

Board Diversity and Sustainability Reporting Quality in Listed Firms in Nigeria

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## Abstract

Board diversity enhances the quality of sustainability reporting by ensuring that the needs of diverse users of corporate information are met. Most boards are weak due to lack of diversity thereby raising doubt about the quality of sustainability reports. This gives rise to the demand for diversity of the board. This study explores the effect of board diversity on the quality of sustainability reporting. The study adopted ex-post facto research design using a sample size of twenty (20) companies listed on the Nigerian Exchange Group (NGX) for a five-year period (2017-2021). The unique indicators of a diverse board were employed to test their effect on sustainability reporting quality within four sectors (healthcare, conglomerate, consumer goods and industrial goods). Gender diversity, foreign directorship, and the board's independence are the proxies for independent variable while sustainability reporting quality was the dependent variable. The method of data analysis employed was regression analysis technique. The findings indicated that board independence and gender diversity (T-stat = 2.5747,  $p < 0.05$ ; T-stat = 3.3242,  $p < 0.05$ ) had positive and significant impact on sustainability reporting quality of selected quoted companies in Nigeria. However, foreign directorship (T-stat = 0.3029,  $p > 0.05$ ) has a positive and insignificant impact. The study concluded that board diversity promotes sustainability reporting quality. It was recommended that shareholders should constitute an independent and gender diverse board with lower proportion of foreign directors to enhance sustainability reporting quality.

**Keywords:** Board diversity, Board independence, Foreign directorship, Gender diversity, Sustainability report

## 1.0 Introduction

The focus of any organization is to create value, generate profits, harmonize, and efficiently meet the needs of their stakeholders in a sustainable manner. Corporate managers are traditionally tasked with maximizing shareholder wealth within legal bounds, ignoring the community, plants, the ecosystem, climate, and the business environment in which the business is located (Uwuigbe, et al., 2017). This goal has become outdated because we are in the era of climate-related issues ranging from global warming to a large amount of greenhouse gases emitted, as well as massive industrial and domestic toxic wastes, which has led to stakeholder's interest in the damaging activities of firms and there is need for companies to reduce the level of hostility from the host community without necessarily reducing operation capacity. There is a need to report on sustainability so as to keep the stakeholders abreast of the firm's intervention at reducing the negative impact of its operations. on stakeholders. Also, sustainability reporting is an essential tool for communicating with stakeholders and demonstrating openness and good governance (Sethi, Martell, & Demir, 2017). Furthermore,

investors interest in companies that value sustainability is rising, and many of them are using sustainability reports to assess the ESG performance of most firms they invest in such as United States of America (USA); sustainable funds in the USA garnered record-breaking contribution of \$51.1 billion in 2020, up from \$21.4 billion in 2019 (Carey, 2021). According to Johari and Komathy (2019) the sustainability responsiveness and compliance from different companies across the continents and remarkably 49% of European companies provided a standalone sustainability reports, the next was Asian companies at 15%, afterwards the North America at 14%. In addition, Oceania companies had a 6% disclosure rate, Latin America stands at 12% disclosure rate, while Africa had the lowest disclosure rate at about 4%.

Lack of knowledge and comprehension of the significance of sustainability reporting is a contributing factor to low compliance (United Nations Environment Programme, 2017). It is possible that many African businesses are unaware of the advantages of sustainability reporting or are unsure about how to go about putting it into practice. Another factor is lack of resources and capacity; many African companies may lack the resources, such as human capital and financial resources to effectively execute sustainability reporting (EY, 2016). Furthermore, a lack of legislative frameworks and incentives to support sustainability reporting may not exist (African Development Bank, 2017). There may be no legislative requirements for corporations in some African countries to report on their sustainability performance, which tends to contribute to a lack of accountability and openness.

Nigeria is the largest economy in Africa which also has a thriving private sector and a rising concern for sustainability (African Development Bank, 2017). In Nigeria, businesses in the communities are reluctant to report any climate related issues resulting from their constant operations (Adeniyi & Fadipe, 2018; Awodiran, 2019). Nigeria Stock Exchange (2018) established and got approval for Sustainability Disclosure Guideline from Security and Exchange Commission (SEC). The goal is to guide public-interest corporations in sustainability reporting by using parameters financial ones, societal alongside ecological challenges to enhance their performance. Nigeria is also home to a number of businesses that have made significant advancements in the area of sustainability reporting. Oando, an oil and gas firm in Nigeria has received commendation for its methods of reporting on sustainability, and in 2016, the Global Reporting Initiative (GRI) named it one of the top ten sustainability reporters in Africa.

