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Advancing Sustainable Development Goals: The Impact of Corporate Governance Mechanisms and Industry Type on Business Contributions

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ABSTRACT

The 2030 Agenda for Sustainable Development calls for global businesses to support Sustainable Development Goals (SDGs). This study examines the impact of corporate governance mechanisms, particularly board of directors' roles, on SDG achievement through company disclosures and explores industry type as a moderating factor. Analyzing 408 IDX-listed companies from 2018-2020, the study finds that CEO independence, independent boards of commissioners, and frequent board meetings can enhance SDG achievement as reported in financial statements. However, industry types may affect SDG achievement, potentially reducing the influence of CEO independence and independent boards of commissioners. The research highlights the significance of corporate governance mechanisms and industry type in promoting SDG achievement in businesses.

INTRODUCTION

In the twenty-first century, the leading global framework for international cooperation is built on the principle of sustainability as its foundation. The process of meeting today's needs without putting the requirements of future generations at risk is what we mean when we talk about sustainable development. At first, sustainable development was solely focused on addressing the damage to environmental resources and natural resources, which was consistent with the expansion of the industrial sector. On the other hand, it has been criticized on the grounds that it prioritizes the improvement of the environment over the economic development and the well-being of humans. Seeking a fine balance between expanding the economy and preserving the natural world is one of the primary objectives of sustainable development (WCED 1987).

In September 2015, the UN passed a plan called "Transforming Our World: The 2030 Agenda for Sustainable Development." The 2030 Agenda for Sustainable Development is a framework for making everyone's future better and more stable. It is made up of 17 Sustainable Development Goals (SDGs) and 167 targets that aim to solve global problems like poverty, inequality, climate change, environmental degradation, peace, and justice. To reach goals, the government, businesses, civil society, and everyone must all do their part (United Nation 2015).

The existence of a global governance agenda makes it necessary for corporations to participate in the execution of the Sustainable Development Goals (SDGs). According to KPMG (2018), forty percent of the world's 250 largest corporations are starting to address SDG-related issues in their respective sustainability reports. Since its introduction in 2015, Van Zanten and Van Tulder (2018) demonstrate that the business community's interest in the SDGs has grown rapidly. It is encouraging that businesses have a clear opportunity to support the achievement of the SDGs. However, Van der Waal and Thijssens (2020) discovered that corporate engagement in achieving the SDGs as a whole is still quite constricted. This finding indicates the existence of legitimacy motives and institutional motives that motivate companies to participate in achieving the SDGs.

A study Schramade (2017) observed that just 28% of companies listed in Eurostoxx50 mentioned the SDGs in their financial statements, while Rosati and Faria (2019b) discovered that about sixteen percent of the sample mentioned the SDGs throughout their reports. According to the finding of the PWC study, only 27% of 700 global companies surveyed included SDGs in their business plans (PWC 2018). The most plausible reason for this is that business do not believe that achieving the Sustainable Development Goals by 2030 should be a necessary priority. As a results, there is a gap in the research that needs to be filled to determine which characteristics of companies could influence the company's attention to achieve the SDGs, thereby assisting the company in becoming a prosperous enterprise in the coming decades.

Several previous studies have noted that there are still few literatures on the impact of organizational factors on SDG achievement, indicating that limited research on internal company characteristics contributed to SDG achievement (Rosati and Faria 2019a). Corporate governance mechanisms are one of the organizational factors that can have the potential to serve significant part in achieving the SDGs. In particular, the internal company mechanisms related to the board of directors, as each director is fully accountable of a company's sustainability strategy (Chan et al. 2014; Jain and Jamali 2016). Those studies, on the other hand, fill gaps in previously conducted research by concentrating solely on the effect of younger boards of directors and female directors as aspects of corporate governance. Meanwhile, Martínez-Ferrero and García-Meca (2020) discovered that corporate governance in terms of independence of CEO, independence of board, and attendance of board can support SDGs achievement, but only in European countries. Other studies, in general, are still limited to African companies (Aust et al. 2020), as well as Naciti (2019), Rosati and Faria (2019b), which examine North America, Europe, Asia, Latin America, Oceania, and Africa, making comparable research focused on Indonesia limited. This study adds to the existing body of knowledge on the SDGs agenda in a number of ways, among other things, by providing evidence of how such internal role of corporate governance (independence of CEO, independence of board, and attendance of board) can increase the likelihood of companies being

