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The influence of corporate governance on sustainability report quality

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Abstract
The primary objective of this research is to assess the quality of sustainability reporting, which is influenced by several factors including the board's size, the presence of independent commissioners, the diversity of gender within the board, the financial expertise of the board members, the size of the audit committee, the financial expertise of the audit committee, and the frequency of audit committee meetings. The variables employed in the analysis encompass the board's size, the existence of independent commissioners, gender diversity on the board, the financial proficiency of board members, the audit committee's size, the financial proficiency of the audit committee, and the frequency of audit committee meetings as independent variables. Sustainability reporting quality serves as the dependent variable.
To conduct this study, data from the mining sector in 2020 was used, with a total sample size of 44 companies. The sampling method employed was purposive, adhering to specific criteria. Logistic regression analysis was the chosen analytical method.
The findings of the study revealed that the presence of independent commissioners had a positive and statistically significant impact on the quality of sustainability reports. However, the size of the board, the size of the audit committee, and the frequency of audit committee meetings had a positive but statistically insignificant effect on the quality of sustainability reports. Additionally, the financial expertise of the board and the financial expertise of the audit committee did not have any significant influence on the quality of sustainability reports.

Keywords: Board of commissioner, audit committee, sustainability report quality

Introduction

The company's vision, mission, and goals are crucial for its operations and business development. Assessing these results through performance is essential for maintaining stakeholder relationships and attracting investors in the future (Badriyah *et al*., 2015) [10]. A company's primary activities, such as business, require accountability to demonstrate concern for environmental and social issues. Sustainability reports, which disclose these activities, are demanded by stakeholders and corporate governance. Research shows that sustainability reports enhance accountability and transparency (Rudyanto & Veronica, 2016 [41] and Cho *et al*., 2012) [17].
Open, honest, accurate, and timely disclosure in sustainability financial reports can improve a company's relationship with stakeholders (Ghanem & Elgammal, 2017) [26].
A report published by PricewaterhouseCoopers (PWC) (2019) [40], Indonesia's mining sector contributes to economic growth but has negative environmental and societal impacts, necessitating responsible practices. Research on corporate governance and sustainability reporting practices has shown mixed results, with some studies finding a positive correlation (Erin *et al*., 2021 [22]; Garcia-Torea *et al*., 2016 [25]; Gnanaweera & Kunori, 2018 [29]; Maroun *et al*., 2014) [33] and others finding a negative relationship practices (Adeniyi & Fadipe, 2018 [3]; Amran *et al*., 2014 [9]; Nguyen, 2020 [35]; Ozordi *et al*., 2020) [37].

Theoretical framework and hypothesis formulation

This study is based on the theories of legitimacy and stakeholder theory. These theories are considered to provide a foundation for explaining how high-quality sustainability reports can enhance the legitimacy of investors and raise the expectations of stakeholders.
Legitimacy theory, as defined by Dowling and Pfeffer (1975) [21], focuses on two value systems: the company's value and the community's value. Companies must provide social accountability and disclose their activities to stakeholders, ensuring their behavior aligns with societal expectations (Suchman, 2014) [44]. Corporate governance methods, including audit committees, are crucial for maintaining organizational legitimacy (Michelon & Parbonetti, 2012) [17].
Stakeholder theory suggests that a company's operations are not solely for shareholders' benefit but also for its stakeholders, including creditors, product users, distributors, government, society, and analysts (Ghozali & Chariri, 2014) [28]. The triple bottom line concept aims to satisfy stakeholders by balancing financial and non-financial aspects.

