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The Board of Commissioners, Corporate Sustainability Concerns and Company Financial Performance: Evidence from Indonesian Commercial Banks

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PENDAHULUAN

Penelitian ini mengkaji apakah mekanisme tata kelola internal perusahaan yang diwajibkan, khususnya struktur Dewan Komisaris pada sektor perbankan komersial di Indonesia dapat memengaruhi kepedulian keberlanjutan perusahaan dan kinerja keuangan. Studi ini merangkum tiga bidang penelitian berdasarkan perspektif pemegang saham dan pemangku kepentingan menjadi studi empiris tunggal dalam konteks negara berkembang dengan sistem tata kelola perusahaan dua tingkat

Studi ini menggunakan panel data yang tidak seimbang yang terdiri dari 252 observasi setahun dari populasi 39 perusahaan perbankan komersial yang terdaftar di Indonesia selama periode 2007-2014, dan menguji hubungan antar konstruk menggunakan empat model penelitian yang berbeda, yang menggambarkan pemegang saham dan pemangku kepentingan. perspektif. Penelitian ini dilakukan dengan menggunakan Model Throughput, kerangka kerja model pengambilan keputusan, yang memungkinkan identifikasi dampak berbagai langkah dalam proses pengambilan keputusan.

Studi ini memberikan bukti bahwa struktur Dewan Komisaris adalah mekanisme kontrol kelembagaan yang bertanggung jawab untuk mendorong perusahaan untuk lebih peduli dengan keberlanjutan perusahaan sehubungan dengan kegiatan ekonomi, lingkungan, dan sosialnya. Hasil menunjukkan dari perspektif pemegang saham, pengaruh positif yang dibawa oleh struktur Dewan Komisaris pada masalah keberlanjutan perusahaan dapat mengurangi nilai pasar perusahaan. Di sisi lain, menurut perspektif pemangku kepentingan, pengaruh positif struktur Dewan Komisaris pada masalah keberlanjutan perusahaan akan meningkatkan kinerja nilai pasar perusahaan melalui kinerja kesehatan keuangannya.

PREFACE

This study examines mandatory internal corporate governance mechanism, particularly the Board of Commissioners structure in Indonesian commercial banks influence on corporate sustainability concerns and financial performance. This study encapsulates three areas of research by examining the shareholder and stakeholder perspectives into a single empirical study in a developing country context with a two-tier corporate governance system

This study utilises a new unbalanced data panel of 252 firm-year observations from a population of 39 Indonesian listed commercial banking firms during the period of 2007-2014, and tests the relationship among constructs using four different research models, drawing on both shareholder and stakeholders perspectives. It does so by utilising on the Throughput Model, a decision-making model framework, which allows identification of the impact of various steps in the decision-making process.

This study provides evidence that the Board of Commissioners structure is an institutional control mechanism which is responsible to induce the company to be more concerned with corporate sustainability with respect to its economic, environment, and social activities. The results show from the shareholder perspective, the positive influence brought by the Board of Commissioners structure on corporate sustainability concerns may dampen the firm's market value. On the other hand, according to the stakeholder perspective, the positive influence of the Board of Commissioners structure on corporate sustainability concerns will improve firm's market value performance through its financial health performance.

RINGKASAN

Studi ini membahas masalah apakah mekanisme internal wajib dari tata kelola perusahaan, khususnya struktur dewan komisaris sebagai fungsi pengawasan dewan, dapat memengaruhi kepedulian pada keberlanjutan perusahaan sebagai konstruk pengungkapan tanggung jawab perusahaan. Selanjutnya, penelitian ini menguji apakah terdapat dampak lanjutan dari hubungan kepedulian keberlanjutan perusahaan terhadap kinerja kesehatan keuangan dan kinerja nilai pasar.
Studi ini memberikan bukti bahwa dewan komisaris dapat menjadi mekanisme kontrol yang penting untuk mendorong perusahaan untuk lebih peduli dengan keberlanjutan perusahaan terkait dengan kegiatan ekonomi, lingkungan, dan sosial. Selanjutnya, dilihat dari perspektif pemegang saham, pengaruh positif dari dewan komisaris terhadap kepedulian pada keberlanjutan perusahaan dapat mengurangi nilai pasar perusahaan. Di sisi lain, menurut perspektif pemangku kepentingan, pengaruh positif dewan komisaris terhadap kepedulian pada keberlanjutan perusahaan akan meningkatkan kinerja nilai pasar perusahaan melalui kinerja kesehatan keuangannya. Selain itu, penelitian ini juga mengungkapkan bahwa motif perusahaan perbankan Indonesia dalam terlibat dalam inisiatif keberlanjutan perusahaan cenderung altruistik. Perusahaan perbankan komersial Indonesia melakukan kegiatan tanggung jawab sosial perusahaan hanya untuk kepentingannya sendiri, yang dapat menurunkan kinerja keuangan perusahaan, baik kesehatan keuangan maupun kinerja nilai pasar.

Kata Kunci: Board of Commissioners Structure, Corporate Sustainability, Corporate Responsibility Disclosure, Company Financial Performance and the throughput Model

SUMMARY

This study addresses the issue of whether mandatory internal corporate governance mechanisms, particularly the role of board of commissioners as the board supervision function, could influence corporate sustainability concerns as the construct of corporate responsibility disclosure. Further, this study examines whether there is an extended impact of the relationship of corporate sustainability concern on financial performance, in terms of both financial health and market value performance. This study provides evidence that the board of commissioners could be an important control mechanism to encourage the company to be more concerned with corporate sustainability with respect to economic, environment, and social activities. Further, viewed from the shareholder perspective, the positive influence brought by the board of commissioners on corporate sustainability concerns may dampen the firm's market value. On the other hand, according to the stakeholder perspective, the positive influence of the board of commissioners on corporate sustainability concern will improve company market value performance through its financial health performance. Moreover, this study also reveals that the motive of Indonesian banking companies in engaging in corporate sustainability initiatives tends to be altruistic. Indonesian commercial banking companies conduct corporate social responsibility activities only for their own sake, which influences the reduction of the company's financial performance, both financial health and market value performance.

Keywords: *Board of Commissioners Structure, Corporate Sustainability, Corporate Responsibility Disclosure, Company Financial Performance and the Throughput Model.*

CHAPTER 1. INTRODUCTION

Research Background

Over the last two decades, worldwide fraud scandals and financial crises with their impact on corporations' operation collapse and performance failure have stimulated regulators and lawmakers around the world to develop and to pursue strict regulation regarding accountability and transparency issues at the company level. For instance, in Asian developing countries, specifically in the Indonesian context, corporate scandals and failures as well as unethical business practices have brought the attention of the government and academic scholars to the need is modify and embed corporate governance codes with ethical standards through mandatory corporate social responsibility (CSR) practices for corporate sustainability (CS) purposes. It is represented by enacted the new Corporation Law number 40 regarding the limited liability company (LLC), which is stated in one of the articles about the obligation to implement corporate governance and corporate social responsibility practices in every corporation.

Moreover, in the business practice context, companies also receive more attention and exert more effort in order to remain sustainable in their operation and maintain higher financial performance by engaging in corporate sustainability initiatives with an emphasis on the board of directors' role. Corporate sustainability initiatives include empowering societies, protecting human rights, preventing corruption and bribery and addressing environmental concerns on climate change (Elkington, 2006) and they are disclosed by being integrated into the annual report, or separately in corporate sustainability reporting. The board of directors' role in sustainability initiatives represents one key aspect of corporate governance mechanisms in order to improve economic efficiency, business growth and investor confidence (OECD, 2004).

Governance and sustainability concerns through corporate social responsibility are interrelated, reflecting an organization's commitment to their stakeholders, including the community at large (Jamali, Safieddine, & Rabbath, 2008). The integration of corporate social responsibility into corporate governance is important and can be linked to behaviours, reputation, risk, and transparency related to the economic environment, national governance system, regulation and soft law, shareholders, national culture and industry impact (S. Young & Thyil, 2013) to minimise potential significant negative external effects on society (Jizi, Salama, Dixon, & Stratling, 2013). Moreover, the complementarities between the two could reduce agency problems and enhance corporate value (Beltratti, 2005). The complementary effects may lead the company management (i.e. the board and managers) to provide and disclose any information (i.e. financial, and non-financial) in order to align and fulfil not only stakeholders' requirements, but also their own interests to make the best decision for a company's sustainability (Freeman, 2010). These behaviours integrate the interests of all stakeholders, including those shareholders. In this sense, corporate social responsibility can be defined as a set control mechanisms, practices, policies and standards with the aims of creating sustainable value for all stakeholders (i.e. customer, suppliers, regulators, societies, investors, shareholders, etc.) and preventing negative effects of managers' moral hazard behaviour on the company's business environment and society as well as maintain good corporate reputation (Gantenbein & Volonté, 2012).

The literature of corporate governance, corporate sustainability through corporate social responsibility disclosure and company financial performance reveals that this is a well-studied topic across disciplines. However, very limited empirical studies have treated these topics as in a single study (Giovanna Michelon & Parbonetti, 2012), especially in the banking industry context (Jizi et al., 2013). In particular, some studies in the banking context only focused independently on the board of directors' role (Andres & Vallelado, 2008), corporate social responsibility practices and motives in international banking (Scholtens, 2009; Viganò & Nicolai, 2009; Weber, 2005; Wu & Shen, 2013), or sustainability disclosure and motives (Jizi et al., 2013; Weber, 2005; Wu & Shen, 2013), and implementation of corporate governance in the financial crisis (Kameyama, Satiadhi, Alijoyo, & Bouma, 2006; Mehran, Morrison, & Shapiro, 2011).

Indeed, prior studies on the linkage of the board of directors' role and corporate sustainability have been done mostly in well-developed countries with one-tier corporate governance systems, such as the United States (Jizi et al., 2013), United Kingdom (Aguilera, Williams, Conley, & Rupp, 2006) and other European countries (Gantenbein & Volonté, 2012; G Michelon & Parbonetti, 2010; Giovanna Michelon & Parbonetti, 2012). These led to the conclusion that attention to these topics in the context of the banking industry for developing countries with a two-tiered governance structure in the South East Asia region is practically non-existent (Arora & Dharwadkar, 2011; Jo & Harjoto, 2011). In Indonesian context, the "owner-manager control" is conducted by the Board of Commissioners (BoC) by referring to the Board of Directors (BoD), which commonly act as the supervisory board function in the Anglo-American one-tiered CG system. Henceforward, to avoid confusion and foul-up, this study uses the term of the board of commissioners and the board of directors is interchangeable in the same meaning.

This study uses the terms corporate sustainability and corporate social responsibility synonymously, which refers to a wide range of business processes in order to remain fundamentally sustainable in long-term value creation, which is included voluntarily activities deal with triple bottom line performance (i.e. profit, people, and planet) and demonstrate the involvement of social and environmental concerns into their business operations and in interactions with stakeholders (Van Marrewijk & Werre, 2003)

In this framework, the board of directors' role is central pertaining to overseeing corporate governance codes, assessing and shaping company policies and practices on a wide range of corporate responsibility practices (i.e. financial, social and environmental) (Aras & Crowther, 2008; Beltratti, 2005; Lucy & Utter, 2004). To date, voluntary codes have emerged as corporate responsibility practices with a new role of the board of directors in balancing all stakeholders' interests. These voluntary codes assist boards of directors in their roles of monitoring and advising managers, in order to prevent pitfalls in corporate responsibility practices and company financial performance.

According to agency theory, the board of directors' role was originally to act as a protector for the shareholders' interests with remedial responsibilities for principal-agent conflict (Eugene F Fama, 1980; Jensen & Meckling, 1976). However, the board of directors' role is argued that they can also effective in encouraging serving a wide range of stakeholders' interests in the light of increasing pressures from public, customers and investors. For this part, it is related to stakeholders' perspective, which the board of directors should preserve a consensus of various interests party in the company (Donaldson & Preston, 1995).

Hence, by incorporating corporate responsibility practices into governance mechanisms, companies seem to have extended from the shareholder perspective to the stakeholders perspective in their view of the board of directors role (Ayuso & Argandoña, 2009). The board of directors should direct the company (including the managers) to be more concerned with different groups of stakeholders' interests and disclose corporate responsibility activities as part of accountability representation and stakeholder engagement (Hess, 2007). Under this perspective, the board's role shifts from the shareholders' view model to the stakeholders' view model, which aims to ensure effective negotiations, coordination, cooperation and conflict resolution in order to maximize and distribute welfare for multiple parties of the company interests (Ayuso & Argandoña, 2009).

This study argues that employing the stakeholders' view rather than the shareholders' perspective on the linkage of the board of directors' role, corporate sustainability concern and company financial performance is important and requires further empirical investigation in two-tiered Indonesian corporate governance systems. The board has multiple tasks to monitor and advise on managers' actions based on the shareholders' interests as well as the stakeholders' concerns.