The board of directors, which oversees corporate organisations, is frequently viewed as having the power to create successful plans that are based on the set goals and fundamental values of an organisation in order to formulate corporate policies and strategies for their companies (Aifuwa, & Embele, 2019). In addition to developing an organization's corporate policy, the board of directors is frequently viewed as being responsible to ensure that all of their various stakeholders receive comprehensive periodic pecuniary and non-pecuniary material about the firm's overall operations as well as health. This can be used to gauge the management's degree of openness and accountability, which may help to close the knowledge disparity amongst management and shareholders (Herda, Taylor, Winterbotham, 2012; Van Buskirk, 2012).

In Nigeria, scholars such as Isa, 2014; Odoemelam and Okafor, 2018 and Aliyu, 2018 considered mainly the impact of corporate governance on environmental sustainability reporting using different sectors of the economy such as food and beverage sector and non-financial firms. Most studies used environmental sustainability and other disclosure indices and also considered other aspects of sustainability reporting such as economic and social

sustainability reporting. However, diversity in the boardroom takes several forms (nationality, colour, gender, education level, and educational background). Board gender diversity is a crucial idea to boost board performance in sound management, drawing both scholarly and corporate interest. In addition, it appears that a favorable correlation involving gender diversity and sustainability reporting. Gender diversity exerts a substantial effect over sustainability disclosures, stressing the relevance of women serving as directors in the workplace (Tilt et al., 2021) because women behave distinctly than men. Gender diversity improves balanced decision-making. Therefore, this study explored the effect of board diversity on sustainability reporting quality of quoted companies in Nigeria. The following are the hypotheses of the study:

- i. Board independence does not have any significant effect on sustainability reporting quality in listed firms in Nigeria;
- ii. Foreign directorship does not have any significant effect on sustainability reporting quality in listed firms in Nigeria; and
- iii. Gender diversity does not have any significant effect on sustainability reporting quality in listed firms in Nigeria.

## **2.0 Literature Review**

### **Sustainability Reporting Quality**

Sustainability' and 'reporting' are two ideas that are combined. Sustainability means providing a generational need without having to endanger the future generation's capacity to provide for themselves. Reporting on another hand entails fully or partially disclosing organizations information to stakeholders (Aifuwa, 2020). Chan, Watson, and Woodliff (2014) define sustainability reporting as any information in annual reports the corporation detailing its actions, and resource use that had an impact on the wider community and the key stakeholders involved. Calabrese, Costa, Ghiron, and Menichini (2019) also define sustainability reporting as the process of evaluating, reporting to, and holding the organization responsible to internal and external stakeholders for its capacity to advance sustainable development goals and manage social effects of its operations. Sustainability reporting is the process by which information about a company's sustainability performance is communicated to its shareholders.

### **Gender Diversity**

Female directors' presence on the board is identified as gender diversity. The inclusion of female directors promotes the quality and enhances the effectiveness of the board (Mahmood, et al,2018) Women are steadily assuming executive positions across board. Fernandez-Feijoo, Romero, and Ruiz-Blanco (2014) found that Women place more focus on focusing to the wellbeing of people else's have a strong connection with corporate social responsibilities (CSR) and bringing an enhanced ecologically conscious recognition to the board deliberations. Women have different approaches to leadership than male directors and also disposed to press for grassroots groups and philanthropic efforts (Mahmood, et al,2018). The participation of female directors may strengthen outreach to stakeholders' processes while bettering the trustworthiness of corporate monitoring (Manetti and Toccafondi, 2012). In addition to

individuality, mannerisms, academic record, and professional track record, female directors diverge from their male counterparts (Liao, et al., 2015).

