$$

2.3.6 Strategic Orientation

Strategic Orientation is the way in which an organization responds to social demands in line with the prevailing organizational culture. Strategic Orientation: A firm's strategic orientation reflects the strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance of the business. The proxies are:

1. (presence/absence of a corporate environmental committee) or (inclusion/exclusion of environmental concern in their vision/mission statement).
2. The (presence/absence) of ISO14001 certification.

The reasons to use these two proxies are because the higher presence of corporate environmental committee, environmental concern in their vision/mission statement and ISO14001 certification reflects the company strategic ways to respond on social demands in public. The statistical formula for strategic orientation use dummy variables, that is is in annual report company including the presence of corporate environmental committee and or environmental concern in their vision/mission statement and or the presence of ISO14001 certification, so the score is 1, and 0 if otherwise.

2.4 Method of Analysis

2.4.1 Descriptive Statistics

Descriptive statistics were used to explain the data seen from the mean, median, standard deviation, minimum value and maximum value. This test is done to facilitate an understanding of the variables used in the study.

2.4.2 Hypothesis testing

Hypothesis testing in this research use is t-test and F-test for analyzing the effect of independent variables toward the dependent variables. The criteria are:

If sig. (p-value) < 0.05 so the hypothesis accepted.

If sig. (p-value) > 0.05 so the hypothesis rejected.

2.4.3 Regression Analysis

Technique data used in this research is regression analysis. Regression analysis is one analysis that aims to determine the effect of a variable against another. In regression analysis, the variables that effect the so-called independent variable and the variable that is effected is called the dependent variable. The formula or equation of regression analysis as follows:

SO = a + b1 BS+ b2 BI+ b3 OC + b4 IO +e ....(1)

Whereas:

SO = Strategic Orientation

a = constant

b1-b4 = coefficient beta

BS = Board Size

BI = Board Independent

OC = Ownership Concentration

IO = Institutional ownership

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e = error

SP = a + b1 BS+ b2 BI+ b3 OC + b4 IO +e ....(2)

Where as:

SP = Sustainability performance

a = constant

b1-b4 = coefficient beta

BS = Board Size

BI = Board Independent

OC = Ownership Concentration

IO = Institutional Ownership

SO = Strategic Orientation

e = error

3. Results

3.1 Descriptive Statistics

Table 1: Descriptive Research Results

	IO	OC	BI	BS	SO	SP
Mean	39.23489	15.77949	0.408270	4.25598	0.1509	0.594427
Median	41.00000	0.000000	0.400000	4.33539	0.1463	1.000000
Maximum	100.0000	99.99999	0.800000	10.0000	0.9634	1.000000
Minimum	0.000000	0.000000	0.166667	2.0000	0.0243	0.000000
Std. Dev.	31.39405	30.40062	0.096865	1.803491	0.0803	0.491256
Skewness	0.132047	1.496934	1.051625	0.514331	1.4027	-0.384630
Kurtosis	1.685537	3.459810	4.039576	3.322457	13.053	1.147941
Observations	969	969	969	969	969	969

The Source: Secondary Data Processed (2020) with Eviews

Form the table.1, for institutional ownership, the mean or average is 39.23489 and for the maximum value of 100.0000 and the minimum value of 0.000000 with a standard deviation of 31.39405. The standard deviation is lower rather than mean value, and this indicated that the data have low variation data. The mean indicated that 39.23489% from 969 company of observation in this research had been owned by outside or institutional ownership. For ownership concentration, the mean or average is 15.77949 and for the max value is 99.99999, and the

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minimum value is 0.000000 with a standard deviation of 30.40062. The standard deviation is higher rather than mean value, and this indicated that the data have high variation data.

The Board size data showed that the minimum value is 2 and the maximum 10 with mean 4.25598; this means the average sample of this research is 4-5 persons of board size in a company. For the Board Independence variable, the mean or average value is 0.408270 and for the maximum value is 0.800000, and the minimum value is 0.166667 with a standard deviation value of 0.096865. The standard deviation is lower rather than mean value, and this indicated that the data have low variation data. The mean showed that the average of board independence of the companies in this research is 40.8270% from all the board commissioners of the company.

For the strategic orientation variable, the mean or average value is 0.150910 and for the maximum value is 0.963415, and the minimum value is 0.024390 with the standard deviation value is 0.080328. The standard deviation is lower rather than mean value, and this indicated that the data have low variation data.

