

Corporate Sustainability Reporting Performance in Vietnam and Indonesia in Banking Sector: Social Disclosure and Its Relation to Corporate Governance

Nguyen Thi Kim OANH^{1*}, Nguyen Van DINH¹, Tran Thi Minh ANH¹

¹ Vietnam National University, Hanoi - International School

*Corresponding author: nguyenthikimoanh@vnu.edu.vn

Abstract

Purposes: *This study attempts to evaluate corporate sustainability reporting performance of banks in Vietnam and Indonesia based on a framework developed by Global Sustainability Standard Board, namely General Reporting Initiatives G4 and its relation to corporate governance.*

Research motivation: *Prior studies found out that corporate governance significantly affects CSRE performance. Therefore, it is important to identify corporate governance configuration leading to high CSRE performance.*

Research design, approach and method: *First, a systematic scoring method was employed to evaluate CSR performance of 13 listed banks in Vietnam and 12 Islamic banks in Indonesia from 2014 to 2018. Secondly, relationships between corporate sustainability reporting performance and corporate governance are investigated by employing Qualitative Comparative Analysis (QCA). The uniqueness of QCA compared to other quantitative methods is that this method focusing on configuration of factors affecting CSRE performance rather than the extent to which each individual factor affecting CSRE performance.*

Main findings: *The first findings of the study show ranking on CSRE performance of banks in Vietnam and Indonesia from 2014 to 2018. In addition, the results report improvement and deterioration of the banks.*

Concerning the effects of corporate governance on CSRE performance, the study finds three configurations or three causal paths that lead to high CSRE performance in Vietnam and Indonesia. In Indonesia, two configurations highlights the presence of board independence and large Board of Director (BOD) size as two important corporate governance variables resulting in high CSRE performance of Islamic banks. In Vietnam, listed banks achieve high CSRE performance only when seven corporate governance variables, namely large BOD size, board independence, female chairman, BOD nationality diversity, BOD gender diversity, firm age and external audit reputation, are presented.

Implications: *The study on ranking, improvement or deterioration of CSRE performance of banks in Vietnam and Indonesia benefit banks themselves. Firstly, the research findings enable banks in Vietnam and Indonesia to make further enhancement in CSRE performance. Secondly, the banks can focus on certain corporate governance variables to ensure their high performance on CSRE. Last but not least, the results provide investors and other stakeholder's additional information to make more informed decisions related banks, especially when banks are listed on the Stock Exchange.*

Keywords: Corporate social responsibility, Corporate sustainability reporting GRI-G4, banking sectors, Vietnam, Indonesia.

1. INTRODUCTION

Corporate social responsibility (CSR) has been concerning by businesses globally regarding various aspects of firm performance such as economics, environment, and social issues. As such, the firms focus on CSR principles to support strategic decisions effectively (Abdul Rashid and Ibrahim, 2002; Collier and Wanderley, 2005; Jamali and Mishak, 2007; Kathe Newman and Santoro, 2014). There are several frameworks provide guidelines on CSR disclosure such as GRI, ASSET4, or AA1000. Among these frameworks, GRI-G4, the most updated framework, outperform other frameworks in terms of a set of indicators to measure the firm's CSR performance and clear guidelines on how to prepare the CSRE (Islam and Chowdhury, 2017).

Prior studies attempt to evaluate CSR performance in developed countries (e.g. the United State, the United Kingdom, Spain, or Australia) in various sectors such as logistics manufacture (e.g. Patten, 2002; Frost *et al.*, 2005; Nasrin Asgari *et al.*, 2015; IdilKaya, 2016; Minelle E.Silva and D.Figueiredo, 2020). Nasrin Asgari *et al.* (2015) evaluated sustainability performance on economic and environmental dimensions of five major UK ports while IdilKaya (2016) assessed social and environment dimensions to reflect sustainable operations of French companies. Minelle E.Silva and D.Figueiredo (2020) contributes to understanding how a medium manufacturing organization and its supply chain practice sustainability in Brazil. Despite popularity of CSR practices in developed countries, organizations in developing countries have started to be aware of these practices (Daizy *et al.*, 2013). For instance, ThomasBorgert *et al.* (2020) evaluated corporate sustainability of foreign multinational manufacturing enterprises in Indonesia. Dissanayake *et al.* (2016a) used a content analysis to measure the environmental disclosures on CSRE of banking sectors in Bangladesh based on CRI guidelines.

Factors associated with CSRE performance has been investigated and the previous findings indicate that corporate governance is one of the most important factor (e.g. Khan, 2010b; Giannarakis, 2014; Kilic, 2015; Dienes, 2016). Haslinda Yusoff and Zunaidah Ahman (2019) find that the larger the board size, the more companies are accountable to disclose CSR information while numerous studies show that the relationship between CSR disclosure and board independence is positive, because independent directors have the ability to engage in motivating firm to show information related to CSR activities (Lattemann, 2009; Khan *et al.*, 2013a). Moreover, Dienes and Velte find that the number of women in the board has a positive significant relationship with CSRE (Dienes, 2016). Similarly, Zhang (2013) found that high CSR performance are associated with a greater presence of women on the BoD. Muller (2014) find that the portion of foreign directors has substantial and strong positive impacts on firm performance. Firm age and external audit

reputation might also have some effects on CSRE performance. Therefore, it would be more useful to know which corporate governance configuration might lead to high CSRE performance.

In order to identify which corporate governance configuration leads to high CSRE performance, Qualitative Comparative Analysis (QCA) is employed. The uniqueness of QCA compared to other quantitative methods lies in that this method focus on configuration of factors affecting CSRE performance rather than the extent to which each individual factors have effects on CSRE performance (Ragin, 1987).

The banking sector was selected due to its vital role in the economy (Ogrizek, 2002). In Vietnam, banks have seriously taken CSR into considerations when facing more intensive competition. However, studies concerning CSRE performance are limited in the context of developing countries like Vietnam (Peter Dobers and Halme, 2009; Hoang Thi Mai Khanh and Tuan, 2018). Therefore, this study aims to evaluate CSRE performance of banking sectors in Vietnam in comparisons with that in Indonesia and understand corporate governance configuration resulting in high CSRE performance.

