Corporate Governance and Disclosures in Sustainability Reports

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Abstract. This study aims to analyze the role of corporate governance as seen through board size, board independence, women on board, and internationalization on disclosure in corporate sustainability reports. Good corporate governance is expected to improve the quality of sustainability reports which ultimately affect the company's image in the eyes of stakeholders. This study uses a quantitative approach by reviewing sustainability report and corporate governance data for 2021-2023 obtained through the Indonesia Stock Exchange website and/or on the websites of each company used as the object of research. The variables studied include board size, board independence, women on board, internationalization and sustainability disclosure. Sustainability reports are measured based on the Global Reporting Initiative (GRI) index. The results of the study show that board independence, women on board, internationalization do not affect sustainability report disclosure. Meanwhile, board size affects sustainability report disclosure. This study also identified several challenges such as non-uniformity in reporting practices. Recommendations from this study include strengthening corporate governance, implementing global standards, and regulations that encourage transparency and accountability in sustainability reports.

Keywords: Board Size, Board Independence, Sustainability Reporting, Internationalization, Women on Board

1 Introduction

The paradigm shift in business towards sustainability requires companies to balance business activities related to humans, profits, and the planet. In addition, the increasingly critical changes in people's behavior at this time have raised corporate awareness of the importance of carrying out corporate social responsibility (Almilia et al., 2011). Cases of environmental destruction and pollution are very contrary to the spirit of sustainable development. Research and environmental pollution occur due to the carelessness of companies in managing their businesses that do not integrate the impact on the environment, including consumers in the non-cyclical industrial sector. Dewi (2018) in her research said that the primary goods consumption sector or non-cyclical consumers is an industrial sector that will experience growth in line with population growth and increased income.

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Along with the many environmental cases that have occurred in Indonesia, the attention of business actors to economic, social, and environmental reporting is increasing. Therefore, disclosing business activities in a miscarriage report is an important part of a company's business activities. In addition, environmental issues are an important parameter for companies to gain a competitive advantage and a good business reputation (Masud et al., 2018). The transfer report can be used as a form of corporate transparency in disclosing information on the impact of business operations on society and the environment (Chang et al. 2017).

In practice, disseminating the bleeding report is inseparable from the role of corporate governance as a form of corporate commitment in operations through transfer. The existence of this governance is expected to be able to regulate and manage the company well. The board structure has refocused the situation to include social and ecological issues in the company's management strategy, and the corporate governance structure actively participates in ownership changes (Chang et al. 2017). According to Law No. 40 of 2007 addressing corporations in Indonesia, the applicable governance system is a two-tier system, namely the existence of management permits carried out by the direction and supervision of the company carried out by the board of commissioners.

The right board size allows for a diversity of expertise and views in managing poverty. Board independence ensures that disclosures are made without conflict of interest and are objective. Women on board provide an inclusive perspective that focuses on social and environmental issues that can enjoy the desired content. Internationalization forces companies to adapt to global standards and encourages higher transparency and accountability. The scope of corporate social responsibility is positively impacted by board size, but it is not impacted by board independence, the presence of women on the board, or internationalization (Natashya and Rudyanto, 2021). The desired report is negatively impacted by the three variables that assess governance: the independent board of commissioners, the board of commissioners' training, and their experience (Ekaputri and Eriandani, 2022).

This then prompted researchers to re-examine whether governance elements are effective enough in increasing permit transparency. For this reason, researchers are interested in conducting research related to corporate governance elements including board size, board independence, women on the board, and internationalization that can affect the practice of closing the company's cycle.

1.1 Legitimacy Theory

Legitimacy theory is important in explaining how organizations behave in implementing and developing social responsibility and communicating the results to the community around the company. The concept of legitimacy shows the existence of a social contract that implicitly makes the company responsible for the demands of society. Companies need to understand that the sustainability of the company is related to the company's image with the community around the company (Agustis, 2013). To achieve legitimacy, companies make disclosures to demonstrate management's attention to the social field (Rokhlinasari, 2015). Companies use a desired plan to give the impression of not being detrimental so that it can be accepted by the community

(Farhana and Adelina, 2019; Khan et al., 2013). The existence of legitimacy causes companies to avoid unwanted things and can also increase the value of the company.

2 Methodology

This study uses a quantitative approach. Annual reports and sustainability reports of companies are the source of corporate governance data and disclosures included in sustainability reports. The study uses secondary data form annual reports and sustainability reports that may be found on the websites of each company or IDX website with a reporting period of 2021, 2022, and/or 2023. Data was carried out through observation and documentation.