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more involved in achieving the SDGs as reflected in the company's sustainability report.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Figure 1 shows the conceptual framework proposed in this study. From Figure 1, it can be explained that the CEO independence, Board of Commissioners' Independence and Board Meetings affect the Achievement of the SDGs. In addition, Figure 1 also explains the role of industry as a moderator of the relationship between CEO Independence and Achievement of the SDGs, the association among the Board of Commissioners' Independence and the SDGs achievement, as well as the relationship between the Board Meeting and the Achievement of the SDGs. The idea of agency rests on the premise that every person acts in their own self-interest (Michael and William 1976).

On the other hand, it is anticipated that the presence of a mechanism for corporate governance will lessen the effects of agency conflicts that are brought on by disparities in the interests of principals and agents. It is also anticipated that the presence of a mechanism for corporate governance will encourage companies to meet the demands placed on them by stakeholders in terms of sustainable development. Several studies have found that the independence of the CEO (non-duality of the CEO), the presence of independent board of commissioners, as well as the presence of the board at meetings are determinants of the quality of good corporate governance (Bertrand and Mullainathan 2001; Chan et al. 2014; García Lara et al. 2009). The most important and central governance mechanism is the board of directors. The Board of Directors has a significant impact on SDG achievement because they oversee the development of a sustainability strategy that involves an agenda for achieving the Sustainable Development Goals as well as the allocation of resources for practices that promote sustainability (Jizi 2017).

CEO duality occurs when a CEO also serves as chairman in board of commissioners of a company (Booth et al. 2002). According to its main duties and functions, the CEO is tasked with managing all the existing organization's resources with the powers granted by the board of commissioners, with the board of commissioners acting as the CEO's supervisor. According to Agency Theory, CEO duality can be detrimental to the company because it can impede the board of directors' ability to manage the company and the board of commissioners' ability to assess and supervise the board of directors' performance (Coles et al. 2001). Furthermore, management is inextricably linked to the element of conflict of interest, allowing it to influence decision-making for personal gain. The CEO's non-duality can also demonstrate greater responsibility to stakeholders, which can influence their level of dedication long-term goals achievement. According to the findings of , distinction Mallin et al. (2013) of CEO roles and the disclosure of the practices of corporate sustainability had a positive impact in this case. While Naciti (2019) noting a significant relationship between non-duality CEOs and sustainability performance, findings of Martínez-Ferrero and García-Meca (2020) indicated that non-duality CEOs increases the company's propensity to report on SDGs achievements in sustainability reports. Therefore, the first hypothesis is proposed as follows:

H1: The independence of the CEO has a positive effect on the achievement of the SDGs.

