

The Influence of Governance Structure and Strategic Corporate Social Responsibility Toward Sustainability Reporting Quality

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ABSTRACT

Increased business complexities coupled with enhanced global transformation have propelled corporations to behave as responsible citizens to drive the sustainability agenda. Many corporations incorporate their affirmative commitment to sustainable business practices into their corporate identities and give evidence for this in their sustainability reports. This paper examines the role of the board of directors in sustainability reporting quality (SRQ) in the Asia-Pacific region. Based on a cross-sectional study of 113 companies from 12 countries in the region, we find that the SRQ in the region leaves much room for improvement. However, we find that the institutionalization of the concept of corporate social responsibility (CSR) in an organization provides a sound foundation for enhancing SRQ. We find that the value of CSR anchored in the vision and/ or mission statement and strategic alliances fostered with non-governmental organizations are positively associated with SRQ.

This study contributes to strengthening the understanding, promoting discussion on the state of sustainability reporting in the Asia-Pacific context and laying a solid foundation for more aggressive efforts to enhance SRQ. The study identifies the significant drivers currently associated with SRQ. The weak role of the board of directors in upholding the sustainable development agenda through the reporting process is highlighted. Copyright © 2013 John Wiley & Sons, Ltd and ERP Environment.

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Introduction

CORPORATE GOVERNANCE AND SUSTAINABILITY CONCERNS HAVE GAINED PROMINENCE IN RECENT YEARS (BAXI & RAY, 2009; Uwalomwa & Uadiale, 2011). The collapse of Enron and a number of high-profile US companies led to a global crisis of investor confidence (Duff, 2009). Additionally, the 2008 global financial crisis prompted debates on enhancing business ethics and corporate governance (Rossouw, 2012). High-profile media campaigns advocating that organizations be accountable to a wider audience than their shareholders, for example, in the case of Shell's plan for disposal of Brent Spar (Brent Spar's long saga, 1998); Nike's use of child

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labor in its factories (Nike shoes and child labor in Pakistan, 2002) and current initiatives on climate change have raised corporations' awareness of their social and environmental activities (Dutta, Lawson, & Marcinko, 2012). Increased business complexities coupled with global transformation have propelled corporations to behave as responsible citizens (Aras & Crowther, 2008) and drive the sustainability agenda (Clarkson, Li, Richardson, & Vasvari, 2008).

Sustainability is commonly defined in the context of sustainable development (Dutta *et al.*, 2012). Many corporations are incorporating an affirmative commitment to sustainable business practices into their corporate identities, and hence forging a new paradigm for sustainability and corporate governance (Sneirson, 2009). Emerging stakeholders'¹ interests and expectations compel corporations to gear up to operationalize sustainability in business using two key approaches: (i) implementing a 'triple bottom line' approach to measuring corporate performance and success (Dyllick & Hockerts, 2002); and (ii) introducing increasingly pervasive levels of sustainability practices within their organizations (Sneirson, 2009).

This paper is concerned with the former, i.e. the reporting aspect. In this regard, sustainability reporting² is seen as an important platform for demonstrating transparency, accountability and effective governance (Subramaniam, Hodge, & Ratnatunga, 2006). Sustainability reporting is gauged to assist decision-makers (in this case ethical or socially responsible investors) by translating ecological, economic and social data (Clarkson *et al.*, 2008).

Studies have reported an increase in the number of corporations reporting publicly on various aspects of their environmental and social performance (Morhardt, Baird & Freeman, 2002) (O'Dwyer & Owen, 2005). These reporting initiatives are led by large companies operating in 'sensitive' industrial sectors, primarily producing a substantial stand-alone and/or web based report (KPMG International Survey of Corporate Responsibility Reporting 2008, 2008). It is reported that 80% of the top 250 companies of the Global Fortune 500 (GFT250) now issue an environmental, social or 'sustainability' report compared with 35% in 1999 (KPMG International Survey of Corporate Responsibility Reporting 2008, 2008). Furthermore, corporations increasingly integrate sustainability information in their annual reports in France, Norway, Switzerland, Brazil and South Africa. Companies in the United Kingdom and Japan achieved high scores in sustainability reporting over the last decade, while Australia is showing an increasing trend in integrating sustainability performance into annual reports (KPMG International Survey of Corporate Responsibility Reporting 2008, 2008). Despite this development, there is scarce academic research on sustainability reporting in the Asia-Pacific region, except for Australia.

Sustainability reporting quality (SRQ) has not been universally acclaimed given its challenge in providing accurate and transparent information (Kolk, 2008), especially in the face of enhanced managerial bias at the expense of accountability to stakeholders (Belal, 2002). For example, Owen, Swift, Humphrey, & Bowerman (2000) contend that accountability and transparency are less important motives when compared with management advantage. It is argued that corporate management has taken control of the reporting processes, resulting in information being collected and disseminated only if it brings a positive image to the corporation, rather than being transparent and accountable to stakeholders. Karamanou & Vafeas (2005) suggest that managers have the incentive to withhold information in order to hinder the market's ability to monitor their performance. Apparently, trust towards organizations continues to be low in relation to its broader sense of responsibility towards society and the environment. Evidence suggests that the information in sustainability reporting is rarely used by management or stakeholders to make informed judgements and actions – the acid test of credible and useful communication (AccountAbility, 2003).

Furthermore, a move towards ethical investment, or socially responsible investment, is on the rise (Clarkson *et al.*, 2008). In this context, the need for credible sustainability reporting is evident (Yussri, Zain, & Darus, 2010). However, evidence on the factors impacting SRQ from the Asia-Pacific region is lacking. Given the prominence of corporate governance reforms and, specifically, the role of the board of directors in this region (Corporate Governance Blueprint 2011: Towards Excellence in Corporate Governance, 2011). It is also unclear as to the role played by the board of directors in steering the sustainability agenda. In the same vein, there is limited evidence

¹Stakeholders are those who affect or are affected by the organization's goal. This includes groups that have a stake in the organization's operation (Freeman & Liedtka, 1997).