This study fills a gap in the literature by examining and explaining the impact of corporate governance, with particular reference to the role of the board of directors on corporate sustainability concerns and financial performance in a two-tiered board structure of Indonesian listed commercial banking companies. Therefore, this can be perceived be a fruitful area for study by following the business system theory, which holds that the result from one business system cannot always be generalised to a different business system (Whitley, 1992) and need to explores the impact of this relationship in different governance systems and types of industry (S. Young & Thyil, 2013).

This study adds to the academic literature in three ways. First, it adds to theory by providing empirical tests of both of shareholder and stakeholder perspectives, to investigate how the board of commissioners' role can influence corporate sustainability concerns and financial performance for the banking industry in developing countries with a two-tiered corporate governance system. This study found that banking companies that follow the mandatory new regulation of the board of commissioners' role are more likely to be better governed and able to pursue more corporate responsibility activities in order to maintain company financial performance. Second, the study contributes empirically to methodology as it uses a quantitative method and claims to be the first study to employs partial least square - structural equation modelling (PLS-SEM) to analyse shareholder and stakeholder perspectives on both independent and interdependent impacts of the board of commissioners - corporate sustainability - company financial performance in a single model.

Moreover, this study contributes by checking the robustness of the findings with several estimation methods to control for unobserved heterogeneity, simultaneity and reverse causality. This study found that in Indonesian banking, corporate sustainability concern is a partial mediator of the relationship between the role of the board of commissioners as part of the internal corporate governance mechanism and company financial performance, according to the shareholder and stakeholder perspectives. In addition, this study can identify the motivation behind corporate sustainability initiatives in Indonesian banking companies as the altruistic motive. The corporate responsibility activities seem to be window-dressing practices, which the company undertakes for their own sake in order to create a positive image for stakeholders. Moreover, these activities can be categorized as responsive corporate responsibility with companies being good corporate citizens addressing social norms as related to business operations (Porter & Kramer, 2006).

Problem Identification

This study encapsulates three areas of research by examining the shareholder and stakeholder perspectives in a single empirical study. This study utilises a new unbalanced data panel of 252 firm-year observations from a population of 39 Indonesian listed commercial banking firms during the period of 2007-2014, and tests the relationship among constructs using four different research models, drawing on both shareholder and stakeholders' perspectives. It does so by utilising on a decision-making model framework, the Throughput Model (Waymond Rodgers, 1997; Waymond Rodgers & Guiral, 2011), which allows identification of the impact of various steps in the decision-making process.

Problem Formulation

This study adopts a decision-making model, the Throughput Model, which is able in practically to look inside and explain in the decision-making process by utilising both shareholder and stakeholder perspectives. These are embedded into two different pathways of the decision-making process, as the agency theoretic and stakeholders (ethics of care) pathways position, in looking at the impact of the boards' role in corporate sustainability concerns and financial performance. The model illuminates into two different perspectives (i.e. shareholders and stakeholders) how the perception of the board of commissioners' role (as the principal's representative) jointly with corporate sustainability concern (as managers' initiatives) affect both company financial performance in terms of the judgment of financial health (as an intermediary outcome) and firm market value (as the final stage of decision choice).

Theoretically, the motivation of the board's role employs the stakeholders' view, as the shareholders' view should assist the facilitation of all the stakeholders in accessing company information and other resources for making their strategic decisions. Hence, by examining perspectives, this study attempts to answer two important questions: (1) how is the board of directors role related to corporate sustainability concerns toward corporate responsibility initiatives in order to maintain company financial performance? and (2) what is the motive for engagement in corporate sustainability concerns in the Indonesia banking context?. Practically, in Indonesia companies with external competitive markets, corporate and CEOs control are still underdeveloped, and the expropriation may occur not only between shareholders and managers (i.e. principal-agent conflict), but also between large ownership as “strong” controlling shareholders and “weak” minority shareholders (i.e. principal-principal conflict) (Lukviarman, 2004)

CHAPTER 2. RESEARCH LITERATURES

Theories of Relationship between Corporate Governance and Corporate Sustainability

Despite, the topic of corporate governance has been a well-researched area of study in the last decade, there is still no universally accepted definition of corporate governance among practitioners and scholars. According to Nerantzidis, Filos, and Lazarides (2012), the definition of corporate governance can be divided into six dimensions: institutional, shareholder, governance, control, performance and stakeholder, which is referred to practitioners and scholars' interpretation. Thus, at least 22 various definitions of corporate governance that have been produced by 33 researchers in recent years.

However, one definition considers to be the most generally use among scholars, which defines corporate governance is "the system by which companies are directed and controlled, the corporate governance structure specifies the distribution of the right and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders" (OECD, 2004). Also La Porta, Lopez-de-Silanes, and Shleifer (2002) defines corporate governance as "a set of mechanisms through which outside investors protect themselves against expropriation by the insiders (i.e. both managers and controlling shareholders)". Moreover, the definition of corporate governance from Nerantzidis et al. (2012) provides in a comprehensive and concise manner as "the plethora of mechanisms, both internal and external, that gives at least the fair value in shareholders and in parallel protects the interests of all stakeholders".

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The institutional dimension	Institutional and organizational mechanisms or A nexus of contracts	“set of mechanisms” “mechanisms by which corporations” “structures, processes, cultures and systems”
The shareholder dimension	Shareholders or shareholder group	“the interest of shareholders” “the benefit of investors” “suppliers of finance”
The governance dimension	The Board of Directors (including managers as well)	“company’s management” “exercise of power over corporate entities” “companies are strategically directed, integratively managed”
The control dimension	The function of audit/ control	“companies controlled” “holistically controlled” “controlled”
The performance dimension	Investor’s performance	“of getting a return on their investment” “performance” “distribution of firm value”
The stakeholder dimension	Stakeholders or stakeholder groups	“rights and wishes of stakeholders” “stakeholders”

Figure 0.1 : The Distinction of Corporate Governance Dimensions with Their Description along with Example Phrases
(source: Nerantzidis, 2012)

Variation in the adoption of theoretical perspectives regarding the relationship between corporate governance and corporate sustainability through corporate social responsibility is related to the use of different empirical justifications among researchers, the absence of single conceptual framework, and insufficient specified theory (Belkaoui & Karpik, 1989; Deegan, 2002; Gray, Javad, Power, & Sinclair, 2001). However, this study relies on two notable theories that are are more relevant to explain the integration between those topics in Indonesian context (Gunawan, Djajadikerta, & Smith, 2009), namely: *legitimacy theory* (Dowling & Pfeffer, 1975; Magness, 2006) and *stakeholder theory* (Freeman, 1984, 2010).

The *basis of legitimacy theory* relies on the notion of social contract as a strategy to narrower the perceived legitimacy gap between an organisation or a company and the society (Kolk & Pinkse, 2010; Magness, 2006). An organisation or a company exists and gains permission to use community resources in its operation ("license to operate") as the community considers that the organisation or the company is legitimate (Dowling & Pfeffer, 1975). However, if the community assumes that the organisation or the company has been doing illegitimate behaviour, they will response by withdrawing or suspending the continuity of its operational contract.

This means that organisations or companies will still be legitimate and have earned their right to exist when their system of values are always in line and harmonious with the larger social system (i.e., societies or communities); otherwise, they would be threatened and face problem when potential conflict appears between those two (Ashforth & Gibbs, 1990; Suchman, 1995). Hence, in order to minimise potential conflict between the society's expectations or perceptions and the organisations' value of systems and to strengthen the organisation's license to operate, the organisations' or companies' managements have to implement four principles of corporate governance and to conduct and disclose corporate social responsibility agendas (i.e., economic, environmental and social) in their operation and reporting (Cormier & Gordon, 2001; Gray et al., 2001).

However, according to *the stakeholder theory*, companies will be successfully served shareholder's interests when they can treat and satisfy other stakeholders' needs (Freeman, 1984; Jamali, 2008). Freeman (1984) defined stakeholder as "any group or individual who can affect or be affected by the achievement of an organization's objective". The stakeholder theory helps re-conceptualising and re-thinking company's responsibility, which does not always attend on the shareholders' interests. It argues that direct profit maximisation as shareholders' primary concern cannot be met without being affected by the success of serving other stakeholders' concerns. The foundation of this theory relies on the assumption that companies are getting bigger and grow their assets and activities. It will increase the complexity of business relations and many operations, which makes societies and other parties pervasive in bonding together. Hence, the companies have to be accountable, not only for the shareholders, but also for various parties and societies. It means that companies and their actions should focus on internal and external stakeholders to provide resourcefull support and to fulfil their demands.

Companies could not just concentrate on their responsibility for activities and operations that will bring-their-own economic benefits. They must also they must contribute to deliver environment and social benefits for their stakeholders. Therefore, appealing corporate sustainability concerns through corporate social responsibility disclosure in their corporate governance could help organisations (i.e., companies) increasing their moral and relationship with various powerful stakeholders through fair harmonisation of various conflicting difficulties (Freeman, 1984). According to Hoskisson, Castleton, and Withers (2009), company, through its manager, does not only have primary accountability on wealth and treasures for its shareholders, but also has the responsibility for the investment of employees, suppliers, customers, and society, which is an equally prominent aspect. Furthermore, extensive corporate governance conception is not only needed to emphasize that every business that wants to survive, to be competitive, and to successful must be responsible for providing all necessary resources for the stakeholders (MacMillan, Money, Downing, & Hillenbrand, 2004), but must also direct and align all constraints in managerial action and stockholder's rights with the entire stakeholders' interest (Jamali et al., 2008)

Corporate Governance and Corporate Sustainability Concerns in the Indonesia Banking Context

Nowadays, the central debates on corporate governance issues in corporate practise are related to how to solve perceived deviation on company fraud, managerial power abuse and corporate social irresponsibility practices (Letza, Sun, & Kirkbride, 2004). The attention among scholars and practitioners to response this issue refer to develop an effective governance mechanism and measurement, and to narrower between current social expectations and the shareholder expectations with the manager's expectations. Several prior studies have been published with mixed and distinctive results on the topic of corporate governance mechanisms in Indonesian context (Alijoyo, Bouma, Sutawinangun, & Kusadrianto, 2004; Darmadi, 2011a, 2011b; Lipsey & Sjoholm, 2001, 2003; Sato, 2004), and especially investigated in Indonesian commercial banks with focused independently on the impact of corporate governance mechanisms before and after crisis (Kameyama et al., 2006), managerial stock ownership (Junarsin & Ismiyanti, 2009), ownership concentration and board of commissioners power (Hanafi & Santi, 2013), the relationship corporate governance and remuneration (Endraswati, 2014; Suherman, Rahmawati, & Buchdadi, 2011).

The company structure in the Indonesian market context is different from the one-tiered corporate governance system applied in developed countries, such as the United Kingdom (UK), United States (US), and European countries, and/or other Asian countries. All entities of Indonesian companies apply a two-tiered board model in management organisation for the limited companies (referring to the Corporation Law number 1/1995 amended number 40/2007). Moreover, the "owner-manager control" is conducted by the Board of Commissioners (BoC) by referring to the Board of Directors (BoD) as the supervisory board that plays the control mechanism role within the corporate governance structure framework in stock companies as seen in the Anglo-American one-tiered CG system. Hence, this study suggests that the definition of BoC in Indonesia is the same as that of the BoD in other Anglo-American countries. The second component of this model refers to the executive or the management board with president director or CEO as the leader of company management.

Importantly, in the Indonesian commercial banking setting, a type of business that relies heavily on public trust and tight regulation, the banks are required to be more transparent by disclosing more information regarding major strategic decisions for shareholder and stakeholder interests. Hence, corporate governance is focussed on the setting the business operation direction through over-sighting management activities with the aim to protect all of the stakeholders interests. To that end, corporate governance plays an important role in ensuring that capital markets and banks are managed based on the principles of fairness, transparency, accountability, responsibility and independence in order to gain investor confidence.

The Bank Indonesia (BI), as the supreme banking regulator and supervisor, released a mandate for the implementation of eleven corporate governance aspects in all commercial banks in Indonesia through BI regulation number 8/4/PBI/2006 of 30 January 2006, amended by BI regulation number 8/14/PBI/2006 of 5 October 2006. According to this regulation, the board of commissioners is the core internal mechanism in banking operations. They responsible for setting up and control the internal governance system, while the external governance mechanisms for market control are remain underdeveloped. The board of commissioner has the basic task of continuously monitoring all aspects of the company operation and activity. They can examine and review all company documents, reports and explanations from management, employees, and auditor. Moreover, they also can encompass appointment and recall of management board members, review annual reports, and monitor the planned performance.

This regulation mandates the board of commissioners to have at least three persons, of whom at least 50% are independent commissioners. Additionally, the board of commissioners should hold at least four meetings a year and each member must attend at least two of these meetings. All board of commissioner members (including top management) is appointed by the shareholders at the general meeting of shareholders and they must disclose share ownership if the amount exceeds 5%. This regulation with its requirements represents the public interest, including the stakeholders' concerns (i.e. controlling shareholders, depositors, creditors, government, societies, and other shareholders). The supervisory and authority institution (i.e. Bank Indonesia) via its regulation seems to be attempting to ensure the bank's adherence to regulatory and legal responsibilities. Hence, Indonesia banking companies need to shift from shareholders' perspective through their board of commissioners' role to focus on the stakeholders' interests, in order to alleviate any potential "unique" agency conflict not only between shareholders and management, but also among stakeholders.

