Fuoye Journal of Accounting and Management; Volume 7, Number 2; 2024
*www.fjam.fuoye.edu.ng; ISSN 2805-3672 (**Print**), 2814-1717 (**Online**)*

Influence of Board Members' Education Level and Industrial Experience on Sustainability Reporting of Listed Deposit Money Banks in Nigeria

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Citation:Saidu M,Lawal.T & Abdulazeeez .D.A(2024), Influence of Board Members' Education Level and Industrial Experience on Sustainability Reporting of Listed Deposit Money Banks in Nigeria. ***Fuoye Journal of Accounting and Management; Volume 7, Number 2.1-21***

Abstract

The aim of this study is to investigate the relationship between board members' education level and industrial experience on sustainability reporting of listed deposit money banks in Nigeria from the period of 2013-2020. Secondary data was collected from annual reports and account of listed deposit money banks from the Nigeria Stock Exchange website. Results from the panel least squares regression revealed that board members' industrial experience positively influences sustainability reporting of listed deposit money banks in Nigeria. Whereas, the study found no evidence on the relationship between board members' education level and sustainability reporting. The study concludes that board members' industrial experience improves the extent of sustainability reporting of listed deposit money banks in Nigeria and thus recommends that shareholders and management of deposit money banks in Nigeria should consider board members' industrial experience when constituting the board.

Keywords: Board education level, deposit money banks, Industrial experience, social responsibility, Sustainability reporting

JEL Classification: M14, J24, Q56
Paper Type: Research paper

1. Introduction

In the last two decades, firms, regulatory authorities, governments, and investors across the globe have recognized the need for businesses to be socially and environmentally responsible. In line with this recognition, there has been a significant change in the strategy used by firms, to achieving the goal of survival, thus, including both environmental and social performance philosophy into their business model in pursuance for its going concern status. Stakeholders' awareness and recognition heightened following the aftermath of firms neglect on their

environmental and social responsibilities. This is evident in British Petroleum (BP) oil spillage in the Gulf of Mexico, Chernobyl nuclear power plant explosion in Russia, Exxon Valdez oil spill in the waters of Alaska, Kuwait oil well fires and Lonmin Markana mining maltreatment of it workers in South Africa, to mention a few (Castro & Diaz, 2015; Christofi, et al., 2012; Ismail & Latiff, 2019).

In this light, stakeholders, especially Social Responsible Investment (SRI) investors, sounded the need for firms to be more social and environmental friendly. That is for firms to disclose their social and environmental impact on the society and environment where they operate, in addition to their traditional financial reports (Ngu & Amran, 2018). A holistic approach to disclosing firms' impact on the environment and society has emerged as Sustainability Reporting [SR] (Elaigwu *et al*., 2020; Musa et al., 2020).

Sustainability Reporting (SR) is the process companies disclose their economic, environmental and social impact on the society and environment as a result of their daily business activities (Global Reporting Initiative (GRI), 2019). SR is multidisciplinary, which requires the knowledge in the fields of management, environmental science and the social sciences or humanities. SR tends to support the 2015 initiative United Nations' (UN) Sustainable Development Goals (SDG) or agenda 2030 in businesses and governments across the globe (Musa et al., 2020). The report solidifies the firms' position in the attainment of global competitive advantage and long-term survival (Umukoro, et al., 2019).

The boards of directors are the primary driving force in shaping and directing firms toward the achievement of sustainable goals and quality sustainability reporting (Ismail et al., 2019). In line with the Stakeholders and Resource dependency theory, a diverse board has been acknowledged by firms and regulatory authorities to help meet the needs of different stakeholders of the firm (Beasy & Gale, 2020; Musa et al., 2020; Umukoro et al., 2019).

In literature, few researchers have investigated the influence of board members' education level and industrial experience on sustainability reporting (Musa et al., 2020; Gold, et al., 2021; Umukoro et al., (2019). Specifically, on board members' education level and sustainability reporting, Musa et al (2020) using industrial goods firms in Nigeria found that education level diversity does not improve sustainability reporting. Umukoro et al., (2019) evidenced positive

relationship between directors' education level and Sustainability reporting of listed banks in Nigeria. Gold, et al., (2021), examined the impact of board members' education diversity on sustainability reporting of consumer goods firms. They found that board members; education level had no impact on sustainability of listed consumer goods firms.