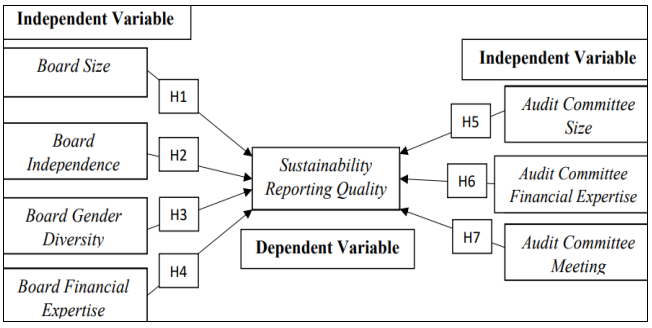

Fig 1: Theoretical Framework

Hypotheses

Board Size Has a Positive Impact on Sustainability Report Quality

Research indicates that board size significantly influences sustainability reporting quality (Erin *et al*., 2021 [22]; Shamil *et al*., 2014) [43]. Larger boards are more effective due to less external influence (R. B. Adams *et al*., 2010 [2]; Dienes *et al*., 2016) [20]. The number of board members in sustainability report preparation enhances the quality, increasing legitimacy among investors and the public, and raising stakeholder expectations. Therefore, the hypothesis is formulated as follows:

H1: Board Size is related to Sustainability Report Quality

Independent Commissioners Have a Positive Impact on Sustainability Report Quality

Independent commissioners in companies are believed to provide high-quality information to stakeholders, promoting accountability and transparency (C. A. Adams & McNicholas, 2007 [1]; Deegan *et al*., 2000) [18]. This is supported by stakeholder theory, which suggests that a larger number of independent commissioners in sustainability report preparation enhances the quality of the reports, increasing legitimacy among investors and the public (Amran *et al*., 2014) [9]. Thus, the hypothesis is formulated as follows:

H2: Independent Commissioners are related to Sustainability Report Quality

Gender Diversity in the Board Has a Positive Impact on Sustainability Report Quality

Gender diversity in boards is crucial for effective corporate governance and sustainability reporting. Research shows that companies with female directors have a significant influence on sustainability reporting (C. A. Adams & McNicholas, 2007 [1]; Faisal *et al*., 2012) [23]. Women support effective decision-making, enhancing a company's sustainability strategy and improving reporting quality (Tilt *et al*., 2021 [46], Al-Shaer & Zaman, 2016 [6]; Bakar *et al*., 2019) [11]. Their subjective nature increases legitimacy among investors and stakeholders, providing hope for stakeholders. Based on the relevance of female directors from a legitimacy theory perspective, as indicated in existing literature, this hypothesis is formulated as follows:

H3: Gender Diversity in the Board is related to Sustainability Report Quality

Financial Expertise of the Audit Committee Has a Positive Impact on Sustainability Report Quality

The financial expertise of board members, including education, experience, and age, significantly impacts a company's ability to address complex corporate governance issues (Umukoro *et al*., 2019) [47]. This expertise in accounting and finance can enhance the quality of sustainability reports, increase legitimacy among investors and stakeholders, and raise expectations. Based on this evidence, the hypothesis is formulated as follows:

H4: Financial Expertise of the Board is related to Sustainability Report Quality

The Size of the Audit Committee Has a Positive Impact on Sustainability Report Quality

Stock exchange regulations mandate companies to have an audit committee with at least three members, including an independent commissioner and two external members. As the committee size increases, it can better identify and address reporting issues (Bédard *et al*., 2004 [13]; Sultana *et al*., 2015 [45]). The number of audit committee members in sustainability report preparation enhances the quality of reports, increasing legitimacy among investors and stakeholders. The hypothesis is formulated as follows:

H5: Audit Committee Size is related to Sustainability Report Quality

Financial Expertise of the Audit Committee Has a Positive Impact on Sustainability Report Quality

The Financial and Development Supervisory Agency's regulation, PER-211/KJF/2010, emphasizes the importance of auditor competencies, including knowledge, skills, and attitude. The effectiveness of an audit committee can be enhanced by the financial expertise of its members, particularly in accounting and finance, which improves sustainability reports' quality and legitimacy (Baxter & Cotter, 2009) [12]. Based on this evidence, the hypothesis is formulated as follows:

