



EXPLORING SUSTAINABILITY REPORT DISCLOSURE: THE ROLE OF BOARD AND AUDIT COMMITTEE

Bahrul Mulki Hambali¹, Estu Widarwati^{2*}, E. Wityasminingsih³

^{1,2} Sekolah Tinggi Ilmu Ekonomi Sutaatmadja Subang, West Java, Indonesia

³ Politeknik Piksi Ganesha Bandung, West Java, Indonesia

*estu.widarwati@stiesa.ac.id

INFO ARTIKEL

Histori Artikel :

Tgl. Masuk : 05-07-2024

Tgl. Diterima : 12-03-2025

Tersedia Online : 30-03-2025

Keywords:

Corporate Governance,
Sustainability Report
Disclosure, Director Board,
Audit Committee, Indonesia

ABSTRACT

Surviving for a long period and getting maximum profits is the goal of a company. Companies that want to be sustainable need to implement the triple bottom line concept (profit, people, planet). Accordingly, a report is needed that is used to reveal information about the company's responsibility towards the environment and social surroundings. It is usually called a sustainability report. Sustainability reports can reflect the condition of a company and serve as a medium for companies to inform stakeholders about their organization's performance in economic, environmental and social aspects. Corporate governance is one tool used to achieve these goals and to safeguard the interests of various stakeholder groups by considering economic, environmental, and social aspects. This study aims to determine the effect of board and audit committee on sustainability report disclosure and our novelty is exploring the difference of the sustainability report disclosure, the board and audit committee during and post pandemic as well as the separated of each triple bottom line concepts for sustainability measurement. The sample used is 88 companies listed on the Indonesian Stock Exchange (IDX) in the periods of 2020-2022 which selected by purposive sampling with completed annual reports and sustainability reports also the relevant data of study. The data analysis using panel data regression as well as the differences analysis during and post pandemic. The results of this study show that board and audit committee have a significant effect on sustainability report disclosure both during and post pandemic. The finding implication is that companies can increase corporate responsibility by increasing corporate governance initiatives to disclose in-depth sustainability reports so that a sustainability report can be achieved that can be used as a reference by stakeholders to view and measure a company as a whole.

INTRODUCTION

The development of the business world is growing rapidly, marked by the growth of companies in various sectors that give rise to a high level of competition so that

companies need to record both financial and non-financial activities to be used as a reference by shareholders. All types of companies are required to be able to publish a records of their activities such

company's responsibility to shareholders, employees, the community and consumers that known as a sustainability report.

The sustainability reports is starting to be considered by investors when making investment decisions, along with the issue of sustainability. Investors do not focus on how to gain short-term profits by only looking at profits but also considering the economy, society and environment. Disclosure of this sustainability report is a positive signal for investors that the company is carrying out its social and environmental responsibilities. It will certainly attract investors to invest or buy shares, which will increase the company's profits. The main goal or target of the company is basically to gain maximum profit and keep the company growing. Every stakeholder needs to achieve sustainable development for the company. (Wang, 2017) said that companies can strive to realize sustainable development by implementing the triple bottom line concept, which includes environmental, social, and economic aspects.

The business goal is not only to seek profit but also to be responsible to society (people) and the earth (planet) that mean the business activities are not only aimed at making a profit for the company. However, disclosing information about social and environmental responsibility can also improve the welfare of society and help preserve the surrounding environment. A bad company activities have a high probability of disturbing the surrounding community, which will eventually cause protests by the community that can hinder the company's activities

A sustainability report is a company's open report that is used as a measure, disclosure, and accountability of corporate activities that disclose various activities, impacts, and corporate involvement in the economic, social and environmental fields as a corporate commitment to report users in order to achieve sustainable development goals so that the information

contained in the report can be accessed, compared and can be used for decision making. According to the Global Reporting Initiative (2013), a sustainability report is the practice of measuring, disclosing and being accountable to internal and external stakeholders regarding the company's performance in achieving sustainable development goals. Sustainability reports are also a medium for companies to inform their organization's performance in economic, environmental and social aspects.