Secondly, to the best of the researchers' knowledge, no study has examined the influence of board members' industrial experience on sustainability reporting in the context of Nigeria. Prior studies have only focused on firm's financial performance (Kor & Misangyi, 2008; Kor & Sundaramurthy, 2008), and firm value and investment behavior (Drobetz, et al., 2014).

In the light of the above, the objective of this study is to investigate the influence of board members' education level and industrial experience on sustainability reporting of listed deposit money banks in Nigeria. The financial sector of any economy is considered as its backbone owing to the provision of financial resources; and as such this represents a potential key driver for achieving the transition to an inclusive low carbon and resource efficient economy (Okolie & Igaga, 2020).

2. Literature Review and Hypotheses Development

2.1 Concept of Sustainability Reporting

Hanh et al. (2014) defined Sustainability Reporting (SR) as a set of firms' activities that demonstrates the inclusion of social and environmental concern in business operations and interaction with stakeholders. Garcia-Sanchez, et al. (2019) see SR as the documentation of a firm's economic, social and environmental impacts of its performance to inform stakeholders at a specified time. SR is the process of disclosing organization's information on economic, environmental and social issues as it affects the stakeholders and the environment (Musa et al., 2020). Bakar et al. (2019) defined SR as the process of simultaneously addressing interlinked aspects of economic, environment and social well-being of an organization. The Global Reporting Initiative (GRI, 2019) defined SR as the process of disclosing a company's about its economic, environmental and social impact in the society as a result of their daily business operation. Perusing through the above definitions, we can deduce that it encompasses three aspects of business activity – economic, environmental and social aspects; thus, a multi-disciplinary approach of reporting.

SR is an emerging voluntary reporting initiative. It was brought into the forefront of global discus following the 1987 Brundtland Report in bridging the gap between environmental and human development concerns (Bebington & Larrinaga, 2014; Bebington & Unerman, 2017; Musa *et al.*, 2020). The concept of SR further popularized in literature and business sphere following the United Nation's (UN) adaption of the Organization for Economic and Community Development's (OECD) millennium development goals in 2015 (Musa *et al*., 2020). The SDGs goals aimed to address business and governments social, ecological and economic outcomes before the year 2030 through active participation of businesses and government (Bebbington et al., 2017; United Nations [UN], 2015). Whereas, Johari & Komathi, (2019) contend that sustainability reporting encompasses three dimensions such as economic, environmental and social impacts of a firm.

2.2 Measurement and Enforcement of Sustainability Reporting

Jones (2014) asserted that environmental issues like environmental degradation, water pollution and change in ecological structure cannot easily be and quantitatively measured. The activities of an organisation cause these issues. Although, scholars in the field of sciences have come up with indices to measure some of these environmental issues like the Biological Integrity Index and the Watershed Index (Miller et al., 2006). the indices have, however, been criticised for lacking expert accuracy in measuring the impact of organisations' activities on an environment. Similarly, social dimensions have measurement issues. Humans (employees) often regarded as assets in an organisation, yet their value cannot be measured. In a nutshell, the environmental and social dimensions of sustainability cannot be measured accurately in quantitative or monetary terms.

The enforcement of SR is another challenge. The nature of the report is voluntary, as such, it makes it hard to sanction erring firms on environmental and social issues. The Nigerian Exchange Group (NGX) has bought into the idea of SR by adopting the GRI's framework; however, the report has not made a listing requirement for firms (Asaolu et al., 2011; Nwobu, 2017). Even in the Corporate Governance Code of Nigeria (2018), sustainability reporting section seems scanty as compared to other sections of the Code. The lack of strict enforcement makes the compliance rate of this report low.

