RISK MANAGEMENT, CORPORATE GOVERNANCE AND CORPORATE SUSTAINABILITY PERFORMANCE

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ABSTRACT

This study aims to examine the effect of risk management and governance on corporate sustainability performance. This type of research is a quantitative type, the sample used is companies listed on the Indonesia Stock Exchange manufacturing sector with basic industries and chemicals, various industries, and consumer goods industries for the period 2012-2016 with a total of 360 company observations.The results show that risk management has a positive effect on the company's sustainability performance and governance has a positive effect on the company's sustainability performance.

Key words: risk management, governance, audit quality, company sustainability performance.

1.1 RESEARCH BACKGROUND

Corporate sustainability is a business approach focused on creating long-term value for company owners by paying attention to opportunities and risks in sustainable development namely economic, environmental and social. A number of procedures are carried out well that will reduce negative impacts and strengthen positive effects to achieve company goals, so that company sustainability can be carried out in running the company (Kocmanova et al, 2011). The development of corporate sustainability issues has made companies change the way they operate (Lubin and Esty, 2010) and, as demonstrated in the recent MIT / Sloan survey (Kiron et al., 2012), corporate sustainability continues to be part of the company's strategy. The sustainability of the company is inseparable from the achievement of company performance, according to Atkinso, et al., (1997) stating company performance is a comprehensive picture of the results obtained from the company's operations by utilizing the resources owned by the company. Sustainability performance means the overall results of the company's operational activities both economic, social and environmental. The company's sustainability performance can be influenced by risk management and corporate governance.

Risk management is a new approach for companies thinking of new ways that enable companies to identify and manage risk, even the purpose of risk management is to create, protect and enhance shareholder value (Barton et al. 2002). Bertinetti et al, (2013) states that there is an influence of risk management on firm value. Other researchers say the implementation of risk management has a significant effect on the performance of the company and can improve performance (Gordon et al, 2009; Hoyt & Liebenberg, 2009; COSO, 2004; Nocco & Stulz, 2006; Bartonnet al, 2002; Stulz, 1996, Ping & muthuvelo, 2015). The application of risk management needs to be maintained by certain principles, so that it goes hand in hand with the effective application of governance. When the application of risk management improves, the company will add risk control to core competence and competitive advantage, the relationship between risk management and governance will be stronger which will affect the company's sustainability performance (Drew and Kendrick, 2005). Other research that is in line is the study of Ping and Muthuvelo, (2015) that in the context of implementing risk management, good governance is also needed.

Corporate governance is understood as an important element in achieving growth in corporate performance that allows to increase investor confidence which will impact on the company's sustainability (Aras, 2008). The company's sustainability performance can be carried out well with the important role of corporate governance that is carried out well as well. Good corporate governance can control and control, ultimately creating value for companies. Corporate governance is a system that regulates and controls the company to create added value for all stakeholders (Monks, 2003). Governance regulates shareholders have the right to obtain information in a timely and correct manner and the company is required to make transparent, timely and accurate disclosures of all information produced by the company, namely performance, ownership, and stakeholders (Kaihatu, 2006). Attention to corporate governance was mainly triggered due to major scandals such as Worldcom, London & Commonwealth, Enron, Tyco and others. The destruction of the public companies mentioned above is due to fraudulent practices by top management and the failure of the strategy was successfully closed so that it was not detected for a long period of time due to weak supervision and not independent by corporate boards (Kaihatu, 2006).

1.2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory is a theory that studies the existence of a principal relationship with an agent, Jensen and Meckling (1976) introduced this theory, stating that this agency relationship is a contract where there is a party (principal) that assigns tasks to other parties, namely agents in carrying out services and delegation of tasks as well as authority to make a decision. The main principle of agency theory explains the existence of a working relationship between two parties that give authority, namely shareholders and those who get authority, namely managers, in the form of cooperation contracts. The difference in interests between the parties can lead to asymmetry information between shareholders and managers, clearly illustrated according to agency theory that managers are agents for investors (shareholders).