H6: Financial Expertise of the Audit Committee is related to Sustainability Report Quality

Audit Committee Meetings Have a Positive Impact on Sustainability Report Quality

Research indicates that audit committee meetings, held at least four times a year, are effective and critical for evaluating activities and processes (Perego & Kolk, 2012) [38]. Regular meetings enhance oversight functions, impact corporate reporting quality, and increase legitimacy among investors and stakeholders. Therefore, the hypothesis is formulated as follows:

H7: Audit Committee Meetings are related to Sustainability Report Quality

Research method

This study focuses on companies in the mining sector listed on the Indonesia Stock Exchange (BEI) for the year 2020. The mining sector was chosen because it is considered to be a sector that requires sustainability reporting. The data for this research includes the annual reports, financial data, and sustainability reports of companies in the mining sector for the year 2020. The variables used in this study are sustainability reporting quality (SRQ) for the related period in 2020, board size, independent commissioners, audit committee meetings, board gender diversity, audit committee financial expertise, audit committee size, and financial expertise of the board.

The research model is as follows

$$SRQ_{i,t} = \alpha + \beta_1 BODSIZE_{i,t} + \beta_2 BODINDP_{i,t} + \beta_3 BODGEN_{i,t} + \beta_4 BODEXP_{i,t} + \beta_5 ACSIZE_{i,t} + \beta_6 ACFE_{i,t} + \beta_7 ACMEET_{i,t} + \varepsilon_{i,t}$$

The measurement tool used to assess the results of sustainability reporting quality (SRQ) is a dummy variable based on research by Erin *et al*. (2021) [22]. A score of 0 is assigned to companies that do not produce sustainability reporting quality (SRQ), while a score of 1 is given to companies that produce sustainability reporting quality (SRQ).

The independent variables used in the study include board size, independent commissioners, gender diversity on the board, financial expertise of the board, audit committee size,

financial expertise of the audit committee, and audit committee meetings.

Board size can be defined based on the Financial Services Authority (OJK) Regulation No. 33/POJK.04/2014, Article 2 and Article 20, which pertain to the boards of directors and commissioners of issuers and public companies. It stipulates that the board of directors should consist of at least 2 members, and the board of commissioners should have 2 members, with one of them being an independent commissioner. Board size in this study is determined by summing all the commissioners in the company.

Independent Commissioners, who are members of the board of commissioners without any affiliations with management, other commissioners, shareholders, or any business or other relationships, are expected to act independently and in the best interests of the company (KNKG, 2006). Board Independence in this study is determined based on Erin *et al*.'s research (2021) [22] and represents the proportion of independent commissioners in the board.

Gender board diversity refers to the difference in the number of male and female board members in the board composition. Gender diversity is also considered as the variance in gender within a company's management team. Gender diversity on the board is determined based on Erin *et al*.'s research (2021) [22] and represents the number of female directors in the board composition.

Directors and boards with financial backgrounds, especially in accounting and auditing, have a better understanding of the importance of social and environmental issues due to their training in social accounting. Therefore, directors with financial expertise are more likely to value the community and the environment and are more inclined to encourage the company's involvement in sustainability reporting (Ahmad *et al*., 2018) [4]. The financial expertise of the board in this study is determined based on Erin *et al*.'s research (2021) [22] and represents the number of board members with expertise and experience in accounting and finance.

Having a relatively large number of directors in the audit committee increases diversity, expertise, and capabilities, ensuring effective oversight (Bédard & Gendron, 2010) [14]. Therefore, a larger number of audit committee members is likely to assist the audit committee in exposing and addressing issues and dilemmas in the company's reporting process (Li *et al*., 2012). Persons (2009) [39] found evidence that a higher number of directors in the audit committee tends to increase voluntary disclosure. The audit committee size in this study is determined based on Erin *et al*.'s research (2021) [22], representing the total number of members in the audit committee.