The standards and framework on SR across the globe are many. They are Business in The Community (BiTC), Dow Jones Sustainability Index (DJSI), Business Ethics 100, Account Ability (AA) rating, International Integrated Reporting Council (IIRC), Carbon Disclosure Project, Sustainability Accounting Standard Board (SASB) and Global Framework for Climate Risk Disclosures (GFCRD) (Emeka-Nwokeji & Osisioma, 2019). The issue of diverse standards on SR has slowed the reliability and comparability of sustainability reports. Some organizations and nations across the globe have issued framework for sustainability reporting.

In Nigeria, most companies tend to disclose only qualitative issues on sustainability and thus fail to inform the stakeholders of the quantitative or monetary implications of their activities on the environment (Kwaghfa, 2015). This situation tends to undermine the materiality of sustainability reports' content. The sustainability reports of firms in Nigeria tend to lack balance as they only report their positive environmental and social contributions to the environment where they operate, thereby totally ignoring their negative impact. This situation truncates the balance principles for defining SR quality (GRI, 2015). Another observation of SR in Nigeria is that firms tend to choose what to disclose in the GRI framework. This situation has led to reports skewed towards a particular direction of the GRI framework.

2.3 Empirical Review

2.3.1 Board members' education level and sustainability reporting

The educationally diverse board reflects a mix of board members with a both undergraduate and postgraduate degree. The mix of directors on the board with both levels of education would affect a firm's financial and non-financial performance. Hsu et al. (2013) asserted that a board with high-level and low-level education qualifications or degrees is a resource to a firm because it comprises of board members with conscious mental ability, high information processing capacity and improved competence to identifying new market opportunities.

Cox and Blake (1991) and Robinson and Dechant (1997) opined that education level is an aspect of cognitive diversity that encourages a better understanding of an increasingly diverse market place. It fosters creativity and innovation as well as leading to more effective problem solving by involving a broad range of perspective (Cox et al., 1991). Robinson et al. (1997) asserted that education level diversity foster openness and sensitivity towards other culture, thereby

facilitating the internationalization of a firm. Milikens and Martins (1996) mentioned that an educationally diverse board has a problem-solving ability. However, some researchers claimed that boards with directors with both undergraduate and postgraduate degree qualification negatively affect firms' performance (Fernandez-Temprano & Tejerina-Gaite, 2019; Deduna & Anuradha, 2020). However, Ngo et al., (2019) opined that no qualification could fully and comprehensively reflect the skills, experience or background knowledge of board members.

In respect to sustainability reporting, directors with postgraduates' degree qualification have the tendencies to improving the extent of sustainability compared to directors with an only undergraduate degree, because they would have experience on issues on economic, social and environment through coursework of the postgraduate program. In line with this acknowledgement, Umukoro et al. (2019) argued that a board comprised of highly educated directors has an overall constructive influence on environment, economic and social disclosures. However, contrary to this view, Musa et al. (2020) argued that boards comprised of directors with a higher degree do not have the power to influence sustainability reporting.

Umukoro et al. (2019) investigated the influence of board expertise on sustainability reporting in listed banks in Nigeria. A sample of ten (10) Nigerian Deposit Money Banks (DMB) were examined over the period of 2014-2016. They measured board expertise via environmentally sensitive directors (executive & non-executive) and level of education of board members, while disclosure on sustainability reporting was measure using the GRI framework through content analysis from the annual reports. The result from the static panel data regression estimators they employed revealed that directors in the board with higher education certification such as M.Sc, M.Phil. Or PhD positively influenced sustainability reporting. In addition, they also found that the executive and non-executive directors have low experience in environmental issues resulting in an insignificant effect on the disclosure of sustainability reporting.

Musa et al. (2020) investigated the influence of a diverse board on the extent of sustainability reporting in listed industrial goods firms on the Nigerian Stock Exchange from the period 2014-2018. They developed a sustainability disclosure index using the latest version of the Global Reporting Initiative (GRI) guidelines to score the information content of annual reports relating to sustainability performance. Nationality, age and educational level were used to proxy diversity

in the boardroom. They employed the fixed effect panel least squares to estimate the model. They found that age diversity in the boardroom negatively and significantly affects the extent of sustainability reporting. Also, they found that both nationality diversity and education level diversity had no influence on sustainability reporting. Iyafekhe et al. (2020) examined the influence of educationally diverse board on sustainability reporting of listed deposit money banks in Nigeria from the period of 2014 to 2018. They employed panel least squares to empirically establish the influence of board education level diversity on sustainability reporting but found no evidence on the association. Gold et al., (2021) examined the influence of board members' education diversity on sustainability reporting of listed consumer goods firms in Nigeria. The study covered a period of six years, from 2014-2019. The authors used the panel least square to estimate the model of the study and found out that board members' education level have no influence on sustainability reporting of listed consumer goods firms in Nigeria.