²The term 'sustainability report' is used interchangeably with various reporting methods such as corporate responsibility reporting, social and environment reporting, etc. It is premised on the notion of sustainable development that refers to both present and future generations having resources available for their enjoyment (Brundtland & Khalid, 1987).

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on the type of corporate social responsibility³ (CSR) strategies that corporations employ in the region and whether these strategies impact their SRQ.

This paper examines the impact of the composition of the board of directors (board size, independence and gender diversity) and CSR strategies (organizational vision and/or mission), the existence of a CSR committee within the business organization and whether collaboration with non-governmental organizations⁴ (NGOs) has any influence on SRQ in the Asia-Pacific region. Based on a sample of 113 corporations from 12 countries, namely, Australia, China, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan and Thailand, we find that the SRQ in the region is only moderate with much room for improvement. Fifty per cent of sustainability reporters in our sample incorporate CSR value into their vision and/or mission statement and this strategy has a significant association with their SRQ. Similarly, the existence of a CSR committee and collaboration with NGOs also show a significant positive relationship with SRQ.

The paper contributes to the corporate governance–sustainability nexus literature in three ways. Firstly, it gives evidence for the role of the board of directors in SRQ. Secondly, it shows the importance of CSR strategies and the association with SRQ. Thirdly, it shows that management involvement in the process of embedding CSR practices organization-wide is an important step in devising an effective sustainability reporting process.

In the next section we review the extant literature on sustainability reporting and identify the research gaps in SRQ. This is followed by a discussion on hypothesis development, the research design, the data analysis and results. The paper concludes with suggestions for future research.

Literature Review

A number of advances in wider accountability in both practical and theoretical aspects are evident (Spence & Gray, 2007). The extant disclosure literature reveals that some organizational contextual factors, such as country of domicile (Adams, 2002; Adnan, Staden, & Hay, 2010; Belkaoui & Karpik, 1989; Fernandez-Feijoo, Romero, & Ruiz, 2012), industry membership (Amran, Periasamy, & Zulkafli, 2011) and firm size (Chow & Wong-Boren, 1987; Firth, 1979) potentially influence the nature and extent of disclosure. In addition, the extant corporate governance literature shows that the scope of corporate governance has broadened to encompass the growing importance of CSR. This calls for a balanced focus between short-term profit and long-term sustainability benefits (Dyllick & Hockerts, 2002) and a motive for maximization of shareholder wealth that is anchored on a well-structured governance system (Schepers & Hillenbrand, 2007). The corporate governance–sustainability nexus has received much attention more recently (Aras and Crowther, 2008). It is suggested that corporations that have a more complete understanding of both sustainability and of corporate governance will address these issues more completely (Aras & Crowther, 2008). Furthermore, Crowther (2000) has shown that corporations over time have increased the amount of CSR information provided as they recognized the commercial benefits of increased transparency. Intuitively, therefore, we argue that the quality of sustainability reporting should improve as boards of directors obtain a clearer understanding of the benefits of greater disclosure (Aras & Crowther, 2008).

Board Composition and SRQ

The relationship between corporate governance and the disclosure practices of an organization have been widely researched (Adams, 2002; Adnan *et al.*, 2010; Cerbioni & Parbonetti, 2007; Ricart, Rodriguez, & Sanchez, 2004).

³Ethical, economic, environmental and social impacts and issues that concern the private sector. There are many different terms used to capture this concept, including sustainability, corporate social responsibility, corporate citizenship, environmental social and governance and others (KPMG International Survey of Corporate Responsibility Reporting 2008, 2008).

⁴Defined as an organization that pursues social betterment rather than profit or the political requirements of government (Werther & Chandler, 2006).

In particular we focus on evidence regarding the role of the board of directors. The efficacy of the composition of the board of directors, specifically board size, independence and gender diversity, required for enhanced transparency and accountability practices within organizations has received much attention in the extant corporate governance literature (Kolk, 2008)(Kolk & Pinkse, 2009). It is shown that a smaller board is more effective than a larger board (Lipton & Lorsch, 1992; Yermack, 1996). Meanwhile, Vafeas (1999) showed that an effective board might lead to more proactive board behavior. Arguably, an effective board mitigates managers' opportunistic accrual choices at the expense of shareholders, which is common with a weak board. Therefore, the organization may institute a stronger board or complement it with a higher level of internal and external audit. In such cases there is the likelihood that the management might fend off this unwelcome monitoring by voluntarily reporting more accurate earnings information.

Similarly, another aspect of the governance mechanism that is commonly examined is the board's independence. It is shown that board independence is positively associated with disclosure practices (Beasley, 1996; Chen & Jaggi, 2000; Donnelly & Mulcahy, 2008; Huafang & Jianguo, 2007). However, there is also contrary evidence from Eng & Mak (2003) who examined a sample of 158 Singapore listed firms and found that an increase of outside directors will reduce voluntary disclosure as they are a good substitute for each other in monitoring the organization's managers.

Gender diversity of board of directors, another feature of board composition, has been examined in the existing disclosure literature. Using information collected from 22 countries, Fernandez-Feijoo (2012) showed that boards with more women disclose more CSR information. It is suggested that boards with three or more women are associated with a higher quality of CSR reporting by disclosing more information and including an assurance report to provide credibility for their reports. It is argued that the presence of female directors also mediates the production of stand-alone reports and moderates the masculinity and individualism on the CSR strategy disclosure.