An auditor's expertise is seen as having an impact on their tasks, such as how capable the auditor is as an individual in making decisions and whether the auditor is effective in fulfilling their duties. The effectiveness of the audit committee can be enhanced by the financial expertise of audit committee members, and financial expertise is a key characteristic that ensures effective operations (Baxter & Cotter, 2009) [12]. The financial expertise of the audit committee in this study is determined based on Erin *et al*.'s research (2021) [22] and represents the number of members with experience in finance.

Research by DeZoort *et al*. (2002) [19] suggests that the frequency of audit committee meetings is considered a measure of thoroughness. This is because the frequency of audit committee meetings is seen as a core instrument in the efficiency and reliability of a company's activities and processes, even though other research has shown a relationship between company performance and the number of audit committee meetings (Ioana, 2014) [31]. The audit committee meetings in this study are determined based on Erin *et al*.'s research (2021) [22] and represent the total number of meetings held by the audit committee each year.

Research findings and discussion

Based on the sample selection criteria, 44 companies were obtained, with the descriptive analysis results as follows:

Table 1: Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
SR	44	.0	1.0	.432	.5011
BODSIZE	44	2.0	13.0	4.614	2.3049
BODINDP	44	1.0	4.0	1.750	.7813
BODGEN	44	.0	4.0	.250	.6862
BODEXP	44	.0	5.0	2.045	1.3287
ACSIZE	44	3.0	5.0	3.182	.4952
ACFE	44	1.0	4.0	2.136	.8516
ACMEET	44	3.0	32.0	6.886	5.7069

Source: IBM SPSS 23 output, secondary data processed in 2022.

The analysis method utilized in the research involved using the software SPSS (Statistical Package for Social Science), version 23, precisely employing logistic regression analysis. This software was used to obtain results from the analysis and testing related to the variables under investigation.

Ghozali (2018) [27] stated that logistic regression analysis, a model of regression that tests the possibility of the dependent variable being influenced by independent variables. Logistic regression analysis does not require normal distribution in independent variables (Ghozali, 2018) [27]. The types of tests conducted in logistic regression analysis include assessing the overall model fit, testing the goodness of fit, Nagelkerke's R Square as a determination coefficient, and classification matrices (Ghozali, 2018) [27].

Goodness of Fit Test

Furthermore, the study conducted an evaluation of the suitability of the logistic regression model. The assessment of the suitability of a regression model is applied by examining the goodness of fit of the estimated model using the chi-square test on Hosmer and Lomeshow's table (Ghozali, 2018) [27].

Table 2: Descriptive Analysis

Step	Chi-square	df	Sig.
1	12.571	8	.127

Source: IBM SPSS 23 output, secondary data processed in 2022.

Based on the Table 2, it can be seen that the significance value is 0.127. The significance value obtained is far above 5%, which indicates that hypothesis 0 (H0) is accepted. This indicates that the model is acceptable or capable of making predictions on observations because it is consistent with observational data.

Coefficient of Determination

The coefficient of determination is used to determine whether the variability of the independent variables in this study can make the variability of the dependent variable clear.

Table 3: Coefficient of Determination

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	18.563[a]	.612	.821

Source: IBM SPSS 23 output, secondary data processed in 2022.

Table 3 shows a Nagelkerke R Square value of 0.821, indicating that 82.1% of the variability in the dependent variable can be explained by the independent variables in this study. The remaining 17.9% will be explained by other independent variables outside the research model. Based on the test, it can be interpreted that the variation in the independent variables in this study is able to explain the variation in the dependent variable.

Classification Matrix

Classification matrix represents the predictive strength of the regression model in considering the probability of companies disclosing sustainability reports.

Table 4: Classification Matrix

	Observed		Predicted		
			SR		Percentage Correct
			.0	1.0	
Step 1	SR	.0	24	1	96.0
		1.0	2	17	89.5
	Overall Percentage				93.2

Source: IBM SPSS 23 output, secondary data processed in 2022.