Banks in Vietnam and Indonesia were purposely selected because these two countries have similar economic conditions. Moreover, listed region banks in Indonesia has the same structure system as commercial banks in Vietnam. Being different from banks in Vietnam, Indonesian banks are known as Islamic banking, non-interest banking. This banking system is based on principles of Islamic or Sharia law and guided by Islamic economics (Komijani and Taghizadeh-Hesary, 2018). Islamic banks make a profit through equity participation, which requires a borrower to give the bank a share in their profits rather than paying interest. Islamic banks have the same purpose as conventional banking except that it operates in accordance with the governing conceptual framework of Islamic Banking (Sangmi and Khaki, 2018). As such, this study attempts to evaluate CSRE performance of banks two developing countries: Vietnam and Indonesia. This provides more balance for studies on CSRE performance in developed and developing countries (Peter Dobers and Halme, 2009). Moreover, this study attempts to understand corporate governance configuration resulting in high CSRE performance

2. LITERATURE REVIEW AND HYPOTHESES

2.1. Corporate Social Responsibility (CSR)

Although the term CSR has been differently defining in the literature, CSR usually refers to organizational commitment to contributing to sustainable economic development and improve employees' life, taking responsibility for the impacts of their actions on the community and environment legally and ethically in a specific business context (Frederick W, 1992; Carroll, 1999; Petkoski, 2003).

In the recent years, CSR have started to report because due to its benefits (Bonsón, 2015). Firstly, CSR helps organizations to enhance its reputation, improve financial performance, reduce the risk and achieve higher earnings. (Bonsón, 2015). Secondly, CSR can improve competitive advantage of organizations and give them an additional opportunity for success (Porter, 2006). Thirdly, non-financial information on CSRE provide further details in to organizational operations, which supports stakeholders to make informed decision making (Kinder, 1997).

2.2. Corporate Sustainability Reporting (CSRE)

2.2.1. Definition of CSRE

Global Reporting Initiative (GRI) defined sustainability report as a report published by organizations to disclose information related to environmental, social and economic aspects of firm performance. This CSRE can be called as non-financial reporting, triple bottom-line reporting, corporate social responsibility reporting (GRI, 2013).

2.2.2. CSR and CSRE practices

In recent years, a growing number of organizations discloses CSR performance via their CSRE (Bartels *et al.*, 2016). The CSRE has been practicing by more than 600 enterprises in 65 countries of which six countries, namely Australia, Brazil, China, India, South Africa and the USA, had the highest number of organizations participating in CSRE practices. The rate of businesses practicing CSRE varied across continents: 45% in business in Europe, 18% in Asia, 14% in North America, 14% in Latin America, and 5% in Africa. About 142 legal regulations for Sustainable Development have been issued in more than 30 countries, of which 65% set CSRE as a mandatory report for organizations such as "KING CODE III" in South Africa or "Guidance" in China (VBCFSD, 2014).

Companies are increasingly viewing sustainability as a necessity in achieving their business objectives and becoming more responsible for their impacts on environment, social issues and economics created over the value chains (Snow, 2019). In 2011, just under 20 percent of S&P 500 companies reported on their sustainability, corporate social responsibility, and related topics (Mitchell, 2019). By 2019, the number of S&P 500 companies practice the CSRE rose to 86 percent.

2.3. The CSRE frameworks: GRI-G4

Over the past 10 years, there are various frameworks providing guidelines for CSRE practices such as "UN Global Compact Principles, OECD Guidelines for Multinational Enterprises, GRI, ISO 26000, AA1000, ISO 14001 and SA88000" (Marimon, 2012). Among them, Global Reporting Initiative (GRI) has been considered the world's most popular framework for reporting sustainability performance and shows the advantages over the other frameworks (Lamprinidi, 2008; Brown, 2009). Firstly, GRI focuses on guiding company

how to disclose its information and data to demonstrate sustainable development and social responsibility rather than general standards as in case of AA1000 Series and UN Global Compact Principles. Secondly, the GRI-G4 Guidelines encourage companies to measures CSR outcomes rather than verifying sustainability performance through processes (GRI, 2013a).

The GRI committee delivered the first set of sustainability reporting guidelines in June 2000. The latest version of GRI, called GRI-G4 released in 2013, which is more user-friendly and accessible. GRI-G4 contains of specific indicators on three categories of economic, environmental and social aspects. The Social Category of GRI-G4 is divided into four sub-categories, namely Labor Practices and Decent Work, Human Rights, Society, and Product Responsibility, which is the main focus of this study.

2.4. Social aspects in banking sector in developing countries

In GRI-G4, Social Category consists of 48 social indicator on employment, labor, management relationships, occupational health/safety, education and training, diversity/equal opportunities, non-discrimination, freedom of association/right to join unions and collective bargaining, child labor, forced or compulsory labor, security practices, indigenous rights, assessment human rights, local communities, social supplier assessments, public policy, customer health and safety, marketing and trademark, customer information security rights, and business compliance social-economic. The company must report both external and internal activities. For the former, the firm needs to report indicators measuring its performance on human rights aspects, fair competition, and gender equality, or employee welfare policies, are elements of internal responsibility. Besides, the company need to disclose and encourage anti-corruption policies, anti-competitive and monopolistic practices that can harm the stakeholders, or providing labeling products for the health and safety of customers (Aisyah, 2017).

CSRE practices have emerged in developing countries such as Vietnam and Indonesia. In Vietnam, a survey conducted by the State Bank of Vietnam in early 2019 released 76 percent of participating banks has had sustainable finance strategies in place. It is an evidence shows that Vietnamese banks have further concern about CSR. As such, the banks are encouraged to adopt international CSRE practices, which might be included in their annual reports (VBCFSD, 2014).

In Indonesia, the Islamic banking system, also known as the interest-free banking system, is a system based on the principles of Islamic law. It is governed by ideologies in Islamic economics. The two basic principles of the Islamic banking system are profit or loss sharing and no interest or interest free (Hussain M, 2015). Due to direct relevance and significance of CSR with explicit and implied teachings of Islam, CSRE has become a major concern of scholars in the area of Islamic banking

(Dusuki AW, 2007). Theoretically, the literature in the context of Islamic banking show that Islamic rules is far beyond the conventional CSR principles (Dusuki AW, 2008). However, others argue a contradiction between ideology and reality of social responsibility of Islamic banking (Kamla R, 2013). These disagreements build an interest to investigate CSRE practices of Islamic banking in comparisons with non-Islamic banking like Vietnam.