CSR Strategies and SRQ

In addition to the composition of the board of directors, studies also link strategic CSR practices with disclosures (Adams, 2002; Roberts, 1992). Hogner (1982), cited in Adams (2002), examined the reports of US Steel and observed that the reporting patterns over the eight decades reflected changes in society. In the same vein, Tregidga & Milne (2006), who traced a leading New Zealand reporter on environmental and social impacts, illustrated that the reports issued by this organization since 1993 through 2003 demonstrated a development from sustainable management to sustainable development. It is contended that corporations may engage in strategic actions, such as adopting strategic CSR practices, to obtain support from the external environment. A vision or mission crafted with CSR values facilitated the organization to embrace a good strategy, taking into account both organizational competencies and the demand of the external environment in which it must operate (Bushman & Smith, 2001). Therefore, an organization with a vision or mission aligned with CSR value is expected to create a culture and environment that takes cognizance of the stakeholders' demands, and hence generate sustainable wealth (Perrini & Tencati, 2006). Culture influences moral values, which influence at least the issues selected for reporting. Adams & Kuasirikun (2000) found that cultural factors explain environmental concerns. In a study to examine the determinants of environmental disclosure in Malaysian companies, Eljido-Ten (2004) examined the existence of environmental committees and environmental concerns expressed in the companies' vision/mission statement as proxies of the environmental concerns held by top management. The study concluded that the environmental concerns of top management, as a measure of their CSR strategic stance is significantly associated with the quality and quantity of disclosure. In a similar vein, Moneva *et al.* (2007) found that the vision, mission and values of a company define whether it is strategically shareholder or stakeholder oriented. Based on a sample of 52 Spanish listed firms, Moneva *et al.* (2007) suggested that companies whose mission and vision are commitment to the satisfaction of their stakeholders deliver better sustainability information than those which are shareholder-oriented.

It is revealed that the way the organization structures the reporting process affects the reporting quality (Adams, 2002). The existence of a CSR board committee, a dedicated officer or department demonstrates the CSR commitment of the organization to its stakeholders. In such organizations, the management ensures that CSR is institutionalized within the organization's core component of decision-making. They are more likely to see the importance of strategic CSR and reporting by directing that the organization pursues sustainability reporting to address its stakeholders' demands. This strategy aims to motivate the organization to implement practices to measure and report its

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CSR performance publicly in a voluntary regime. Arguably, the CSR strategy is a capital resource that represents a plausible explanatory factor for greater disclosure (Adnan *et al.*, 2010; Cowen, Ferreri, & Parker, 1987; Savitz & Weber, 2006; Wahyuni, Rankin, & Windsor, 2009).

Strategic partnership, one of the most promoted approaches, is perceived as being different from the traditional forms of relationship such as philanthropic relationships and adversarial relationships (Ashman, 2001). Strategic partners create programs jointly in trans-boundary sustainability issues in which a business partner has difficulty finding solutions alone. Thus, a 'win-win' relationship is created based on mutual gain to the partners in areas of their interest (Waddell & Brown, 1997). Partnership between business and a NGO typically combines the complementary strengths associated with their respective positions, the economic position of the business and the social position and organizational capacity of the NGO (Waddell & Brown, 1997). In conceptualizing the role of collaboration of business organizations and NGOs in the context of national and international law, Bastmeijer and Verschuuren (2005) observed that NGOs play an important role in monitoring and enforcement, which constitute an important element of collaboration between businesses and NGOs. However, from the perspective of the collaboration between civil society and business in Brazil, India and South Africa, Ashman (2001) noted that insignificant sustainable development was evidenced in such relationships because the businesses were more inclined to dominate civil-society partners. It was suggested that more desirable sustainable development maybe forthcoming when collaborating parties draw on their own resources and adopt an empowered approach in the collaborative relationship.

Theoretical Framework and Hypothesis Development

This study is premised on a theoretical framework based on legitimacy theory and a resource-based view to identify factors that drive an organization's SRQ. A framework combining legitimacy theory and a resource-based perspective assumes that managers increasingly need to consider social responsibility disclosure as a tool to improve social and environmental conduct in a particular field because this influences the organization's reputation; a critical external resource that determines an organization's success (Branco & Rodrigues, 2008)

From a the perspective of legitimacy theory, stakeholders accept and are more likely to supply to organizations the desired resources such capital, labor and customers. Such stakeholder reactions can be influenced through an effective communication channel (Dyllick & Hockerts, 2002) (Wheeler & Elkington, 2001) such as a sustainability report, which consequently affects stakeholders' perceptions and legitimizes the existence of the organization (Hedberg & von Malmberg, 2003). This reputation enhancement acts as a source of market advantage as well as a inimitable valuable resource (Russo & Fouts, 1997)

The resource-based view is adopted to provide the theoretical arguments in this study, for two reasons. Firstly, it recognizes intangible resources such as organizational culture, which is driven by vision and mission, independence of the board of directors, partnership and other intangible resources, which assist the organization in gaining competitive advantages (Irwin, Hoffman, & Lamont, 1998). Secondly, it defines societal demands as part of the external environmental forces driving an organization to develop unique resources to remain relevant. As such it is an appropriate theory to draw upon to espouse sustainability-reporting practices and provide reasonable explanatory power in assessing reporting quality.

Board Size and SRQ

The board of directors is a source of sustained competitive advantages (Carpenter & Westphal, 2001). The size of the board expected to be one of the major determinants of its effectiveness. An effective board will defend an organization's resources by reducing the problem of opportunism. In the similar vein, an effective board may lead to proactive managerial behavior and reduce managerial opportunism, hence resulting in higher SRQ.

