

## SUSTAINABILITY DISCLOSURE IN MANUFACTURING COMPANIES: THE ROLE OF BOARD OF COMMISSIONERS SIZE, DIRECTORS' SIZE, AND AUDIT COMMITTEE SIZE AS GOVERNANCE COMPONENTS

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### Abstract

This study aims to examine the influence of board of commissioners' size, board of directors' size, and audit committee size on corporate sustainability reporting, meanwhile firm' size and leverage as control variables. The research population consists of companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. The sampling method employed was purposive sampling, yielding a final sample of 96 firm-year observations. The study utilized multiple linear regression for hypothesis testing. The results indicate that the size of the board of commissioners, board of directors, and audit committee have a positive effect on corporate sustainability reporting.

**Keywords:** Sustainability report, Board of commissioners' size, Board of directors' size, Audit committees' size, Stakeholder theory, Legitimacy theory

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### INTRODUCTION

Indonesia manufacturing industry has grown rapidly in recent decades, but this growth has raised sustainability concerns. Between 2000 and 2015, the number of manufacturing companies increased by 4,000, with the food, textile, and garment sectors leading this expansion (Central Statistics Agency, 2017). Due to strong investment appeal and a rising middle class, Indonesia aims to become one of the world's top 15 manufacturing hubs (Asean Access, 2021). However, this growth has come with significant environmental challenges. Manufacturing activities contribute to pollution, waste, and resource depletion. Indonesia is also a major source of marine plastic waste (66 million tons per year) and greenhouse gas emissions (Aprilia A, 2021; Saraswati et al., 2025).

To address these challenges, there has been a growing emphasis on sustainability practices and regulatory transparency, though these efforts are sometimes seen as mere formalities. Global trends have encouraged the adoption of sustainability practices, including mandatory CSR reporting and corporate transparency rules in both developed and developing countries (Ho, 2017; Sarfaty, 2013). Indonesia has addressed this by enacting Law No. 40 of 2007 and OJK Regulation No. 51/POJK.03/2017, which require publicly listed companies to submit sustainability reports. These policies have significantly increased the number of sustainability disclosures (PwC Indonesia, 2023). However, challenges remain, as sustainability reporting is often treated as a compliance requirement rather than a meaningful commitment, lacking sufficient accountability (Hahn & Lülfs, 2014).

Therefore, oversight through corporate governance components is essential to ensure accountability in sustainability reporting and global standards. Sustainability reports contain data on company activities, targets, and corporate image in environmental, social, employment, and customer satisfaction aspects - including energy efficiency, equality policies, ethical business practices, and corporate governance (Gray et al., 2001). Most countries, including Indonesia, have

adopted the Global Reporting Initiative (GRI) standards as their primary reference (PwC Indonesia, 2023). To support this reporting, governance structures involving boards of commissioners, directors, and audit committees serve as oversight mechanisms to ensure transparency and accountability in sustainability reporting (Ferreira & Kirchmaier, 2013; Wijayanti & Setiawan, 2023).

Previous studies suggest that corporate governance components can enhance corporate sustainability disclosure efforts (Cancela et al., 2020). Research by Cancela et al. (2020) and Erin et al. (2022) found that larger board and audit committee sizes tend to improve sustainability reporting quality, as they provide stronger oversight, diverse perspectives, and greater accuracy in disclosures. Additionally, boards with more members have proven more responsive to stakeholder interests and more transparent in disclosing Environmental, Social, and Governance (ESG) performance (Cancela et al., 2020; Erin et al., 2022).

However, previous studies have also reported contradictory findings. Research by Aliniar & Wahyuni (2017) and Aziz (2014) concluded that these governance components do not significantly influence sustainability disclosure. Similarly, Aliyu (2019) found no significant relationship between board size and sustainability reporting, while Mangena & Pike (2005) demonstrated that audit committee size does not consistently enhance transparency. Despite these mixed results, further research remains necessary, particularly in the manufacturing sector and large corporations. The manufacturing industry warrants special attention given its operations' significant environmental impacts, both short- and long-term (Singh & Sultan, 2017). Likewise, large firms face stronger stakeholder pressure and regulatory mandates to produce sustainability reports (Nguyen et al., 2021). Another influencing factor is creditors' demand for transparency, where legitimacy theory suggests these reports serve as operational justification tools for lenders (Chadha & Singhanja, 2024).

