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The Effect of Board Size, Board Independence, Board Diversity and CSR Committee on Sustainability Reporting

Jasman Jasman[1], Inung Wijayanti[2], Rizal Mawardi[3], Omar Wibisono[4]

[1,2,3,4] Faculty of Economics and Business, Perbanas Institute

ABSTRACT: This research aims to examine the effect of board size, board independence, board diversity, and CSR committee on sustainability reporting. The population o this study Is listed companies in Indonesia Stock Exchange. Sample are selected by using purposive sampling method for the period of 2016-2020. The results show that board independence and CSR committee have an effect on sustainability reporting. Meanwhile, board size and board diversity have no effect on sustainability reporting. The findings of this study suggest that the board of commissioner independence together with the audit committee have an important role in improving sustainability reporting.

KEYWORDS: board size, board independence, board diversity, CSR committee.

I. INTRODUCTION

The emergence topic of Corporate Governance and sustainability reporting have gained the stakeholder and reserachers attention recently for their relevancy in the financial performance of companies. The contribution that corporate governance and sustainability reporting in the field of research towards the nature of disclosures has been very finite especially towards types of disclosures in particular despite having its global awareness. (Michelon & Parbonetti, 2012). Corporate governance and corporate sustainability (CS) are modern business issues in the current research area. Existing research on these topics missed the interlinkages that exist between them (Aras & Growter 2008). Essentially research to investigate the possible connection between the divergent elements of corporate governance and sustainability reporting is essential.

Corporate governance can be construed from organization and corporation to represent their behaviour, conduct and handle their operation regarding their customs, processes, policies, laws and their institution (Khan, 2011). It accomplishes the target of the organization and administer the communication among the stakeholders that comprises of shareholders and board of directors. Conjointly, corporate governance handles individual’s intricacy by the apparatus that reduces the principal-agent problem in the organization. Corporate governance essentially involves board size, board independence, board diversity and corporate social responsibility committee as its components. Recently, the topic of Corporate governance has become an emergent topic in the field of practice and academic literature. In order to establish a competitive position, raise investment, assure sustainability and fight corruption, developing-country businesses need to set up good governance institutions. (Gavrea & Stegerean 2011).

Sustainability as a policy term emerged in 1987 from the Brundtland Report. The report addressed the conflict between, on the one hand, human desires for a better life and, on the other hand, the restriction forced by nature (Kuhlman & Farrington 2010). Most national and international definitions of sustainability begin from the Brundtland Report of 1987 that states “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland 1987). According to Jones (2010), The interdependence factors of economic, social and environmental of sustainability reporting should be recognised from the Brundtland Report sustainability definition.

According to Kocmanová, Hřebíček & Dočekalová (2011), support for global cooperation has been raised towards the ramification of sustainable development and corporate governance, for the purpose of mutual implementation of plans and the acceptance for best decisions. As companies apply environmental approach in their business method, the inclusion of sustainabity has been a general consensus towards business environment. The economical, environment and social factors and Corporate Governance are at the central part of the corporate and business strategies. They are befitted to be involved in the essential corporate reporting on the assessment of company performance as they share considerable portion of the daily operation, success indicator for work motivation and as threat and risk indicator for opportunity sizing ambition.

II. LITERATURE REVIEW

Institutional Theory

Institutional theory will help to elucidate the behaviour of the company. The calculated ranges of options are prepared to support the stakeholder and a company's validity is built on the principles which originated in relation among the company and its environment. As institutional theory explicates the accounting choice of the companies, obtaining and understanding different stakeholders' interest into account is important. The theory indicates companies adopt systems and management practices that are genuine and authentic by other companies in the field (Karilainen, 2014).

Legitimacy Theory

Legitimacy theory is a mechanism that assist organizations in developing and applying voluntary social and environmental disclosures in directive to social contract which permits the acknowledge indication of their objectives and the survival in fluctuating environment (Burlea, 2013). Legitimacy theory will help to elucidate the connotation of accountability with the society from an organization's perspective (Bhattacharyya, 2015).

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is a framework for the formation of a sustainability report for a company (sustainability report). The sustainability report provides information about the impact of a company on environmental and social aspects apart from its economic aspects. With this guideline, it will produce reliable, relevant and standardized in stakeholder decision-making efforts. The GRI G4 guideline is the fourth generation of guidelines for making sustainable reports published in May 2013. The issuance of GRI G4 is the highest result of the exchange of ideas from stakeholders and several world experts from companies, civil society, labour organizations, academics and financial institutions. The aim of GRI G4 is to assist in the preparation of meaningful, complete, and directed sustainability reports into a standard practice (GRI, 2013).