Therefore, we hypothesize that:

Hypothesis 1. *Board size is negatively associated with SRQ, ceteris paribus.*

Board Independence and SRQ

Increasingly greater responsibilities have been placed on independent directors (Malaysian Code of Corporate Governance 2012, 2012). Independent directors have incentives to influence disclosure practices as a result of their concern with maintaining their reputation, and thus effectively function as a monitoring mechanism in confining management behavior. Independent directors are viewed as a unique resource that connects the organization with its external stakeholders. Conversely, they are expected to take a firm stand in the interests of both the organization and its stakeholders. We therefore argue that greater board independence encourages an organization to assume a higher degree of accountability and transparency. This includes the disclosure of higher-quality information to aid its stakeholders in making informed decisions. Therefore, we hypothesize that:

Hypothesis 2. *Board independence is positively associated with SRQ, ceteris paribus.*

Board Gender Diversity and SRQ

Gender diversity is shown to be positively associated with corporate social reporting and better social and environmental performance (Adams & Ferreira, 2004). Moreover, women are shown to be more sensitive to social and responsibility issues than men (The Gallup Poll: Public Opinion 2005, 2005). Arguably, therefore, organizations with a higher proportion of women directors do engage in greater extent of charitable activities (Williams, 2003). A higher proportion of women directors on the board (with at least two or three) increases the CSR reporting quality with greater disclosure and higher incidence of assurance reports accompanying such disclosures (Fernandez-Feijoo *et al.*, 2012). Therefore, we hypothesize that:

Hypothesis 3. *A greater proportion of female directors is positively associated with SRQ, ceteris paribus.*

CSR Strategies

Organizational Vision, Mission and SRQ

Legitimacy theory and the resource-based view posit that an organization's survival ultimately depends on many factors, including external relationships (Hart, 1995; Neu, Warsame, & Pedwell, 1998). It is pertinent for an organization to incorporate, within the organization's strategic outlook, its need for resources from the perspective of stakeholders (Werther & Chandler, 2006). Integrating CSR value into its vision or mission is a sustainable resource management strategy that sustains its legitimacy. By recognizing intangible resources such as organizational culture and reputation, an organization is better positioned to embrace an effective strategy that leverages the organizational interest whilst being cognizant of the external environment in which it must operate. Such an organization is expected to create an intangible resource – an organizational culture and reputation – that is more responsive to stakeholders who demand greater transparency and accountability in respect of the organization's sustainability reporting. Therefore, we hypothesize that:

Hypothesis 4. *Organizational vision and/or mission integrated with CSR value is positively associated with SRQ, ceteris paribus.*

Existence of a CSR Committee and SRQ

The establishment of a CSR committee is viewed as a capital resource for an organization. The experience, skills and knowledge of such a committee are expected to play an important role in ensuring the CSR perspective is ingrained

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as part of the organization's strategic direction and translating it into tangible action. Organizations demonstrate their CSR commitment to stakeholders by creating a CSR committee, or designating a specific officer or department to formulate the direction that the organization should pursue in meeting its stakeholders' demands. Therefore, the organizational structure in respect of the reporting process is significant for the organizational disclosure quality. In this respect, Adnan *et al.* (2010) contend that organizations with an environmental committee are more likely to disclose information on greenhouse-gas emissions than those without such a committee. Therefore, we expect that the presence of a CSR committee that is part of the organizational CSR structure consisting of at least one internal executive with direct access to and a reporting relationship with the chief executive officer (CEO), will enhance SRQ. It is commonly accepted that the degree of transparency, the scope of disclosure and matters dealing with assurance are decided by the CEO. However, with periodic access to the CEO, the stature and influence of this executive is expected to be strengthened (Amran and Haniffa, 2011). Therefore, we hypothesize that:

Hypothesis 5. *The existence of a CSR committee is positively associated with SRQ, ceteris paribus.*

Collaboration with NGOs and SRQ

Strategic partnership with a NGO results in greater sharing of critical resources and production of synergistic solutions that are otherwise difficult to achieve by the respective partners separately. For instance, such partnerships allow organizations to acquire resources that cannot be produced internally – which is badly needed in this competitive environment, particularly those resources that help to distinguish the organization from its competitors (Barney, 1991). The effect of pooling and transferring resources makes the partnership work and enables organizations to address social problems more effectively (Hardy, Phillips, & Lawrence, 2003). For instance, Chiquita was strongly criticized for its poor environmental practices, and later it cooperated with The Rainforest Alliance, an NGO that emphasizes rain forest preservation along with the diverse strains of animal, insect, plant and human life that are dependent on it. The Alliance developed a certification program and conducted audits to verify that the Chiquita was operating sustainably (Savitz & Weber, 2006). In addition to bringing a positive impact to strategic management practices, collaboration of business organizations and NGOs creates new knowledge and synergistic solutions (Savitz & Weber, 2006). In this context, we argue that partnerships between NGOs and business organizations will lead to some form of organizational learning through various pathways, including but not limited to, influencing the business's organizational culture and enabling and empowering teamwork with the CEO's involvement, which ultimately results in higher incentives to disclose sustainability information. While keeping the business partner aware of the importance of taking cognizance of stakeholders' concerns, the NGO still needs to maintain its reputation in terms of its independence from the business sector's control and its commitment to accountability and transparency. Therefore, we hypothesize that:

Hypothesis 6. *Collaboration with a NGO is positively associated with SRQ, ceteris paribus.*

Research Methodology

Sample

Reports from a total of 113 firms were obtained. The sample distribution is shown in Table 1. We can see that 14.2% of sampled firms are from Korea and India, respectively, followed by Japan (10.6%) and Malaysia (9.7%), whilst China, Australia and Taiwan each made up 8.8% of the sample. The remaining sample is from New Zealand (4.4%), Indonesia (4.4%), Philippines (4.4%), Singapore (5.3%) and Thailand (6.2%).