The population of this study is non-cyclical industrial companies and is included in the main board listed on the Indonesia Stock Exchange. Purposive sampling was the method used to choose the research sample. The criteria used in selecting the research sample are:

a. The company is engaged in a non-cyclical industry and is included in the main board.
b. The company publishes a sustainability report separate from the annual report.
c. The company publishes sustainability reports for 2021, 2022, and/or 2023 that refer to the GRI Standards.
d. The company uploads its sustainability reports for 2021, 2022, and/or 2023 on the Indonesia Stock Exchange website and/or the websites of each company.
e. The company's sustainability report can be accessed, downloaded, and used for analysis purposes.

In this study, the number of commissioners on the company's board of directors is a proxy for board size. Board independence is measured by a consistent ratio scale, which divides the number of independent commissioners by the total number of commissioners. The percentage of female board members on the company's board of directors is used to calculate the number of women on board. The ratio scale of the number of foreign directors in the company serves as a proxy for internationalization. The sustainability report disclosure elements were based on the GRI Standards standards and were collected by using a 120-question checklist and tabulated in a spreadsheet Data analysis was carried out in the form of normality tests, heteroscedasticity tests, and multicollinearity tests. Furthermore, hypothesis testing was carried out using multiple linear regression tests with the following equation:

$$Y = a + B1X1 + B2X2 + B3X3 + B4X4 + e \tag{1}$$

Description:

Y	= sustainability report disclosure
a	= constant
B1-B4	= model regression coefficient
X1	= Board size
X2	= Board Independence
X3	= Women on Board
X4	= Internationalization

3 Result and Discussion

3.1 Result

Based on the research conducted, it was found that the sample of the non-cyclical industrial sector and on the main board amounted to 69 samples. The findings related to corporate governance such as board size, board independence, women on board, and internationalization showed mixed results. From 69 samples, it is known that the lowest board size value is 6, the maximum is 19, with average 10.89 and standard deviation of 3.65. This means that the average percentage of the number of board of commissioners is 10.9% of the total number of board members in the company. Board Independence shows the lowest value of 0.11, the highest value of 0.40, an average of 0.19 and a standard deviation of 0.06. This indicates that, out of the total number of board of commissioners in the company, the average percentage of independent board members is 0.19%.

Table 1. Descriptive statistical test results

	N	Minimum	Maximum	Mean	Std. deviation
BS	69	6.00	19.00	10.899	3.651
BI	69	0.11	0.40	0.193	0.061
WB	69	0.00	0.47	0.093	0.120
INT	69	0.00	0.75	0.123	0.174
SR	69	23.00	108.00	66.333	23.308

A total of 12 companies do not have a female board (women on board), while the highest number of women on board is 0.47, with an average of 0.09, and a standard deviation of 0.12. This means that the percentage of women on board is 0.09% of the total number of board members in the company. Furthermore, related to internationalization, only 12 companies have foreign national (WNA) Directors. The highest internationalization value is 0.75, with an average of 0.123 and a standard deviation of 0.174. This means that the percentage of foreign national Directors is 0.12% of the total number of board members in the company.

This study also assesses the level of disclosure of the company's sustainability report using 120 checklist items based on the GRI Standards guidelines. The lowest disclosure value is 23 items. While the highest disclosure is 108 items. The average disclosure in the sustainability report is 66.33 items with a standard deviation of 23.3. This means that the average number of sustainability report disclosures in the sample companies is 66.33%.

Table 2. Determination coefficient test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.332[a]	0,110	0,054	22,66606

Table 2. indicates that the R2 (R Square) figure is 0.110 or 11%. This means that 11% of the dependent variable (disclosure in sustainability reporting) is influenced by the independent variables (board size, board independence, women on board, and internationalization). Alternatively, 11% of the variance in the dependent variable can be explained by changes in independent variables used in the model (board size, board independence, women on board, and internationalization). However, other factors not covered by this research model affect the remaining 89%.

Table 3. Table t-Test

Coefficients[a]						
Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	41.079	11.960		3.435	0.001
	BS	2.078	0.808	0.325	2.571	0.012
	BI	13.771	52.611	0.036	0.262	0.794
	WB	-1.549	25.520	-0.008	-0.061	0.952
	INT	0.754	17.752	0.006	0.042	0.966

Dependent Variable: SR

From the table above it can be seen that the significant values of board size, board independence, women on board, and internationalization vary.