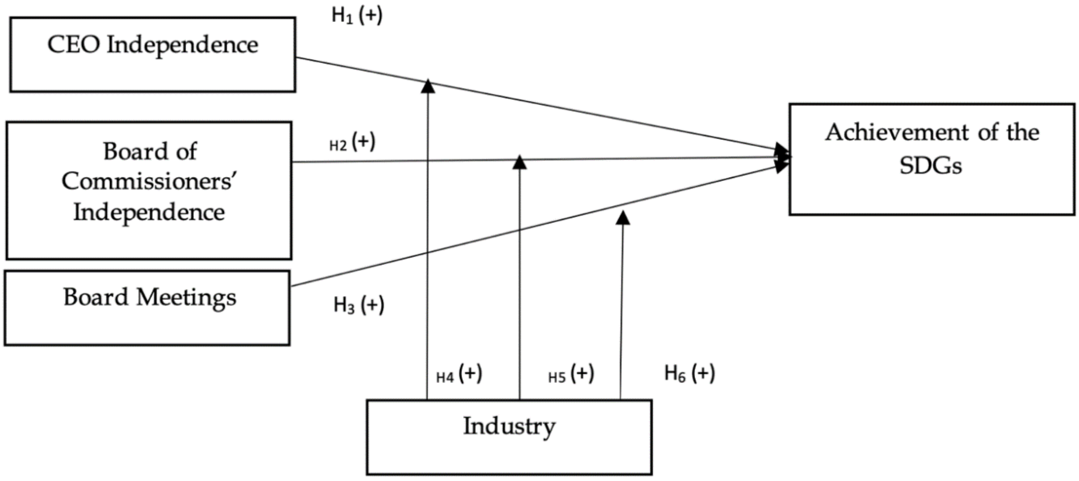

Figure 1. Conceptual Framework

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Consistent with previous research on corporate governance constructs and CSR disclosures, such as Chan et al. (2014), this study estimates that corporate governance in the form of independent commissioners will influence the achievement of the SDGs as a corporate strategy to develop sustainable excellence that is aligned with the interests of stakeholders. Independent commissioners serve as representatives of the company's stakeholders to oversee the company's operations. In order to create good corporate governance, an independent commissioner is in the best position to carry out the monitoring function. Independent boards of commissioners can also better monitor the performance of managers and influence the company's dedication to achieving sustainable objectives.

Although the research of Michelon and Parbonetti (2010) and Naciti (2019) found a negative and insignificant relationship between independent boards of commissioners and disclosure of sustainability practices, other studies such as Chau and Gray (2010), Herda et al. (2014), Jo and Harjoto (2011), and Prado-Lorenzo and Garcia-Sanchez (2010) found the opposite results. Martínez-Ferrero and García-Meca (2020) indicated an increase in the company's tendency to report on the achievement of the SDGs in sustainability reports with the presence of an independent board of commissioners, Therefore, the second hypothesis proposed is as follows:

H2: The board of commissioners' independence positively affects the achievement of the SDGs

In addition to the presence of independent commissioners, the frequency of board meetings

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is viewed as a determining factor in the actual monitoring of the board of directors (Adams 2003). The frequency of board meetings is indicative of an active board membership. Boards that meet frequently are believed to be able to pay greater attention to the frequently demanded transparency of the company. Involvement of the board in meetings can also focus participants on long-term objectives, social needs, and ethical conduct, resulting in greater social and environmental compliance. Implementing more frequent board meetings can also enhance the oversight of managers, thereby enhancing the company's commitment to SDGs issues. Dalla Via and Perego (2018) discovered a correlation between the number of board meetings per year and the rate of mineral conflict disclosure. Other studies have also demonstrated a correlation between the number of board meetings and an increase in social reporting (Giannarakis et al. 2014). Thus, the third hypothesis proposed is as follows:

H3: The number of board of commissioners' meetings has a positive effect on the achievement of the SDGs.

Based on their characteristics, industries can be divided into two categories: high-profile industries and low-profile industries. Roberts (1992) defines a high-profile industry as one with high consumer visibility, a high level of political risk, or intensely concentrated competition. Examples of prominent industries include petroleum, chemical, extractive, and mining, forests and paper, automobiles, aviation, energy and fuel, transportation and tourism, agriculture, alcoholic beverages, tobacco, and the media. In contrast, a low-profile industry is one in which a company's failure or error in some aspect of its production process or product does not garner much public attention. Finance and banking, food, health and personal products, hotels, buildings, electricity, textiles and apparel, retailers, medical supplies, real estate, and home appliances and products are examples of industries with a low profile.

The voluntary nature of SDG disclosure is one reason why industry classification can influence the relationship between the internal mechanisms of corporate governance and SDG achievement. High-profile industries are frequently targeted and receive more public attention than low-profile industries. In order to demonstrate to investors and other stakeholders that they are actively supporting the achievement of the SDGs, companies categorized as high-profile industries will tend to pay more attention to the SDGs' accomplishment. A study by Martin et al. (2018) posits this argument regarding CSR disclosure, even though the results indicate that industry types do not differ in terms of CSR actions. Consequently, the hypotheses proposed are:

H4: Industry types moderate the relationship between CEO independence and achievement of the SDGs.

H5: The type of industry moderates the relationship between the board of commissioners and the achievement of the SDGs.