Several terminologies are being used interchangeably to denote sustainability reporting. Table 2 shows the terminology used in the sampled non-financial reports. We observe that the terminology 'Sustainability report' (60.2%) is

No	Countries	Frequency	Percentage
1	Australia	10	8.8
2	New Zealand	5	4.4
3	China	10	8.8
4	India	16	14.2
5	Indonesia	5	4.4
6	Korea	16	14.2
7	Malaysia	11	9.7
8	Philippines	5	4.4
9	Singapore	6	5.3
10	Taiwan	10	8.8
11	Thailand	7	6.2
12	Japan	12	10.6
	Total	113	100.0

Table 1. Sample distribution

Title of Report	Frequency	Percentage
Sustainability Report	68	60.2
Sustainable Development Report	6	5.3
Corporate Social Responsibility Report	25	22.1
Corporate Sustainability Report	5	4.4
Others	9	8.0
Total	113	100.0

Table 2. Terminology used in sampled non-financial reports

most commonly used, followed by 'Corporate social responsibility report' (22.1%) and Sustainable development report (5.3%). The remaining reports (8.0%) used terminologies such as 'Corporate responsibility report', 'Corporate citizenship report', 'Corporate responsibility report' and 'Social responsibility report' among others.

Measurement of the Dependent and Independent Variables

Dependent Variables

The dependent variable in this study is SRQ. Content analysis was used to construct a measure of the SRQ, using data from published sustainability reports, assurance statements and governance data from the annual report. To determine the SRQ, only sustainability information available in the public domain was used. Sustainability reports issued by organizations in the Asia-Pacific region were collected from the CorporateRegister.com database (<http://www.corporateregister.com/>), GRI report list and the Internet whilst the annual reports were collected from the respective organization's website. The sources were limited to sustainability reports and annual reports published for the year 2010. If an organization did not issue or had not issued a report for 2010, then 2009 reports were used. Reports issued in respect of years prior to 2009 were not included in this study.

To measure SRQ, a scoring model modified from the environmental disclosure index developed by Clarkson *et al.* (2008) and Sutantoputra (2009) was used to measure SRQ. The Clarkson *et al.* (2008) index measures the quality of discretionary disclosures about environmental policies, performance and inputs whilst Sutantoputra (2009) developed a social disclosure rating system for analyzing a firm's social performance through their CSR reporting. Ten criteria modified from the index assessing a firm's disclosure and environmental reporting quality capture the SRQ measure for this study as depicted in Table 3.

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Index Assessing the credibility of sustainability report

No	Items
1	Adoption of sustainability reporting guidelines
2	Independent verification/ assurance about information disclosed in the sustainability report
3	Periodical independent verifications/ audits on environmental and/ or social performance and/ or systems
4	Certification by environmental and/ or social (labor) program by independent agencies
5	Product certification with respect to environmental impact and/ or product safety
6	External CSR-related award
7	Stakeholder engagement in sustainability reporting process
8	Participation in voluntary CSR-related initiatives endorsed by Department of Energy and/ or Department of Employment and industry relation in respective country
9	Participation in industry specific association/ initiatives to improve environment and labor management practices.
10	Participation in other environmental and/ or labor organizations/ associations to improve environmental and/ or labor practices.

Table 3. Items constituting the SRQ index

For each of the 10 items in Table 3, a point was allocated when evidenced in the content analysis. A maximum score of 10 points is obtained if all the items existed in a particular sustainability report. This score is further divided by the total number of items (that is, 10) to convert the total score into continuous data.

Experimental Variables

The experimental variables in this study are board composition, comprising size, independence and gender diversity, and CSR strategies, comprising organizational vision and mission, the existence of a CSR committee and collaboration with NGOs. Table 4 shows a summary of the measurement of these variables and the literature support.

Control Variables

Four control variables were incorporated for the reason that these have potential to influence the outcome of this study. These include firm size, country of domicile, industry and board structure. Table 5 provides a summary of the control variables measurement and the related literature support.

Independent Variables	Code	Measurement and sources
Board Size	B_SIZE	Board size is the number of directors on the board. (Bonn, Yoshikawa & Phan, 2004; Galbreath, 2009; Joseph & Taplin, 2011)
Board Independence	IND_PRO	Proportion of of outsider independent directors. (Joseph & Taplin, 2011)
Board Gender Proportion	GEN_PRO	Percentage of mixture of gender diversity in the total board size. (Adams & Ferreira, 2004; Galbreath, 2009; Amran <i>et al.</i> , 2011)
Organization Vision and Mission	VISION	This will be measured via binary variable. "Aspect of environmental, social and profit are integral into company vision and/or mission." is an indicator variable equal to one. Zero otherwise. (Joseph & Taplin, 2011; Chan, 1996)
CSR Committee	ORG_STR	CSR management will be measured via binary variable. Indicator variable is equal to one if at least one CSR position is created and staffed by organization executive. Zero, otherwise. (Chan, 1996)
Collaborate with NGO	PR_NGO	Collaboration with NGO will be measured via binary variable. Indicator variable is equal to one if the organization collaborate/ partnership with NGO for at least 1 year. Zero, otherwise.

Table 4. Measurement of experimental variables. These measurement indicators are adopted from Adams and Ferreira (2004), Amran *et al.* (2011), Bonn *et al.* (2004), Chan (1996), Galbreath (2010) and Joseph and Taplin (2011)

Control Variables	Code	Measurement and sources
Firm Size	F_SIZE	Score of total asset. (Freedman & Jaggi, 2009; Belal <i>et al.</i> , 2010; Amran <i>et al.</i> , 2011)
Country Domicile	DOM	Status of country categorized by FTSE Global Index as of 2010. One was given to countries classified as Frontier, two for Secondary Emerging countries, three for Advanced Emerging Countries and four for Developed countries.
Industry	IND	Status of industry was categorized as one if the organization's business natural was regarded as one of Agricultural, Water, Electricity generator, Gas and oil, Pulp and paper manufacturer, mining, Chemical and textile manufacturer. Zero if otherwise. (Freedman & Jaggi, 2009; Amran <i>et al.</i> , 2011)
Board Structure	B_STR	Board Structure of each country is categories following the classification in (Allen, 2000; Maier, 2005). One was assigned to one tier board, two otherwise.