### **Foreign directorship**

Foreign directorship is the practice of having persons from other nations serve on a company's board of directors. A recent investigation on the implications of foreign directorship on the quality of sustainability reporting in Kenyan businesses was undertaken by Wainaina and Oloko (2020). According to the study, foreign directors contribute a variety of viewpoints, experience, and knowledge to the boardroom, which can boost the excellence of sustainability reporting. Due to their exposure to global sustainability norms, foreign directorship influences sustainability practices, according to the study. Kim, & Lee, (2020) discovered that foreign directors may raise the standard of reports on sustainability via the installation of oversight and monitoring of the firm's sustainability practices. Omoteso and Akande (2021) discovered the result of foreign directorship on the eminence of sustainability reporting in Nigerian enterprises resulting in higher quality sustainability reporting scores than companies without foreign directors.

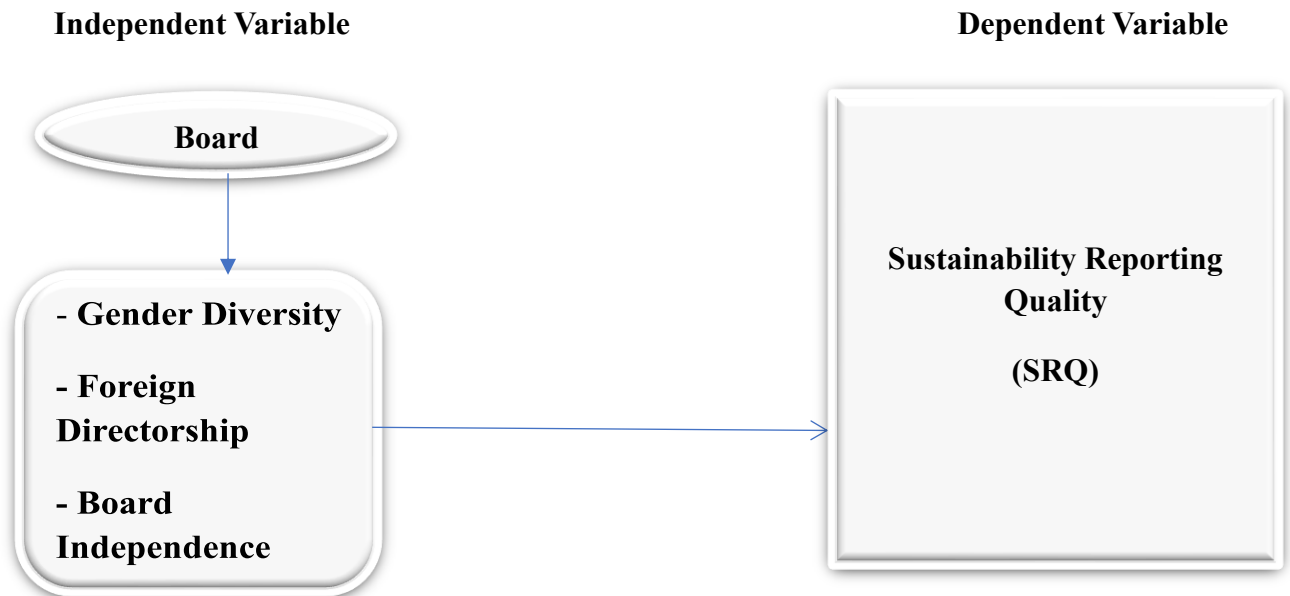
### **Board Independence**

Independent directors are the kind of directors who have no business or professional link with a company apart from being a member of the board (Ong et al, 2018). An independent director is a non-executive director who holds no substantial shares of the company. According to Jensen and Meckling, (1976), and Wang and Dewhirst, (1992), the presence of independent directors can assist in minimizing management excesses and maximize the interest of wider stakeholders. Furthermore, Fama and Jensen (1983) opined that boards with a higher proportion of independent directors work in the best interest of the minority shareholders in order to maintain their own good reputation in society. The Cadbury Committee (1992) affirmed the need for a higher proportion of non-executive directors to executive directors on the board to enhance the robustness of the board decisions. In the same vein, Kesner and Johnson (1990), opined that independent directors are more vigilant and less tolerant to the reckless attitudes of management in incurring expenses. They tend to have a broader perspective on strategic management issues (Rupley, Brown & Marshall, 2012). Also, independent directors are likely going to take more initiatives to enhance sustainability reporting as they also act as monitoring agent for management activities (Mahmood, et al, 2018).