Survey findings from Kameyama et al. (2006) show that the board members of Indonesian banks not only to be concern on the large shareholders but also accountable to the depositors or customers. This implies demand for the concern with stakeholders' interests by the board of commissioners, whereby they are expected to be more active and to be independent of management, as well as more accurately reflect a broad range of constituents (i.e. stakeholders and shareholders) to mitigate negative external effects of the company's operations. Internal corporate governance mechanisms (i.e. the board of commissioners' role) have become more important to mitigate the agency conflict among stakeholders (M. N. Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

The "unique" agency conflict in Indonesia seems likely to occur in the context of other Asia countries, which are characterised by a highly concentrated ownership structure controlled by family, individual, business group, or institutional investors, external governance mechanisms, such as competitive markets for corporate control and for CEOs, are still underdeveloped and offer limited protection of minority ownership interests (Dharwadkar, George, & Brandes, 2000; Lukviarman, 2004). Moreover, the unique agency problem in the Indonesia context has become a crucial issue and seems to lead La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) to extend the corporate governance definition to multifaceted issues, and defining it as a set of mechanisms through which outside investors protect themselves against expropriation by the insiders (i.e. the managers and controlling shareholders).

However, the board of commissioners' ineffectiveness in supervising managerial functions and the lack of company transparency have been identified as factors that increased company's vulnerability to negative impacts of Indonesia's financial crisis (Kameyama et al., 2006). Further, this statement is supported by the Worldwide Governance Indicators (WGI) survey in 2014, which shows that Indonesia is categorised as a weak country in six dimensions of governance: voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and corruption control (www.govindicators.org). Moreover, during 2011-2014, at least 11 massive management scandals and crimes occurred in the Indonesian banking environment, as well as other small scandals in government-owned banks (www.infobank.com). These cases imply that several Indonesian banking companies have not always fully complied with corporate governance regulations and have failed to be socially responsible. However, the banking sector, as the centre of the financial sector with a financial intermediary function, should be credible and trustworthy for its customers and affiliations.

Further, in regard to corporate responsibility concerns, the Indonesian government released Article 74 of Limited Liability Company Law number 40/2007 and article 15 of Investments Law number 25/2007 in 2007 regarding the obligation to implement corporate social responsibility for listed investors, or companies that have core business operations related to non-renewable natural resources. Hence, the implementation of corporate responsibility activities and disclosure of such activities in the annual report, or a sustainability report, in Indonesian banking companies is considered in the early stage. Moreover, research on the compliance of companies with this regulation has not been well documented yet. Therefore, following this regulation, investigation of the linkage of the board of directors - corporate sustainability concerns - company financial performance in the Indonesian banking context would be an interesting topic to enrich the literature.

The Shareholders and Stakeholders Perspectives on the Role of the Board of Directors and Corporate Sustainability Concerns

Both shareholder and stakeholder perspectives are derived from the same root, which is the agency theory (Jensen & Meckling, 1976), which tends to follow the institutional classic issue on the separation of companies' ownership and control (Berle & Means, 1932). Most of the corporate governance literature on the shareholder perspective has been done in systems where dispersed ownership is predominant (i.e. Anglo-American style) and the focus is mainly on ensuring that shareholder rights are safeguarded. The three aspects of hierarchal corporate governance structures (i.e. the shareholders' general meeting, the board of directors and the managers) are designed to protect shareholders' interest.

In this sense, the board of directors' role is to mitigate faulty managerial behaviour that counters shareholders' interests because of principal-agent problems. They are responsible for mitigating the moral hazard of managers and other organization members who want to satisfy their own interest and are assumed to be willing to neglect shareholders' return or profit maximization (Gantenbein & Volonté, 2012; Jensen & Meckling, 1976). Hence, in the shareholder perspective, the board of directors is assumed to pay only a little attention to corporate sustainability concerns toward corporate responsibility activities because those tend to absorb the company's resources (i.e. money) and to oppose shareholders' wealth maximization purposes (i.e. profit and share prices). In other words, the board will only pay more attention to managers' efforts and company activities, which are expected have the influence to increase of shareholders' wealth.

However, in a contrasting view is the stakeholder perspective, which is mostly adopted in less dispersed, or predominantly concentrated contexts (i.e. Continental European-Asia style). This perspective views the corporation as a locus in relation to wider external stakeholders' interests rather than merely shareholders' wealth. According to the stakeholder perspective, corporate governance (i.e. the board of directors) is an institutional device which is responsible for corporate strategic decisions with the aim of inducing the management to internalize welfare maximization of a broader range of stakeholders, both internally (i.e. controlling shareholders and employees) and externally (i.e. customer, suppliers, regulators, societies, investors, minority shareholders, etc.) (Tirole, 2001).

Therefore, this study expects the stakeholders' perspective of the board of directors' role on sustainability concerns will represent on company ethically responsible operation for the stakeholders' interest with the impact on the increase or maintain higher company financial performance. That means the stakeholders' perspective on the board of commissioners' role in overseeing and motivating managers' function can be more engaged in sustainability concerns through corporate responsibility activities with potential implications to improve company financial performance.

Research Framework and Hypotheses

The Throughput Model Framework on the Relationship the Board of Commissioners Structure and Corporate Sustainability Concerns.

This study employs and adopts two of six possible pathways from the Throughput Model that are selected carefully to the best capture: **(1)** ***the agency theoretic position pathway*** (**P**$\rightarrow$**D**), and **(2)** ***the stakeholders position pathway*** (**I→P→J→D**) (Waymond Rodgers, 1997; Waymond Rodgers, Guiral, & Gonzalo, 2009). By implementing the Throughput Model, this study argues that a full explanation of the relationships among the constructs can be illuminated. It will describe the relationship between the role of the board of commissioners, sustainability concerns toward corporate responsibility activities, and company financial performance (see Figure 4.2). Moreover, this model provides details about the board of commissioners' process approach to determine whether company's sustainability concern influences both the intermediary outcome (company's financial health represented by revised Altman Z" Score) and the final stage (investors' decision as represented by Tobin's Q) of company financial performance.

Decision makers through their perception of the role of the board of commissioners and corporate sustainability concern when they neglect of using the content of the bank information in assessing company market value, as the first-stage evaluation. Then, the decision makers' perception together with a set of bank financial information is used in the second stage evaluation, to measure the company's performance, assessing both financial health and market value performance. That is, decision makers will make a judgment on financial health as measured by the revised Altman Z" score to make a final decision regarding the firm's market value.

This study depicts “perception” in the framework model that contains two formative constructs such as the board of commissioners' role and corporate sustainability concerns. The board of commissioners' role construct has been formed or "created" of six indicators, namely: the presence of independent commissioners, board of commissioner size, board of commissioners' ownership, number of meeting the board of commissioners per year, number of joint meeting the board of commissioners with the board of directors, and the board of commissioners' compensation.

Meanwhile, the corporate sustainability concerns as an effect from corporate responsibility disclosure of six sustainability performances, such as economic (EC), environmental (EN), society (SOC), labour practices (LA), human right (HR) and product responsibility (PR) based on GRI 3.1 guideline disclosure. A set of information is gathered from bank’s financial ratios that consist of a single-item construct capital, assets, management, earning and liquidity (CAMEL) in analysing company financial health according to Revised Altman’s Z-Score as judgment stage to determine a decision choice on firm’s marker value performance according to Tobin’s Q.

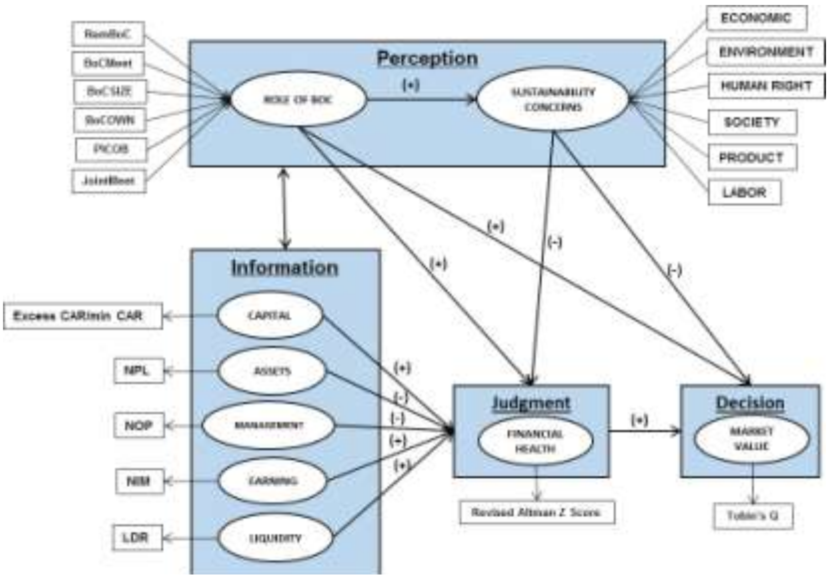

Figure 0.2 : Research Framework the Board of Commissioners' Structure on Corporate Sustainability Concerns

The agency theoretic pathway refers to the relationship between two concepts: **"P→D".** It represents the ethical egoism pathway, whereby an individual relying upon knowledge (i.e. from experience, training and education) makes a decision instantly, due to time pressures, by neglecting information. The decision makers are assumed to have an egoistic perspective to maximise their interests and need not be concerned about others' welfare to serve the common good. Moreover, they will concern about others only such concern has a means or benefit to achieve their own self interest (Waymond Rodgers & Gago, 2003).

This pathway depicts the shareholders' view, where the role of the board of commissioners and corporate responsibility disclosure are seen as the decision makers (i.e. investors or managers) "perception" in the decision-making model. The decision makers evaluate and create their "perception" based on the influences between the role of the board of commissioner and corporate responsibility disclosure, to determine the direct outcome of the "decision" on firm market value by disregarding all of the bank's accounting "information" and "judgment" on its financial health.

According to the agency theory, the role of the board of commissioners is as an oversight mechanism, not only to look specifically after shareholders' interests, but also to resolve conflicts related to management interests, including preventing top management's opportunistic behaviour, as well as monitoring and supervising all management activities (Eisenhardt, 1989; Eugene F. Fama & Jensen, 1983). In this context, company, whose implement the mandatory requirement of the board of commissioners expect to motivate the managers to disclose and more concern regarding corporate responsibility activities and promote maximising firm's market value.

The second one, **the stakeholder pathway position,** depict the relationship between the four concepts: **"I→P→J→D**. This pathway relies on the stakeholder perspective, which assumes company need built solidarity and carry out its accountability to the stakeholders (i.e. employees, suppliers, customers, and the community). It also represents ethics of care, which focuses on a willingness to concern with distinct and different interests among stakeholders and not just merely for the shareholders' interests. The company has obligation to deliver information and its actions must focus on internal and external stakeholders to providing resources support and fulfilling company stakeholders' demand.

The decision makers' perception emphasises a systematic approach in the decision-making process. In this context, decision makers (i.e. investors and managers) evaluate the role of the board of commissioners to identify its influence with the extent of corporate sustainability concern measured through corporate social responsibility disclosure in economic, environment and social activities based on GRI 3.1 guidelines. This stakeholder perspective indicates how decision makers should consider outside party influence and follow the guidelines in verified information through their analysis (i.e., judgment) and then make a decision choice on potential success in the future.

For this part, the decision maker assumes that the perception of the board of commissioners' role and corporate sustainability concern can serve as a standing bodyguard that should strive towards a consensus to protect the interests of diverse company stakeholders (i.e. employees, suppliers, customers, shareholders, and the community) – not merely shareholders' interests (Donaldson & Preston, 1995). Freeman (1984) defines stakeholder as "any group or individual who can affect or be affected by the achievement of an organization's objective".

By utilising this pathway, all information is collected on short-term bank performance (CAMEL ratio) will influence how the board of commissioners' role and corporate sustainability concern are perceived them. Specifically, this pathway allows the decision makers' concern about the utility of the bank's information, in order to establish their judgments about its financial health and determine the firm's value decision.

The Relationship between the Board of Directors, Corporate Sustainability and Company Performance

Recently, there has been growing interests in discussion of the impact of corporate governance mechanisms on corporate sustainability, in particular the board of directors role, which can serve as a key device control in relation to the triple bottom line performance, that is, financial (Cho & Kim, 2007; Jo & Harjoto, 2011), social (Johnson & Greening, 1999; Collins G. Ntim, Lindop, Osei, & Thomas, 2015; Collins Gyakari. Ntim & Soobaroyen, 2013) and environmental (de Villiers, Naiker, & van Staden, 2011; Zou, Zeng, Xie, & Zeng, 2015). Moreover, with the role as a supervisory board, the board of directors are expected to monitor and facilitate the management operations so that they fulfil legal compliance and avoid unlawful and improper behavior (Beltratti, 2005).