2.5. Corporate governance and CSRE performance

Corporate governance refers to the way a corporation is governed, which facilitates companies to exercise better ethical practices, especially when companies are facing increasing stakeholder pressure related to disclose sustainable information (Chen and Wang, 2011; Fernandez-Feijoo, 2012b). They expect companies to disclose not only financial but also non-financial information (Jensen, 1979; Hill and Jones, 1992; Fernandez-Feijoo, 2012b). Agency theory Jensen and Meckling (1976) and stakeholder theory Freeman (1984) have been two predominant perspectives used to explain the relationship between corporate governance and CSR. Agency theory explains the conflicting relationship between managers and stakeholders supposing that existence of information asymmetry, opportunistic behavior of agents, and disputes of interests between principal (shareholder) and agent (manager). Therefore, it is necessary to monitor the agents closely so as to align the principal – agent goals, decrease conflicts and maximize the wealth of stockholders (Halme and Huse, 1997). Agency theory states that effective corporate governance improves firm’s capability to contend with emerging challenges and reduce the agency conflicts (Haniffa and Cooke, 2002). In addition, it maintains that the internal governance mechanism must act effectively to hold manager accountable for their actions (Kolk, 2008; Li *et al.*, 2008; Buniamin *et al.*, 2011; Ienciu *et al.*, 2012). The agency literature suggests that effective corporate governance can improve a firm legitimacy (Michelon and Parbonetti, 2012) and enhance financial performance (Rose *et al.*, 2011).

Although the agency theory has been used to identify the relation of CG and CSRE, this framework seems unable to fully explain the link between corporate governance and CSR (Nazim Hussain *et al.*, 2018). Hence, stakeholder theory offers complement to agency theory in explain this relationship. (Fodio and Oba, 2012; Mallin, 2013; Amran *et al.*, 2014). One theory independent of the other cannot completely clarify why and how social targets should be included in corporate strategic goals (Walls *et al.*, 2012)

Stakeholder theory provides concerning factors of decision-making in organizations, which is based on ethical and moral principles (UKEssays, 2018). By acting in an ethical manner to ensure greater fairness in the consideration of different stakeholders, the organization can create trust relationships which results in long-term profit. Moreover, taking care different stakeholders can reduce and prevent them potentially

damaging the business. The organization is likely to benefit overall when corporate responsibility is considered in the decision-making process. Therefore, it is difficult to separate the concepts of corporate responsibility and its strategy. Under stakeholder theory, Michelin and Parbonetti (2012) also argue that good corporate governance enhances firm–stakeholder relationships by promoting corporate sustainability. Good governance and sustainability are considered as complementary mechanisms for better stakeholder management.

Prior studies suggest links between corporate governance and CSRE performance (Khan, 2010b; Nielsen, 2010; Hafsi, 2013; Giannarakis, 2014; Kilic, 2015; Dienes, 2016). This study focuses on seven corporate governance variables, namely Board of Directors Size, Board of Independence, Chairman Female, Board of Director National Diversity, Board of Directors Gender Diversity, Firm age, External Audit Reputation.

2.5.1. Board of Director Size

Board of director is an important part of governance bodies that serve important functions for organizations, ranging from monitoring management on behalf of different shareholders to providing resources (Guido Corbetta, 2004). Members of this group do not work in the company on a daily but they have right to hire and retire these managers to control enterprise’s operations to gain profits for their firms. Some previous studies identified that BOD size is one of potential factors which are influential and dominant to CSRE. According to Haslinda Yusoff and Zunaidah Ahman (2019) finds the result that the larger the board size, the more companies are accountable to disclose CSR information. Similarly, Rekha Pillai and Al-Malkawi (2017) reveals that the BOD emerged as a vital determinant of firm performance with both the performance measures in all the GCC (Lipton and Lorsch, 1992; Kiel. C.G. and Nicholson.J.G., 2003; Leblanc and Gillies, 2003). This implies that a large board size is detrimental to the firm performance of companies and the firms ought to limit their board size ranging 8-11. Thus, BOD size would be expected to impact CSRE performance.

2.5.2. Board independence

An independent director refers to a member of a board of directors who does not have a material relationship with a company or enjoy personal interests in the company. This person is neither part of its executive team nor involved in the daily operations of company. Some experts argued that independent directors create higher level of monitoring of the management and provide better the board’s effectiveness (Rosenstein, 1990; Michelin, 2012). They are not only responsible to shareholders but also ensure the benefit of other stakeholders (Ibrahim, 1995). Therefore, many studies have shown that the relationship between CSR disclosure and board independence is positive because independent directors have the ability to engage in

motivating firm to show information related to CSR activities (Lattemann, 2009; Khan *et al.*, 2013a). The results of these studies identify that a higher proportion of independent directors increases the focus on CSR disclosure (Barako, 2008; Khan, 2010a). However, other studies report no relationship between independent directors and CSR reporting (Said, 2009; Michelon, 2012). Even according to the report of Haniffa (2005), independent directors have negative impacts on the CSR disclosure. These results of previous studies are controversial. As such, the relationship between CSR reporting and board independence will continue to be examined.

2.5.3. Female chairman

In the recent years with the trend of gender equality, it is not strange for women to hold an important position in a company or organization. Many people believe that women holding the top position will influence the strategy and all operations of the company (Adams, 2009). Female directors are likely to positively effect on the management activities by using their skills and knowledge on legal, communication, and public relations more than their male counterparts (Zelechowski, 2004). Therefore, female directors are one of the commonly analyzed factors when evaluating the relationship between corporate governance and CSR disclosure. The results of previous studies show the disagreement about the relationship between CSR reporting and female directors. Dienes (2016) found that the number of women in the board has a positive significant relationship with CSR. However, Haslinda Yusoff (2019) found the opposite result. That is, female directors in the board is insignificant and negatively related to the accountability related CSRE. This study focuses impact of female chairman on CSRE performance.