Sustainability reporting and good corporate governance are pillars of sustainable business, though often viewed as mere formalities (Hahn & Lülfs, 2014). Stakeholder theory maintains these reports remain crucial for social, economic, and environmental accountability (Aras & Crowther, 2008), despite sustainability concepts being less clearly defined than governance (Mahmood et al., 2018). In Indonesia, the manufacturing sector faces challenges between sustainability reporting ambitions and questionable environmental impacts that undermine credibility. This study therefore examines how governance components influence sustainability disclosure among manufacturing companies listed on the Indonesia Stock Exchange (IDX).

This research adopts stakeholder theory and legitimacy theory to analyze the relationship between company corporate governance and sustainability disclosure. Gray et al. (1995) explain that these theories provide the conceptual foundation for corporate ESG (Environmental, Social, and Governance) disclosure practices. As more publicly visible entities, listed companies face more complex legitimacy demands than other economic actors, including obligations to fulfill implicit social contracts and meet multi-stakeholder expectations (Buallay & Al-Ajmi, 2020).

The primary objective of this research is to analyze the relationship between corporate governance components - specifically board of commissioners size, board of directors size, & audit committee size - and sustainability disclosure among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2023 period. The research employs a quantitative method using secondary data obtained from company annual reports and sustainability reports. This study is expected to provide theoretical contributions through the development of literature and additional empirical evidence regarding corporate governance components and corporate sustainability disclosure. Furthermore, it aims to offer practical benefits by providing new considerations for investment and business decision-making, as well as establishing new benchmarks for governance components that support sustainability disclosure in manufacturing companies.

## LITERATURE REVIEW AND HYPOTHESIS FORMULATION

### Stakeholder Theory

According to Donaldson & Preston (1995) in stakeholder theory, companies have obligations that encompass all stakeholders, not being limited solely to shareholders. This perspective is reinforced by Freeman et al. (2004), who proposed four key principles: (1) considering the operational impacts on various related parties, (2) understanding stakeholder values and behavioral patterns, (3) innovating business structures and processes for more comprehensive strategies, and (4) maintaining dynamic balance among diverse interests. The implementation of this theory is reflected in sustainability reporting regulations that govern corporate accountability for all operational activities.

### Legitimacy Theory

The organizational legitimacy concept according to Dowling & Pfeffer (1975) requires value congruence between corporations and society, demanding continuous adaptation to social norms to gain acceptance (Deegan, 2002). In social and environmental accounting practice, legitimacy becomes a crucial element as companies need to align their operations with societal standards (Strader & Shaw, 1997) while building positive reputation among stakeholders (Suchman, 1995). Aprilia (2018) states that sustainability reports serve as legitimacy instruments by disclosing economic, social, and environmental achievements as manifestations of transparency.

### Sustainability Report

Sustainability reports encompass information about corporate performance in environmental, social, labor, and consumer aspects, including elements such as energy efficiency, equality, business ethics, and governance (Gray et al., 2001). These reports aim to enhance transparency for stakeholders by linking social responsibility with financial performance (Daub, 2007; Kolk, 2003). The GRI-G4 Standards (2019) emphasize the comprehensive nature of sustainability reporting in disclosing both positive and negative corporate impacts on the environment, society, and economy.

### Corporate Governance

Corporate governance serves as an organizational regulatory mechanism operating within a framework of laws, regulations, and evolving stakeholder expectations (Cadbury, 2000), requiring continuous adaptation to shifting societal values - particularly the growing emphasis on environmental and social considerations in business operations. Nsour & Al-Rjoub (2022) identify three core governance components: (1) the Board of Commissioners as the primary supervisory body and shareholder representative, (2) the Board of Directors responsible for strategic and operational decisions, and (3) the Audit Committee overseeing audit processes, internal controls, and sustainability reporting integrity. Research demonstrates that the composition of these governance elements significantly influences corporate sustainability disclosure, with larger governance structures proving more effective in adopting comprehensive voluntary disclosure practices (Hu & Loh, 2018; Trisnawati et al., 2022; Yadav & Jain, 2023; Buallay & Al-Ajmi, 2020).

### Previous Research

Previous research examining the influence of board of commissioner's size, board of directors' size, and audit committees' size on sustainability disclosure in Indonesian manufacturing companies remain limited. Several studies have investigated governance variables alongside other factors like profitability and ownership structures, without specific focus on board and audit committee sizes (Ika et al., 2021; Lucia & Ria, 2018; Sofa & Respati, 2020a; Wahyudi, M.S., 2021). The findings have been inconsistent, with some studies reporting positive relationships (Anyigbah et al., 2023; Buallay & Al-Ajmi, 2020; Hu & Loh, 2018; Ika et al., 2021) while others found insignificant results (Aliniar & Wahyuni, 2017; Aliyu, 2019; Ganesan et al., 2017; Lucia & Ria, 2018; Sofa & Respati, 2020a).