Table 4 shows that, based on the company estimates that disclose sustainability reports, there are 19, but according to the classification matrix test, the sample companies that actually disclose sustainability reports are 17. Therefore, it can be stated that the accuracy of this model is 17/19 or 89.5%. On the other hand, the prediction for sample companies that do not disclose sustainability reports is 25, and based on the classification matrix, it is 24. The accuracy of this model for companies not disclosing sustainability reports is 24/25 or 96.0%.

Hypothesis Testing Results

The hypothesis testing conducted in this research aims to test the influence of independent variables, namely the board of commissioners' size, independent commissioners, gender diversity on the board of commissioners, board of commissioners' financial expertise, audit committee size, audit committee financial expertise, and audit committee meetings on the dependent variable, which is the quality of sustainability reports, using logistic regression.

Table 5: Hypothesis Testing

								95% C.I. for EXP (B)	
		B	S.E.	Wald	df	Sig.	Exp (B)	Lower	Upper
Step	BODSIZE	.127	.613	.043	1	.837	1.135	.341	3.776
1[a]	BODINDP	4.500	2.031	4.908	1	.027	90.023	1.680	4823.937
	BODGEN	.065	1.438	.002	1	.964	1.068	.064	17.870
	BODEXP	-1.620	1.119	2.098	1	.148	.198	.022	1.773
	ACSIZE	5.201	3.178	2.679	1	.102	181.384	.358	91906.365
	ACFE	-1.550	.976	2.523	1	.112	.212	.031	1.437
	ACMEET	.795	.406	3.839	1	.050	2.214	1.000	4.904
	Constant	-23.293	11.266	4.275	1	.039	.000		

Source: IBM SPSS 23 output, secondary data processed in 2022.

Based on the results obtained from Table 4, the regression equation becomes as follows:

$$SRQ_{i,t} = -23.293 + 0.127BODSIZE_{i,t} + 4.500BODINDP_{i,t} + 0.065BODGEN_{i,t} - 1.620BODEXP_{i,t} + 5.201ACSIZE_{i,t} - 1.550ACFE_{i,t} + 0.795ACMEET_{i,t} + \varepsilon_{i,t}$$

Discussion of Research Results

The Size of the Board of Commissioners is Related to Sustainability Report Quality

The board of commissioners variable was obtained by measuring the proportion of the number of commissioners in the company. The coefficient obtained through the regression test is positive with a value of 0.127 but not significant because the significance value is greater than 0.05, i.e., 0.837 > 0.050.

The results indicate that a 1% increase in the board of commissioners' size has an impact on the increase in the quality of sustainability reports by 0.127. Based on the coefficient and significance results, it can be interpreted that the board of commissioners' size shows a positive but non-significant direction towards the quality of sustainability reports, supporting the research of Amran *et al.* (2014) [9] and Nguyen (2020) [35], meaning that H1 is rejected.

Independent Commissioners are Related to Sustainability Report Quality

The variable of independent commissioners was obtained by measuring the number of independent commissioners in the Board of commissioners. The coefficient obtained through the regression test is positive with a value of 4.50 and significant with a value of 0.027 < 0.050.

The results indicate that a 1% increase in independent commissioners will have an impact on the increase in the quality of sustainability reports by 4.50. Based on the coefficient and significance results, it can be interpreted that independent commissioners have a positive and significant influence on the quality of sustainability reports, supporting the research of Aliyu (2019) [8] and Ong & Djajadikerta (2020) [36], meaning that hypothesis H2 is accepted.

Gender Diversity on the Board is Related to Sustainability Report Quality

The gender diversity on the board variable was obtained by calculating the number of women in the board of commissioners and independent commissioners. The coefficient obtained through the regression test is positive with a value of 0.065 but not significant because the significance value exceeds 0.05, i.e., 0.964 > 0.050.