Table 5. Measurement of control variables. These measurement indicators are adopted (Allen, 2000; Amran *et al.*, 2011; Belal *et al.*, 2010; Freedman and Jaggi, 2009; FTSE Global Equity Index Series Country Classification, 2011; Maier, 2005)

Multiple Regression Model

The multiple regression analysis model used to test the hypotheses is presented as follows:

$$SRQ = \alpha + \beta_1 B_{SIZE} + \beta_2 IND_{PRO} + \beta_3 GEN_{PRO} + \beta_4 VISION + \beta_5 ORG_{STR} + \beta_6 PR_{NGO} + \beta_7 F_{SIZE} + \beta_8 DOM + \beta_9 IND + \beta_{10} B_{STR} + \varepsilon$$

where SRQ is sustainability reporting quality, B_SIZE is board size, IND_PRO is board independence, GEN_PRO is board gender proportion, VISION is CSR value in organizational vision and mission, ORG_STR is CSR committee, PR_NGO is collaboration with a NGO, F_SIZE is firm size, DOM is country of domicile, IND is industry, B_STR is board structure, α is intercept, β is the estimation from the regression model and ε is the stochastic term.

Results and Discussion

Descriptive Statistics

The descriptive statistics for the dependent variable, SRQ, are shown in Table 6. The mean value of 0.577 indicates that the SRQ of organizations in the Asia-Pacific region is generally above average. As a communication platform, sustainability reporting in this region has considerable room for improvement since most of the reports demonstrate a moderate level of quality.

Table 7 indicates that there is significant variation in the board size of organizations in this region. The board size ranges from as high as 26 directors to as low as four directors. On average, most of the organizations have about 11 board directors. This is in line with the observations of Yermack (1996).

Board independence shows a mean of 0.501, indicating that about half of the total board members are independent non-executive directors. This reveals that organizations try to reserve a voice representing the interests of minority shareholders as well as external stakeholders.

A gender diversity board is viewed as a resource pool based on the assumption that higher diversity brings greater knowledge, expertise and skills. However, it is noted that the maximum proportion of women on boards is 33%, and on average 8.0%.

	Number of Sample, N	Minimum	Maximum	Mean	Std. Deviation
Report Credibility Valid N (listwise)	113	0.10	1.00	0.577	0.1717

Table 6. The score for sustainability report credibility in Asia-Pacific region

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	Number of Sample, N	Minimum	Maximum	Mean	Std. Deviation
Board Size	112	4	26	10.64	3.170
Board Independence	109	0.00	1.00	0.501	0.2180
Board Gender Proportion	109	0.00	0.33	0.078	0.0847
Valid N (listwise)	109				

Table 7. Descriptive statistics of experimental variables related to board composition

In respect of the CSR strategy variables, 49.6% of the sampled organizations have integrated CSR value into their organizational vision and mission, and the remaining 50.4% of organizations have not done so (Table 8). An organization's vision and mission has CSR value if these statements define what sustainability means and take cognizance of stakeholders' expectations.

A CSR committee is an important factor in translating an organization's direction in undertaking tangible action in terms of CSR: 70.8% of Asia-Pacific sustainability reporters have at least one internal executive assisting an organization in pursuing responsible management and demonstrating organization accountability (Table 9). However, 29.2% of such report issuers do have an internal CSR position in their organizational structure.

Table 10 shows that 58.4% of the sampled Asia-Pacific sustainability report issuers collaborate with a NGO while the remaining 41.6% do not. This indicates that collaborating with a NGO is a more common practice among sustainability reporters in this region.

Correlations

Table 11 reports on the bivariate statistical correlations for the experimental variables. The association between board independence and board structure is highest at -0.537 . The weakest correlation is found between industry and board size.

	Frequency	Percentage
CSR Value is not integrated into organization Vision and/ or Mission	57	50.4
CSR Value is integrated into organization Vision and/ or Mission	56	49.6
Total	113	100.0

Table 8. Descriptive statistics of discrete experimental variable – organizational vision and mission integrating CSR value

	Frequency	Percentage
Without CSR Committee	33	29.2
With CSR Committee	80	70.8
Total	113	100.0

Table 9. Descriptive statistics of discrete experimental variable – existence of a CSR committee

	Frequency	Percentage
Not Collaborate with NGO	47	41.6
Collaborate with NGO	66	58.4
Total	113	100.0

Table 10. Descriptive statistics of discrete experimental variable- Collaboration with NGO

Correlations	Report Credibility	Board Size	Board Independence	Board Gender Proportion	Organization Vision and/ or Mission	CSR Committee	Collaborate with NGO	Industry	Country Domicile	Firm Size	Board Structure
Report Credibility	1										
Board Size	0.064	1									
Board Independence	0.162	-0.187	1								
Board Gender Proportion	0.060	.226 ^(*)	.202 ^(*)	1							
Organization Vision and/ or Mission	.361 ^(***)	-0.045	0.013	0.039	1						
CSR Committee	.346 ^(***)	0.086	-0.018	-0.043	.208 ^(*)	1					
Collaborate with NGO	.212 ^(*)	0.089	0.038	0.059	0.010	0.050	1				
Industry	0.060	0.006	-0.015	0.009	-0.008	-0.012	-0.125	1			
Country Domicile	0.042	-0.096	0.062	-0.199 ^(*)	0.066	0.056	-0.075	-0.185	1		
Firm Size	0.085	0.166	0.067	.237 ^(*)	0.082	0.102	0.119	-0.019	-0.063	1	
Board Structure	-0.156	-0.033	-.537 ^(***)	-0.157	-0.106	0.128	-0.159	-0.038	0.012	.197 ^(*)	1

Table 11. Correlation among experimental variables on the SRQ

**Correlation is significant at the 0.01 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

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Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					Sig.	F Change	R Square Change	F Change	df1	
1	.510 ¹	0.260	0.216	0.8414762	0.260	5.927	6	101	0.000	
2	.525 ²	0.276	0.201	0.8495327	0.016	0.523	4	97	0.719	2.114