1) A significance value of less than 0.005 for the board size variable indicates a significant relation between board size and disclosure in Sustainability Reporting. Thus, it may be inferred from this situation that, for non-cyclical industrial companies listed on the IDX, board size has a major role in the closure of the disclosure in Sustainability Reporting.
2) For board independence variable, a significance value of >0.005 means that there is no significant relation between board independence and disclosure in Sustainability Reporting. Therefore, it can be it can be inferred from this situation that in non-cyclical industrial listed on the IDX, disclosure in Sustainability Reporting is not significantly impacted by board independence.
3) For women on board variable, a significance value of >0.005 idicates that there is no significant influence between women on board and disclosure in Sustainability Reporting. Based on this case, it can be inferred that in non-cyclical industrial

companies listed on the IDX, having women on board does not significantly impact the disclosure in Sustainability Reporting.

4) A significance value of >0.005 for the internationalization variable indicates that there is no significant relation between internationalization and disclosure in Sustainability Reporting. Therefore, it can be inffered that in non-cyclical industrial companies listed on the IDX, internationalization has no significant effect on disclosure in Sustainability Reporting.

The following model is used to examine the effect of board size, board independence, women on board, and internationalization on the disclosure of Sustainability Report. The regression model is formulated systematically as follows:

$$Y = 41.079 + 2.078X1 + 13.771X2 - 1.549X3 + 0.754X4 \quad (2)$$

a. β0 = 41.079; indicates that if the value of board size, board independence, women on board, and internationalization are 0, then the disclosure of the Sustainability Report is 41.079.
b. β1 = 2.078; indicates that if the board size increases by 1, then the disclosure in Sustainability Reporting will rise by 2.078.
c. β2 = 13.771; indicates that if board independence increases by 1, then disclosure in Sustainability Reporting will increase by 13.771.
d. β3 = -1.549; meaning that if women on board increase by 1, then disclosure in Sustainability Reporting will decrease by -1.549.
e. β4 = 0.754; This means that if internationalization increases by 1, then the disclosure in Sustainability Reporting will increase by 0.754.

Table 4. Table F-Test

ANOVA[a]						
	Model	Sum of Squares	df	Mean square	F	Sig.
1	Regression	4061,303	4	1015,326	1,976	0.109b
	Residual	32880,030	64	513,750		
	Total	36941,333	68			

Dependent Variable: SR
Predictors: (Constant), INT, WB, BS, BI

The significance value given by Table 4 is more than 0.05. This means that the disclosure of the Sustainability Report is not significantly impacted by board size, board independence, women on board, and internationalization.

3.2 Discussion

Board Size's impact on Sustainability Report Disclosure. Board size has an impact on sustainability report disclosure, as indicated by the significant value of 0.012 <0.05, which supports the acceptance of H1. The results of this study are in line with (Masud, et al., 2018). The results of this study indicate that companies with larger board sizes tend to provide broader and more detailed sustainability information as the board is involved in the reporting process. A large and diverse board size reflects that the company is trying to maintain its legitimacy in the stakeholder period. Board size can support good representation, efficiency in decision making, and commitment to corporate responsibility. Inappropriate board size will affect the company's legitimacy.

Board Independence's Impact on Sustainability Report Disclosure. Board Independence has no impact on sustainability report disclosure, as evidenced by the significance value of 0.794>0.05, which rejects H2. The results of this study are not in line with Wahyudi (2021), Ong, and Djajadikerta (2020), (Masud et al., 2018). The existence of board independence hasn't prompted businesses to provide information in their sustainability reports. Supervision, decision making and corporate transparency can be supported by the presence of board independence.

Women on Board's Impact on Sustainability Report Disclosure. The inclusion of women in leadership roles is frequently linked to improved sustainability report quality and transparency. However, in this study, it did not affect the disclosure of sustainability reports. H3 is rejected because women on board have a significance value of 0.952> 0.05. The results of this study are in line with (Masud et al., 2018), but not in line with Ong and Djajadikerta (2020). If women are considered unequal to men, there will be little opportunity for women on board to influence decision-making (Justin and Hadiprajitno, 2019), including in this case the practice of disclosure in sustainability reports.

Internationalization's Impact on Sustainability Report Disclosure. Foreign board members contribute viewpoints, experiences, and reporting practices for sustainability reports from their respective companies. For example, the viewpoint of global norms or laws, connections with global stakeholders, and sustainability performance and initiatives. H3 is rejected because internationalization has a significance value of 0.966>0.05, indicating that it has no impact on the disclosure of sustainability reports. The results are in line with Kusuma and Kusumadewi (2020).

4 Conclusion

The research findings indicate that there is no substantial impact of board independence, women on board, or internationalization on Sustainability Report disclosure. Board Size, however, has a big impact on the disclosure of Sustainability Reports.

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