$H_{01:}$ Board members educational level does not have a significant impact on sustainability reporting

2.3.2 Board members' industrial experience and sustainability reporting

Industrial experience of the board members can be defined as the abilities, expertise and knowledge acquired by director from previous work experience brought into the current boardroom (Bailey & Helfat, 2003). A board with mix of directors with diverse experience from the different industries such as the agriculture, mining, construction, transportation, financial services and oil industries will improve a firm's credibility (Kor & MisanGyi, 2008). Industrial experiences acquired by the directors would enhance the firm's in competitive advantage, and improve the firms' boards' knowledge on consumer needs, technology, investment requirements, regulations, suppliers and other external stakeholders (Bailey & Helfat, 2003; Kor et al., 2008). Kor and Sundaramurthy (2008) asserted that directors industrial experience help the board to develop a sophisticated and tacit understanding of the current and future industry changes, thus, enabling them to make better strategic decisions. Kroll et al. (2007) sounded that the idea and decision given by director with industry experience to managers may affect positively firm performance.

The research conducted by Erin et al. (2021) investigated the relationship between corporate governance and sustainability reporting quality for listed companies in Nigeria between 2013 and

2018. The study utilised board gender diversity, board expertise, audit committees, and audit expertise as proxies for corporate governance in a sample of 120 firms listed on the NSE. The findings of the probit and logistic regression analyses indicate that corporate governance has a significant impact on sustainability reporting quality. Additionally, the study reveals that external assurance enhances the quality of sustainability reporting through corporate governance attributes. Gold and Aifuwa (2022) investigated the relationship between board meetings and sustainability reporting in Nigerian banks by analysing a sample of ten listed deposit money banks from 2014 to 2020. Their findings from the panel least-squares regression and binary logit regression showed that board meetings had no significant influence on sustainability reporting after accounting for corporate governance and firm-level factors.

$H_{02:}$ Board members industrial experience does not have a significant impact on sustainability reporting

2.4 Theoretical Framework

This study is hinged on the Upper Echelon Theory of Hambrick and Mason (1984) and the Stakeholders theory of Freeman (1984) to explain the influence of board members education level and industrial experience on sustainability reporting of listed deposit money banks in Nigeria. The Upper Echelon theory explains the correlation between the organizational outcome and managerial background attributes (Gold et al., 2021). According to Hambrick and Mason (1984), organizational performance reflects the values and cognitive bases of powerful actors in the organization. Relating this theoretical stance to our study, powerful organizational actors such as the board of directors and their managerial attributes such as cognitive diversity, educational level, and background, affects the firm's performance. The reason is the board of directors, due to their cognitive abilities they strive to meet stakeholders' expectations. The Stakeholders theory addresses the expectations of specific stakeholder groups within society and considers the effect of stakeholders' expectations on information disclosure as some stakeholder groups are more powerful than others (Font etr al., 2016). The theory stresses the importance of different stakeholders to a firm, as their support is crucial to the long-term business survival; therefore, companies must adjust their business activities to address stakeholder (Ngu et al., 2018).

3. Data and Methods

3.1 Research Design, Sampling and Method of Data Analysis

This study adopted correlation research design. The choice of correlation research design is based on the fact that the study relies on historical accounting data obtained from annual reports and accounts. The population comprises thirteen listed deposit money banks in Nigeria. Secondary data on the variables studied was gotten from the Nigerian Stock Exchange spanning from 2013 to 2020. The study analysed data using descriptive, correlation and Panel least square to test hypotheses.