Table 12. Statistical summary of multiple linear regression analysis – SRQ

¹Predictors: (Constant), PR_NGO, VISION, INDP_PRO, ORG_STR, GEN_PRO, B_SIZE

²Predictors: (Constant), PR_NGO, VISION, INDP_PRO, ORG_STR, GEN_PRO, B_SIZE, IND, F_SIZE, DOM, B_STR

³Dependent Variable: CREDIBILITY

Regression Results

Tables 12 and 13 show that the proposed model is statistically significant with a significant *P*-value at 0.000 and *R*² value at 0.276. In other words, variance of board size, board independence, board gender proportion, organizational vision and mission, existence of CSR committee and collaboration with NGO can collectively explain 27.6% of the variance found in SRQ with the presence of four control variables. Low *R*² or low adjusted *R*² is a norm in similar disclosure studies. For example, Gul & Leung (2004) obtained adjusted *R*² ranging from 0.14 to 0.19 in examining the relationship between board leadership, outside directors' expertise and voluntary corporate disclosure and Eljido-Ten (2004) obtained adjusted *R*² ranging from 0.191 to 0.23 in investigating the determinants of environmental disclosure.

Table 13 shows that board size, board independence and the gender proportion of a board of directors is not statistically significantly associated with SRQ. Hence, Hypotheses 1, 2 and 3 are rejected. Organizational vision and mission, which integrate high CSR value, was expected to promote higher SRQ. This hypothesis was supported by the results. This relationship was statistically significant at the 99% confidence level (*P* < 0.01). Therefore, Hypothesis 4 is accepted. The existence of at least a CSR committee staffed by an internal executive in an organization was expected to enhance SRQ. This positive relationship was statistically significant at the 99% confidence level, *P* < 0.01. Therefore, Hypothesis 5 is accepted. Further, at 95% confidence level (*P* < 0.05), the result shows that fostering collaboration with a NGO increases SRQ of the business partner organizations. Therefore, Hypothesis 6 is accepted. On the contrary, we find that the four control variables, namely country of domicile, industry risk, firm size and board structure, are not associated with SRQ.

ANOVA^c

Model	Sum of Squares	df	Mean Square	F	Sig.
1	25.179	6	4.197	5.927	.000a
	71.516	101	0.708		
	96.696	107			
2	26.690	10	2.669	3.698	.000b
	70.005	97	0.722		
	96.696	107			

Table 13. The outcome of analysis of variables (ANOVA) analysis

^aPredictors: (Constant), PR_NGO, VISION, INDP_PRO, ORG_STR, GEN_PRO, B_SIZE

^bPredictors: (Constant), PR_NGO, VISION, INDP_PRO, ORG_STR, GEN_PRO, B_SIZE, IND, F_SIZE, DOM, B_STR

^cDependent Variable: CREDIBILITY

Variables	Beta
Independent Variables	
Board Size	0.05
Board Independence	0.13
Board Gender Proportion	0
Organization Vision and Mission	0.287***
CSR Committee	0.271***
Collaborate with NGO	0.182**
Control Variables	
Firm Size	0
Country Domicile	0.06
Industry	0.11
Board Structure	-0.06

Table 14. Influence and significant of every single independent variable on the credibility of sustainability reporting

*P < 0.1,

**P < 0.05,

***p < 0.01

Discussion

The great challenge facing business organizations is to provide sustainability reporting both as a means to communicate relevant CSR information and to monitor management behavior. Our findings, however, indicate that the SRQ of organizations in the Asia-Pacific region is above average but has room for further improvement. We offer two possible explanations. Firstly, a quality corporate sustainability strategy is lacking. Secondly, the sustainability practices have not garnered sufficient attention from the investor community (Krechowicz & Fernando, 2009). Given the importance of voluntary reporting and the challenges associated with ascertaining reporting quality, these issues deserve further investigation.

Governance-related variables have become much debated in disclosure literature. Specifically, the role of boards in steering the sustainable development agenda has been noted. Whilst it is recognized that the board is a unique collection of resources, with intimate and tacit organizational capabilities to steer organizational success, failure to govern and supervise can impede the organization's full realization of the benefits of the resources they possess. This may include, but is not limited to, failure to recognize the problem of opportunism among managers. Although the necessary resources may be present, a board may not function effectively due to its size. Our findings show that the mean value of board size was approximately 11 people. As suggested by Yermack (1996), this is an ideal board size which enables firms to function effectively. However, our findings do not show any significant association between board size and SRQ. We note that other studies have also shown the insignificance of board size in relation to disclosure quality, for example Lakhil (2005). This indicates that perhaps in practice there is not yet a sustained effort to fundamentally align board interest to sustainability and CSR issues. A plausible explanation could be that the board's effectiveness compensates for the effect of the sustainability report. Given that an effective board shows more responsible management strength, they may believe that once the initial strategies have paid off, less effort may be directed to disclosure practices.

On the role of board independence, we find that the sampled organizations have more than half of their boards made up of independent directors. However, board independence is shown not to be significantly associated with SRQ. Whilst this finding contradicts prior studies which report a positive relationship of both variables (Chen & Jaggi, 2000; Donnelly & Mulcahy, 2008; Huafang & Jianguo, 2007), it raises the questions as to whether the influence of independent directors in sustainability reporting is greatly restricted given that they are not involved in the daily operation of the organization. Similar studies on the quality of financial disclosure also show a lack of association with independent directors in the region, for example Abdul Rahman & Mohamed Ali (2006), Abdullah &

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Mohd. Nasir (2004) and Wan Hussin (2009). The role of independent directors has also been seriously questioned based on empirical studies from the region (Hashim & Devi, 2008).