For the sustainability performance variable, the mean value or the average is 0.594427, and for the maximum value of 1.000000 and the minimum value of 0.000000 with standard deviation value 0.491256. The standard deviation is lower rather than mean value, and this indicated that the data have low variation data. The mean value reflects that the disclosure of sustainability performance of 969 companies of this research reached 59.4427% on average.

3.2 Hypothesis test

Hypothesis testing in this study will be tested with the Eviews program, and the results can be seen as follows:

Table 2. Hypothesis Testing Results Model 1

Dependent Variable: Strategic Orientation

Method: Panel Least Squares

Date: 20/06/20 Time: 10:51

Sample: 2009 2018

Periods included: 10

Cross-sections included: 108

Total panel (unbalanced) observations: 969

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.78171	0.150270	2.895265	0.0050
BS	0.015078	0.021031	2.699298	0.0312
BI	0.032043	0.017867	1.929515	0.0468
OC	0.015628	0.004711	2.896116	0.0375
IO	0.001588	0.000019	3.168443	0.0285

Source: Secondary Data processed (2020) with Eviews

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H1a: Board size has a significant positive effect on strategic orientation.
From table 2, the result showed that the probability (significant value) of Board Size is 0.0312 < 0.05 with a coefficient positive, and this showed that **H1a accepted.** This means that board size has a positive effect on strategic orientation.

H2a: Board independence has a significant positive effect on strategic orientation.
From table 2, the result showed that the probability (significant value) of Board independence is 0.0468 < 0.05 with a coefficient positive, and this showed that **H2a accepted.** This means that board independence has a positive effect on strategic orientation.

H3a: Ownership concentration has a significant positive effect on strategic orientation.
From table 2, the result showed that the probability (significant value) of ownership concentration is 0.0375 < 0.05 with a coefficient positive, and this showed that **H3a accepted.** This means that ownership concentration has a positive effect on strategic orientation.

H4a: Institutional ownership has a significant positive effect on strategic orientation.
From table 2, the result showed that the probability (significant value) of institutional ownership is 0.0285 < 0.05 with a coefficient positive, and this showed that **H4a accepted.** This means that ownership concentration has a positive effect on strategic orientation.

Table 3. Hypothesis Testing Results Model 2

Dependent Variable: Sustainability Performance

Method: Panel Least Squares

Date: 20/06/20 Time: 10:55

Sample: 2009 2018

Periods included: 10

Cross-sections included: 108

Total panel (unbalanced) observations: 969

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.225240	0.040890	4.508501	0.0015
BS	0.012652	0.005740	2.486430	0.0386
BI	0.001670	0.002919	2.759091	0.0275
OC	0.001102	0.001176	2.387028	0.0434
IO	0.004530	0.835005	2.542858	0.0364

Source: Secondary Data processed (2020) with Eviews

H1b: Board size has a significant positive effect on sustainability performance.
From table 3, the result showed that the probability (significant value) of Board Size is 0.0386 < 0.05 with a coefficient positive, and this showed that **H1b accepted.** This means board size has a positive effect on sustainability performance.

H2b: Board independence has a significant positive effect on sustainability performance.
From table 3, the result showed that the probability (significant value) of Board independence is 0.0275 < 0.05 with a coefficient positive, and this showed that **H2b accepted.** This means board independence has a positive effect on sustainability performance.

H3b: Ownership concentration has a significant positive effect on sustainability performance.
From table 3, the result showed that the probability (significant value) of ownership concentration is 0.0434 < 0.05 with a coefficient positive, and this showed that **H3b accepted.** This means ownership concentration has a positive effect on sustainability performance.

H4b: Institutional ownership has a significant positive effect on sustainability performance.
From table 3, the result showed that the probability (significant value) of institutional ownership is 0.0364 < 0.05 with a coefficient positive, and this showed that **H4b accepted.** This means institutional ownership has a positive effect on sustainability performance.

Table 04: Sobel test 1

	T statistic	p-value
a = 0.048078	2.1105135	0.04606718
b = 0.052665		
sa = 0.001032		
Sb = 0.001025		

H5: Strategic orientation has a significant positive effect on sustainability performance.
From table 4, the result of the Sobel test showed that the probability (significant value) of Sobel is 0.04606718 lower than 0.05, and this showed that **H5 accepted.** This means strategic orientation has a significant positive effect on sustainability performance.