Most of those studies define in whose interests and how companies should be run in shaping the fundamental business purpose in corporate sustainability as well as focus on accountability and transparency issues. Moreover, sustainability disclosure policies emanate from the board of directors through its functions or roles from their attributes (i.e., composition, structure and leadership) that have been identified as determinant factors of company's disclosure (Gul & Leung, 2004; Haniffa & Cooke, 2005; G Michelon & Parbonetti, 2010). They articulate an increased pressure on the board’s role in the new level of transparency, accountability, and governance responsibilities from stakeholders around sustainability issues.

Jensen (1993) argues that the board of directors is crucial to effective internal control, as a dysfunctional corporate internal control system will lead to ultimate consequences of corporate failure. The board of directors' task is to ensure that the company's business activities are well operated in the right direction, and free of fraud, scandals and management misconduct, that could affect shareholders' and stakeholders' interests. Theoretically, in this setting, the board of directors' role is even more complex and it refers to relationships between a company’s management, its board, its shareholders, and other stakeholders. Directors have a responsibility to determine the strategic decisions of the corporate organisation and act on behalf of the stakeholders' interests. They have the ultimate power to determine the direction the company will take and how the objectives can be achieved. Directors also have a responsibility not only to supervise the result of the organization, but also to promote the stakeholders’ interests concerning long-term vision, growth, and strategies in financial and non-financial objectives (Daily, Dalton, & Rajagopalan, 2003).

Hence, the board responsible for financial or non-financial reporting integrity, corporate ethical standards and social concerns (Rose, 2007). They needs to urge the companies to contribute to the well-being of their communities, environment, and societies, related to the stakeholders' concerns as part of the company's sustainability performance. Thus, the Board has power and authority to determine the company’s direction and its operations in order to improve the company’s sustainability. Moreover, the board of directors is supposed to have a responsibility to decide the contribution of the company's financial, and, or non-financial objectives to improvement of the community, environment, and society, as part of its sustainability concerns.

The board of directors, as the stakeholders' representation in the company, oversees essential internal control mechanisms with three important functions (Beltratti, 2005; Hillman & Dalziel, 2003):

1. Monitoring and advising the managers by ensuring their acts in line with the shareholder's interests,
2. Facilitating the access to information and other resources for all stakeholders, and
3. Asserting to fulfill legal compliance and avoiding unlawful or improper behavior.

This study defines the construct of the board of commissioners' role by using several formative indicators such as the proportion of independent commissioners, number of meetings of the board of commissioners, the size of the board of commissioners, the board of commissioners' compensation, number of joint meetings between the board of commissioners and board of directors, and the board of commissioners' ownership. Aims that only focus on shareholder wealth maximization have been hostile to the stakeholder perspective, so that empirical results to support the stakeholders' view are mixed (Callan & Thomas, 2014; Donaldson & Preston, 1995; Hillman, Keim, & Luce, 2001).

Empirically, research from Jizi et al. (2013) examined the board's role in relation to its independence and sizes in the large US banking sector, and found a positive influence on CSR disclosure. They state that an effective board of directors' role will improve business sustainability by engaging and providing corporate social responsibility activities. The aim is not only to appease managers' personal moral concerns, but also to support commitment to societal concerns by maintaining positive relationships with the key stakeholders (Porter & Kramer, 2006). This finding supports Eugene F Fama (1980) argument that internal corporate governance mechanisms are effective to promote shareholders' interest and to encourage management to serve a wide range of stakeholders.

In addition, research from Huang (2010) found that independent board members who have specific ownership characteristics have a significant positive impact on both financial performance and social performance. Recently, Shrivastava and Addas (2014) found that board meeting attendance and independent directors are important predictors of both scores sustainability performance and disclosure. Boards meeting these criteria are more likely to discipline the management for better sustainability performance and GRI compliance, in such matters as climate change and environmental supply-chain management policies in the company. Moreover, the board's role in regard to the advisory, supervisory and controlling functions over managers' operations can be achieved through their meeting activities (Ayadi & Boujèlbène, 2013). Thus, when the board has more frequent meetings, it can be assumed to be a way to seek strategic decisions to improve the company value and avoid poor results. However, research by Janggu, Darus, Zain, and Sawani (2014) failed to find that board independence and board ownership are able to motivate managers to disclose sustainability activities.

This study argues that in a two-tiered corporate governance system where concentrated ownership is predominant, the shifting of the corporate governance aim to the stakeholders' interests would be more appropriate than shareholder' interests in order to help in establishing company objectives and strategies, working to achieve them, and monitoring performance. Companies need to implement well-designed corporate governance systems and describe the rights and responsibilities of the board of directors to align different stakeholders' interests that include managers, shareholders, customers, societies and others. Hence, this study develop hypothesis:

Hypothesis 1: *The role of the board of commissioners has a significantly positive influence on company sustainability concern.*

Moreover, this study expects the result from effective implementation of corporate governance through the board of commissioners' role and sustainability concerns to represent company ethically responsible operation. It should be able to place a greater impact on increasing and maintaining higher company financial performance. The board of commissioners' role in overseeing and motivating managers' function can be more engaged in sustainability concerns through corporate responsibility activities with potential implications to improve company financial performance. It seems that the new broader corporate governance concept from the the agency theory to stakeholders theory, which includes not only the board of directors' role in ensuring that investments are aligned to the owners' (investors') wishes in higher financial performance through company's strategic vision to increase corporate responsibility practices in society, as stakeholder engagement. It can expected to assist and attract stakeholder bonding for by exerting the best effort for the company's benefit; such as improving corporate image, improving internal decision-making, retaining the good workers and improving financial returns. Hence, the second hypothesis is represented as follow:

Hypothesis 2: The role of the board of commissioners has a significantly positive influence on company financial performance by mediating company sustainability concern.

The Relationship between Corporate Sustainability and Company Financial Performance

The direct relationship between corporate sustainability and financial performance has emerged and been examined as a key area in many scholars' research over the last two decades. However, the results seem to be inconclusive, inconsistent, and contradictory. The link between those topics in business practices continues to be highly debated and problematic, as it is often perceived that one is disadvantageous to the other and companies are presumed always to have the aim of generating shareholder wealth (Aras, Aybars, & Kutlu, 2010). Hence, the question remains whether corporate sustainability initiatives toward corporate responsibility practices are beneficial to enhance company value, while some scholar finds a negative linkage or insignificant effect on financial performance.

Regardless of the continuing debates, a survey from Accenture (2010) revealed that 98 per cent of banks' CEOs worldwide and 93 per cent of companies' CEOs believe that corporate sustainability concern through CSR activities is one of the important keywords in modern business activities and future business success. A further Accenture (2013) survey states that 76 per cent of companies' CEOs believes that embedding corporate sustainability into core business will drive revenue growth and new opportunities. Those results are in line with Garriga and

Melé (2004) argument that CSR activities have been identified as a key factor to attain economic goals and generate company wealth. However, it is increasingly apparent that most CeOs are constrained by market expectations, and struggling to quantify and capture the business value of sustainability (Accenture, 2013).

Some scholars argue that inconsistent findings might be related to several direct or indirect determinant factors as well as company motives behind conducting corporate sustainability concerns, which lead to spurious and imprecise relationships (Baron, 2001; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015; Wu & Shen, 2013). For instance, G. Michelon, Boesso, and Kumar (2013) found corporate sustainability initiatives have a more positive effect on financial performance when it is linked to organizational strategy. Thus, the positive effect of CSR activities on firm performance exists due to the mediation factors of higher company reputation and competitive advantage (Saeidi et al., 2015). Moreover, it is necessary for academic scholars to assess company financial performance by measuring both company financial accounting and market-based measures rather than only focusing on one single measure of performance (Barnett & Salomon, 2006; Waymod Rodgers, Choy, & Guiral, 2013). These considerations drive the stance of the present study, which focuses on the practice of corporate sustainability initiatives in a different business environment using two type of financial performance, financial health as an accounting performance measures and Tobin's Q as a measure of firms' market value. The remaining question which needs to be answered in this study is about the actual situation of those financial performance indicators concerning the impact and motivation in the banking industry of conducting corporate sustainability concerns in a developing countries context.

Empirically, a prior study from Margolis and Walsh (2003) reviewed and documented 127 studies from 1972 to 2002 and reported that 54 studies found a positive relationship, 20 studies showed mixed results; and 28 and 7 studies showed insignificant and negative relationships respectively. In addition, a study by Wu and Shen (2013) of 162 banking companies in 22 countries in 2003-2009 found that CSR is positively associated with accounting financial performance measured by ROA, ROE, and net interest income; and negatively associated with non-performing loans. They suggested that strategic choice is the primary motive of banking industries to engage in CSR.

Moreover, Waymod Rodgers et al. (2013) found that a firm's CSR reputation has a positive correlation to firm's value and will increase the firm's financial health and market value. They also found that the customer dimension of CSR has a significant impact on both accounting and market-based financial performance. Meanwhile, the employee or community relations dimensions only affect a specific performance and/or a specific group of firms. Brammer and Millington (2008) states that the positive relationship between CSR and CFP reflects an assumption that financial benefits are not subject to diminishing returns.

In contrast, the previous research which found the negative association between company sustainability concerns and CFP reflects the assumption that there are no financial payoffs to good social performance (Brammer & Millington, 2008). The authors argue that socially unresponsive firms incur fewer direct costs and, ceteris paribus, reap higher profits than socially responsive ones. In that sense, the companies that increase their sustainability concern would be competitively disadvantaged without managerial benefits. Companies incur significant expense in using firms' resources that could lower returns for their shareholders from sources of alternative investment projects. Prior research from Orlitzky, Schmidt, and Rynes (2003) and G. Michelon et al. (2013) supported the argument that company participation in social issues will reduce the company's performance output, such as intangible asset, capital expenditure, and EBITDA in spite of their beneficial and positive effect on the stakeholders and the shareholders.

Moreover, in other developing countries, such in Turkey (Aras et al., 2010) and India (Aggarwal, 2013) research also failed to find an effect of corporate social responsibility and overall sustainability rating on financial performance. Further, in the Indonesian companies' context, a study based on 383 companies failed to find a significant relationship between CSP and CFP using the model of slack resources theory and good management theory (Fauzi, Mahoney, & Rahman, 2007). However, it was found that the company's size can be a significant positive moderating variable on the relationship between CSP and CFP. Moreover, research Oeyono, Samy, and Bampton (2011) reveals a weak positive relationship between level of CSR and profitability among top 50 Indonesian listed companies.

Additionally, research Gunawan (2015) has shown that the motivation of most Indonesian public companies to engage and disclose corporate sustainability tends to be only to fulfil legal obligation and the demands of communities as well as legitimising the business operations. This motivation tends to follow an altruism motive, which is conducting corporate sustainability for its own sake rather than its being integrated strategically into each company's decision-making process (Baron, 2001). Therefore, this study posits that in the Indonesian banking industry, as an emerging country context, companies with higher sustainability concern may have lower financial health and market value in the short-term period.

Hypothesis 3: *Company sustainability concern have a negative influence on both company financial health and market value.*

Chapter 3. Research Objectives and Benefits

Research Objectives

The purpose of this research is threefold. *First*, it aims to provide recent insights on the potential influence of structure of board of commissioners in affecting both corporate sustainability concerns through disclosure and corporate financial performance, according to the shareholder and the stakeholders' perspectives, by employing the Throughput Model, a decision-making model developed by Waymond Rodgers (1997). *Second*, it presents a recent picture of the implementation of structure of board of commissioners in publicly listed Indonesian commercial banks following the implementation of mandatory regulation of corporate governance for all Indonesian commercial banking companies, which was enacted in 2006. *Third,* it also demonstrates the implementation and practice of corporate sustainability concerns through corporate social responsibility activities and disclosure after the law related to the mandatory implementation of corporate social responsibility for public listed companies in Indonesia was published in 2007.

Research Benefits

This research explores publicly listed Indonesian commercial banking companies throughout the period 2007-2014 for several reasons. ***First, academic motivation.*** The interrelationship among the aforementioned topics is very rarely published compared to research in other industries, for instance in manufacturing or the mining industry. Hence, this study can potentially fill an important gap over a given time period and create deeper understanding of the different impacts that occur among the constructs, as well as extend the potential of other explanatory factors in the literature.

Second, industry motivation. Commercial banking companies, such as Indonesian banks, being central in financial sector, play a very important role in modern economic systems to ensure stability for the economy of the country. This is reflected in their opportunity to be actively involved in society by practising sustainable development through several different responsible actions in various business relations with both customers and other firms in an era of global industry, such as providing customers with security, access and liquidity. Moreover, the banks serve as financial intermediaries by facilitating cash flow between lenders and borrowers in which they may use public resources more than other industries. The cash may mainly come from stakeholders (i.e. depositors and lenders) rather than shareholders. Hence, banks have to adopt corporate social responsibility practices and perform highly reliable, complying with relevant legal framework/s and responsible behaviour, effectively and efficiently using resources, to be healthy banks that can create external benefit for society and the environment. They also must gain profit in their short and long term business activities, and comply with relevant legal framework/s to maintain their company financial performance as profitable organisations for stakeholders' (include shareholders') interests. Especially, public-listed banks should be more pro-active in adopting and promoting high-profile corporate sustainability initiatives in economic, environmental and social activities.