Therefore, this study aims to re-examine the impact of board of commissioner's size, board of directors' size, and audit committees' size on sustainability disclosure among manufacturing companies listed on IDX to clarify these contradictory findings. Consequently, the research model to be tested in this study is as follows.

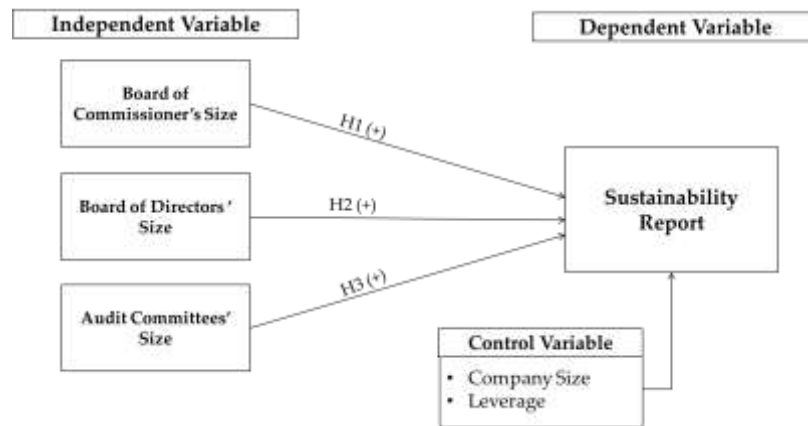


Figure 1. Research Model

## Hypothesis Formulation

### Board of Commissioner's Size and Sustainability Report

The board of commissioners plays a crucial role in corporate governance, where its independence - measured by the proportion of independent directors - can enhance corporate oversight (Mudiyanselage, 2018). As the supreme supervisory body in Indonesia's two-tier system, the board of commissioners drives directors to strengthen internal monitoring, including sustainability reporting (Wijayanti & Setiawan, 2024; Rudyanto & Veronica Siregar, 2018).

Companies are accountable not only to shareholders but also to stakeholders, with sustainability disclosure serving as operational legitimacy (Michelon & Parbonetti, 2012; Wang, 2017). Stakeholder theory suggests that stakeholder pressure improves sustainability report quality while reinforcing internal governance (Rudyanto & Veronica Siregar, 2018). Meanwhile, legitimacy theory posits that good governance promotes regulatory compliance and societal expectations through reporting transparency (Shamil et al., 2014; Tran et al., 2021).

Previous studies show mixed results regarding board size and sustainability disclosure. Research by Hu & Loh (2018), Janggu et al. (2014), and Restu et al. (2017) found positive correlations in Singaporean, Malaysian, and Indonesian companies. Therefore, this study proposes a positive hypothesis as follows.

***H1: The Board of Commissioners' Size Has a Positive Influence on Sustainability Reports***

### Board of Directors' Size and Sustainability Report

The National Committee for Governance Policy (KNKG, 2006) stipulates that corporate management responsibility lies collectively with the board of directors. Research indicates that larger boards tend to be more effective in implementing sustainable practices (Baatwah et al., 2023), as they encompass diverse stakeholder representation (Tauringana & Chithambo, 2015). Conversely, smaller boards face challenges in fulfilling supervisory functions due to excessive workload (Jizi, 2017).

Stakeholder theory suggests that a more expansive board composition enables better representation of various interests, including shareholders' (Freeman et al., 2004a; Jain & Zaman,

2020). Meanwhile, legitimacy theory posits that companies must comply with the "social contract" through transparent reporting to maintain public trust and legitimacy (Newson & Deegan, 2002).

Empirical studies provide evidence that larger board size contributes to better sustainability disclosure. Alta'any et al. (2024) confirm that broader board scale yields more positive impacts. These findings align with Trisnawati et al.'s (2022) research in Indonesia's capital market and Alotaibi & Hussainey's (2016) study in Saudi Arabia, both demonstrating positive correlations. Therefore, this study proposes a positive hypothesis as follows.

***H2: Board of Directors' Size Has a Positive Influence on Sustainability Reports***

**Audit Committees' Size and Sustainability Report**

As an integral component of corporate governance, the audit committee holds strategic functions in monitoring all audit stages and evaluating the effectiveness of internal control systems, including in the sustainability reporting process (Gebayel et al., 2018a). According to Mangena and Pike (2005), the audit committee plays a vital role in ensuring information disclosure transparency and strengthening corporate accountability to stakeholders.