In Indonesia context, disclosure of sustainability reports is still voluntary, meaning that there are no standard rules that require it in the publication of financial reporting. The occurrence of the above phenomenon shows that sustainability reports in Indonesia are still limited. In addition, environmental damage and pollution occur in Indonesia, some cases of which are caused by company activities that produce waste and pollution during their operational activities. These companies have not been able to implement sustainability report disclosures optimally. Thus, to overcome this, the government must require companies to disclose sustainability reports. Although sustainability reports are considered important, there are still many companies that have not published them. It could be because there is no regulation explaining that sustainability reports must be published so that their nature is still temporary. The following is a figure of companies on the Indonesia Stock Exchange that disclosed sustainability reports from 2020-2022:

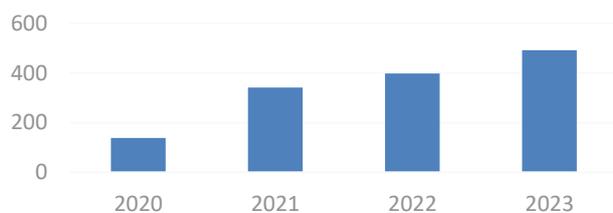


Figure 1. Increased Dislosed Sustainability Reports in Indonesia

Source: Indonesia Stock Exchange, 2023

audit committee proxied using the frequency of meetings per year obtains evidence that the audit committee can influence sustainability report disclosure. Other studies showed that the audit committee variable measured by the number of audit committee meetings did not affect the disclosure of the sustainability report.

Several previous research results still show inconsistent results, then this study focuses on governance proxied by the board of directors and audit committee and sustainability report disclosure. In this study, the researcher focuses on the during and post pandemic, therefore, the period used in this study is 3 years, namely 2020 to 2022. Furthermore, we use company size as a control variable according to Jaya (2020) that company size describes the size of a company which can be seen based on total assets. Large-scale companies indicate the wider range of items that the company can disclose in the sustainability report published as an accountability report. This study is expected to provide further information about the role of board and audit committee as corporate governance proxies on the sustainability report disclosure. Then, the findings are expected to be used as evaluation material by parties/management in the financial industry so that they always pay attention to and are responsible to the board and audit committee as well as sustainability reports which are very important for building shareholder and stakeholder trust.

THEORETICAL FRAMEWORK & HYPOTHESIS DEVELOPMENT

Sustainability reports are voluntary reports on social and environmental responsibility. They are needed so that stakeholders, including the community, understand all forms of company responsibility towards the community and the environment. Other side, a system called corporate governance aims to regulate the management of the company professionally and is based on principles such as transparency, accountability,

responsibility, independence, fairness and equality.

The ability to manage a company is needed to run it, one of which is in the financial sector. Therefore, financial management knowledge is needed so that the company can manage its finances well. Financial management functions as a basis for making decisions about managing incoming or outgoing funds to optimize the profits or benefits obtained. The income or profits obtained by the company will eventually return as funds to run the company's operations so that they can continue to run and develop over time. If the company is able to obtain higher income than its expenses, it will obtain a net profit, as stated in the company's financial report and it become a proof of the company's performance.

If the company wants to maintain its sustainability, it must have a positive impact on the surrounding environment. So, the company is not just about getting its profits. That is why sustainability must include actions for social and environmental sustainability and governance. Maintaining the company's sustainability also means maintaining its sustainability report. The Sustainability Reports have a role as a supporting element for the sustainability of a company because they are produced from harmony between the economy, society, and the environment. In addition, if the company reports a sustainability report, the company can steal attention in global business and increase the company's value in the eyes of the public.

Every operational activity of the company certainly requires good management in every aspect. Corporate governance can regulate and control the company's relationship with many stakeholders, both internal and external, in terms of their rights and obligations. Corporate governance is expected to increase the company's profit. So, based on the theoretical basis that the researcher has described, the following research model is obtained:

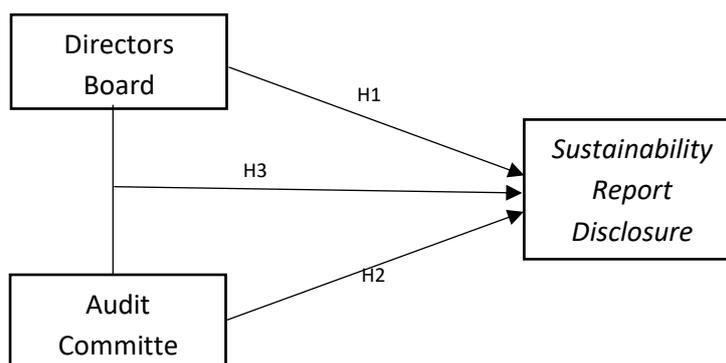


Figure 3. Research Model
Source: Developed from Wang (2017)