Third, the regulator motivation; this research takes the opportunity to see how the Indonesian commercial banks focus on implementation of corporate governance and corporate social responsibility activities after the regulators (i.e., Bank Indonesia and the Indonesian government) enacted the new regulation and law regarding mandatory corporate governance and corporate social responsibility initiatives. The Bank Indonesia (BI) has launched a new regulation (i.e., PBI number 8/4/2006 amendment PBI number 8/14/2006) regarding mandatory implementation of corporate governance for all Indonesian commercial banking companies. Moreover, the Indonesia Government also has enacted two Laws that regulate corporate social responsibility and environmental activities, namely, Investment Law number 25/2007 article 15.b and Limited Liability Company Law number 40/2007 article 66.c. These laws were first effectively mandatorily applied in 2007, requiring listed companies to disclose their corporate social responsibility and environment initiatives in their annual report or other additional reports.

Finally, investor motivation; since the worldwide financial crisis of 1997 and 2008 occurred, banks are being called upon to operate in a more ethically responsible manner. In the Indonesian context, integration corporate social responsibility and corporate governance may create benefit for minority shareholders and foreign investors. Foreign investors that enter emerging markets need to develop early effective corporate strategies to manage risk and to find the way to arrange activities in a complex business environment, which has a different set of characteristics from those employed in developed markets. They will avoid banks with poor sustained performance, whose pay interest rates will be more expensive, rather than 'the sustainable' bank, which reduces the shareholders' or investors' return. Hence, this study will provide information on investors and other stakeholders' reaction regarding the decision making process for their investment continuity when the banks determine the corporate sustainability concern to integrate with the bank governance.

CHAPTER 4. RESEARCH METHODOLOGY

Data Collection and Sampling

Subject of research is taken from 39 commercial banking companies publicly listed on the Indonesia Stock Exchange from the period 2007 to 2014 (see Table 4.1 and Table 4.2). All the data regarding governance mechanisms, corporate sustainability concerns through company disclosure, bank's financial ratios (capital, assets, management, earning and liquidity, or CAMEL) and company financial performance (i.e. company financial health and market value performance) were hand-extracted from secondary data.

The secondary data were primarily the mandatory and voluntary reports for the Indonesian Securities Commission and the Bank Indonesia (BI), such as the banks' annual reports, the banks' financial statement, the banks' corporate responsibility report or corporate sustainability report and the bank's corporate governance report. The secondary data were collected from the 39 banks' websites, website of the Indonesia Stock Exchange (IDX) (www.idx.co.id), website of the Bank Indonesia (www.bi.go.id), and Datastream.

The rationale for choosing 2007 as the beginning of the study period is that it was the first year of Indonesian banking CG reform after the implementation of the mandatory Bank Indonesia (BI) regulation number 8/4/PBI/2006 with amended number 8/14/PBI/2006 for daily operational banking. The year 2014 was chosen as the end of the study period as it was the latest financial year for which all companies published annual reports, which were available at the time when data collection started.

Table 4.1 : Number Population and Sample of Indonesian Commercial Banks that Listed on Indonesia Stock Exchange during the period of study 2007-2014

Year	Population	Samples (Observations)	Sample (%)
2007	26	26	100
2008	28	28	100
2009	29	29	100
2010	31	31	100
2011	31	31	100
2012	32	32	100
2013	36	36	100
2014	40	39	97.5
Grand Total		**252**	**99.7**

Research Instrument

The Structure of the Board of Commissioners

The construct of the board of commissioners' structure is measured as a formative construct by referring to the mandatory board of commissioners' requirements according to the BI regulation number 8/4/PBI/2006, amended by number 8/14/PBI/2006. This construct consists of six indicators, which are defined in systematic arrangement below:

1. the proportion of independent commissioners on the board (PICOB) is the ratio of the number of independent commissioners to the total number of the board of commissioners (Ayadi & Boujèlbène, 2013; Conyon & He, 2011; Core, Holthausen, & Larcker, 1999; Htay, Mohd Said, & Salman, 2013; Janggu et al., 2014; Jensen, 1993; Jizi et al., 2013; OECD, 2004; Zajac & Westphal, 1994),
2. the size of the board of commissioners (BoCSize) is the ratio of the total members of the board of commissioners over the minimum number of members of the board of commissioners (i.e. at least three persons) (Ayadi & Boujèlbène, 2013; Core et al., 1999; Dalton, Daily, Johnson, & Ellstrand, 1999; Htay et al., 2013; Jensen, 1993)

3. the number of board of commissioners meetings per year (BoCMeet) is the ratio of number of board of commissioners meetings over the minimum meetings per year (i.e. at least four times per year) (Andres & Vallelado, 2008; Ayadi & Boujèlbène, 2013)
4. board of commissioners ownership (BoCOWN) is the ratio of outstanding common stocks held by the board of commissioners (Brick, Palmon, & Wald, 2006; Core et al., 1999; Htay et al., 2013; Janggu et al., 2014; Zou et al., 2015)
5. the number of board of commissioners joint meetings with managers/executives in a year (JointMeet) is the number of joint meetings between the board of commissioners with the board of directors per year; and
6. total board of commissioners compensation per year (RemBoC) is the board of commissioners' cash compensation, measured by aggregate total cash of salary, bonus and other benefits received by the board of commissioners per year.

Corporate Sustainability Concerns

The corporate sustainability concerns consist of three main areas of performance, namely (see Table 4.2~~).~~) the following:

(1) Economic performance (EC), which consists of nine indicators;

(2) Environment performance (EN), which consists of 16 indicators;

(3) Social performance (SOC), which consists of four~~-part~~ parts of valuation performance:

  (a) Human rights performance (HR), which consists of six indicators;

  (b) Labour practices and decent work performance (LA), which consists of 11 indicators;

  (c) Product responsibility performance (PR), which consists of five indicators; and

  (d) Society performance (SO), which consists of seven indicators.

Prior studies have used the content analysis technique to analyse corporate sustainability~~,~~ or CSR disclosure (Al-Tuwaijri, Christensen, & Hughes Ii, 2004; Beattie & Thomson, 2007; Gray, Kouhy, & Lavers, 1995). This study employs this technique to analyse the company narration in the sustainability reporting, or the annual report, or the corporate responsibility reporting of Indonesian commercial banks, based on requirement from the modification of GRI 3.1 indicators, which are differentiated into disclosure of six performance areas (EC, EN, HR, LA, PR, and SO).

Then, this study individually quantifies the company narrative for each performance disclosure into a range of three scores: 0 (not disclosed), 1 (partially disclosed), or 2 (fully disclosed). The aggregate score for each company is determined and divided by the maximum score of each indicator. It is contended that quantitative disclosure ~~by~~ using this content analysis technique ~~are~~is more objective and informative than qualitative analysis to provide information for the stakeholders' interests.

Table 4.2 : GRI 3.1 Modification

ECONOMIC PERFORMANCE INDICATORS	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.
EC3	Coverage of the organization's defined benefit plan obligations.
EC4	Significant financial assistance received from government
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.
ENVIRONMENT PERFORMANCE INDICATORS	
EN1	Materials used by weight or volume.
EN2	Percentage of materials used that are recycled input materials
EN3	Direct energy consumption by primary energy source.
EN4	Indirect energy consumption by primary source.
EN5	Energy saved due to conservation and efficiency improvements.
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.
EN8	Total water withdrawal by source.
EN9	Water sources significantly affected by withdrawal of water.
EN10	Percentage and total volume of water recycled and reused.
EN11	Strategies, current actions, and future plans for managing impacts on biodiversity.
EN12	Total water discharge by quality and destination.

EN13	Total weight of waste by type and disposal method.
EN14	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
EN15	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.
EN16	Total environmental protection expenditures and investments by type.
SOCIAL PERFORMANCE INDICATORS	
HUMAN RIGHT PERFORMANCE INDICATORS	
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
HR4	Total number of incidents of discrimination and actions taken.
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.
HR6	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.
LABOR PRACTICES and DECENT WORK PERFORMANCE INDICATORS	
LA1	Total workforce by employment type, employment contract, and region.
LA2	Total number and rate of employee turnover by age group, gender, and region.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.
LA4	Percentage of employees covered by collective bargaining agreements.
LA5	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.
LA6	Health and safety topics covered in formal agreements with trade unions.Health and safety topics covered in formal agreements with trade unions.
LA7	Average hours of training per year per employee by employee category.
LA8	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
LA9	Percentage of employees receiving regular performance and career development reviews.
LA10	Ratio of basic salary of men to women by employee category.
LA 11	Return to work and parental leave, by gender
PRODUCT RESPONSIBILITY PERFORMANCE	
PR1	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.
PR2	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.
PR3	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes.

PR4	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.
PR5	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services
SOCIETY PERFORMANCE INDICATORS	
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.
SO2	Percentage of employees trained in organization's anti-corruption policies and procedures.
SO3	Actions taken in response to incidents of corruption.
SO4	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.
SO5	Monetary value of significant fines and total number of non-monetary sanctions for compliance with laws and regulations
SO6	Operations with significant potential or actual negative impacts on local communities.
SO7	Prevention and mitigation measures implemented in operations with signifi cant potential or actual negative impacts on local communities

Company ~~Financial Health~~financial health, which consists of one reflective indicator using the Altman ~~Revision ZScore Model~~revision Z score model, is a score that indicates a distressed company condition for non-manufacturing companies in emerging countries (Altman, Hartzell, Peck, Levich, & Mei, 1995), where Z" Scores **below 1.10** indicate a distressed condition, with the following formula:

Z" = 6.56 (X1) + 3.26 (X2) + 6.72 (X3) + 1.05 (X4~~);~~),

~~Where~~Where:

X1 = working capital/total assets, X2 = retained earnings/total assets, X3 = earnings before interest and taxes/total assets, and X4 = market value equity/book value of total liabilities.

Company ~~Market Value~~market value, which consists of one reflective indicator from Tobin's Q, is the ratio of the market value of equity and the book value of liabilities, scaled by the book value of assets (Waymod Rodgers et al., 2013).

The ~~Banks Financial Information consist~~banks' financial information consists of five constructs, with one reflective indicator each, which are as follows:

a. CAR (~~Capital Adequacy Ratio~~capital adequacy ratio) is the ratio between ~~capitals~~capital in excess of regulatory requirements over the minimum capital requirements~~.~~.

b. NOP (~~Net Open Position~~net open position) is the net sum of all foreign currency assets and liabilities of a bank or financial institution inclusive of all of its ~~spots~~spot and forward transactions and off-balance~~-~~-sheet items in that foreign currency.

c. NPL (~~Non-Performing Loan~~non-performing loan) is a sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default~~-~~.

d. NIM (~~Net Interest Margin~~net interest margin) is the ratio of the difference of investment return with interest expenses divided by average earning assets.

e. LDR (~~Loan Debt Ratio) is~~ loan ~~to~~ debt ratio) is the ratio of bank liquidity to cover of unforeseen fund requirements.

Data Analysis

This research analyses the relationships between the constructs using two different research frameworks and provides the results in findings. Each findings describes a different research framework, latent variables or constructs (i.e., variables that are not directly measured) and types of indicator measurement, such as formative and reflective indicators. The data characteristics of the study, which contains a latent variable with formative measures, the relatively small size of the sample (i.e., 252 firm-year observations) and apparently non-normal distribution led to the use of a PLS-SEM approach.

This research uses the structural equation modelling (SEM) technique in particular partial least square-structural equation modelling (PLS-SEM) to examine the complex or multiple relationships among latent variables or constructs of the bank's governance mechanisms, sustainability concerns, financial ratios information and company financial performance (i.e., financial health and firm value). This study investigates two different research models in order to gather new and complete empirical knowledge concerning the relationship between the constructs of the bank's governance mechanisms, sustainability concerns, financial ratios information and company financial performance.

Chapter 5. Results and Discussion

Results

The Statistics Descriptive

Table 5.1 contains a statistical description of the indicators of the impact of the board of commissioners' role on company financial performance through its sustainability concerns. Overall, this study shows that the indicators of the board of commissioners' role in Indonesian banking companies has followed the corporate governance reforms regulation by fulfilling the mandate to have at least 50 per cent independent (outside) commissioners, to have a minimum of three commissioners on the board and to hold a minimum of four meetings per year.