### **Conceptual Framework**

The arrows in the conceptual model framework (Figure 1) show the relationship that exists between the dependent variable (sustainability reporting quality) and the independent variable (board diversity). This shows the study examined the effect of board diversity (measured by gender diversity, foreign directorship, and board independence) on sustainability reporting quality (measured by aggregate of economic, social and environmental dimensions of sustainability). The conceptual model also shows the controlling effect of company size and age on corporate governance on sustainability reporting in selected quoted companies in Nigeria.

### Conceptual Framework



Adapted from Olayinka & Owolabi, 2021

Figure: 1

### Theoretical Framework

#### Stakeholders Theory

Stakeholder theory was developed by Freeman (1984). Stakeholder theory views organizations as a system with many interested parties apart from the shareholders. The theory posits that a firm can affect a wide range of groups in its domain of operation. The theory also opined that no organization can operate without interfacing with the environment, the interests of other stakeholders such as customers, employees, creditors, regulatory agencies and resident communities should be factored into strategic decision-making process. The theory opined that the survival and achievement of organizational objectives depend largely on the ability of the management to balance the interest of stakeholders. The perspective of the theory is that society and the external environment diverse interests must be considered. Managers are expected to be responsive to constant changes in the business environment and be able to manage the expectations of different interested groups (Freeman & McVea, 2001). According to Freeman, et al., (2001), stakeholders can be divided into two, based on their characteristics. King (2002) in his argument in favour of stakeholder theory admitted that integrating sustainability culture strengthens the relationship between the firm and the society where it operates. This view is contrary to the view of agency theory that sees organizations as a system of relationship between shareholders and management (Mudiyanselage, et al, 2018). Chariri and Ghazali (n. d) also supported this theory by positing that companies must maintain fair relationship with stakeholders to meet their needs most especially the stakeholders that control the resources of the organization such as employees, suppliers, customers and finance providers. The inability of the firm to meet their needs and expectations can lead to the withdrawal of their resources

which could be financial or non-financial, thereby threatening the going concern status of the company. However, Harrison and Freeman (1999) criticized stakeholder theory by positing that categories of stakeholders are not all homogenous and the theory ignored the intra-group heterogeneity. Winn (2001) in advancing the criticism against the theory alluded to the fact that stakeholder groups and subgroups have diverse interests and expectations that are difficult for a firm to satisfy. Therefore, organizations should not only focus on maximizing the return of its shareholders, but also strive to meet the expectations of other stakeholders to a large extent. The stakeholders are interested in the sustainability report to improve their awareness about the firm's ability to nurture their interest while taking care of the shareholders.

### **Methodology**

The expo-facto research design was used. Gender diversity, foreign directorship, and the board's independence are compared to the dependent variable; sustainability reporting quality. Secondary data was used for this study. The population of the study is 155 quoted financial and non-financial firms on the Nigerian Exchange Group (NGX) as at May, 8th 2023. The population according to NGX comprises of the following sectors: agronomy (5), multinationals (6), realtors (8), products (21), financial services (49), healthcare (7), information and communication technology (9), manufacturing goods (13), natural resources (4), oil and gas (10) services (23). The period for the study is five (5) years ranging from 2017- 2021. This study relied on a sample of 20 companies from 4 different sectors: conglomerates, consumer goods, health care and industrial goods for a period of 5 years; 2017-2021 because of the growing acceptance of sustainability reporting since 2018. Factors considered in determining the sample size of 20 firms are: the companies whose shares had been traded for at least five years; 2017-2021, companies that published annual financial reports for year 2017 through 2021, and finally, corporations that included sustainability reporting components in its financial statements or separate sustainability reports.

### **Measurement of Variable**

Variables measured in this study are Board diversity and Sustainability Reporting Quality. The former was gauged by the aggregate of all independent variables. They are gender diversity, foreign directorship, and board independence. Sustainability reporting quality by the average of the aggregate of dependent variables and they are economic, social alongside ecological sustainability reporting.