H6: The type of industry moderates the relationship between the number of board of commissioners' meetings and the achievement of the SDGs.

RESEARCH METHODS

This research used a quantitative approach to examine the relationship of internal mechanism of corporate governance and the achievement of SDGs. This research was conducted on the Indonesia Stock Exchange with an observation period of three years from 2018 to 2020. Data is collected through documentation of the company's annual report obtained from the official website of the Indonesia Stock Exchange and the official website of each company. The population of this study is all companies listed on the Indonesia Stock Exchange in 2020 as many as 780 companies. The sample was determined based on purposive sampling method with the criteria of companies belonging to the targeted industry to report on sustainability issues such as the financial, transportation & logistics, mining, agriculture, and manufacturing sectors (van der Lugt et al. 2020). Based on the sampling criteria, a sample of 408 companies or 1,224 observations (firm-year) was obtained. This study performed logistic regression to analyze the relationship between CEO independence, the board commissioner's independence, the number of board meetings and industry groups with the achievement of the SDGs. Logistic regression is used to predict discrete outcomes from a series of variables that may be continuous, discrete, dichotomous, or mixed (Tabachnick et al. 2013).

Table 1. Measurement of Variables

Variable Code	Variable Name	Formulation	Level of Measurement
Y	Achievement of SDGs	1 = Disclosure of SDGs 0 = No disclosure of SDGs	Binary Dummy Variable
X_1	CEO Independence	1 = CEO does serve as Board Commissioners 0 = CEO serve as Board Commissioners	Binary Dummy Variable
X_2	Board of Commissioners' Independence		Ratio
X_3	Board Meeting	Number of board meetings in a year	Nominal
Z	Industry	AGR = Agribusiness; FIN = Financial; MFG = Manufacturing; MNG = Mining; TSL = Transport & Logistics	Dummy Variable

The dependent variable in this study is the Achievement of SDGs which is proxied by the disclosure of SDGs carried out by the company. The disclosure of SDGs is measured by dummy variables by providing a code number of 1 (one) if the company discusses the SDGs in the sustainability report as well as the annual financial report and is given the number 0 (zero) if vice versa (Martínez-Ferrero and García-Meca 2020; Rosati and Faria 2019a, b).

The independent variables in this study are the CEO independence, the independence of boards of commissioners, the number of board meetings and the type of industry. The independence of the CEO is measured using a dummy variable by providing a number code of 1 if the CEO does not simultaneously serve as the Board of Commissioners and is given a number code of 0 if the CEO also serves as the Board of Commissioners. The independence of boards of commissioners as the second independent variable is measured by the ratio of the number of independent board members to the number of total members of the board of commissioners. The third independent variable is the number of board meetings in a year, while industry as a moderation variable is measured using dummy variables. The logistic model regression combined is presented as below:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4Z + \beta 5\, X1^*Z + \beta 6\, X2^*Z + \beta 7\, X3^*Z + \varepsilon$$

Whereby Y: Achievement of SDGs; X1: CEO Independence; X2: Board of Commissioners' Independence; X3: Board Meeting; Z: Industry. Table 1. provides the measurement for all variables.

RESULTS AND DISCUSSION

Table 2. Shows descriptive statistical results from research data. Based on the results in Table 2, the companies in the research sample have adequately disclosed their achievement of the SDGs in the annual report and sustainability report. A total of 980 observations or 80.1% of the total observations have revealed the achievement of the SDGs and the remaining 19.9% have not disclosed their achievement of the SDGs. Table 1 also explains that 80.4% of total observations separate the functions of the CEO from the board of commissioners which implies that Indonesian companies tend to prioritize the independence of the CEO. Judging from the proportion of independent commissioners, Table 2 shows the result that the average percentage of independent commissioners is 0.3993 people, while the average number of board meetings in a year is 14.59 times.