The table 5.1 shows that the average proportion of independent commissioners on the board (PICOB) is 58 per cent (maximum = 100 per cent and minimum = 25 per cent), the average board of commissioners size is 165 per cent which equals 5 (five) commissioners on the board (maximum = 400 per cent and minimum = 67 per cent), and the average number of board of commissioners meetings per year is 374 percent which equals to 15 times per year (maximum = 1600 per cent and minimum = 75 per cent). This study also found that the average number of joint meetings between board of commissioners and the management is nine times per year (maximum = 53 times/year and minimum = 1 time/year and the average board of commissioners compensation is IDR 10,870 Million/year (maximum = IDR 81,967 Million and minimum = IDR 324 Million). One U.S. dollar equals approximately IDR 13,514. However, the Bank of Indonesia as the regulator should give more attention to the board of commissioners' ownership because the average of its ownership in Indonesian commercial banks slightly exceeds 5 per cent as the maximum ownership regulation, at 5.8 percent (maximum = 72 percent and minimum=0 percent).

Table 0.1 : The Statistic Descriptive

Indicators	Min	Max	Mean	Std. Dev	VIF
Tobins	0.87	1.61	1.09	0.13	1.00
Z Score	-2.91	3.45	1.15	0.69	1.00
CAR	-2.38	9.94	1.15	0.98	1.00
NPL	0.00	0.18	0.017	0.02	1.00
NOP	-0.02	1.32	0.03	0.09	1.00
NIM	0.00	0.17	0.06	0.02	1.00
LDR	0.09	1.13	0.78	0.15	1.00
PICOB	0.25	1.00	0.58	0.12	1.25
ExcBoCSize	0.67	4.00	1.65	0.62	1.61
BoCMeet	0.75	16.00	3.74	3.58	1.96
JointMeet	1.00	53	9.23	6.45	1.58
BoCOwn	0.00	0.72	0.058	0.15	1.05
REMBoC	324	81,967	10,870.75	13,666.56	1.79
SO	0.14	0.93	0.41	0.15	1.89
PR	0.00	0.80	0.29	0.21	2.32
LA	0.00	0.96	0.24	0.21	4.40
HR	0.00	0.92	0.08	0.15	4.08
EN	0.00	0.75	0.09	0.16	6.34
EC	0.06	0.94	0.23	0.19	6.20
Valid N (listwise)	**252**				

Notes: PICOB : proportion of independent commissioners on the board; **ExcBoC Size :** percentage of excess minimum number of board of commissioners (at least three persons)**; BoCOwn :** percentage of board of commissioners Shareholders ownership; **Rem BoC :** total board of commissioners cash compensation in a year (in million Indonesian Rupiahs); **BoC Meet :** percentage of excess of minimum meeting in a year (four times a year); **Joint Meet :** Number of joint meeting between board of commissioners and board of directors in a years; **CAR :** Capital Adequacy Ratio; **NPL:** Non-Performing Loan; **NOP :** Net Open Position; **NIM :** Net Interest Margin; **LDR :** Loan to Debt Ratio; **Z Score:** Revision Altman's Z score for financial health mesrument and **TOBINS:** Tobin's Q for firm market value performance; **SO:** disclosure of corporate society activities concern; **PR:** disclosure of corporate product responsibility activities concern; **LA :** disclosure of corporate labour practices concern; **HR:** disclosure of corporate human right activities concern; **EN:** disclosure of corporate environmental activities concern**;** and **EC:** disclosure of corporate economic activities concern

Moreover, this study shows that corporate sustainability concerns in Indonesian commercial banking companies is still in the early stage with, poor and patchy implementation depending on their disclosure. Overall, the six indicators of corporate sustainability concerns reveal that the average level of disclosure on economic, environment, and social aspects, which consist of product responsibility, labour, human rights and society are below 50 per cent. The highest average on sustainability concerns was found in society performance disclosure, with 41 per cent (maximum = 91 per cent and minimum = 14 per cent); and the lowest sustainability concern was found in environmental performance disclosure with nine per cent (maximum = 75 per cent and minimum = 0 per cent). This study noticed that most of the Indonesian commercial banks are healthy companies as the average Z-score is 1.15 (maximum = 3.45 and minimum = -2.91). It is slightly above the cut-off limit score of 1.1 as a non-distressed company; however, this is still in the grey area as it is below the level for a safe company. Thus, the average company's market value is 109 per cent (maximum = 161 per cent and minimum = 87 per cent), which mean that the banking company's market value was over-valued.

Furthermore, this study conducted a correlation analysis to examine the potential of substitution or complementary effect among indicators in the board of commissioners' role as an internal corporate governance mechanism. In Table 4.3, we found the substitution effect shown through significant negative association between proportion of independent commissioners and the board of commissioners' size, the board of commissioners' compensation and the board of commissioners' joint meetings ($r = -0.46$, $r = -0.29$; $\rho < 0.01$ and $r = -0.14$; $\rho < 0.05$). Further, there is also significant negative association between board of commissioners' ownership and the board of commissioners' size, the board of commissioners' meetings, board of commissioners' joint meetings and the board of commissioners' compensation ($r = -0.17$, $r = -0.17$; $\rho < 0.01$ and $r = -0.16$, $r = -0.13$; $\rho < 0.05$).

Moreover, we also notices a complementarity effect, which can be shown by the significant positive association between board of commissioners' compensation and the board of commissioners' size, the board of commissioners' meetings and the board of commissioners' joint meetings ($r = 0.66$, $r = 0.39$ and $r = 0.39$; $\rho < 0.01$). Thus, a significant positive association is found between board of commissioners' joint meeting and the board of commissioners' size and the board of commissioners' meetings ($r = 0.17$, $r = 0.67$; $\rho < 0.01$); and between the board of commissioners' size and the board of commissioners' meetings ($r = 0.21$; $\rho < 0.01$).

Table 05.2 : The Construct Correlations Matrix

Constructs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Structure BoC (1)	1.00								
Sustainability Concerns (2)	0.75***	1.00							
Capital (3)	-0.15***	-0.16***	1.00						
Asset (4)	-0.28***	-0.20***	-0.24***	1.00					
Management (5)	-0.06	-0.05	-0.09	0.23***	1.00				
Earning (6)	0.26***	0.14**	-0.00	-0.03	-0.15***	1.00			
Liquidity (7)	0.15***	0.21***	-0.18***	0.03	-0.04	0.28***	1.00		
Financial Health (8)	0.25***	-0.10*	0.46***	-0.48***	-0.45***	0.37***	0.10*	1.00	
Market Value (9)	0.29***	-0.07	0.23***	-0.121*	-0.03	0.25***	0.02	0.47***	1.00

Note:
***. Correlation is significant at the 0.1 level (2-tailed).**
*****. Correlation is significant at the 0.01 level (2-tailed).**

In addition, Table 5.2 shows that the inter-correlation between the constructs of the structure of the board of commissioners as part of internal corporate governance mechanisms and corporate sustainability concerns is strongly positive in order to maintain corporate financial performance ($r = 0.75$; $\rho < 0.01$). Further, I found a statistically significant correlation between constructs the role of board of commissioners and the company sustainability concerns (“P”) with financial information sources (“I”) of capital, asset, earning and liquidity ($r = -0.15$, $r = -0.29$, $r = 0.26$, $r = 0.15$; and $r = -0.16$, $r = -0.20$, $r = 0.14$, $r = 0.21$; $\rho < 0.01$).

Table 0.3 : The Indicators Correlation Matrix

Indicators	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Tobin's Q (1)	1.00	.																	
ZScore (2)	0.52**	1.00																	
CAR (3)	0.12	0.60**	1.00																
NPL (4)	-0.14*	-0.48**	-0.33**	1.00															
NOP (5)	-0.05	-0.210**	-0.19**	0.17**	1.00														
NIM (6)	0.28**	0.36**	0.05	-0.12	-0.02	1.00													
LDR (7)	-0.01	0.13*	-0.05	0.08	-0.09	0.29**	1.00												
PICOB (8)	-0.13*	-0.09	-0.04	-0.04	-0.03	-0.09	-0.26**	1.00											
BoC Size (9)	0.15*	0.17**	-0.11	-0.12	0.08	0.23**	0.31**	-0.46**	1.00										
BoC Meet (10)	-0.07	-0.24**	-0.24**	0.08	0.16*	0.07	-0.08	-0.02	0.21**	1.00									
Joint Meet (11)	-0.09	-0.21**	-0.22**	0.15*	0.11	-0.00	0.09	-0.14*	0.17**	0.67**	1.00								
BoCOwn (12)	-0.19**	0.02	0.08	-0.11	-0.14*	-0.07	-0.21**	0.13*	-0.17**	-0.17**	-0.16*	1.00							
REMBoC (13)	0.26**	0.21**	-0.14*	-0.19**	-0.01	0.31**	0.21**	-0.29**	0.66**	0.39**	0.39**	-0.13*	1.00						
SO (14)	0.10	0.11	-0.14*	-0.19**	0.02	0.17**	0.20**	-0.19**	0.45**	0.19**	0.31**	-0.00	0.56**	1.00					
PR (15)	0.03	0.02	-0.17**	-0.01	0.14*	0.14*	0.21**	-0.04	0.40**	0.34**	0.30**	-0.30**	0.47**	0.40**	1.00				
LA (16)	0.05	0.17**	0.02	-0.14*	-0.02	0.18**	0.33**	-0.16*	0.54**	0.29**	0.22**	-0.13*	0.65**	0.57**	0.61**	1.00			
HR (17)	0.05	0.20**	0.03	-0.15*	-0.07	0.08	0.26**	-0.15*	0.41**	0.13*	0.19**	-0.13*	0.49**	0.57**	0.56**	0.63**	1.00		
EN (18)	0.06	0.13*	-0.06	-0.06	0.08	0.06	0.33**	-0.23**	0.57**	0.37**	0.34**	-0.27**	0.61**	0.47**	0.65**	0.70**	0.67**	1.00	
EC (19)	0.09	0.14*	-0.05	-0.07	0.04	0.17**	0.23**	-0.21**	0.56**	0.39**	0.34**	-0.25**	0.68**	0.51**	0.61**	0.69**	0.68**	0.78**	1.00

Notes: *. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

PICOB : proportion of independent commissioners on the board; **ExcBoC Size :** percentage of excess minimum number of board of commissioners (at least three persons)**; BoCOwn :** percentage of board of commissioners Shareholders ownership; **Rem BoC :** total board of commissioners cash compensation in a year (in million Indonesian Rupiahs); **BoC Meet :** percentage of excess of minimum meeting in a year (four times a year); **Joint Meet :** Number of joint meeting between board of commissioners and board of directors in a years; **CAR :** Capital Adequacy Ratio; **NPL:** Non-Performing Loan; **NOP :** Net Open Position; **NIM :** Net Interest Margin; **LDR :** Loan to Debt Ratio; **Z Score:** Revision Altman's Z score for financial health mesrument and **TOBINS:** Tobin's Q for firm market value performance; **SO:** disclosure of corporate society activities concern; **PR:** disclosure of corporate product responsibility activities concern; **LA :** disclosure of corporate labour practices concern; **HR:** disclosure of corporate human right activities concern; **EN:** disclosure of corporate environmental activities concern**;** and **EC:** disclosure of corporate economic activities concern

The Measurement (Outer) Model Assessment

This study analysed the measurement (outer) model by examining individual item reliability, internal consistency or construct reliability, average variance extracted analysis, and discriminant validity. This study described nine constructs in the research framework by using two different types of indicators, namely: reflective and formative indicators. In this study, the reflective measure~~s~~ consist of seven constructs with a single indicator, which are CAPITAL, ASSET, MANAGEMENT, EARNING, LIQUIDITY, FINANCIAL HEALTH and MARKET VALUE. While, for formative measures consists of two constructs, which are ROLE OF BOC and SUSTAINABILITY CONCERNS.

In PLS, to assess individual indicator reliability for reflective measures by observing the loadings value or simple correlation of the indicators with their respective construct. Table 5.4 shows all of the seven reflective indicators have the maximum level, 1.00, which is above a widely acceptable indicator reliability at 0.707 (Chin, 1998). It indicates that each reflective indicator as constituent of a manifest variable or construct. Moreover, Table 5.4 also exhibits all the composite reliability (CR) values above 0.700 to measure the construct reliability, which means that all reflective indicators have variance at least 50% in common with the latent variable.

This study also conducted convergent validity to measure the amount of variance that a reflective construct captures from its manifest variables or indicators and discriminant validity to ensure that the reflective construct has the strongest relationships with its own indicators. We noticed that all the average variance extracted (AVE) values are above 0.50, which means that 50% or more of the indicator variance should be accounted for. Moreover, by employing the heterotrait-monotrait ratio of correlations (HTMT) criterion from Henseler, Ringle, and Sarstedt (2015), we found all reflective constructs' HTMT values are below 0.90, which means that the discriminant validity between pairs of reflective constructs has been established. According to Hair, Hult, Ringle, and Sarstedt (2014), HTMT criterion is superior to assess discriminant validity, instead of the Fornell-Larcker and cross-loadings criterion.

Nonetheless, to assess individual indicator reliability for a construct with formative measures is not appropriate and illogical to use the same technique as reflective measures, which can lead to misleading because intraset correlation to obtain construct are never taken in the estimation process. All indicators for a formative construct might be completely uncorrelated (independent) across two or more components; therefore, it should use weight factors (Chin, 1998). The weight factors represents canonical correlations analysis, which is the value meaning very different in terms of reliability measures. The weight factors provide information to understand how each indicator create or contribute to latent variable (construct).