Risk management and governance in this study are concepts based on agency theory, hoping to function as a tool in providing shareholders confidence that investors will receive returns on investment funds that have been invested. Risk management in this study is a management strategy in managing risk that aims to protect and enhance shareholder value (Barton et al., 2002). Whereas governance is related to investors' beliefs that managers will provide benefits to investors, and also confident managers will not embezzle or steal or invest in unprofitable projects, related to funds divested by shareholders, can also be related to the way the investors investors monitor managers (Shleifer and Vishny, 1997).

Hypothesis Development

1. Risk Management and Sustainability Performance

The success of a company's management in achieving performance is determined by the success of management in managing the risks inherent in each of the company's business activities. Companies that have understood and managed risk well are companies that can attract investors (Nocco and Stulz, 2006). The role of risk management is to provide reasonable guarantees for the achievement of organizational goals, provide protection to stakeholders against adverse effects that can occur due to risk (Susilo and Kaho, 2010). Gordon et al, (2009) provide empirical evidence that there is a positive influence of risk management on the company's market performance. Disclosing risk management is a strategy in maintaining relationships with investors as well, because it can help investors know the profile and management of risk and is used as a tool in detecting potential problems and monitoring risks so that they can take action earlier before the problem occurs. Based on previous research above the first research hypothesis is:

H1: Risk management has a positive effect on the company's sustainability performance

2. Corporate Sustainability Governance and Performance

Aras & Crowther (2008) states that corporate governance is fundamental to the operation of every company, thus making the company pay much attention to governance procedures. Corporate governance procedures establish every aspect of the role of company management in maintaining balance and can develop mechanisms to increase shareholder value and other stakeholder satisfaction. Ibrahim et al., (2010) examined the role of governance on company performance by comparing companies in the Chemical and Pharmaceutical sector in Pakistan. Return on assets and return on equity is chosen as a measurement of corporate performance variables, with the result that there is a influence of governance on performance. Governance in this case relates to how investors believe that management will benefit them, believe that management does not commit fraud. Implementation of good governance will improve the company's sustainability performance which will benefit investors. Based on the above research so the research hypothesis can be formulated, namely:

H2: Corporate governance has a positive effect on the company's sustainability performance.

1.3 RESEARCH METHODS

Population and Sample.

The research method in this study is quantitative, using secondary data on listed companies listed on the Stock Exchange in the basic industry and chemicals, various industries, and the consumer goods industry with an annual report that has been audited in the period 2012 to 2016. The sample method used is used is purposive sampling or based on certain criteria that are adjusted to the specified criteria. The data that is sampled are 72 companies with 5 years to become 360 company data. This study also conducted descriptive statistical tests, data quality tests and Hypothesis tests.

Research Model

The research model shows the interrelationship of risk management, governance, audit quality and control variables namely company size, leverage, growth, industrial competition, and company complexity on the company's sustainability performance, as follows:

$$CO\_SUST\ it = \beta 0 + \beta 1\ MR\ it + \beta 2CG\ it + \beta 3\ KA\ it + \beta 4\ SIZE\ it + \beta 5LEVERAGEit + \beta 6\ GROWTH\ it + \beta 7\ PI\ it + \beta 8\ KP\ it + error\ it$$

Information :

MR : Risk Management i in t
CG : Governance i in t
KA : Audit quality i in year t
Size : Size of company i in t
Leverage: Total debt i in year t
Growth: profit growth i in t
PI : Industrial competition i in t
KP : KP i in year t
Error : Residual error i year t
Y : (a) constantsta

Variable Operations

Company's sustainability performance

The measurement uses 6 Balance Score Card perspectives or called financial perspective, customer perspective, internal business process perspective, learning and growth perspective, Kaplan (1996) and Hery (2016) while social perspective uses Social Progress Index 2016 and environmental perspective uses Environmental indicators 2016 Performance Index (EPI) Porter &Scott (2016), Sherbinin (2016) , Aryane (2015) . From the 6 perspectives above, 39 scores are obtained which will be given a score of 1 to 3.