The importance of board gender diversity and its implications for policies in reforming corporate governance has been recognized (Malaysian Code of Corporate Governance 2012, 2012). Our findings show that membership of women on boards in this region is low. On average, boards consist of 8% of women directors, with the proportion of women ranging from zero to 33%. Prior studies also reveal similar results. Adams & Ferreira (2004) found that boards consisted of 8% women directors on average in a sample of 1024 publicly traded firms in the fiscal year 1998. However, our findings do not show an association between proportions of women directors (to total number of board directors) and SRQ. This contradicts Fernandez-Feijoo *et al.* (2012), who showed that three or more women directors on a board are associated with the quality of CSR reporting. One possible explanation is that 92.7% of the sampled organizations have only two or fewer women board directors. In a board dominated by men, the freedom of this minority group to be vocal or active may be hampered, hence a failure to significantly influence CSR and transparency in reporting. However, whilst board size, independence and gender diversity are not associated with SRQ, the CSR strategy components show positive results.

It is encouraging to note that half of our sampled sustainability reporters in the Asia-Pacific region incorporate CSR value into their vision and/or mission statement. Furthermore, we also find that CSR value anchored in vision and/or mission statement is positively associated with SRQ. This finding supports the resource-based view. A vision statement and mission statement provides guidance for action, and becomes the driver in all aspect of decision-making. It serves as a common starting point for what the organization believes it should do. Ultimately, it is linked to organizational culture that impacts on management behavior. This is a unique resource for an organization to outperform their competitors when the organizational culture places strong emphasis on integrity, transparency and accountability to stakeholders.

Without action, a vision statement and mission statement mean very little. A CSR committee is always regarded as an important human capital resource element that cultivates responsible management and rallies the organization into action. On a positive note, we find that almost 71% of our sampled sustainability report issuers have in place at least one CSR position in their organization, staffed by the organization's executive. We find that the presence of a CSR committee is positively associated with SRQ. This finding is aligned with previous studies (Adnan *et al.*, 2010; Savitz & Weber, 2006; Wahyuni *et al.*, 2009), which show that the existence of a relevant committee has a positive impact on the quality or quantity of reporting.

Another key initiative that provides momentum for the sustainability agenda of organizations is the establishment of strategic alliances. We find that almost 59% of the sampled organizations foster partnerships with a NGO. Such collaboration is shown in our study to be positively associated with SRQ. The finding is in line with the resource based view and legitimacy theory explanations. Firstly, collaboration with a NGO is a potential asset for an organization. In the process of pooling and transferring resources, it presents the business partner with an opportunity to be involved with a wider range of ownership in decision-making that shapes outcomes of resource allocation. It also implies willingness on the part of the business organization to be responsive to pertinent social issues and be accountable to stakeholders. On the same note, the business organization partner is willing to provide quality information as the stakeholder principle is successfully institutionalized into the entire organization. When this relationship works well, it enhances legitimacy through citizenship with a higher level of reporting quality. Secondly, apart from nurturing and influencing the business partner about the importance of being cognizant of stakeholders' concerns, the NGO partner may be accustomed to closely observing the claims, promises and programs its business partners set forth in their sustainability reports. Under such circumstances, most of the business partners will be honest, responsive and offer reparations and higher transparency in disclosure policy.

Organizations are more interested in the practical issues of sustainability reporting. This study contributes towards this end by providing evidence to strengthen the understanding, promote discussion on the state of sustainability reporting in the Asia-Pacific context and lay a solid foundation for more aggressive efforts to enhance SRQ. The study identifies the significant drivers currently associated with SRQ and further highlights the weaker role of boards in sustaining the sustainable development agenda through the reporting process. It opens opportunities for future research to examine the fundamental role played by ethical investors in the region.

Conclusion

This study strengthens the understanding and discussion on existing sustainability reporting in the Asia-Pacific context. It reveals that the level of SRQ in the Asia-Pacific region has room for improvement. Sustainability reporting emerges as a tool to address stakeholder demands. The integration of governance mechanisms and the sustainability reporting nexus attempts to integrate the shareholders' and organizational–societal relationship in principle.

The findings imply that institutionalization of the CSR concept in an organization acts as a groundswell for a high-quality sustainability report. It indicates that the management of CSR practices organization-wide is an important step that can never be omitted in devising effective sustainability reporting. An organization that embarks upon preparing a sustainability report without such strategic practices will eventually gain zero value. The findings illustrate the importance of having the right strategy set within the organization in order to produce better quality sustainability practices which are eventually reflected in the reporting. By openly sharing information and facilitating decision-making, an organization can convey its intentions in good-faith and strengthen its legitimacy.

At present, the quality of sustainability reporters in the Asia-Pacific region leaves much room for improvement. One possible explanation is that there are still insufficient external environmental forces in the absence of regulatory enforcement. This calls for further investigation of the role of boards of directors in the reporting process, as the accountability requirement in the traditional governance framework has been expanded. Additionally, research should investigate the role of other stakeholders, such as ethical investors, in driving the sustainability reporting agenda.

This research has two limitations. Firstly, the scope of the examination of the drivers of the extent of SRQ was too confined to just one corporate governance mechanism, that is, the board of directors, in view of the increasing focus on the role of boards. It will be useful to investigate in future research whether the audit committee has a role in this respect. Secondly, the study assumes that other influential factors remain constant. However, one may argue that in reality the situation is dynamic. It is noted that approximately 73% of the variance in SRQ is not explored. Therefore, future research should be extended to incorporate new dimensions or other aspects such as macrocorporate governance factors that impact on the monitoring role, including law enforcement and the disclosure regime. This may provide more comprehensive understanding of the disclosure practices. Whilst the present study focused on only two aspects of quality, that is reliability and validity, remaining aspects such as accuracy, comprehensiveness and currency, may also need to be investigated to devise a more comprehensive measure of SRQ. This offers ample opportunities for future research in extending the SRQ agenda.

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