### **Model Specification**

Models shown below was adapted from Erin, Adegboye, & Bamigboye (2021)

The regression models are:

$$SRQ_{it} = \beta_0 + \beta_1GD + \mu_{it} \dots \dots \dots (i)$$

$$SRQ_{it} = \beta_0 + \beta_1FD + \mu_{it} \dots \dots \dots (ii)$$

$$SRQ_{it} = \beta_0 + \beta_1BIND + \mu_{it} \dots \dots \dots (iii)$$

Where:

SRQ<sub>it</sub> = represents Sustainability reporting quality (i.e. ranging from 0-1) of firm *i* in period *t*,

GD<sub>it</sub> = represents the percentile of female directors on the board of firm *i* in period *t*,

FD<sub>it</sub> = represents the foreign directors of corporation *I* in period *t*,

BIND<sub>it</sub> = represents the board independence of corporation *i* in period *t*,

$\mu_{it}$  = represents standard error form.

The objective of the study is to examine the effect of board diversity on the sustainability reporting quality in listed firms in Nigeria. The hypotheses is as follows:

H01: Board independence does not have any significant effect on sustainability reporting quality in listed firms in Nigeria.

H02: Foreign directorship does not have any significant effect on sustainability reporting quality in listed firms in Nigeria

H03: Gender diversity does not have any significant effect on sustainability reporting quality in listed firms in Nigeria.

### Data analysis, results and discussion of findings

Table 1: Descriptive Statistics

	SRQ	BI	FD	GD
Mean	0.272789	0.144843	0.165987	0.211276
Median	0.303000	0.118056	0.111111	0.200000
Maximum	0.515200	0.500000	1.000000	0.666667
Minimum	0.000000	0.000000	0.000000	0.000000
Std. Dev.	0.140464	0.148404	0.198535	0.148263
Observations	100	100	100	100

SOURCE: Researchers compilation (E-VIEWS 10) 2023

### Interpretation of Descriptive Statistics

From Table 1, the mean value for SRQ score of 0.272789, this unvaryingly suggests that sampled firms disclosed 27.28% of the items contained in GRI-4. Board independence (BI) shows a mean of 0.144843 which implies that on an average the sample firms had 14.48%. Statistics for the foreign directorship (FD) shows a mean of 0.165987 and this infers that about 16.59% of directors on the firms' board have foreign expertise. Also gender diversity (GD)

shows a mean of 0.211276, this connotes that on an average, proportion of females on the board is about 21.12%.

**Table 2: Correlation Analysis**

Correlation t-Statistic Probability	SRQ	BI	FD	GD
SRQ	1.000000 ----- -----			
BI	0.343669 3.622810 0.0005	1.000000 ----- -----		
FD	0.093402 0.928695 0.3553	0.302297 3.139476 0.0022	1.000000 ----- -----	
GD	0.377878 4.040378 0.0001	0.253244 2.591461 0.0110	-0.040834 -0.404571 0.6867	1.000000 ----- -----

SOURCE: Researchers compilation (E-Views 10) 2023

Table 2 presents the correlation coefficient of dependent variable Sustainability Reporting Quality, on the explanatory variables which are Board Independence, Foreign Directorship and Gender Diversity. The result shows that BI has a weak positive and significant relationship with sustainability reporting quality exist between the board independence and the quality of sustainability reporting. This is evident in the table showing the coefficient of 0.343669 and 0.0005 respectively. The result suggests that the more the independent directors are on board the closer the proximity of influencing the quality of sustainability report. Also, foreign directorship (FD) as shown on table 2, reveals a weak positive and significant relationship exist between FD and sustainability reporting quality. This is evident in the table showing the coefficient of 0.093402 and 0.3553 respectively. The result suggests that the more foreign directors on the board the better the quality of sustainability reporting firms. Furthermore, there is a weak positive relationship but significant relationship between Gender diversity (GD) i.e. the presence of women on the board and sustainability reporting quality. This is evident in the table showing the coefficient of 0.377878 and 0.001 respectively. This result thereby suggests the more the board is diverse in gender the closer the higher the quality of sustainability reporting.