Logistic regression analysis is one of the analytical techniques used to test the influence of independence variables on dependence variables in the form of categorical data (ordinal data). Logistic regression analysis can ignore classical assumption tests except multicollinearity tests due to the presence of a mixture of scales on independence variables in the regression equation so that the assumption of normal multivariate distribution cannot be met. Multicollinearity can be seen from the VIF and Tolerance values, where the cut off value that is commonly used to indicate the presence of multicollinearity is the Tolerance value < 0.10 or equal to the VIF value > 10 [28, 29]. In addition, it can also be seen from the correlation

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between independent variables that do not exceed 0.7. The correlation values, Tolerance and VIF in Table 3 indicate that there is no multicollinearity problem in this model.

Table 2. Descriptive Statistics

Panel A: Discrete Variable (Dummy)

Variable	Category	Frequency	Percent.	Variable	Category	Frequency	Percent.
Achievement of SDGs (Y)	0	244	19,9%	Industry (m1)	AGR	72	5,9%
	1	980	80,1%		FIN	270	22,1%
	Total	1.224	100%		MFG	522	42,6%
CEO Independence (X1)	0	240	19,6%		MNG	138	11,3%
	1	984	80,4%		TSL	222	18,1%
	Total	1.224	100%		Total	1.224	100%

Panel B: Continuous Variable

Variable	N	Mean	Std. Deviation	Min	Max	Skewness	Kurtosis
Board of Commissioners' Independence (X2)	1.224	0,3992	0,1127	0	0,667	0,03744	4,54117
Board Meetings (X3)	1.224	14,5948	7,4468	4	32	0,41897	1,90961

Table 3. Multicolinearity Test Results

		X1	X2	X3	m1	Tolerance	VIF
X1	CEO Independence	1.000				1,000	0,993
X2	Board of Commissioners' Independence	-0,024	1. 000			1, 000	0,995
X3	Board Meetings	-0,029	-0,030	1.000		1,000	0,996
m1	Industry	-0,040	-0,049	0,056	1.000	1,000	0,997

The following step is to assess the feasibility of the model. This step is important because the results of these tests determine whether the logistic regression model is worth continuing. Model feasibility testing was conducted with the Hosmer-Lemeshow Test. Table 4 presents a summary of the results of model feasibility testing and hypothesis testing. The Hosmer-Lemeshow test, also known as the chi-square test, is a recommended test for the overall suitability of a binary logistic regression model (Garson 2014). This test is considered more powerful than the traditional chi-squared test, especially if the covariate is continuous in the model or the sample size is small. Insignificant results showed that the model adequately corresponded to the data (Garson 2014). As a result, the significance value must be greater than 0.05 to support the research model. In this case, the significance level of the Hosmer-Lemeshow Test is 0.9963, thus indicating that the research model is a good model. In addition, the summary model significance value shows a Prob>chi2 result of 0.000 which means that this model is a fit model (Ghozali 2016).

Table 4 also provides additional information about the usefulness of the model, which measures the strength of association, A Pseudo R-Square value and gives an indication of the number of variations of the dependent variable described by the model. In this case, a Pseudo R-Square value of 0.3537 indicates that 35.37% variability in achieving the SDGs is explained by independent variables in this model. Based on the results of hypothesis testing in Table 4, the CEO Independence, Board of Commissioners' Independence, and Board Meetings have a $p<0.05$ value and an odd ratio>1 value, which means supporting the first, second and third research hypotheses.

These results confirmed that the stronger the internal mechanisms of corporate governance proxied by the CEO Independence, Board of

Commissioners' Independence, and Board Meetings, the higher the tendency of companies to contribute to the achievement of the SDGs which is reflected in the disclosure of the SDGs in the sustainability report. The highest odd ratio value is in the Board of Commissioners' Independence, which means that in the context of Indonesia, this variable contributes the most to the achievement of the SDGs, followed by board meetings and the independence of the CEO. This confirms that the existence of an independent board of commissioners is very important as a representative of stakeholders to carry out monitoring functions to create good corporate governance and influence the company's commitment to the achievement of sustainable goals. This is consistent with the assumption that the independence of the board of commissioners and the CEO is a means to strengthen corporate governance commitment to a robust sustainability strategy and the implementation of the SDGs. The internal mechanisms of corporate governance thus contribute to sustainable development and the 2030 Agenda. These results are in line with the study of Chau and Gray (2010), Dalla Via and Perego (2018), Herda et al. (2014), Jo and Harjoto (2011), Mallin et al. (2013), Martínez-Ferrero and García-Meca (2020), Naciti (2019), Prado-Lorenzo and Garcia-Sanchez (2010), as well as Giannarakis et al. (2014).