2.5.4. BOD National Diversity

The board of director nationality diversity is one of the most important elements of the corporate governance mechanism in overseeing the effective and appropriate operation of the company. Directors who come from different countries could bring different perspectives on whether the crucial corporate goal is to maximize shareholders' interests or broader stakeholders' interests. These differences could determine the vision of firms' objectives to exist in our society and their social performance. There are several studies focused on the impact of foreign directors on firm value and corporate social responsibility and generally found a positive impact. Naciti (2019b) found that the foreign directors are attentive to share-holders' interest and can be more in tune with relational sustainability strategies. Also, the portion of foreign directors has substantial and strong positive impacts on firm performance (Muller, 2014). However, Janggu (2014) found that foreign directors do not have a significant influence on sustainability disclosure. This paper will further

examine the relationship between BOD nationality diversity and CSRE performance.

2.5.5. BOD gender diversity

As the definitive authority within a company, the board plays an essential role in shaping the firm's vision, maximizing and ensuring the interests and benefits of shareholders. Historically, most all boards of directors predominantly comprised of male directors. However, in recent years, there is a strong argument that board members do those jobs better when they include women. Most existing studies have found that a positive relationship between women in the boardroom and firm performance. The research investigated that board diversity is positively associated with firm performance (Erhardt, 2003; Hutchinson, 2015). Another series of practical studies indicate that the presence of women on a BOD is expected to be positively associated with CSR performance. Zhang (2013) found that high CSR performances are associated with a greater presence of women on BOD. Besides, companies with a higher number of female gender directors have a higher quality of CSR reporting and a higher incidence of assurance reports accompanying such disclosure (Fernandez-Feijoo, 2012a). However, Rose (2007) does not find a momentous association between female directors and firm performance of listed firms in Denmark. Therefore, in this result, we will examine the relationship between BOD gender diversity and CSRE.

2.5.6. Firm age

Firm age seen as the number of years that bank listed in stock exchange, generally matters for the actual CSR implementation. Some prior research has examined the association between the CSR disclosure and firm age listed on Stock Exchange and finds a significant association. Correa-Garcia *et al.* (2020) found that firm maturity, understood as the firm age in years from its creation, also impacts positively on sustainability reporting quality, which evidences the learning curved that firm acquire over the years for improving voluntary disclosures. This will examine the relationship between firm age and CSRE performance.

2.5.7. External audit reputation

External audit reputation refers to auditing companies being employed by the banks to audit their financial statements by big four auditing companies. The big four auditing firms include KPMG, Deloitte, PricewaterhouseCoopers and Earnest & Young. Detthamrong *et al.* (2017) claims that firms which have financial statements audited by well-known auditors would likely reduce information asymmetry and signals financial markets about the firm's prospects. In addition, better audit quality is expected to improve the firm's decision-making process and the resulting operation. Therefore, we expect the relationship between audit reputation and CSRE to be positive.

3. RESEARCH METHODS

In order to investigate CSRE performance and its relation to corporate governance, we employ two research methods: qualitative content analysis and qualitative comparative analysis (QCA). The former was used to evaluate CSRE performance of Vietnamese banks and Indonesian Bank while the later was adopted to investigate configuration of corporate governance leading to high performance on CSRE.

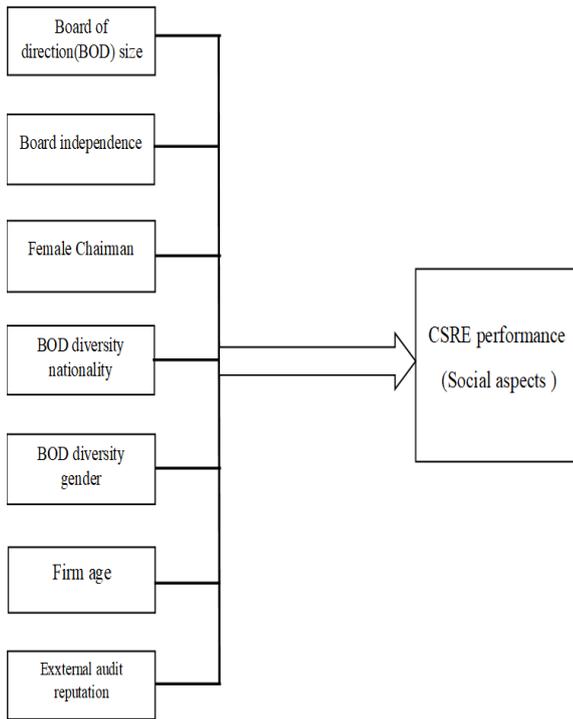


Fig. 2.1: Research framework
(Source: Author, 2021)

3.1. Sample and data collection

Twenty-five banks in Vietnam and Indonesia were purposely selected because these two countries have similar economic conditions. In Vietnam, 13 listed banks in Vietnam were chosen: 03 banks listed on Hanoi Exchange Stock (HNX) and 10 banks listed on Ho Chi Minh Stock Exchange (HOSE). In Indonesia, we selected 12 regional Islamic banks managed by Indonesia local government rather than private banks owned by foreign investors (all private banks in Indonesia are owned by foreign investors).

We collected data from 125 published annual reports of 25 banks in Vietnam and Indonesia from 2014 to 2018. In Vietnam, HDB bank was not released annual report of 2014. In Indonesia, Jambi bank was not published annual report of 2016. Also, six annual reports in English (version) were not released in Indonesia. They are annual reports in 2014 of DKI, Riau Kepri and

Sulselbar banks; annual reports in 2015 of Nagari and Kalbar banks; annual report in 2018 of Kalsel bank. Thus, data were collected from 117 instead of 125 annual reports.

3.2. Measurement

3.2.1. Measurement of CSRE performance

3.2.1.1. Scoring method as qualitative content analysis

Content analysis is defined by Krippendorff (1980) as systematic procedures for studying the content of written documents. This is a technique of gathering data that consists of codifying qualitative information in anecdotal and literary form, into categories in order to derive quantitative scales of varying level (Abbott and Monsen, 1979).