From a stakeholder theory perspective, companies must consider various stakeholder interests by providing adequate information to gain their legitimacy (Freeman et al., 2004a). On the other hand, legitimacy theory argues that companies need to maintain reporting transparency as a commitment to fulfilling social expectations (Newson & Deegan, 2002).

Several empirical studies, such as Michelon and Parbonetti's (2012) research on leading DJSI companies and Restu et al.'s (2017) study on Indonesian SOEs, consistently found that audit committees with more members tend to produce higher-quality sustainability reports. These findings suggest that audit committee size is a determining factor in improving corporate sustainability disclosure quality. Therefore, this study proposes a positive hypothesis as follows.

***H3: Audit Committees' Size Has a Positive Influence on Sustainability Reports***

**RESEARCH METHODS**

**Research Design**

This research employs quantitative method using secondary data from company annual reports and sustainability reports for the 2018-2023 period, obtained from official sources (IDX and company websites). Using purposive sampling method to collect the sample and research data, then analyze the data using IBM SPSS with multiple linear regression technique to test the hypotheses.

**Population and Sample**

The population of this research consist of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018-2023, employing purposive sampling technique with the following criteria: (1) publicly listed companies, (2) companies that published both annual reports and sustainability reports during 2018-2023, and (3) companies with complete data for all research variables.

**Data Collection and Instrument Development Techniques**

The data were collected from company annual reports and sustainability reports for the 2018-2023 period, obtained from official sources (IDX and company websites). The data was selected based on sampling criteria and then analyzed according to research variable measurements.

Sustainability report disclosure refers to GRI standards covering economic, environmental, social, and governance (ESG) performance. The study measures these variables through content analysis using a binary scoring system (1 for disclosed, 0 for not disclosed) based on 91 GRI-G4 indicators. The analysis results are calculated as a ratio index.:

$$Index : \frac{N_{i,t}}{K_{i,t}}$$

Where:

N: Represents the number of SR disclosure items that have been fulfilled by the company in each period

K: The total disclosure items that should be present according to the GRI-G4 guidelines

The measurement of variables for board of commissioner’s size, board of directors’ size, and audit committee size was calculated based on the number of members in each respective board/committee during the study period. This study employs two control variables: firm size and leverage. To measure firm size, the study uses the following measurement approach.

$$Size = \ln(TA_{i,t})$$

Where:

TA: Total asset of a company in each period

Leverage was measured using the Debt-to-Equity Ratio (DER) as follows.

$$DER = \frac{TL_{i,t}}{TA_{i,t}}$$

Where:

TL: Total liabilities of a company in each period

TA: Total asset of a company in each period

### Data Analysis Technique

This research utilizes four statistical analyses using IBM SPSS version 26: (1) descriptive statistics, (2) classical assumption testing including normality, multicollinearity, and heteroskedasticity tests, and (3) hypothesis testing through multiple regression analysis

## RESULTS AND DISCUSSION

### Descriptive Statistics Test Results

Table 1. Descriptive Statistics Test Results

Variabel	n	Minimum	Maximum	Average	Std. Deviation
Board of Commissioner’s Size	96	2.00	15.00	5.9271	2.45912
Board of Directors’ Size	96	2.00	15.00	6.1563	2.62108
Audit Committees’ Size	96	2.00	4.00	3.0833	0.34540
GRI	96	0.27	0.53	0.3710	0.4404
Leverage	96	-7.73	8.12	0.8258	1.73277
Company Size	96	12.27	19.92	16.2838	1.69943

The table shows that the board of commissioners' size has an average of 5.9271, with a minimum of 2, maximum of 15, and standard deviation of 2.45912. This indicates that the manufacturing companies in this study's sample had an average of 6 commissioners during the

2018-2023 period. The board of directors' size averages 6.1563, with a minimum of 2, maximum of 15, and standard deviation of 2.62108. This suggests the sample manufacturing companies maintained an average of 6 directors during 2018-2023. The audit committee size averages 3.0833, with a minimum of 2, maximum of 4, and standard deviation of 0.34540. This implies the sample manufacturing companies typically had 3 audit committee members during the study period. The Sustainability Report index shows an average of 0.3710, with a minimum of 0.21, maximum of 0.61, and standard deviation of 0.07436. This demonstrates that the sample manufacturing companies achieved an average sustainability disclosure ratio of 0.3710 during 2018-2023.

### Hypothesis Testing Result and Discussion

The research hypothesis testing was conducted using SPSS. A summary of the t-test results verifying the research hypotheses is presented in the following table.