The results indicate that a 1% increase in the number of women in the board of commissioners will have an impact on the increase in the quality of sustainability reports by 0.065. Based on the coefficient and significance results, it can be interpreted that gender diversity on the board shows a positive but non-significant direction towards the quality of sustainability reports. The results of this study are in line with the research of Adeniyi & Fadipe (2018) [3] and Ozordi *et al.* (2020) [37], meaning that hypothesis H3 is rejected.

Financial Expertise of the Board is Related to Sustainability Report Quality

The financial expertise of the board variable was obtained by measuring the number of commissioners, both from the board of commissioners and independent commissioners, with expertise in financial fields that can come from backgrounds in accounting or auditing. The coefficient obtained through the regression test is negative at -1.620 and is not significant because the significance value is 0.148 > 0.050.

The results indicate that an increase of 1% in the financial expertise of the board will result in a decrease in the quality of sustainability reports by -1.620. Based on the coefficient and significance results, it can be interpreted that the financial expertise of the board shows a negative and non-significant direction towards the quality of sustainability reports. The results of this study support the research of Buniamin *et al*. (2011) [16] and Said *et al*. (2013) [42], meaning that hypothesis H4 is rejected.

The Size of the Audit Committee is Related to Sustainability Report Quality

The audit committee variable was obtained by measuring the number of audit committee members in a company. The coefficient obtained through the regression test is positive with a value of 5.201 but not significant with a significance value of 0.102 > 0.050.

The results indicate that a 1% increase in the size of the audit committee will increase the quality of sustainability reports by 5.201. Based on the coefficient and significance results, it can be interpreted that the size of the audit committee shows a positive but non-significant direction towards the quality of sustainability reports. The results of this study support the research of Al-Shaer & Zaman (2018), meaning that hypothesis H5 is rejected.

Financial Expertise of the Audit Committee is Related to Sustainability Report Quality

The variable for the financial expertise of the audit committee was obtained by calculating the number of audit committee members with expertise in the financial field, which can come from backgrounds in accounting or auditing. The coefficient obtained through the regression test is negative at -1.550 and is not significant with a significance value of 0.112 > 0.050.

The results indicate that a 1% increase in the financial expertise of the audit committee will decrease the quality of sustainability reports by -1.550. Based on the coefficient and significance results, it can be interpreted that the financial expertise of the audit committee shows a negative and non-significant direction towards the quality of sustainability reports. This study supports the research of Li *et al*. (2012) and Buallay & Al-Ajmi (2019) [15], meaning that hypothesis H6 is rejected.

Audit Committee Meetings are Related to Sustainability Report Quality

The variable for audit committee meetings was obtained by calculating the number of meetings held by audit committee members, with a minimum of one meeting every three months. The coefficient obtained through the regression test is positive with a value of 0.795 but not significant with a significance value of 0.050 = 0.050.

The results indicate that a 1% increase in audit committee meetings will have an impact on the increase in the quality of sustainability reports by 0.795. Based on the coefficient and significance results, it can be interpreted that audit committee meetings indicate a positive but not significant direction regarding the quality of sustainability reports. This study supports the results that H7 is rejected.

Conclusion

The results of the study demonstrate that independent commissioners have a positive and significant impact on sustainability report quality. However, the board of commissioners' size, gender equality on the board of commissioners, the financial expertise of the board of commissioners, the audit committee size, the financial expertise of the audit committee, and audit committee meetings do not influence sustainability report quality.

There are limitations in this study, notably that the Nagelkerke R Square value in this research is 82.1%. This means that the remaining 17.9% represents other independent variables that affect the quality of sustainability reports beyond the variables tested in this study. Based on the mentioned limitations, here are some suggestions for future research: increase the sample size for research not only in the mining sector but also in other fields listed on the BEI. Subsequent research can include sectors like banking, various industries, real estate, basic and chemical industries, etc. Additionally, expand the testing scale to cover not only the year 2020 but also subsequent years to discover potential differences from the results of this study. Finally, add additional variations of independent variables using other measurements that can reveal other factors that may influence the quality of sustainability reports, potentially enhancing the coefficient value.

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