Scoring method was applied to convert texts from annual report into numeric index in order to maintain and ensure the quality and fairness of disclosure. This method has been widely implemented in CSRE research and considered as an appropriate method to assess quality of sustainability reporting (Clarkson *et al.*, 2008; Dissanayake *et al.*, 2016b; Islam and Chowdhury, 2017; Khanh, 2018).

3.2.1.2. Scoring procedure

Step 1: Read annual reports of the banks and identify statement related to social pillar of the GRI-G4 framework.

Step 2: Match statements in annual reports to social indicators of the GRI-G4 framework. For example, the statement “100% of Sacombank’s operations are examined risk factors related to corruption” related to the item of indicator GA- SO3 in the GRI-G4 that requires companies to report “total number and percentage of operations assessed for risks related to corruption and the significant risks identified.”

Step 3: Scoring each GRI-G4 indicator of the social pillar for every annual report between 2014 and 2018 based on disclosure requirement of the GRI-G4. A fully disclosed indicator had a score of 100%. The score of each item was calculated by the following formula:

$$\text{Item score} = \frac{\text{Indicator score}}{\text{a number of items}} = 100\% / \text{a number of items}$$

Each item was given a certain score based on extent to which each item was disclosed: a score of 100%, 50% and 0% was respectively given to fully disclosed, partly disclosed and not disclosed.

For example, the indicator G4-LA9 has only one item, thus the indicator G4-LA9 of Sacombank was score at 50% because Sacombank reported an average training hour of 107,165 but not given training hours by gender. The indicator G4-SO3 has two items, thus each item of the indicator G4-SO3 at Sacombank was given a score of 50% (100%/ 2 items). The first item is the total number and percentage of operations assessed for risks related to corruption, which was scored at 25% because

Sacombank reported the percentage of operations assessed for risks related to corruption but not given the total number. The second item is the significant risks related to corruption identified through the risk assessment, which was scored at 0% because Sacombank did not disclose any information related to the significant risks identified. Therefore, the indicator G4-SO3 is 25% (25% + 0%).

Step 4: Calculate the average score of each indicator over a five-year period. Then, compute the total average score of all indicators for each bank

Step 5: Rank SCORE performance of each bank based the total average score of all indicators over five-year period

3.2.2. Measurement Corporate Governance

Construct measures of the study are presented in Table 3.1.

Table 3.1: Corporate Governance Variables Listing

Variable name	Variable code	Variable description	References
Board of Director ¹ Size	CG1	The number of members on board of director including a chair person and independent directors.	adapted from Miras-Rodriguez <i>et al.</i> (2018)
Board independence	CG2	The number of independent directors in board.	Pillai and Al-Malkawi (2018) Detthamrong <i>et al.</i> (2017)
Female chairman	CG3	The female directors are chairman in board.	Naciti (2019a) Khan <i>et al.</i> (2013b) Haniffa and Cooke (2005)
Board of Director nationality diversity	CG4	The ratio of number of foreign directors to the total number of directors	

¹ In Indonesia, Board of Commission has the same function as Board of Directors in Vietnam

Board of Director gender diversity	CG5	The ratio of number of female directors to the total number of directors in board.
Firm age	CG6	Total years listed in stock exchange.
External audit reputation	CG7	Firm's external auditor is one of big four auditing companies. ²

(Source: Author, 2021)

3.3. Qualitative Comparative Analysis using Fs QCA 3.0

3.3.1. Qualitative Comparative Analysis (QCA) method

QCA was first proposed by Ragin (1987) as a method that enables researchers to assess cause-effect relationships between conditions and outcome variables. QCA has been used widely in the social sciences (Nair and Howlett, 2015; Fischer, 2017) This method offers “the best features of the case-oriented approach with the best features of the variable – oriented approach” (Ragin, 1987). This method enables researchers to balance between qualitative and quantitative approaches. Case-oriented approach is typically of qualitative research that produces in depth and detailed accounts of cases as a whole. The case-oriented study has been criticized because it focuses on one or a few cases, which make it hard to generalize their finding. When dealing with multiple cases, the case-oriented study often lacks a systematic and transparent method for cross case comparison. By contrast, the variable-oriented approach is typically quantitative research which enables analysis of large samples or populations and systematic cross case comparison. This does not allow researchers to obtain detailed information about individual case. QCA falls somewhere in the middle with the aim of integrating the advantages of both methodological approaches (Rihoux, 2009; Fritzsche, 2013). The aim of QCA is to clarify the group of variables, or conditions that are shared by the cases that display the same outcome so as to understand

² The big four auditing firms include KPMG, Deloitte, PricewaterhouseCoopers and Ernst & Young.

the way in which they combine to produce it (Mahoney, 2004). The impact a condition has an outcome was determined by the other variables within the case and the way in which they coincide and interconnect, which enable the classification of descriptively meaningful patterns of interaction (Ragin, 1984). QCA is not concerned how the single independent variables have impact on a dependent variable but rather how the conditions combine to produce the outcome. As such, QCA provides a deterministic understanding in terms of the consistent patterns that occur (or do not occur) when outcomes are present, or are indeed absent (Ragin, 2018).

QCA involves six major steps: theoretical knowledge, research design, case knowledge, calibration, truth table and logical minimization. Theoretical knowledge is of general importance for the research process which refers to theories and concepts as well as related terms in the literature about a topic of interest. Base on theoretical knowledge provided, a research design is developed and then the researchers proceed with building knowledge about selected cases.

The process of assigning set membership to empirical data is called calibration. Researchers give scores to cases which reflect whether or the extent to which cases are member of sets. For the purpose of our research, crisp-set QCA is used. In set theory, the crisp-set allows only for full case membership or full non-membership to the set. This requires that all conditions and outcome for each case be dichotomized to in or out without middle position. To be more precise, scoring includes zero and one point. Zero is fully out that means a case does not have a condition so the condition is absence. By contrast, one in fully in that means a case does have a condition so the condition is present. Specially, in order to translate data into set membership scores, the researchers should develop rules on the basis on theoretical reasons and their substantive knowledge of a particular topic data set.