Table 2. Hypothesis Testing Result

Variable	Coefficient	B	Conclusion	Hypothesis
Board Of Commissioner's Size	0,020	0,013	Significant	H1 Accepted
Board of Directors' Size	0,020	-0,011	Significant	H2 Accepted
Audit Committees' Size	0,012	-0,058	Significant	H3 Accepted

Hypothesis 1, which posits that the board of commissioners' size has a significant positive effect on sustainability reporting, is supported. The t-test results for the board size variable show a probability value of 0.020 (below 0.05). Consistent with stakeholder theory, companies are accountable not only to shareholders but to all stakeholders, including employees, customers, suppliers, communities, and the environment (Michelon & Parbonetti, 2012; Wang, 2017). Larger boards tend to encompass broader stakeholder representation, thereby encouraging greater transparency in sustainability performance reporting. Furthermore, legitimacy theory asserts that companies strive to maintain social legitimacy by meeting societal and stakeholder expectations regarding social and environmental responsibility (Shamil et al., 2014; Tran et al., 2021). With more members, the board can better ensure that sustainability reports reflect the company's commitment to responsible practices, thereby enhancing organizational legitimacy.

Hypothesis 2, which states that board of directors' size has a significant positive effect on sustainability reporting, is confirmed. The t-test results for the board size variable show a probability value of 0.020 (below 0.05). Stakeholder theory emphasizes the importance of considering all stakeholders' interests, not just shareholders' (Michelon & Parbonetti, 2012; Wang, 2017). This theory encompasses a broader group of stakeholders representing societal interests, thereby expanding the conceptualization of corporate governance mechanisms to align corporate activities with wider concerns (Shamil et al., 2014). A larger board of directors can encourage greater transparency in disclosing sustainability practices through sustainability reports. From a legitimacy theory perspective, companies must maintain their social legitimacy by meeting stakeholder expectations, including through sustainability reporting disclosures (Shamil et al., 2014; Tran et al., 2021)

Hypothesis 3, which posits that audit committee size has a significant positive effect on sustainability reporting, is supported. The t-test results for the audit committee size variable show a probability value of 0.012 (below 0.05). Both stakeholder theory (Deegan, 2004) and legitimacy theory (Newson & Deegan, 2002) emphasize the importance of information transparency in meeting

stakeholder and societal expectations. In the context of growing corporate complexity, evolving stakeholder relationships require strengthened governance through audit committees to ensure balanced interests and credibility of sustainability reports (Solomon, 2020). Consequently, audit committee size becomes a determining factor for the quality of a business entity's sustainability reporting. This finding aligns with the hypothesis test results, confirming that larger audit committees enhance corporate sustainability disclosure levels.

## CONCLUSION

According to stakeholder theory and legitimacy theory, companies are accountable not only to shareholders but to all stakeholders, including employees, customers, suppliers, communities, and the environment. Larger boards of commissioners and robust audit committees play a crucial role in enhancing sustainability reporting transparency, enabling companies to meet social expectations and maintain their legitimacy. The size of the board of commissioners, board of directors, and audit committee shows positive correlation with sustainability report disclosure quality, as it allows broader interest representation and more effective oversight. Therefore, strengthening corporate governance structures - particularly through board and audit committee expansion - becomes key to promoting sustainable and accountable business practices.

## Implications

This study yields theoretical implications through empirical findings demonstrating a positive relationship between board of commissioner's size, board of directors, and audit committee size with sustainability reporting quality, while simultaneously enriching stakeholder and legitimacy theory perspectives through a more holistic approach. These findings also hold relevance for the broader business ecosystem, encompassing companies, investors, regulators, and related stakeholders, where strengthening governance structures and sustainability capabilities can enhance reporting credibility. Investor pressure and regulatory authorities play equally vital roles in driving the adoption of improved sustainability practices - which ultimately not only elevates reporting quality but also builds corporate reputation and ensures long-term business sustainability.

## Limitations

This study has several limitations. First, the accessible corporate reporting period in the Indonesia Stock Exchange (IDX) database was limited to 2018-2023. Furthermore, many Indonesian public companies either do not publish their reports on corporate websites or make them inaccessible. Second, the research did not include all potential variables that might be related to the research topic. Due to these limitations, future studies are recommended to incorporate additional variables relevant to this topic, such as dual leadership, board of directors' ethnicity, board ownership, firm age, profitability, company growth, and other related factors. Expanding the research sample or focusing on other sector that potentially drives sustainability challenges like oil and gas sector or agriculture sector.

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