Directors Board and Sustainability Report Disclosure

The composition of the directors board can affect the effectiveness of monitoring activities. The activities of the board of directors can be seen from the number of board meetings held, allowing for better communication between directors and indicating greater efficiency because it can reduce information asymmetry and also provide an opportunity for the board of directors to share information and thus can improve corporate disclosure, both financial and non-financial disclosures. The results of the study from (Ngu & Amran, 2021) state that the board of directors, as measured by the number of board of directors meetings, has a positive influence on the disclosure of sustainability reports. Based on the description above, the researcher formulates the following hypothesis:

H1: The board of directors influences the sustainability report

Audit Committee and Sustainability Report Disclosure

The frequency of audit committee meetings lead to the number of audit committee members that will exchange ideas and knowledge regarding decisions that must be taken for the benefit of all stakeholders, one of which is decisions regarding the company's social disclosure. The better the quality of the audit committee, the more they will be able to

understand the strategic meaning of information disclosure and what

stakeholders need in general. Therefore, the audit committee is increasingly able to encourage management to use SR disclosure practices as a medium of communication between the company and stakeholders. Research conducted by (Buallay & AIDhaen, 2018) shows that the audit committee has a positive influence on SR disclosure. Then the following hypothesis:

H2: Audit committee influences sustainability report disclosure

Directors Board, Audit Committee, and Sustainability Report Disclosure

The sustainability reports are a form of voluntary reports as a form of social and environmental responsibility that is needed so that stakeholders, including the community, know all forms of corporate responsibility towards the community and the environment. Research results (Wang, 2017) show that the board of directors and audit committee have a positive influence on the disclosure of sustainability reports. The board of directors and audit committee determine the quality of sustainability reporting and the disclosure of sustainability reports needs pay attention to economic, environmental and social aspects. Then the researcher's hypothesis:

H3: The Directors Board and Audit Committee influence of Sustainability Report disclosure

RESEARCH METHODOLOGY

The sample used is 88 companies listed on the Indonesian Stock Exchange (IDX) in the periods of 2020-2022 which selected by purposive sampling with completed annual reports and sustainability reports also the relevant data of study. The data analysis using panel data regression, and the robustness test done. This study use sustainability report disclosure (Y) as the dependent variable, board of directors (X1) is measured by DD that a number of board of Directors meetings (Khaireddine et al., 2020), and audit committee (X2) as independent variables which KA is number of audit committee meetings as its measurement (Wang, 2017). Sustainability report disclosure is measured using GRI G4, which has 91 items in its disclosure (Khaireddine et al., 2020). The firm size used as control variable that measured by total asset.

RESULTS

Our data show the average score of the board of directors is 38.04924 and the companies that have a value above average are 39 companies or 44%. Meanwhile, companies with values below average amounted to 49 companies or 56%. Overall, the company can be said to be good because it has achieved POJK (Financial Services Authority Regulation) which has a standard for internal meetings of the board of directors of at least 12 meetings per year, except for companies with the TAPG code in 2020 with a total of 9 meetings.

The audit committee of companies that have an above-average value are 27 companies or 31%. Meanwhile, the companies that have a value below the average are 61 companies or 69%. Overall, these companies can be said to be good, because they have complied with the provisions of POJK (Financial Services Authority Regulation) because they have held meetings at least 4 times in one year.