SBSC index = (Σ in / m) x 100%

Risk management

Risk Management Index (RMI) = Σ Strategy + Operations + Reporting + Compliance

Strategy 1 = $\dfrac{\text{Sales - Average industrial sales}}{\text{Standard deviation of industrial sales}}$

Strategy 2 = $\dfrac{\text{- (Beta i –Beta i-1) - average } \Delta \text{ of the industry beta}}{\text{Standard deviation } \Delta \text{ industry beta}}$

Operation 1 = $\dfrac{\text{Sales}}{\text{Total Assets}}$

Operation2 = $\dfrac{\text{Sales}}{\text{Number of employees}}$

Reporting 1 = auditor's opinion

Reporting 2 = $\dfrac{\text{Normal Accrual}}{\text{Normal accrual + abnormal accrual}}$

Compliance 1 = $\dfrac{\text{Tax Expense}}{\text{Total Profit}}$

Compliance 2 = Company given sanctions by IDX

Governance

Governance is measured using the ASEAN Corporate Governance Index Score Card by giving a value of 0 if not disclosed and 1 if disclosing 185 items of disclosure

AGS Index = (Σ in / M) x 100%

Control Variable

In this study used control variables consisting of Size, Competition Within Industry, Firm Complexity, using these variables adopted the study of Gordon et al., (2009). Leverage and Growth are used based on research by Beasley et al., (2008) and Hoyt & Liebenberg (2011).

Size	: Log of total company assets
Leverage	: Total debt divided by total assets at the end of the year t
Growth	: (t-profit - t-1 profit) / t-1 profit) x 100%
Industrial competition	: measured by the Herfindahl Index (HHI). HHI is measured by the square of the market share of all companies in the industry. HHI measures industrial concentration, where less concentration means more competition. Market share is defined as the sales of each company divided by total industry sales. Each industry is defined as all companies.
company complexity	: the number of business segments in a company
Audit Qtality	: Audit quality using industry specialization (SI) KAP

SI = $\dfrac{\text{Total client assets in the same KAP audit}}{\text{Total Assets of all companies in an industry}}$

1.4 RESEARCH RESULTS AND DISCUSSION

The table below illustrates descriptive statistics of all the variables studied. It can be seen on the table above that the dependent variable is the Sustainability Balance ScoreCard (SBSC) The independent variable is the Risk Management (MR) and the Governance (CG) moderating variable is Audit Quality (KA) plus the control variable is SIZE, Leverage, Growth, Industrial Competition (PI)) and Corporate Complexity (KP).

1. Descriptive Statistics

Table .1 Descriptive Statistics - Research Variables

Variabel	N	Min	Max	Mean	Median	Std Deviation
Variabel Dependen						
SBSC	360	0.4273	0.8461	0.5979	0.5897	0.1145
Variabel Independen						
MR	360	4.3937	38.7145	23.1207	23.9221	10.1609
CG	360	0.2864	0.7135	0.5009	0.5189	0.1526
KA	360	0.1215	45.5504	12.0040	2.0376	16.6218
Variabel Kontrol						
Size	360	25.6340	31.2688	28.1816	27.921	1.6152
Leverage	360	0.0007	0.8404	0.4592	0.4875	0.2138
Growth	360	-41.7254	59.5122	6.5207	6.4988	37.5062
PI	360	6.25E-0	166.6411	22.4262	0.4315	51.2416
KP	360	1.0000	7.0000	2.7583	2.0000	1.4815

The mean result of the company's sustainability performance is 0.5979 and the median value is 0.5897, the result is the mean value is greater than the median value so that it can be concluded that the average company has a company's sustainability performance that tends to be good. . The result of the mean risk management is 23.1207 smaller than the median value of 23.9221, concluded that on average the company has a risk management company that tends to be less good. . The result of the mean governance is 0.5009 and the median value is 0.5189, the result is the mean value is smaller than the median value so it can be concluded that the average company tends to have good governance because what is considered good if the company has a mean value greater than the median value.