After calibration, the data matrix is created, which indicates the degree to which cases are members of the sets of cases with certain outcome and conditions. Each row of data matrix mentions set membership scores for one case. The data matrix is subsequently transformed into a truth table which indicates with binary scores ones and zeros which combinations of present and absent conditions lead to the outcome. The truth table is analyzed through what is called logical minimization, which amounts to a systematic comparison between cases. A summary of the most straightforward set of conditions that explains an outcome is established by way of logical minimization (Miethe, 2004).

3.3.2. Data analysis using QCA with Fs QCA 3.0

Fs QCA 3.0 is one of the most widely used software in scientific research to analysis data matrix for QCA. FsQCA3.0 analyses both crisp set and fuzzy set data matrix (Ragin, 2018). There are three steps to analyze the data using Fs QCA3.0, the raw data must be

transformed to a data matrix via calibration and we need to upload a final data matrix and then make a truth table. Lastly, we have to minimize the truth table, is also called “logical minimization” (Kahwati and Kane, 2018)

In this study, set can be observed as groups of cases with the outcome and with the conditions of interest. The outcome, the condition and the case are three main elements which have important roles in the whole process. The research design is about what you want to examine and how you want to do the examination. In our study, we want to analyze and look into the relationship between corporate sustainability reporting (CSRE) and corporate governance indicators. To that purpose, we use crisp-set QCA to test existing theory as well as develop theory by exploring how conditions and an outcome relate to each other.

In the calibration phase, we have an overview and general evaluation of data collected from the annual reports of banks in Vietnam and Indonesia. Besides, we also assess the frequency with which data appear between two countries to decide the cut-off point in a reasonable and accurate way.

The outcome in this study is the CSRE performance being expressed in term of high CSRE performance and low CSRE performance. The reports with a score equal or higher than 900% was considered as high performance whereas those with a score lower than 900% was considered as low performance. The banks with high CSRE performance were calibrated as “1” whereas their counterparts were calibrated as “0”.

This hypothetical study has 7 conditions that are related to corporate governance disclosures. The first condition for this hypothetical study is the board of director size being expressed in term of high BOD size and low BOD size. The reports with a score greater than three are assigned as high BOD size and those that are below as low BOD size. The banks with high BOD size were marked as “1” whereas their counterparts were marked as “0”.

The second condition is the board independence being measured in term of high independent members and low independent members in board. The banks with equal or greater than one independent member are considered as high board independence and were calibrated as “1” whereas those that are below as low board independence and were calibrated as “0”.

Female chairman is the third condition of interest, which is examined in view of high female chairman and low female chairman. The number of women holding chairman position in banks of both Vietnam and Indonesia is very low. Therefore, the author rates 1 point for bank which has female chairman as high female chairman and 0 point for none as low female chairman.

The forth condition of interest is the BOD nationality diversity being expressed in respect of high BOD nationality diversity and low BOD nationality diversity.

The reports with a score higher than 0% were assessed as high BOD nationality diversity, while those with a score lower than 0% were assessed as low BOD nationality diversity. The banks with high foreign members in board were calibrated as “1”, while their counterparts were calibrated as “0”.

The BOD gender diversity is the fifth condition, which is represents for high BOD gender diversity and low BOD gender diversity. The reports with a score is greater than 0% were examined as high BOD gender diversity whereas those with a score lower than 0% were examined as low BOD gender diversity. The banks with high female members in board were rated as “1”, while their counterparts were rated as “0”.

The sixth condition of interest is firm age being concerned with high firm age and low firm age. If the banks joined in the stock exchange and disclosed the listed year in annual reports, they were considered as high firm age and calibrated as “1” whereas those that did not join in were considered as low firm age and calibrated as “0”.

The last condition is the external audit reputation being showed in term high external audit reputation and low external audit reputation. The banks which choose Big 4 auditing firms were examined as high external audit reputation and calibrated as “1”. Nevertheless, those without using Big 4 auditors were considered as low external audit reputation and calibrated as “0”.

Table 3.2: Calibration of Corporate Sustainability Reporting and Corporate Governance variables

	Variable name	Code	Low (coded as 0)	High (coded as 1)
The outcome	Corporate Sustainability Reporting	CSRE	Smaller than 900%	Greater than or equal to 900%
The condition	Board of Director size	CG1	Smaller than or equal to 3 persons	Greater than 3 persons
	Board independence	CG2	No person	Greater than or equal to 1 person
	Female chairman	CG3	No person	Have 1 person
	Board of Director nationality diversity	CG4	0%	Greater than 0%
	Board of Director	CG5	0%	Greater than 0%

	gender diversity			
	Firm age	CG6	No listed on the stock exchange	Listed on the stock exchange
	External audit reputation	CG7	No big4 company audit	Big 4 company audit

(Source: Author, 2021)

4. DATA ANALYSIS AND FINDINGS

4.1 CSR Evaluation of CSRE performance

We scored 48 indicators of social pillar for each bank by employing scoring method (see detail in section 3.2.1). After that, the average score of each indicator is calculated over a five-year period. Then, the total average score of all indicators is computed for each bank. The table 4.1 illustrates score of some performance indicator based on GRI-G4 standard of ACB in 5 years from 2014 to 2018.

Table 4.1: ACB’s CSRE performance based on G4 GRI

Unit: percentage (%)

Indicators	2014	2015	2016	2017	2018	Average
G4-SO1	25,00	25,00	31,50	25,00	31,50	27,60
G4-SO3	0,00	0,00	0,00	0,00	25,00	5,00
G4-LA2	50,00	50,00	50,00	50,00	50,00	50,00
G4-LA9	50,00	0,00	50,00	50,00	50,00	40,00
Total	467,50	382,50	424,00	460,00	464,00	439,60

(Source: Author, 2021)

SCRE performance for all banks is ranked base on the total average score of all indicators over five-year period. Table 4.2 and Table 4.3 shows ranking of CSRE performance of listed banks in Vietnam and Indonesia respectively (2014-2018).