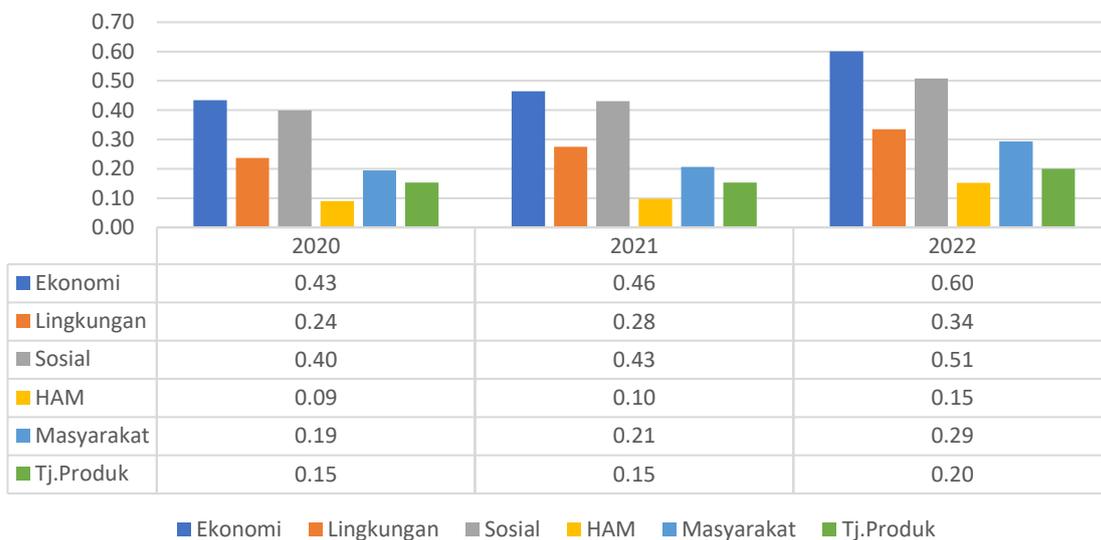


Figure 4. Average Value of Sustainability Report Disclosure 2020-2022
Source: data processed, 2024

Meanwhile, the average value of the Sustainability Report Disclosure Index is 0.29 The companies that have an SRDI value above the average number of 45

companies or 51%. Meanwhile, companies that have an SRDI value below average amounted to 43 companies or 49%. Overall, the company has an above-average SR value, which means that

companies in Indonesia have begun to implement the concept of sustainable development in their business.

The aspect with the highest value is the economic aspect, followed by the social aspect which has the second highest value, then the environmental aspect which has the third highest value, then the community aspect which has the fourth highest value and the Human Rights (HAM) aspect along with the product responsibility aspect which has the lowest value.

The ranking of the aspects described earlier occupies the same position and continues to increase every year, but is different from the aspect of product responsibility which has the same value in 2020 & 2021 which is with a value of (0.15). However, overall this shows that the company's concern for sustainability issues is increasing.

Table 1. Descriptive Statistics Test Results

	Y	X1	X2	K
Mean	0.293914	38.04924	13.03409	30.74832
Median	0.269231	30.00000	8.000000	30.69437
Maximum	0.670330	248.0000	62.00000	35.22819
Minimum	0.000000	9.000000	0.000000	22.69634
Std. Dev.	0.141207	29.38109	11.49420	1.959048
Skewness	0.536788	2.822813	1.830069	-0.756466
Kurtosis	2.756819	16.71676	6.396527	5.869093
Jarque-Bera Probability	13.32870	2420.248	274.2630	115.7272
	0.001276	0.000000	0.000000	0.000000
Sum	77.59341	10045.00	3441.000	8117.556
Sum Sq. Dev.	5.244052	227034.4	34746.69	1009.360
Observations	264	264	264	264

Source: data processing, 2024

The table above shows the number of data that meets data quality, as many as 264 data. The results of the analysis of the board of directors' variable show an average value (mean) of 38.04924 meanwhile the audit committee variable shows an average value (mean) of 13.03409. Then sustainability report disclosure variable shows an average value (mean) of 0.293914.

Our data about Directors Board of Companies Listed on the IDX for the 2020-2022 that proxied by the number of meetings per year (Khairredine et al., 2020; Oktaviani & Amanah, 2019) show all companies that were the objects of observation had a number of meetings more than or equal to 12 times, except for the company with the TAPG code in 2020, which had several meetings 9 times. However, 39 companies, or 44%, had values above the average, and the

remaining 49 companies, or 56%, had values below the average.

Then Audit Committee is proxied by the number of meetings per year. (Madona & Khafid, 2020; Wahyudi, 2021; Wang, 2017) showed several meetings more than or equal to 4 times except for companies. However, 27 companies, or 31%, had the number of meetings above average, and the remaining 61 companies, or 69%, had values below average. Even so, overall, these companies can be said to be good because they have complied with the provisions of POJK.