Board Size and Sustainability Reporting

For better performance, having proficient and operative board is vital (Vafeas 1999). The ideal board size varies from 5 to 16 in regards to the organization's nature, industry, size and its complexity (Edwards & Clough 2005). Having larger boards are reflected to consume low cost to acquire a range of resources, information from diverse individuals (Martin 2018), resulting in improved performance. In determining the level of voluntary disclosure, the decisions on board of directors also play an important role. Based on the discussion, the following hypothesis is established:

H1: There is a positive relationship between board size and the scope of sustainability reporting

Board Independence and Sustainability Reporting

A key element of corporate governance is the representation of independent directors on a board. A director who has no business and family associated with a company's top management is generally regarded as independent (Cheng & Courteay 2006). Independent director act as a scrutineer and play an indispensable role in ensuring the proper management of the company (Said, Zainuddin & Haron 2009). Independent directors reinforce the board and make sure that investors and stakeholders ' interests are protected. It is assumed that a board that has a high proportion of independent directors is more effective in supervising and directing management (Ahmed, Hossain & Adams 2006). More initiatives are likely to be taken by independent directors to enhance the company's sustainability performance (Ibrahim & Angelidis 1994).

Independent directors also serve as a monitoring tool for voluntary disclosure management activities. Numerous researchers (Akhtaruddin, Hossain, Hossain & Yao 2009) have obtained a positive connection between the percentage of independent directors and voluntary disclosures. It means that the inclusion of more independent directors in the board increases the likelihood that more voluntary disclsures will be made in the company's annual reports. Independent directors are more likely to inspire companies to provide stakeholders with a broader variety of information. Based on the discussion, the following hypothesis is established:

H2: There is a positive relationship between board independence and the scope of sustainability reporting

Board Diversity and Sustainability Reporting

Gender diversity in the board of directors refers to women's existence as members of the board (Dutta & Bose, 2006). Board diversity develops board independence as people from different ethnicities, genders and cultural backgrounds raises enquiries that a board of directors with more conventional backgrounds might not have asked (Carter, Simkins & Simpson 2003). Gender diversity may enhance the monitoring of boards since women are actively involved in decision making (Konrad, Kramer, & Erkut,

2008) and tend to raised more enquiries (Srindhi, Gul, & Tsui, 2011). An organization's board diversity improves management efficiency as its an important corporate governance mechanism. Based on the discussion, the following hypothesis is established:

H3: There is a positive relationship between women on boards and the scope of sustainability reporting

Corporate Social Responsibility Committee (CSRC) and Sustainability Reporting

Numerous companies have a CSR committee these days, to help the board address the corporate sustainability issues (Spitzeck 2009). Usually, a CSR committee is accountable for evaluating performance and policy on issues of social responsibility and sustainability. The reporting procedure for environmental and social information is also generally the accountability of a CSR committee (Post, Rahman & Rubow 2011). The establishment of a CSR committee is perceived as an imperative organizational governance mechanism. The CSR committee's knowledge, skills and experiences are expected to ensure that the organization's strategic management process incorporates social responsibility and sustainability. The existence of the CSR committee warrants that companies fulfil their CSR duty towards the stakeholders.

A company that has CSR committee will have a good relationship with stakeholders and would have sustainability reports on variety of issues related to social responsibility and sustainability disclosure as the CSR committee is often considered as human capital. A CSR committee's presence indicates responsibility at the board level for sustainability issues. The involvement of the CSR Committee can be seen as an useful means for enhancing the reach and performance of sustainability disclosures. This study therefore awaits the involvement of the CSR Committee, which revolves around the governance mechanism, to develop the disclosure of sustainability. Based on the discussion, the following hypothesis is established:

H4: There is a positive relationship between the presence of a CSR committee and the scope of sustainability reporting. An easy

III. METHODS

Population in this research are companies that are in the infrastructure, utilities & transportation sector that are listed in the Indonesian Stock Exchange period 2016-2020. Sampling in this research method is using purposive sampling method with predetermines criteria, the data obtained were 46 companies. This research took samples from infrastructure, utilities & transportation sector that are listed in the Indonesian Stock Exchange period 2016-2020. For this research, the data used is secondary data which the source source of data comes from the annual financial statements of infrastructure, utilities & transportation sector that are listed in the IDX obtained from the IDX website, namely www.idx.com and the websites of each company.