3.2 Operationalization of Variables

SR was the study's dependent variable. In developing the sustainability reporting index, the sudy used the G4 sector-specific disclosures for financial service of the Global Reporting Initiative (GRI). The rationale for this is that the general framework, which is made up of economic, environmental and social indicators required specific industry needs (Ozordi et al., 2020). The study used content analysis to develop an unweighted sustainability disclosure index for the economic, environmental and social performance of the sampled firms. If sampled banks fully disclose economic, environmental and social information, they are awarded one (1) while Zero (0) for partial and none disclosure respectively.

Therefore, $SNR = \frac{TD}{M}$

Where;

SR = Sustainability Reporting

TD = Total disclosure (N1 + N2 + N3)

N1= for the economic indicator i

N2= for the environmental indicator i

N3= for the social indicator i

M=Maximum possible score of 158

Table 1: Measure of variables

Variable	Measurement	Supporting Scholars
Dependent variable		
Sustainability Reporting (SNR)	GRI's G4 sector-specific disclosures for financial service (as calculated above)	Iyafekhe et al. (2020)
Independent variables		
Board members' educational level	Total numbers of board members with Postgraduate degree divided by total number of directors	Ngo et al (2019);
Board members' industrial experience	Proportion of directors with industrial experience outside the financial service industry.	Drobetz, et al (2014)
Control variables		
Profitability	Measured by return on assets (ROA), i.e. Profit after tax di vided by Total assets.	Gold et al (2021).
Firm Size	Natural logarithm of total assets	Musa et al. (2020)

Source: Authors' Compilation, 2024

Model Specification

This study adapted the model of Musa, et al. (2020) in investigating the influence of a diverse board on sustainability reporting amongst listed industrial goods firms in Nigeria. They specified their model as;

$SR = \beta_0 + \beta_1 BMN_{it} + \beta_2 BMA_{it} + \beta_3 BME_{it} + \beta_4 FAGE_{it} + \beta_5 FSZE_{it} + \varepsilon_{it}$…….. (1)

Where

SR= Sustainability Reporting;

β_0 = Constant;

BMN = Board Member Nationality;

BMA = Board Member Age;

BME = Board Member Education Level;

FAGE = Firm Age; and

FSZE = Firm Size.

Board members age was removed from their model and replaced it with board members industrial experience. Board members' nationality was removed. Also, on the control variable, firm age was removed and replaced with profitability. Therefore, this study was specified as;

$SR = f(BEL, BIE, PROF, FZSE)$ ..…….....….....(2)

In econometric form:

$SR = \beta_0 + \beta_1 BEL_{it} + \beta_2 BIE_{it} + \beta_3 PROF_{it} + \beta_4 FSZE_{it} + \varepsilon_{it}$…..…….....(3)

Where

SR= Sustainability Reporting;

β_0 = Constant;

BEL = Board members education level;

BIE = Board members' industrial experience;

PROF = Profitability; and

FSZE = Firm Size.

$\beta_1, \beta_2 \beta_3 \beta_4$ = Coefficient of explanatory variables

ε = Standard error

i = Cross sectional (Companies)

t = Time Series

A priori expectations in with extant literature to be $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

4. Data and Discussions of Findings

4.1 Descriptive Statistics

Table 2: Descriptive statistics

Variables	Mean	Minimum	Maximum	Std. Dev	Observation
SNR	0.375	0.008	0.876	0.187	104
BEL	0.444	0.000	0.780	0.151	104
BIE	0.210	0.000	0.624	0.133	104
PROF	0.025	-0.008	0.205	0.030	104
FSZE	10.607	6.765	13.321	1.400	104

Source: Author's computation, 2024

Table 2 shows a descriptive statistic of variables used in the study. The mean of sustainability reporting (SNR) stood at 0.375. The minimum and maximum value of SNR in the study was 0.008 and 0.876, respectively. The mean of board members' education level (BEL) and board members' industrial experience (BIE), surveyed stood at 0.444 and 0.210, respectively. This about 44% of the directors had higher educational qualification such as MSc and PhD, while 56% of the directors had only first degrees. About 21% of directors in the board had diverse industrial experiences significantly different from the financial service industries from their previous place of work.