The Y variable in this study is the Sustainability Report Disclosure and the data shows The SRD value of companies listed on the IDX for the 2020-2022 period in an average of 0.29. The number of companies with an SRD value above the average is 45, or 51%. Meanwhile, the number of companies with an SRD value below the average is 43, or 49%. Overall,

companies in Indonesia have begun to implement the concept of sustainable development in their businesses. disclosure of sustainability reports in Indonesian companies during and post pandemic is 0.35 or 35% of the 91 GRI G4 sustainability report disclosure indicators.

As our expectation, there is strong evidence about the Influence of directors board on Sustainability Report Disclosure in Indonesia's industry during and post pandemic. It means that the frequency of board of directors' meetings affects sustainability report disclosure. But our finding show that the t-statistic value shows a negative result, meaning that a high level of board of directors meeting frequency will reduce sustainability report disclosure.

Khansa & Syafruddin (2023) said that when the CEO knows more information than other directors, they can set the board meeting agenda by determining certain meeting topics that avoid discussing information issues that can limit the board's oversight function. Thus, this limits the opportunity for other board members to monitor management actions effectively. This research is in line with the research (Nguyen, 2020; Ardiani et al., 2022), which states that the Board of Directors has a negative influence on the disclosure of the Sustainability Report.

Then, our panel data regression tests show that the variables of the directors board and audit committee affect sustainability report disclosure that mean the frequency of audit committee meetings affects sustainability report disclosure and a high level of audit committee meeting frequency will increase sustainability report disclosure.

This study is in line with (Buallay & Aldhaen, 2018), which states that the audit committee measured using the frequency of meetings per year affects sustainability report disclosure. The task of this audit committee shows that the important role of the audit committee as a supervisor of the financial system and transparency of company reporting is largely determined

by the audit committee in carrying out its duties. It can be confirmed based on the results of the study above, so it can be concluded that the audit committee can have a positive or negative effect because it depends on the success or failure of the implementation of the audit committee's duties.

Furthermore, our study find strong evidence about the role of the directors board and audit committee in affecting sustainability report disclosure both during and post pandemic. This research is in line with Widarwati et al (2022) that the good governance could minimize the risks. The board of directors and the audit committee simultaneously influence sustainability reporting. The directors board have task and responsible collegially in managing the company for ensuring the social responsibility is fulfilled to maintain the continuity of the company's business. The audit committee is tasked with assisting the board of commissioners to ensure that financial reports are issued under applicable regulations.

CONCLUSION

The directors board hold regular meetings and it will affect on the organizational leadering, controlling and supervising as well as getting responsible for decision-making. If the leadership is not good, the company will not be able to optimize the duties and authority of the leadership in the company organization.

The audit committee to hold routine meetings at least once every 3 months and can double additional meetings if necessary. The audit committee, in discussing problems within the company, needs to hold regular meetings. Communication and coordination between audit committee members are a must when carrying out their work responsibilities. With the high frequency of meetings, the audit committee will carry out its duties properly in overseeing reporting activities. Based on stakeholder theory, the company's management can maximize its function through

encouragement from the audit committee to carry out information transparency according to stakeholder needs. In this case, one of the pieces of information needed by stakeholders is the disclosure of sustainability reports.

Our data show that the reporting of sustainability reports has increased on average every year since 2020 during the Covid-19 pandemic. It will have an impact on the company's decision to report sustainability reports as one of the strategies to improve the company's image sustainably, which is a rational decision. This is because the implementation of sustainability report disclosure will create a golden circle effect that is not only beneficial for the company but also for stakeholders.