Table 5: Sobel test 2

	T statistic	p-value
a = 0.079042	1.997553	0.0464272
b = 0.036201		
sa = 0.017868		
Sb = 0.001025		

H6: Strategic orientation mediates the impact of (a) board size, (b) board independence, (c) ownership concentration, and (d) institutional ownership on sustainability performance.

From table 5., the result of the Sobel test showed that the probability (significant value) of Sobel is 0.0464272 lower than 0.05, and this showed that **H6 accepted.** This means strategic orientation mediates the impact of (a) board size, (b) board independence, (c) ownership concentration and, (d) institutional ownership on sustainability performance.

4. Discussion

From the tables above, it is found that the significant value for the board size variable is less than 0.05 so that it means the first hypothesis is accepted (board size has a significant positive effect on strategic orientation and sustainability performance). Moreover, this consistent with the findings of Abeysekera (2010), Allegrini and Greco (2013), which have established a link between board size and overall sustainability performance and strategic orientation.

An efficient board is vital for better performance (Vafeas, 1999). So, larger boards are considered to obtain a variety of resources at low cost and result in better performance. Besides, the decisions of a board of directors also play an important role in determining the level of voluntary disclosure on sustainable performance. Laksmana (2008) concluded that a positive connection between board size and the level of voluntary disclosures on sustainable performance. According to Shamil et al. (2014), large companies have large boards, and such companies want to increase their sustainability reporting. Similarly, according to Janggu et al. (2014), large boards have more influence on sustainability issues. However, with this consistency between our results and previous studies, the existence of a direct effect between board size and sustainability performance indicates that other potential factors may also explain this relationship and, therefore, further studies are needed.

The direct impact of board independence on strategic orientation and sustainability performance was supported. Whereas the BI variable has p-value less than 0.05, so this hypothesis (Board independence has a significant positive effect on strategic orientation and sustainability performance) was accepted. According to these results, Independent directors are likely to take more initiatives to enhance the sustainability performance of the company Ibrahim et al. (2003). Independent directors also act as a monitoring instrument for management activities on sustainability performance.

The existing literature is conflicting and inconclusive concerning the relationship between board independence and sustainability disclosure. Whereas, Cuadrado-Ballesteros et al. (2015) and Jizi et al. (2014) found a positive connection between the independent director and CSR disclosures. However, Said et al. (2009) and Haniffa et al. (2005) found a negative association between board independence and CSR disclosures. In the Indonesian context, our results support the study of Trireksani et al. (2016) which revealed that there is a significant positive relationship between board size of directors and the extent of environmental disclosure. As such, firms should increase the percentage of independent directors due to their role in the managers' stance towards sustainability performance.

Ownership concentration has a significant positive effect on strategic orientation and sustainability performance this what has been confirmed by the current study. Whereas the ownership concentration variable p-value is less than 0.05, so it means that the third hypothesis

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in this study is accepted. So there is a significant between ownership concentration on strategic orientation and sustainability performance. This result is consistent with the findings of Cullen et al. (2002) and Brammer et al. (2007) who found that there is a relationship between these two concepts.

According to Ghazali (2007), companies that have dispersed ownership are expected to involve more in the community or social and environmental activities since the issue of public accountability is important in these companies. Therefore, it may be expected that there will be a more sustainable performance of widely held companies compare to closely-held companies as a consequence of the higher level of public accountability. Conversely, in a highly concentrated ownership company, since the public interest is relatively low, the social and environmental activities may also be expected less active, therefore less sustainable performance. Evidence from previous study Adams et al. (1998) supports the existence of a negative relationship between ownership concentration and the extent of voluntary disclosure in annual reports, where CSR disclosure in the study was part of sustainability performance. However, Ghazali (2007) found that ownership concentration does not affect CSR disclosure. Also, Shwairef et al. (2019) concluded that there are not direct and indirect impacts of ownership concentration on environmental reporting, which implies that there is no relationship between these two concepts. Also, it is not consistent with the findings of this study; thus, it is worthwhile to highlight this area in the future.

Whereas, the institutional ownership variable, the p-value is less than 0.05, so the fourth hypothesis is accepted. So there is a significant influence between institutional ownership on sustainability performance and strategic orientation. Thus the results indicate that institutional ownership has a direct effect on sustainability performance. Besides that, the impact of institutional ownership on strategic orientation was supported, and institutional ownership has an indirect effect on sustainability performance through strategic orientation.