Table 4. Hypothesis Testing Results

		OR	P		95%CI
C	Constant	0,000	0,000	0,000	0,001
X1	CEO Independence	11,425	0,042	1,092	119,53
X2	Board of Commisioners' Independence	3.404,302	0,027	2,497	4.641.719
X3	Board Meetings	214,276	0,001	9,890	4.642,69
m1	Industry				
	Finance (FIN)	0,045	0,020	0,003	0,616
	Manufacturing (MFG)	0,063	0,026	0,005	0,722
	Mining (MNG)	0,108	0,116	0,007	1,728
	Transportation & Logistics (TSL)	0,129	0,123	0,010	1,736
X1*m1	Interaction of CEO Independence & Industry				
	Finance (FIN)	0,046	0,027	0,003	0,708
	Manufacturing (MFG)	0,066	0,038	0,005	0,864
	Mining (MNG)	0,104	0,126	0,006	1,885
	Transportation & Logistics (TSL)	0,131	0,143	0,008	1,986
X2*m1	Interaction of Board of Commisioners' Independence & Industry				
	Finance (FIN)	0,002	0,153	0,000	9,436
	Manufacturing (MFG)	0,000	0,030	0,000	0,443
	Mining (MNG)	1,102	0,985	0,000	37.876
	Transportation & Logistics (TSL)	0,032	0,396	0,000	91,225
X3*m1	Interaction of Board Meetings & Industry				
	Finance (FIN)	0,153	0,256	0,006	3,893
	Manufacturing (MFG)	0,111	0,172	0,005	2,591
	Mining (MNG)	0,271	0,467	0,008	9,140
	Transportation & Logistics (TSL)	0,385	0,580	0,013	11,283
		Prob>chi2	Pseudo R2		
	Model Summary	0,0000	0,3537		
	Hosmer-Lemeshow Test	0,9963			

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In contrast to the three independence variables, the type of industry has an odd ratio < 1, which means that industry variables can reduce the tendency of companies to support the achievement of the SDGs. The interaction between industry variables and the other three independent variables indicated insignificant influence on the relationship between CEO Independence, Board of Commissioners Independence, and Board Meetings with SDGs Achievement, except for the interaction between financial and manufacturing industries with CEO independence, as well as for the interaction between manufacturing industries and Board of Commissioners Independence. Looking at the descriptive statistics of the industry, companies in the manufacturing and financial industries dominate the research sample, so it is not surprising that their interaction with other independent variables is significant. Meanwhile, companies in the agricultural, mining, and logistics-transportation industries are relatively few when compared to manufacturing and finance, which can result in insignificant regression test results.

CONCLUSION

This study aims to analyze the relationship between corporate governance mechanisms and the achievement of SDGs by companies listed on the Indonesia Stock Exchange. The corporate governance mechanism in question is an internal mechanism related to the board of directors that is expected to play an important role in achieving the SDGs indicated by the disclosure of the SDGs by the company. The study also seeks to examine the role of industry-type moderation in the relationship between corporate governance mechanisms and disclosure of SDGs. Research results show that the CEO independence, boards of commissioners' independence and the number of board meetings can drive the achievement of SDGs as disclosed in the company's annual financial statements. The findings also show that, when associated with industry types, some types of industries are linked to SDG disclosures but lessen the influence of CEO independence and the composition of independent boards of commissioners.

This research still has limitations and weaknesses, including only analyzing the internal mechanisms of corporate governance related to the board of directors, while there are still internal mechanisms of corporate governance that are not included in this study such as the ownership of the company and the supporting committees of the board of directors and the board of commissioners. In addition, this study does not discuss the types of objectives expressed by the company from the 17 existing sustainability goals for each type of industry, limiting the generalization of the results of this study. Further research can add other corporate governance mechanisms and consider using other indicators to measure the achievement of SDGs by companies or compare different country settings.

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