The results of the study indicate that the variables of the board of directors and audit committee proxied by the frequency of the number of meetings per year affect sustainability report disclosure. Together, both variables affect sustainability report disclosure. It means that the greater the frequency of the number of meetings of the board of directors and audit committee will lead to the greater the disclosure of sustainability reports

IMPLICATION & LIMITATION

If the sustainability report can be disclosed in detail, it can provide benefits not only for the company but also for society, government, and the environment. However, there are several limitations experienced by researchers, and researchers hope that this can be a concern for subsequent researchers. We only use the directors board and audit committee for measuring good governance using the frequency indicator of the number of meetings per year, and sustainability report disclosure only uses GRI G4. Next research can explore the other determinant of sustainability report disclosure for clear the exploring it during and post pandemic especially for future studies about transition economies

REFERENCES

- Alnabsha, A., Abdou, H. A., Ntim, C. G., & Elamer, A. A. (2018). Corporate boards, ownership structures and corporate disclosures : Evidence from a developing country. *Journal of Applied Accounting Research*, 19(1), 20–41. <https://doi.org/10.1108/JAAR-01-2016-0001>
- Buallay, A. M., & AIDhaen, E. S. (2018). The relationship between audit committee characteristics and the level of sustainability report disclosure. In *Lecture Notes in Computer Science (including subseries Lecture Notes in Artificial Intelligence and Lecture Notes in Bioinformatics): Vol. 11195 LNCS*. Springer International Publishing. https://doi.org/10.1007/978-3-030-02131-3_44
- Guérin, P., & Suntheim, F. (2021). Firms' environmental performance and the COVID-19 crisis. *Economics Letters*, 205, 109956. <https://doi.org/10.1016/j.econlet.2021.109956>
- Hassan, A., Elamer, A. A., Lodh, S., Roberts, L., & Nandy, M. (2021). The future of non-financial businesses reporting: Learning from the Covid-19 pandemic. *Corporate Social Responsibility and Environmental Management*, 28(4), 1231–1240. <https://doi.org/10.1002/csr.2145>
- Hu, M., & Loh, L. (2018). Board governance and sustainability disclosure: A cross-sectional study of Singapore-listed companies. *Sustainability (Switzerland)*, 10(7). <https://doi.org/10.3390/su10072578>
- Khairredine, H., Salhi, B., Aljabr, J., & Jarboui, A. (2020). Impact of board characteristics on governance, environmental and ethical disclosure. *Society and Business Review*, 15(3),

- 273–295. <https://doi.org/10.1108/SBR-05-2019-0067>
- Lucia, L., & Panggabean, R. R. (2018). The Effect of Firm's Characteristic and Corporate Governance On Sustainability Report Disclosure. *Social Economics and Ecology International Journal (SEEIJ)*, 2(1), 18–28. <https://doi.org/10.31397/seeij.v2i1.15>
- Ngu, S. B., & Amran, A. (2021). Materiality disclosure in sustainability reporting: Evidence from Malaysia. *Asian Journal of Business and Accounting*, 14(1), 225–252. <https://doi.org/10.22452/ajba.vol14no1.9>
- Nguyen, T. T. D. (2020). The relationship between the board of directors and sustainability reporting: An empirical study in German large listed firms. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, 68(1), 211–218. <https://doi.org/10.11118/actaun202068010211>
- Olawumi, T. O., & Chan, D. W. M. (2018). A scientometric review of global research on sustainability and sustainable development. *Journal of Cleaner Production*, 183, 231–250. <https://doi.org/10.1016/j.jclepro.2018.02.162>
- Önder, Ş., & Baimurzin, R. (2020). Effect of Corporate Governance on Sustainability Disclosures: Evidence from Turkey. *Indonesian Journal of Sustainability Accounting and Management*, 4(1), 93. <https://doi.org/10.28992/ijSAM.v4i1.207>
- Shahab, Y., & Ye, C. (2018). Corporate social responsibility disclosure and corporate governance: Empirical insights on neo-institutional framework from China. *International Journal of Disclosure and Governance*, 15(2), 87–103. <https://doi.org/10.1057/s41310-018-0038-y>
- Wahyudi, SM. (2021). The Effect of Corporate Governance and Company Characteristics on Disclosure of Sustainability Report Companies. *European Journal of Business and Management Research*, 6(4), 94–99. <https://doi.org/10.24018/ejBMR.2021.6.4.929>
- Wang, M. C. (2017). The relationship between firm characteristics and the disclosure of sustainability reporting. *Sustainability (Switzerland)*, 9(4). <https://doi.org/10.3390/su9040624>
- Widarwati, E., Karmila, S., & Nuralmasari, N. (2022). Governance and Performance: Does Bank Risk Matter? *Etikonomi*, 21(2), 281–294. <https://doi.org/10.15408/etk.v21i2.24364>