In other studies, Jiang et al. (2009) and Shan (2009) found a negative relationship between institutional ownership and sustainability performance. However, the results of the present study extend the findings of Donnelly and Mulcahy (2008) by proposing strategic orientation as a potential reason that brings about a positive relationship between institutional ownership and sustainability performance. As large institutional shareholders better understand the demands for sustainability practice from consumers and its impact on the financial performance of companies in comparison to small shareholders, they push managers to focus on sustainability practice publicly (Mallin et al., 2013). Furthermore, it is also important to consider the power that large institutions have in comparison to small investors to influence managers' decisions. Hence, by increasing the percentage of shares held by institutional stakeholders, firms can influence the managers' stance towards sustainability performance.

For the strategic orientation variable, the p-value is less than 0.05 so that it means the sixth hypothesis in this study is accepted. So there is a significant influence between strategic orientations on sustainability performance P. A strategic orientation, which is the second dimension of Ullman's model, relates to how an organization responds to social and environmental demands. An organization which adopts a passive sustainability performance does not make any attempt to monitor and manage their relationship with their stakeholders. In contrast, those organizations by adopting an active sustainability performance infer that organizations will continuously monitor and manage their relationship with their key stakeholders. Because of these actions, organizations exhibiting an active sustainability performance are anticipated in their annual reports to have more focused on environmental and social-related performance.

For the strategic orientation variable mediating role of sobel test, the p-value is less than 0.05 so that it means the seventh hypothesis in this study is accepted. So, strategic orientation mediates the impact of board size, board independence, ownership concentration and institutional ownership on sustainability performance. Furthermore, the finding indicated that an active orientation towards environmental and social concerns could lead to a higher level of sustainability performance. A study conducted by Elijido-Ten (2004) investigated the determinants for environmental reporting. The study indicated that strategic orientation is the main determinant for the establishment of environmental reporting. As such, this study extends the findings of Abeysekera (2010) and Allegrini and Greco (2013) by introducing managers' strategic orientation as one of the potential explanations for the impact of board size on the sustainability performance level of firms. This finding highlights the importance of having a large board size for the shareholders that give importance to sustainability performance.

In conclusion, this paper investigated the direct impact of corporate governance characteristics on strategic orientation and sustainability performance. Furthermore, the indirect effect of corporate governance characteristics on sustainability performance through strategic orientation was investigated as the main goal of the study. The findings showed that managers' strategic orientation mediates the impacts of board size, board independence, ownership concentration, and institutional ownership on sustainability performance. Besides, the board size, board independence, ownership concentration, and institutional ownership have a direct impact on the sustainability performance level of firms.

Theoretically, perspective, this research contributes to the literature by examining the mediating effect of managers' strategic orientation also will help researchers to understand the nature of relationships between these variables. On the other side, and from the administrative perspective, the findings of this research will help managers of firms to understand those corporate governance mechanisms that are essential to enhance their sustainability performance. The results also have implications for strategy makers at firms to integrate sustainability into their strategic plans and develop sustainable performance practice regulations. That focus on companies that have a small board size, lack of board independence, and lack of large institutional shareholders; which are least likely to disclose adequately the impact of their business operations on the sustainability issues. In addition, these results extend the previous literature, which only exams the direct effects of corporate governance mechanisms on sustainability performance.

Moreover, to the best of researcher knowledge, this research is one of the first to test, the importance of corporate governance characteristics on the level of sustainability performance in Asian countries. Also, this research has clarified some of the conflicts found in previous studies.

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However, future studies are needed to explain the moderating effect of organizational culture on managers' awareness to demand sustainability practices. Although the relationship between corporate governance and sustainability performance was successfully mediated by managers' strategic orientation, the researchers suggest that there are some other potential mediators which may fully explain the impact of corporate governance characteristics on the sustainability performance level of firms, such as organizational culture. Therefore, future research could investigate other potential mediators.

Finally, the listed company was considered in this study, as in Indonesian, sustainability reports are only mandatory for listed companies in Bursa Indonesia. Consequently, the enculturation toward disclosure about sustainability performance begins when they are listed in Bursa Indonesia. Moreover, future studies can also test the impact of the size and age of the firm as control variables.

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