This study contains four variables related to corporate governance. Their basis for description and measurement is shown in Table 1 below. Company annual reports provided full information on the board's composition and structure (including number of directors, gender and role description). The fourth variable associated with governance is whether a board has a separate CSR committee that are responsible for sustainability issues: the value 1 for the company that has a Social Responsibility Committee (CSRC) and 0 otherwise.

Table 1: Description and Measurement of Independent Variables

Variable	Variable Definition	Measurement
BSIZE	Board Size	Total number of directors on the board.
BIND	Board Independence	Percentage of independent directors to total directors.
WOB	Women on Board	Percentage of female directors to total Directors on the board.
CSRC	CSR Committee	Existence of the CSR committee using Dummy

This research used the Global Reporting Initiative (GRI G4) based indicators/items for economic, social and environmental sustainability disclosures. A disclosures Index for overall sustainability and the three (economic, environmental and social) dimensions of sustainability disclosure was established which will then be used for regression analysis. The existence or non existence of keywords related to the various dimensions of sustainability was captured using a content analysis technique and to also then be used to determine the GRI score as shown below:

$$\frac{\sum \text{Score Economic + Environmental + Social}}{66}$$

Regression analysis that is used in this research to test the association between the variables of corporate governance and the disclosure of corporate sustainability. This research suggests the use of data from the panel. CSRI (Sus) refers to the overall corporate sustainability reporting index as a dependent variable, β refers to the regression model as a coefficient, and details of independent variables are given in below:

$$CSRI\ (Sus)_it = \alpha + \beta_1 BSIZEI_it + \beta_2 BIND_it + \beta_3 WOB_it + \beta_4 CSRC_it + \varepsilon_it$$

Where:

BSIZE	= Board Size
BIND	= Board Independence
WOB	= Women on Board
CSRC	= CSR Committee
β_1	= Regression of Coefficient Variable
ε	= Error residual

IV. DISCUSSION AND RESULTS

Data Analysis

The data used in this research uses panel data. In analyzing and testing the hypothesis this study was assisted by using the Eviews 9.0 application. After selecting the model using the Chow Test and the Hausman Test, the Fixed Effet Model was chosen. Henceforth, classic assumption tests will be performed which include the Normality Test, the Multicollinearity Test and the Heteroscedasticity Test. Based on all the tests that have been carried out, the data is free from the assumption test, so that it can be continued for hypothesis testing using the fixed effect model.

Descriptive Statistics

Descriptive Statistics is presented at Table 2 below and as we can see it highlights the mean, median, maximum, minimum and standard deviation of each variable. There are indicators on the board size variable which has a mean value of 8.360870 with standard deviation value of 2.728667. Standard deviation has a very far vulnerable to the mean value when compared with other variables. This indicates that the data is not homogeneous.

Table 2. Descriptive Statistics

Desc.	CSRISUS	BSIZE	BIND	WOB	CRSC
Mean	0.396113	8.360870	0.285124	0.114155	0.052174
Median	0.378788	8.000000	0.285714	0.111111	0.000000
Maximum	0.833333	15.000000	0.500000	0.500000	1.000000
Minimum	0.090909	4.000000	0.111111	0.000000	0.000000
Std. Dev.	0.155416	2.728667	0.077410	0.110970	0.222863

The Effect of Board Size on Sustainability Reporting

The data regarding the effect of board size on sustainability reporting is presented at Table 3 below. Results show that board size has a negative effect on sustainability reporting. The probability value indicates a value of 0.1661 > (0.05) and a *coefficient* value of -0.005812 is obtained. The results of the study prove that board size has a negatively insignificant effect on sustainability reporting. Negative effect shows that having more members on the board it doesn't always mean its better for sustainability reporting. Larger board size incorporates a wider range of experience and knowledge but on the other hand, larger boards also believed as inefficient as they are weak in control of management with the addition of an increase in agency cost and may lead to bad coordination and communication behaviours and attitudes.