2. Hypothesis Testing Results of the Effect of Risk Management and Corporate Governance on Company Sustainability Performance

Table 2. Hypothesis Risk Management and Governance Tests on Sustainability Performance

Variabel	Prediksi	Koefisien	P-value
MR	+	0.000185	0.0008**
CG	+	0.279961	0.0000***
KA	+	0.000583	0.0063**
Growth	+	0.000193	0.0000***
Leverage	+	0.038939	0.0001**
PI	+	0.000172	0.000***
Size	+	0.013430	0.0283**
KP	+	0.001259	0.3537
Durbin –Watson Stat		2.1623	
Probabilita F statistic		0.0000	
Adjusted R –squared		0.2939	
Total Observasi	360		

*** Significant at the 1% level;
** Significant at the 5% level;
* Significant at the 10% level.
This table illustrates the results of hypothesis testing. The dependent variable is the Sustainability Balance ScoreCard (SBSC), the independent variable is the Risk Management (MR) and governance (CG) the moderating variable is the Audit Quality (KA) the control variable is SIZE, Leverage, Growth, Industrial Competition (PI) and Company Complexity (PI) KP).

2.1. Effect of Risk Management on Company Sustainability Performance

The first hypothesis of this study is that risk management has a positive effect on the company's sustainability performance. Hypothesis testing results T test on statistical testing shows the value of the risk management coefficient is 0.00018 and the sig value is 0.0008. By seeing these results, the first hypothesis (H1) is accepted, meaning that there is a significant positive effect on risk management on the company's sustainability performance. The test results show that the H1 hypothesis is accepted, namely risk management carried out by the company has a positive effect on the company's sustainability performance. Based on the results obtained when the company manages the risks that will occur, which consists of the strategy carried out, the operations carried out, reporting that is considered in detail and compliance with regulations, the company can improve the company's sustainability performance. The results of the first hypothesis that the effect of risk management on corporate sustainability performance also supports agency theory, the emergence of conflicts of interest in agency theory can be reduced by the existence of risk management practices, the increased implementation of risk management has an effect on increasing the company's sustainability performance because it can give investors confidence they will receive a refund that they have invested.

2.2. The Effect of Governance on the Company's Company Sustainability Performance

The second hypothesis of this study is that corporate governance has a positive effect on the company's sustainability performance. Hypothesis testing results in statistical testing shows the value of the corporate governance coefficient is 0.2799 and sig value is 0.000. Seeing these results can answer the second hypothesis (H2), meaning that there is a significant positive effect on corporate governance on the company's sustainability performance.

Based on the results obtained when the company conducts good governance, the company can improve the company's sustainability performance. Governance is a system where the company is directed and controlled, which means that governance is an internal control. So that when governance is run well it will have a good impact on the achievement of the company's sustainability performance. Because governance is also an important element in achieving growth in company performance so that it can increase investor confidence which will impact on the company's sustainability. These results support from previous studies examining governance towards performance, namely Achchuthan and Kajananthan, 2013; Bhagat and Bolton, 2007, 2008, 2009; Brown and Caylor 2004,2006; Wu et al., 2008; Abidin et al, 2009; Oesch, 2011 which states that there is an influence of governance on performance but the performance under study is only financial performance.

The second hypothesis is the effect of governance on the company's sustainability performance, the results support agency theory, the emergence of a conflict of interest in agency theory can be reduced by the existence of good corporate governance ie managers will convince investors that management will benefit them, convincing also that management will not misuse or invest in projects that are not profitable for investors related to funds that have been invested by investors.

1.5 CONCLUSIONS

The results of each model can be concluded as follows:

1. Risk management has a positive effect on the company's sustainability performance. This can be illustrated that a company that carries out risk management well will improve the sustainability performance of the company that is run by the company. These results support the study of Gordon et al (2009) Bartelsman (2012) states that there is a positive effect of risk management on the company's financial performance.

2. Corporate governance has a positive effect on the company's sustainability performance. The results of this study indicate that corporate governance is considered a control carried out by management, when good corporate governance is run will result in the implementation of the company's sustainability performance well. These results support from previous studies examining governance towards performance, namely Achchuthan and Kajananthan, 2013; Bhagat and Bolton, 2007, 2008, 2009; Brown and Caylor 2004,2006; Wu et al., Abidin et al., 2009; Oesch, 2011 stated that there is an influence of governance on performance.

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