Table 5.4 exhibits the weight factors and the level of significance for twelve indicators associated with two formative constructs, which are ROLE OF BOC and SUSTAINABILITY CONCERNS. It indicates twelve indicators that cause the formation of two constructs. Further, PLS could not use the traditional parametric procedure to determine coefficient significance level for estimating the factor loading, or weight magnitude and path coefficients. Hence, this study includes non-parametric of resampling procedure using bootstrapping method due to the data is assumed as non-normal distribution. Then, to avoid systematically biased on the results of significance test, this study examined the factor loading, or weight magnitude and path coefficients by using 5,000 bootstrap samples with no sign change option for 1% significance level (α = 0.01; one-tailed test) as recommendation by Chin (1998) and Hair et al. (2014). When the results show for each "t" value above 2.33, 1.97 and 1.67, which means that the loading, or weight and path coefficients represent significantly different from zero at 1%, 5%, and 10% significance levels respectively.

Table 0.2 : The Measurement (Outer) Model Result

Constructs	Loadings	Weights	Observed *t*-value	CR	AVE	Signi.-level 1-tail
Structure of Board of Commissioner						
(Formative) :	-0.272	0.00	0.02			0.49
PICOB	0.724	0.322	3.54			0.00
BoC SIZE	-0.273	0.162	2.66			0.00
BoCOWN	0.518	0.061	0.53			0.30
BoCMeet	0.241	-0.039	0.53			0.30
JointMeet	0.935	0.750	7.95			0.00
RemBoC						
Company Sustainability Concerns (Formative)						
EC	0.944	0.745	3.41			0.00
EN	0.864	0.166	0.71			0.24
HR	0.708	0.477	2.48			0.01

LA	0.874	0.153	0.98			0.16
PR	0.772	0.139	1.05			0.15
SO	0.753	0.304	3.29			0.00
Capital						
CAR	1.00	1.00		1.00	1.00	0.00
Asset						
NOP	1.00	1.00		1.00	1.00	0.00
Management						
NPL	1.00	1.00		1.00	1.00	0.00
Earning						
NIM	1.00	1.00		1.00	1.00	0.00
Liquidity						
LDR	1.00	1.00		1.00	1.00	0.00
Financial Health						
Revised Altman Z Score	1.00	1.00		1.00	1.00	0.00
Market Value						
Tobin's Q	1.00	1.00		1.00	1.00	0.00

Notes: PICOB : proportion of independent commissioners on the board; **ExcBoC Size :** percentage of excess minimum number of board of commissioners (at least three persons)**; BoCOwn :** percentage of board of commissioners Shareholders ownership; **Rem BoC :** total board of commissioners cash compensation in a year (in million Indonesian Rupiahs); **BoC Meet :** percentage of excess of minimum meeting in a year (four times a year); **Joint Meet :** Number of joint meeting between board of commissioners and board of directors in a years; **CAR :** Capital Adequacy Ratio; **NPL:** Non-Performing Loan; **NOP :** Net Open Position; **NIM :** Net Interest Margin; **LDR :** Loan to Debt Ratio; **Z Score:** Revision Altman's Z score for financial health mesrument and **TOBINS:** Tobin's Q for firm market value performance; **SO:** disclosure of corporate society activities concern; **PR:** disclosure of corporate product responsibility activities concern; **LA :** disclosure of corporate labour practices concern; **HR:** disclosure of corporate human right activities concern; **EN:** disclosure of corporate environmental activities concern**;** and **EC:** disclosure of corporate economic activities concern

This study found that three formative indicators of ROLE OF BOC (BoC Size, BoCOWN, and RemBoC) and SUSTAINABILITY CONCERNS (EC, HR and SO), as well as all seven reflective indicators of the bank information and company financial performance have significant values at the 1% level, while the six remaining indicators do not have significant values. This empirically suggests that the construct of the board of commissioners' role is primarily formed by the board of commissioners’ size, the board of commissioners' ownership and the board of commissioners' compensation. Meanwhile, for the construct of corporate sustainability concern is primarily formed by corporate responsibility activities that relate to economic, human right and society performances.

However, by employing formative measures might be deals with the multicollinearity problem among the indicators. This could generate unstable estimates and make it difficult to identify separate different effect between indicators to the respective construct. This study found that all indicators in formative constructs have variance inflation factors (VIF) ranging between 1.05 and 6.34 (see Table 4.1). The highest VIF value was 6.34 for environment indicators. It is somewhat above 5, as the rule of thumb, but still below 10, implying that all indicators do not have a multicollinearity problem and are independent of one another (Hair et al., 2014).

The Structural (Inner) Model Assessment

The structural model represents the relationship among constructs or latent variables hypothesised in the research model. In this study, I built and tested four different research models to explain different impacts and integration of aforementioned constructs. To provide additional assurance that our results are not partially attributable to an incomplete first stage model, I augmented our first and second stage models by including the lagged time effect for the role of BoCs and sustainability concern, as well as examining the endogeneity effect in the third and fourth models by reversing the direction between these two constructs.

In PLS, the path among constructs can be interpreted as standardized beta weights in regression analysis. In the research model 1 (see Table 5.5, Figure 5.1) nine of eleven initial set of paths are revealed to be significant at 0.99, one initial path is significant at 0.95, and the remaining one is significant at 0.90. However, for simplicity, the inter-correlation between the perception ("P") that consists of the role of board of commissioners, and sustainability constructs and all five indicators of the bank's information ("I") is provided in Table 5.3 instead of in Figure 5.1.

In research model 1 (see Table 5.5, Figure 5.1), this study incorporated both the board of commissioners' role and company sustainability concern as investors' perception to investigate the impact on the judgment of the bank's performance in financial health and market value decision choice. This study found by following the **P → D** pathway from the Throughput Model that there is a direct significant positive influence of the role of the board of commissioners on company sustainability concern ($\beta_1 = 0.75$, $\rho < 0.01$; $R^2 = 0.56$). Further, this study revealed an indirect significant positive influence of the role of the board of commissioners on both banks' financial performance, which are banks' financial health ($\beta_3 = 0.24$, $\rho < 0.01$; $R^2 = 0.60$) and firm value ($\beta_2 = 0.47$, $\rho < 0.01$; $R^2 = 0.31$) through company sustainability concern.

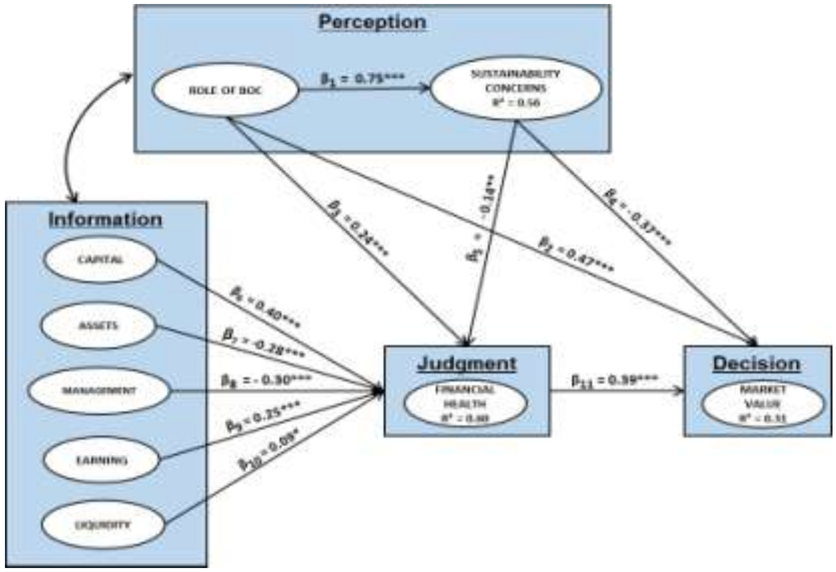

Figure 05.1 : Research Model 1 the Board of Commissioners' Structure on Corporate Sustainability Concerns

Moreover, this study also found that the banking sustainability concern has direct negative influence both its financial health and market value performance (β_5 = -0.14 and β_4 = -0.37; $\rho < 0.01$). Those results reveal that both corporate sustainability concerns and company financial health acts as partial mediators in the relationship between the board of directors' role and firms' market value. Thus, We finds the judgment of bank's financial health has significant direct positive effect on the decision of the firm's value (β_{11}= 0.39, $\rho < 0.01$), which is consistent with prior research.

Table 0.3 : The Structure of Board Commissioners Leading to Higher Sustainability Concerns and Company Performance

Pathways	Model 1	Model 2
Role BoC → Sustainability Concern (β1)	0.75***	-
(P→D) Role BoC → Firm's Market Value (β2)	0.47**	0.27
(P→J) Role BoC → Firm's Financial Health (β3)	0.24***	0.14
(P→D) Sustainability Concerns → Firm's Market Value (β4)	-0.37***	-0.11*
(P→J) Sustainability Concerns → Firm's Financial Health (β5)	-0.14***	-0.14**
(I→J) Capital → Financial Health (β6)	0.41***	0.37***
(I→J) Asset → Financial Health (β7)	-0.28***	-0.26***
(I→J) Management → Financial Health (β8)	-0.30***	-0.28***
(I→J) Earning → Financial Health (β9)	0.25***	0.27***
(I→J) Liquidity → Financial Health (β10)	0.09*	0.06
(J→D) Financial Health → Firm's Market Value (β11)	0.39***	0.41***
Role BoC * Sustainability Concern → Firm's Financial Health (β12)	-	-0.06

Role BoC * Sustainability Concern → Firm's Market Value (β13)	-	0.002
Multiple R2 (explained variance): Sustainability Concern	0.56	-
Financial Health	0.60	0.61
Firm's Market Value	0.31	0.29

Notes:
***Significant at $\rho < 0.1$ (t value > 1.66);**
****Significant at $\rho < 0.05$ (t value > 1.96);**
*****Significant at $\rho < 0.01$ (t value > 2.3**

Overall, those findings support hypotheses 1 and 2, which leads to the conclusion that board of commissioners in Indonesian banking companies plays an important role to increase and pursue banking companies' sustainability concern. Thus, the banking companies' sustainability concern is a mediating factor in the relationship between the role of the board of commissioners and company financial performance. Moreover, this study also noticed that banking companies' better financial health would lead to higher market value. Further, ignoring the perception of the board of commissioners' role and sustainability concerns, the stakeholders apparently gave a great deal of attention to higher quality of banks' capital, earnings and liquidity information ($\beta_6 = 0.40$, $\beta_9 = 0.25$; $\rho < 0.01$; and $\beta_9 = 0.09$; $\rho < 0.01$). Finally, the results suggest that lower banks' assets and management ($\beta_7 = -0.28$ and $\beta_8 = -0.30$, $\rho < 0.1$) may lead to improved financial health.

In research model 2 (Table 5.5, Figure 5.2), this study expanded the model by allowing the perception construct of both the role of the board of commissioners and company sustainability concern separately as well as interact each other to influence company financial performance. Similar to research Model 1, banking sustainability concern continues to have a direct negative effect on both financial health ($\beta_5 = -0.14$, $\rho < 0.05$; $R^2 = 0.61$) and market value ($\beta_4 = -0.11$, $\rho < 0.1$; $R^2 = 0.29$). However, this study failed to find a direct significant influence of the role of the board of commissioners on banking financial health and market value ($\beta_3 = 0.14$ and $\beta_2 = 0.27$, $\rho > 0.1$).

More importantly, the moderating effect between the role of the board of commissioners and sustainability concern does not have any significant impact on either financial health ($\beta_{12} = -0.06$, $\rho > 0.1$) or market value ($\beta_{13} = -0.002$, $\rho > 0.1$). However, this study found a significant positive correlation between the role of the board of commissioners and sustainability concern ($r = 0.14$, $\rho < 0.1$), which supports prior research by Jo and Harjoto (2011) and Beltratti (2005). It reveals that the complementary effect among internal corporate governance, in particular the board of commissioners' structure, and sustainability concern exists and is robust.