Table 4.2: Ranking of CSRE performance of listed banks in Vietnam (2014-2018)

Unit: percentage (%)

Rank	Bank	Total Average
1	STB	2019,91
2	HDB	898,44
3	BID	681,50
4	CTG	478,55
5	ACB	439,60
6	SHB	408,75
7	TCB	378,75
8	VPB	365,00
9	VCB	363,00
10	EIB	355,00
11	MBB	346,25
12	TPB	297,25
13	NVB	268,25

(Source: Author, 2021)

Table 4.3: Ranking of CSRE performance of listed banks in Indonesia (2014-2018)

Unit: Percentage (%)

Rank	Bank	Total Average
1	DKI	1985,94
2	RiauKepri	1722,81
3	Kalbar	1578,13
4	Jateng	1576,00
5	Kalsel	1533,75
6	BPD DIY	1490,00
7	Sulselbar	1466,25
8	Sumut	1458,75
9	Kaltimara	1447,25
10	Jatim	1402,50
11	Nagari	1362,50

12	Jambi	1201,25
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(Source: Author, 2021)

The improvement or deterioration of SCRE performance is over a five-year period by comparing the score of each performance indicator between 2018 and 2014. If the difference is positive, it is classified as improvement. If the difference is negative, it is classified as deterioration. If there is no difference, it is classified as unchanged. Table shows the number of indicators are improved and deteriorated from 2014 to 2018. Table 4.4 and Table 4.5 shows changes in CSRE performance of listed banks in Vietnam and Indonesia respectively (2014-2018).

Table 4.4: Changing in CSRE performance of listed bank in Vietnam (2014-2018)

Bank	Improvement	Deterioration
ACB	3	1
NVB	0	7
SHB	3	0
EIB	3	0
CTG	7	0
BID	8	0
HDB	21	2
MBB	2	0
STB	4	26
TCB	4	3
TPB	2	1
VCB	1	1
VPB	4	0

(Source: Author, 2021)

Table 4.5: Changing in CSRE performance of listed bank in Vietnam (2014-2018)

Bank	Improvement	Deterioration
BPD DIY	13	0
DKI	4	3
Kalbar	2	4
Kalsel	0	0
Kaltimara	2	0

RiauKepri	1	0
Jateng	5	0
Jambi	0	1
Sulselbar	10	1
Jatim	4	0
Sumut	6	0
Nagari	1	0

(Source: Author, 2021)

4.2. Relationship between CSRE and Corporate Governance in Vietnam and Indonesia

Table 4.6 and Table 4.7 presents examples of data collected for ACB (a listed Vietnamese bank) and BPD DIY (an Indonesian Islamic bank) between 2014 and 2018 respectively before calibration.

Table 4.6: Data collected for ACB (2014-2018)

Variable Code	Bank ACB				
	2014	2015	2016	2017	2018
CSRE	467,50	382,50	424,00	460,00	464,00
CG1	10	10	9	9	8
CG2	1	1	1	1	2
CG3	0	0	0	0	0
CG4	30.00 %	30.00 %	22.22 %	22.22 %	25.00 %
CG5	20.00 %	20.00 %	22.22 %	22.22 %	25.00 %
CG6	listed 2006				
CG7	PMG	KPMG	KPMG	PWC	PWC

(Source: Author, 2021)

Table 4.7: Data collected for BPD DIY (2014 – 2018)

Var Code	Bank ACB				
	2014	2015	2016	2017	2018
CSRE	1187,5	1414,5	1412,5	1412,5	2025,5
CG1	3	3	3	3	3
CG2	1	1	1	1	1
CG3	0	0	0	0	0

CG4	0	0	0	0	0
CG5	0	0	0	0	0
CG6	0	0	0	0	0
CG7	KRES TON				

(Source: Author, 2021)

The calibration was conducted to transfer the raw data to data matrix table as shown in Table 4.8 and Table 4.9 for ACB bank and BPD DIY bank between 2014 and 2018 respectively.

Table 4.8: Data matrix of ACB bank (2014-2018)

	Variable code	ACB				
		2014	2015	2016	2017	2018
The outcome	CSRE	0	0	0	0	0
The condition	CG1	1	1	1	1	1
	CG2	1	1	1	1	1
	CG3	0	0	0	0	0
	CG4	1	1	1	1	1
	CG5	1	1	1	1	1
	CG6	1	1	1	1	1
	CG7	1	1	1	1	1

(Source: Author, 2021)

Table 4.9: Data matrix of BPD DIY bank (2014-2018)

	Variable code	BPD DIY				
		2014	2015	2016	2017	2018
The outcome	CSRE	1	1	1	1	1
The condition	CG1	0	1	1	1	1
	CG2	1	1	1	1	1
	CG3	0	0	0	0	0
	CG4	0	1	1	1	1
	CG5	0	1	1	1	1
	CG6	0	1	1	1	1
	CG7	0	1	1	1	1

(Source: Author, 2021)

After calibration base on scrip options in QCA, the

results of data analysis indicating corporate governance configuration for high CSRE performance is presented in Table 4.10

Table 4.10: Corporate governance configuration for high CSRE performance

	Solutions ^a (sufficient causal conditions for High CSRE)			
	Code	A	B	C
Board of Director Size	CG1		●	●
Board Independence	CG2	●	●	●
Female Chairman	CG3			●
BOD Diversity Nationality	CG4	⊗	⊗	●
BOD Diversity Gender	CG5		⊗	●
Firm Age	CG6	⊗	⊗	●
External Audit Reputation	CG7	⊗	⊗	●
Consistency		1	1	1
Coverage (raw)		0.770492	0.295082	0.0163934
Coverage (unique)		0.508197	0.0327868	0.0163934
Overall Consistency	1			
Overall coverage	0.819672			
Examples (sample)		BPDD IY2014 INDO	DKI2018 INDO	HDB2018 VIE
		DKI2018 INDO	KALBAR2014 INDO	
		KALBAR2014	JATIM2015 5INDO	

		INDO		
		KALS EL2015 INDO	KALSEL2015 INDO	
		RIAU2015 INDO	KALTIM2017 INDO	
		KALTIM2016 INDO	NAGA2016 INDO	

(Source: Author, 2021)

^a● Presence of conditions; ⊗ Absence of conditions; Blank cells: non-binding conditions (i.e., the condition can be either present or absent in that configuration).