Table 3 Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.171445	0.025355	6.761846	0.0000
BI	0.241596	0.093841	2.574531	0.0116
FD	0.020574	0.067916	0.302930	0.7626
GD	0.297886	0.089610	3.324244	0.0013
R-squared	0.209253	Mean dependent var		0.272789
Adjusted R-squared	0.184542	S.D. dependent var		0.140464
S.E. of regression	0.126843	Akaike info criterion		-1.252553
Sum squared resid	1.544562	Schwarz criterion		-1.148346
Log likelihood	66.62765	Hannan-Quinn criter.		-1.210379
F-statistic	8.468043	Durbin-Watson stat		0.343564
Prob(F-statistic)	0.000048			

SOURCE: Research compilation (E-VIEWS 10) 2023

### Model

$$SRQ_{it} = \alpha_i + \beta_1 BI_{it} + \beta_2 FD_{it} + \beta_3 GD_{it} + \mu_{it}$$

$$SRQ_{it} = 0.171 + 0.242 BI_{it} + 0.021 FD_{it} + 0.298 GD_{it}$$

$$T\text{-Test} = 6.762 \quad 2.575 \quad 0.303 \quad 3.324$$

### Interpretation

From Table 3, board independence (BI) as depicted in the outcome of the regression model has a t-value and p-value of 2.575 and 0.0116 respectively which is higher than the critical t-value of 1.96 at less 5% level of significance. Based on this evidence, we accept the alternative hypothesis which states that board's independence has a significant impact on the sustainability reporting quality of listed non-financial firms in Nigeria. Also, foreign directorship (FD) as depicted in the outcome of the regression model has a t-value and p-value of 0.303 and 0.7626 respectively which is less than the critical t-value of 1.96 at greater than 5% level of significance. As a result of this, we do not reject null hypothesis which states that foreign directorship has no significant impact on the sustainability reporting quality of listed non-financial firms in Nigeria.

From the result, gender diversity (GD) as depicted in the outcome of the regression model has a t-value and p-value of 3.324 and 0.0013 respectively which is higher than the critical t-value of 1.96 at less than 5% level of significance. Based on this evidence, we accept the alternative hypothesis which states that gender diversity has a significant impact on the sustainability reporting quality of listed non-financial firms in Nigeria.

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## Discussion of Findings

The first objective was to ascertain what implication board independence has on sustainability reporting quality in Nigerian listed companies. Results revealed board independence has a positive insignificant effect on sustainability reporting quality with a t-value and p-value of 2.575 and 0.0116. An increase in the proportion of board independence will improve the quality of sustainability reporting. This finding aligns with the study by Ho and Wong (2017) that board impartiality was not substantial in predicting the value of ESG disclosures. The second objective was to determine the impact of foreign directors on sustainability reporting quality in a few Nigerian traded companies. Results showed that foreign directorship has an insignificant negative relationship with sustainability reporting quality having a t-value and p-value of 0.303 and 0.7626. The null hypothesis is not rejected which states that foreign directorship has no significant impact on the sustainability reporting quality of selected quoted firms in Nigeria. This study is in contrast with Omotoso and Akande (2021), whose findings explain that corporations with foreign directors on their boards had greater quality sustainability reporting scores than companies without foreign directors. The third objective was to ascertain the impact of gender diversity on sustainability reporting quality in selected quoted companies in Nigeria. Result reveals that gender diversity has a positive and significant impact on sustainability reporting quality with a t-statistics value of 3.324 and p-value of 0.0013. This indicates that the presence of women in the board room will increase the level of sustainability reporting quality. This outcome is compatible with Abu Bakar, Ghazali, and Ahmad (2019) and Arasi, Dah and Jizi (2016) results, which state that the participation of female directors on boards have significant impact on sustainability reporting quality.

## Conclusion and recommendations

Following the discussion of findings in the previous section, there is strong empirical evidence that board independence and gender diversity have positive and significant impact on the sustainability reporting quality while foreign directorship has an insignificant effect. The board is hereby advised to appoint more independent directors so as to boost the quality of sustainability report. A gender diverse board will enhance the quality of sustainability report and the shareholders should ensure that female directors are elected at their annual general meeting. However, the board should play the down the emphasis on foreign directorship as it does not impact the quality of sustainability report.

This study has limitation in the area of data collection as most sampled firms do not have sufficient information on key areas of sustainability reporting. Organizations need to ensure transparency in reporting sustainability to enhance their global competitiveness.

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