The results of this study contradict with the research conducted by Galbreath (2015), Suryono & Prastiwi (2011) & Ghabayen, Mohamad & Ahmad (2016) mention how having board size positively affect corporate social responsibility. They stated that Larger board size incorporates a wider range of experience and knowledge. This however seems also to be a regional case as research from Malaysia (Haziwan & Taha 2013) and Indonesia (Sha 2014) also support that board size negatively affect CSR from economic, social and environmental as to oppose to results from USA and Europe (Birindelli, Dell'Atti Iannuzzi & Savioli 2018 p14). This is further backed by Naseem, Riaz, Rehman, Ikram & Malik (2017 p809) noting that developed and developing country differs in context of literature from CSR disclosure affect perspective in CSR. Furthermore, extensive research shows that the unusual case of board size negatively affects CSR mainly due to the difference in industry with Birindelli, Dell'Atti Iannuzzi & Savioli mentioning how Financial and Non-financial company comparatively affected by board size. Based on the explanation above, the 1st hypothesis of this study is rejected

The Effect of Board Size, Board Independence, Board Diversity and CSR Committee on Sustainability Reporting

The Effect of Board Independence on Sustainability Reporting

The data regarding the effect of board independence on sustainability reporting is presented at Table 3 below. Result of having positively significant board independence (coefficient 0.257632 & probability value 0.0109 < 0.05) influencing CSR is consistent with the study of Sari (2013) and Ahmad, Rashid & Gow (2017), that independent directors are elected based on the notion that they are not materially related to the company. Independent director have important characteristics, undesirable traits, and to have continuous improvement to the board which makes them effective for sustainability reporting The result however, is inconsistent with Putri (2013) by her result of negatively inconsistent outcome. Due to their commitment elsewhere, they usually invest too little time to really understand the business. Based on the explanation above, the second hypothesis of this research is accepted

The Effect of Women on a board and Sustainability Reporting

The data regarding the effect of women on a board on sustainability reporting is presented at Table 3 below. The results show that women on board have positive effect (coefficient 0.020245) but insignificant (0.8142 > 0.05) impact towards CSR. This result contradicts with study conducted by Bernardi & Threadgill (2010) and Hyun, Yang Jung & Hong (2016) that states women have significant impact and in environmental in more specific. Results show that women on board has a positive effect but not significant enough towards sustainability reporting. According to Bristy (2016) who does research with over 1500 US companies, and Gennari (2016) who took sample of companies from multiple European countries both resulted with women does have significant impact towards CSR. This doesn't seem to be the case with Jordan (Ghabayen, Mohamad & Ahmad (2016) that the role of women in board is not significant towards CSR. To validate this further, we want to compare the industry as the research done is more focused on non-financial sector since it may affect or restrict the women role in CSR. Research done by Pereira (2017) who does her research in multiple industry, highlights utilities and transportation industry shows insignificant relationship whereas financial industry shows significant relationship. Based on the explanation above, the 3rd hypothesis of this study is rejected

The Effect of CSR Committee on Sustainability Reporting

The data regarding the effect of CSR committee on sustainability reporting is presented at Table 3 below. The results show that having CSR Committee have positive significant (coefficient 0. 203921 & probability value 0.0012 < 0.05) impact towards CSR. This result is consistent with study conducted by Hussain, Rigoni & Orij (2018) that states having CSR committee have significant impact towards CSR but contradict Michelon and Parbonetti (2012) where they believe to elucidate the effect of board composition on sustainability disclosure there will be a need to go beyond the narrow and traditional distinction between insider and independent directors, where focusing on the specific characteristics of each director is necessary. Based on the explanation above, the 4th hypothesis of this research is accepted.

Table 3: Regression Test

Variable	Coefficient	t-Statistic	Prob.
BSIZE	-0.005812	-1.390483	0.1661
BIND	0.257632	2.571649	0.0109
WOB	0.020245	0.235406	0.8142
CRSC	0.203921	3.295622	0.0012
C	0.358295	6.688629	0.0001
Adj R2	0.81		
Prob (F-Statistic)	0.0000 (3.8560)		

Note: BSIZE: Board Size; BIND: Board Independence; WOB: Women on Board; CRSC: CSR Committee.

Table 3 notes all of the coefficient and the probability value of all the independent variables in each effect of corporate governance towards sustainability reporting

V. CONCLUSION

Based on the results of data analysis and hypothesis, it can be concluded that board independence and CSR committee have positive and significant effect on sustainability reporting. Meanwhile, board diversity and board size have no effect on sustainability reporting.

This research is using GRI G4 as a dependent variable which may considered bias towards the researcher by subjectively scoring the sustainability disclosures data in the company's annual reports in relation with the Corporate Sustainability

Reporting. In this research, recommendation include increase the data timeline upto 10 years, as it will give more in-depth evolvement of the data to highlights its difference across the years as well as to include financial sectors which may giving a complete value towards the overall industry in the country for sustainability reporting areas. Another recommendation is to include other variables such as Company size, audit committee, stakeholder relations and corporate citizenship to be included for further research that may affect the corporate governance.

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