A striking feature of QCA that is different from regression analysis is identify which set of causal conditions leading to presence of the outcome (Fiss, 2011). Given this QCA feature, we performed a test of causal conditions (corporate governance variables) leading to high CSRE performance of banks in Vietnamese and Indonesia. Table 4.19 presents results from data analysis using Fs QCA 3.0 as suggested by Fiss (2011) to ensure simplify readability of research findings. Black circles (●) indicate the presence of a condition, circles with a cross-out (⊗) indicate the absence of a condition, and the blank spaces indicate a situation where a condition can be either present or absence for the configuration.

The study finds three configurations that are sufficiently linked to high CSRE performance of banks in Vietnam and Indonesia. In other words, three causal paths are found to explain high CSRE performance and each displays a consistency as 1 that is higher than 0.75 threshold. Overall consistency is 1 overall coverage is approximately 0.82, which indicates validity of the findings (Ragin, 2008; Schneider, 2010). The first configuration (column A) is found in Indonesian banking with an Islamic legal system. This configuration indicates that banks with the board independence (board independence members are bigger or equal 1 member), no diversity on nationality of BOD, no listed on the Stock Exchange and no hiring Big 4 Auditing companies have high CSRE performance. The presence or absence of other corporate governance variables (BODs size, Female chairman and BOD gender diversity) do not affect CSRE performance.

The second configuration (column B) is also found in Indonesia, which indicates that banks with large BOD size and board of independence, no diversity on nationality of BOD, BOD gender diversity, no listed on the Stock Exchange and no hiring Big 4 Auditing companies have high CSRE performance leading. The

presence or absence of Female chairman do not affect CSRE performance. The third configuration (column C) is found in Vietnamese context. It shows that Vietnamese achieved high CSRE performance need presence of seven corporate governance variables, namely: large BOD size, board independence, board of director national diversity, board of director gender diversity, firm age and external audit reputation.

In summary, there is a big difference regarding the causal path of corporate governance variables explaining high CSRE performance of banks in Vietnam and Indonesia. Specifically, high CSRE performance of Islamic banks in Indonesia is governed by two main factors: board size and board independence. Meanwhile, listed banks in Vietnam achieve high CSRE performance when seven corporate governance variables, namely: large BOD size, board independence, board of director national diversity, board of director gender diversity, firm age and external audit reputation, are present.

5. CONCLUSIONS

5.1. Conclusions and limitations

The first findings of the study show ranking on CSRE performance of banks in Vietnam and Indonesia from 2014 to 2018. In addition, the results report improvement and deterioration of the banks between 2014 and 2018. Furthermore, the study finds three configurations or three causal paths that lead to high CSRE performance in Vietnam and Indonesia. In Indonesia, two configurations highlights presence of board independence and large Board of Director (BOD) size as two important corporate governance variables resulting in high CSRE performance of Islamic banks. In Vietnam, listed banks achieve high CSRE performance only when seven corporate governance variables, namely large BOD size, board independence, female chairman, BOD nationality diversity, BOD gender diversity, firm age and external audit reputation, are presented.

5.2. Discussions of the findings

CSRE performance of listed banks in Vietnam was worse than that of Islamic banks in Indonesia. CSRE based on GRI-G4 framework was employed in few listed banks in Vietnam. In developing country, Habib Zaman *et al.* (2009), CSRE practices are infant, which might cause low CSRE performance. Tschopp (2005) noted that CSR reporting can be "camouflaged" and would be not interpreted the company's actual position. However, Islamic banking complies with sharia (Islamic law) and practice activities through Islamic economic model, which, a mechanism of safekeeping, profit sharing, and loss-bearing, which might be a reason for high CSRE in social index of Indonesian firms. In general, most of the firm's reporting improved among five years in social disclosure. BODs pay attention to report performance especially social issue, which was significant impact on ability to increase the amount of relevant information

provided to shareholders and stock exchange markets (Lemus, 2016).

This study found three configurations resulted in high CSRE performance. The first configuration is presence of board independence and absence of BOD nationality diversity, firm age, external audit reputation. The second configuration is presence of board size, board independence and absence of BOD nationality diversity, BOD gender diversity firm age, external audit reputation. The third configuration is presence of seven factors in corporate governance variables.

The study found that board independence is an important affect CSRE performance of Islamic banks in Indonesia. The finding is consistent with prior studies that found positive effects of board independence on CSRE performance (e.g. Lattemann, 2009; Khan *et al.*, 2013a). Similarly, Michelon (2012) claimed the more independent directors the better CSR. The studies showed opposite arguments that board independence effects negative CSRE performance (Haniffa, 2005; Said, 2009; Michelon, 2012). Furthermore, the combination of two factors board independence and large BOD size leads to high CSRE performance. The finding is consistent with prior studies that find positive relationships between large BOD size and CSRE performance (Lipton and Lorsch, 1992; Kiel. C.G. and Nicholson.J.G., 2003; Leblanc and Gillies, 2003). Finally, the configuration that leads to high performance requires presence of seven corporate variables the context of listed banks in Vietnam.

5.3. Implications of the study

This study contributes to extant CSR literature, especially CSR evidence in developing countries like Vietnam and Indonesia (Sahay.A, 2004; Yusoff.S *et al.*, 2007; Khan *et al.*, 2009). The findings provide bank managers an overview on their bank performance on CSRE, which enables them to address importance and relevance of their organizations' wellbeing. As such, managers might focus more on CSRE to realize firm weaknesses to enhance future firm performance. Moverver, ranking CSRE performance provides stakeholders with an index for comparing CSRE performance among listed banks in Vietnam and Islamic banks in Indonesia, which allows them to participate in monitoring social performance of banks. CSR need to engage stakeholders in carrying out the materiality analysis by which organizations can identify their most relevant sustainability aspects (Nicola .B *et al.*, 2016). Additionally, the findings enables banks managers in Vietnam and Indonesia to focus certain configurations or causal paths of corporate governance leading to high CSRE performance, which contributes to agency problems and maximize alignment of interests between firms and their stakeholders.

5.4. Limitations

The findings are subject to subjectivity under scoring method and QCA calibration, which is typical limitation of these methods.

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