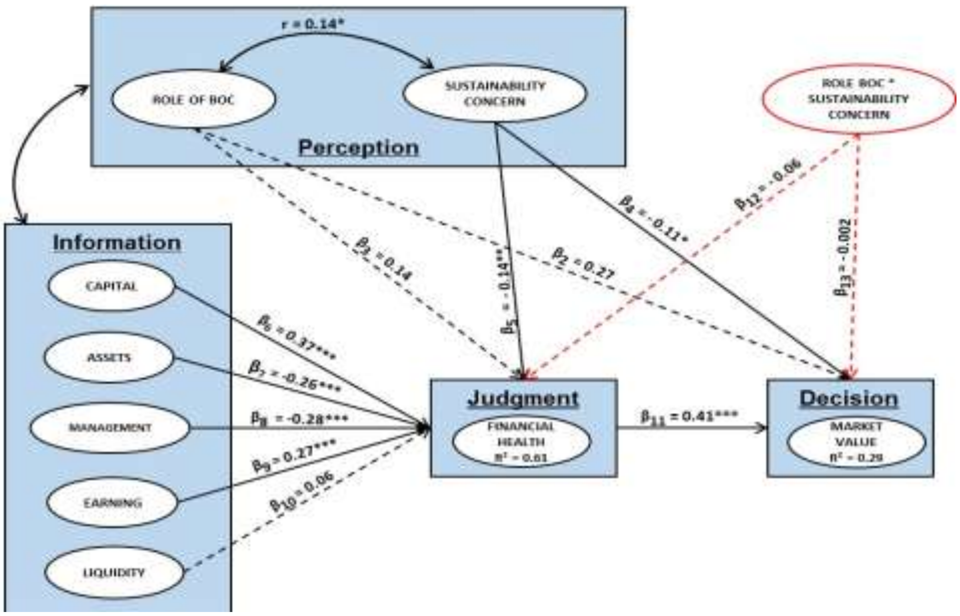

Figure 0.2 : Research Model 2 Interaction between the Board of Commissioners' Role and Corporate Sustainability Concerns

In research model 3 (see Table 5.6, Figure 5.3), this study continued to explore the effect of the previous period (t_{-1} period) of structure of the board of commissioners on both current (t period) sustainability concerns and company financial performance more deeply. This study used lagged role of board of commissioners to determine current sustainability concern and the further impact of current bank's financial health and market value. Overall, this Model 3 displays similar result with Model 1. First, this study investigated the relationship of all aforementioned constructs using the agency theoretic pathway **(P→D).** This study found that internal corporate governance mechanisms from the lagged role of board of commissioners have a significant positive influence on current company sustainability concern ($\beta_1 = 0.75$, $\rho < 0.01$; $R^2 = 0.56$); and continue to have a negative impact on firm's current market value ($\beta_4 = -0.75$, $\rho < 0.01$; $R^2 = 0.31$).

Table 0.4 : The Lagged of the Structure of Board Commissioners Leading to Higher on Sustainability Concerns and Company Performance

Pathways	Model 3
Lagged Structure BoC →Current Sustainability Concerns (β1)	0.76***
(P→D) Lagged Role BoC → Current Firm's Market Value (β2)	0.47***
(P→J) Lagged Role BoC → Current Firm's Financial Health (β3)	0.28***
(P→D) Current Sustainability Concerns → Current Firm's Market Value (β4)	-0.37***
(P→J) Current Sustainability Concerns → Current Firm's Financial Health (β5)	-0.11
(I→J) Lagged Capital → Current Financial Health (β6)	0.35***
(I→J) Lagged Asset → Current Financial Health (β7)	-0.27***
(I→J) Lagged Management → Current Financial Health (β8)	-0.23***
(I→J) Lagged Earning → Current Financial Health (β9)	0.21***
(I→J) Lagged Liquidity → Current Financial Health (β10)	0.07
(J→D) Current Financial Health → Current Firm's Market Value (β11)	0.34***
Multiple R2 (explained variance): Current Sustainability Concerns	0.57
Current Financial Health	0.47
Current Firm's Market Value	0.27

Notes: ***Significant at ρ < 0.01 (t value > 2.33)

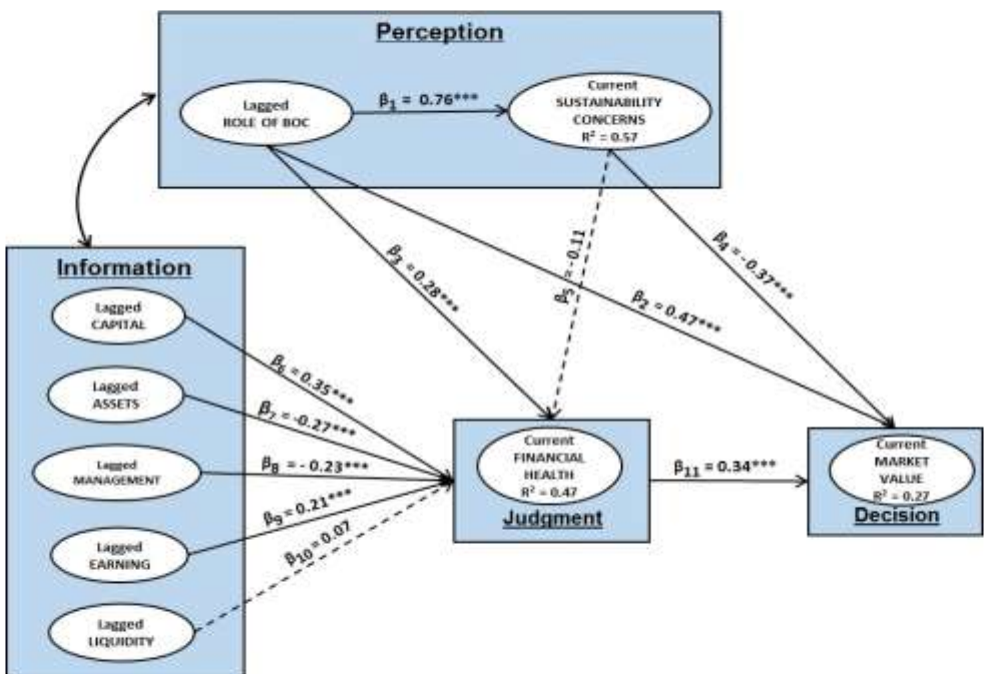

Figure 05.3: Research Model 3 Lagged the Board of Commissioners' Structure on Current Corporate Sustainability Concerns

Discussions

This study provides distinctive findings that consider two different perspectives, shareholder and stakeholder views, in a single model of corporate governance - corporate sustainability concern - corporate financial performance relationship by employing the Throughput Model, a decision- making framework model developed by Waymond Rodgers (1997). This study found the board of commissioners in Indonesia banking companies is an important control mechanism to motivate managers to be more concern on corporate sustainability concerns toward corporate responsibility activities. However, a contrary finding appears between the shareholder and stakeholder perspectives when the role of the board of commissioners and company sustainability concern is tightly linked to company financial performance.

According to our framework perspective in the Throughput Model (Waymond Rodgers, 1997; Waymod Rodgers et al., 2013), adopting the agency theoretic pathway position ("**P→D"**) as the shareholder perspective, this study found that corporate sustainability concerns have a significant negative influence on market value performance. Table 5.2 and Table 5.4 display "**P→D"** as the relationship between company sustainability concerns and firms' market value in models 1, 2, and 3. In that sense, the banking companies' increased sustainability concern seems not to be reflected in financial payoffs to good social performance or influencing shareholders' benefits (Brammer & Millington, 2008). It is possible for banking companies to increase significant investment expense, using their resources to provide stakeholders' benefit although it may result in lower returns for shareholders compared to the returns from other alternative investment sources.

Moreover, by following the shareholder perspective, this study revealed that the motive of Indonesian banking companies for their sustainability concerns in daily operation is an altruism motive, engaging in CSR activities only for their own sake and hence, doing so negatively affects financial performance (Baron, 2001). This study argues that Indonesian banking companies are not really concerned with the importance of corporate sustainability activities for boosting their performance. It seems that most Indonesian banking companies failed to link business strategy and their daily operations into sustainability initiatives (i.e. financial, social and environmental) as well as ongoing internal and external communication efforts. This is because they perceive corporate responsibility activities only as damage control or as a public relation campaign, rather than as building shared values (G. Michelon et al., 2013; Porter & Kramer, 2006; Warren & Thomsen, 2012). Moreover, these activities can be categorized as responsive corporate responsibility with companies being good corporate citizens addressing social norms as related to business operations (Porter & Kramer, 2006).

Further, this result is also supported in research model 2, where we tested the moderation effect of corporate sustainability concern on the relationship between the board of commissioners' role and the firm's market value (**"P→D")**. The result shows that the corporate sustainability concern failed to moderate the effect of the relationship between the role of the board of commissioners and firm's market value. Corporate sustainability concerns are supposed to have a positive effect on company performance if linked to organisational strategy, decision support systems and internal incentives. These findings lead to a conclusion that Indonesian banking companies perceive the importance of corporate sustainability issues that reflect on their policies or reporting, but they tend not to be very enthusiastic or are slightly wary about practising them in the company. From content analysis process of sustainability or corporate social responsibility report of Indonesian commercial banks, this study reveals most of the banks practises to take corporate social responsibility initiatives are fragmented, disconnected and separated away from their strategic business as the resulting outcome fail to gain and dissipate many opportunities and benefits for both companies and the societies. As I noted that Indonesia commercial banks mainly used corporate investments in corporate social responsibility activities focus on routine charitable initiatives as a short-term, tentative and sporadic strategy to overcome a negative reputation.

Moreover, this study tested the aforementioned relationship constructs in models 1 and 3 using the stakeholders' pathway position **("I → P → J → D")** based on the Throughput Model. It revealed that the role of the board of commissioners as the supervisory board could be important in internal corporate governance to influence the company management to enhance corporate sustainability concern in line with the stakeholders' demand, which is reflected in better corporate social responsibility activities and may result in the increase of company market value performance. The aforementioned relationship described by Table 5.2 and Table 5.2 suggests that significant influences exist along the stakeholders' perspective pathway, **"I→P→J→D".** First, Table 4.3 implies a statistically significant relationship between four accounting information sources **("I")** of capital, assets, earnings, and liquidity and the role of the board of commissioners and corporate sustainability concern **("P")**, as implied by the **"I→P"** inter-correlation. Second, Table 5.5 supports the relationship of **"P→J"** (i.e., the role of the board of commissioners →financial health; and sustainability concern→financial health), whereas the significant relationship of **"J→D"** is viewed as showing the impact of financial health on firm's market value. The **"I→P→J→D"** pathway suggests that the role of the board of commissioners and corporate sustainability concerns exist and are effective, which counter-balance the agent theoretic pathway **("P→D").** The stakeholder's pathway position provides the decision process of the role of the board of commissioners in determining corporate sustainability concerns which affect corporate financial performance both in the intermediary outcome (as a judgment on financial health) and in the final stage (as investors' decisions based on market value). This study documented in models 1 and 3 that the role of the board of commissioners has a significant positive influence on company sustainability concern.

This finding confirms our hypothesis and generally supports the existing theoretical literature, as expected, such as prior studies in a Taiwanese context from Huang (2010) and in the US banking sector from Jizi et al. (2013). Moreover, this study also noticed that the role of the board of commissioners via corporate sustainability concern indirectly leads to an extended significant positive influence on both company financial health and market value. This result also supports prior studies, which show the board of commissioners' role would be more likely to support the stakeholders' interests. The board of commissioners' functions are to supervise, monitor and motivate the management's engagement in sustainability concerns, such as corporate responsibility activities, which will potentially increase financial performance (Harjoto & Jo, 2011; Jizi et al., 2013; Jo & Harjoto, 2011; Collins Gyakari. Ntim & Soobaroyen, 2013; Pathan & Faff, 2013).

Further, this study followed the argument of Jamali et al. (2008) and Huang (2010), which states the two-way interrelationship and overlapping effect between corporate governance - corporate sustainability concern - corporate financial performance. This study changed the relationship direction among the constructs and tested the impact of past period of financial performance on both current role of the board of commissioners and current corporate sustainability concern. This study documented that lagged financial health and market value have a positive significant influence on the role of the board of commissioners, but not a significant effect on corporate sustainability concern. This study noticed that the prior period's financial performance could increase the current period's role of the board of commissioners, however, it failed to be mediated by company sustainability concern. This result also supports the argument that the implementation of corporate governance and corporate responsibility activities is interrelated and should not be considered and sustained separately in the company strategic decision process to enhance company performance (Jamali & Mirshak, 2007; Jamali et al., 2008).

This means that Indonesian banking companies consider the past company's financial performance in determining better implementation of future internal corporate governance, particularly the role of the board of commissioners. However, this result fails to provide evidence that company financial performance could become an exogenous variable for corporate sustainability concern. It can be concluded that corporate sustainability concern actually is robust as an exogenous, or determinant variable for financial performance, which supports the consensus among academic scholars.

This study noticed that among the indicators of the role of the board of commissioners, there is a substitution effect with the significant negative association between the proportion of independent commissioners and board ownership with board size, the board of commissioners' meetings and board compensation. It indicates that the role of the board of commissioners in banking companies with a high proportion of independent commissioners and high board ownership tends to be less dependent on the number of board of commissioners' members, commissioners' compensation and the number of joint meetings between the board of commissioners and board of directors. Moreover, it also revealed a positive association between the board of commissioners' compensation and board of commissioners' joint meeting with the board of commissioners' size and the board of commissioners meetings. It means that higher compensation for the board of commissioners, and a more joint meeting between commissioners and management complements higher board commissioner size and board of commissioners' meetings. This study supports research by Hoskisson et al. (2009), and Zajac and Westphal (1994) which revealed the substitutive and complementary effects among internal corporate governance mechanisms.

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