Table 3: Correlation Matrix

	SNR	BEL	BIE	PROF	FSZE	VIF
SNR	1.000					

BEL	0.146	1.000				1.114
BIE	-0.048	0.235	1.0000			1.140
PROF	0.201	-0.021	0.098	1.000		1.040
FSZE	0.217	0.0663	0.119	-0.064	1.000	1.372

Source: Authors' computation, 2024

The linearity of variables (correlation matrix) in Table 3 shows that the variables exhibited both positive and negative relationship. This is seen in the association BEL and SNR (0.146), BIE and SNR (-0.048). The strength of association between variable were below the threshold of 0.80, suggesting the absence of the problem of multicollinearity in the predictor variables (Studenmund, 2014). To further strengthen the results from correlation matrix on multicollinearity, the variance inflation factor test was done. From the results in table 4, it was observed that none of the variables tested indicates the presence of multicollinearity as the centered VIF of the variables were all less than 10.

Diagnostics Statistics

The study carried out various diagnostics test in order to fulfill the basic assumptions of regression. Some of the diagnostics test was autocorrelation test, serial correlations test, constant residual error (Heteroskedasticity), normality and model misspecification test. The serieal correlation assumption was fulfilled using the Breusch-Godfrey serial correlation (LM) test, $F(2,93) = 0.674$, $p = 0.5123 > 05$ and the null hypothesis of no serial correlation was accepted. Similarly, the assumption of the constant residual error test - The Breusch-Pagan-Godfrey test of heteroskecdacity, $F(7,95) = 0.950925$, $p = 0.1003 > .05$. This implies that the residual error is no constant residual in the series. Also, the Ramsey RESET Test was conducted to test for model miss-specification. The result of the analysis revealed the presence of model misspecification, $F(1,94) = 0.030085$, $p = 0.9761 > 0.05$. This implies that our model was correctly specified The Hausman specification test, was also conducted which gives the coefficient value of 12.729 with a p value of $0.0790 > 0.05$. Leaning on this result, we ignored the fixed effect model at 5%, therefore accepted the random effect model of the panel least squares the regression result.

Multivariate Analyses and Hypotheses Testing

Table 4: Inferential Statistics – Panel Least Squares

Variable	B	S.E	t-stat	Prob.
Constant	0.3721	0.3109	1.1969	0.2357
SNR (-1)	0.0703	0.1224	0.5744	0.5677
BEL	0.2461	0.1441	1.7081	0.0924
BIE	1.2314	0.5559	2.2149	0.0295**
PROF	0.9949	0.6346	1.5679	0.1217
FZSE	0.0085	0.0299	0.2838	0.7775
R-squared		0.7065		
Adjusted R-squared		0.4992		
Dnrbin-Watson stat		2.0348		
S.E.		0.1690		
F-statistics		11.8744		
Prob. (F-statistics)		0.0226**		

**significant at 5 per cent level

Source: Authors' Computation, 2024

Table 4 revealed the results of the panel least squares regression for the model of the study. The explanatory variables employed in the study significantly explain the influence of diversity on

sustainability reporting of listed deposit money bank in Nigeria. This conclusion was drawn from the result of the random effect panel least square regression, F-statistics = 11.8744, p = 0.0226 < 0.05. Furthermore, the adjusted R-Squared stood at 0.4992; that is about 49% of the systematic variation in the dependent variable (sustainability reporting) is caused by the explanatory variable used in the study. While about 51% of the variations are caused by other variables not included in the model but were adequately captured by the standard error of the regression, SE = 0.0226. The Durbin Watson statistics was close to 2, indicating absence of autocorrelation.

The finding of the study revealed that board members' industrial experience has a positive effect on sustainability reporting of listed deposit money banks in Nigeria. This implies that an increase in the number of directors with diverse industrial experience will increase the extent of sustainability reporting of listed deposit money banks in Nigeria

However, the study found that board members' education level has no impact on sustainability reporting of listed deposit money banks in Nigeria. This implies that the null hypothesis of the study would be accepted. Therefore, an increase in the current proportion of directors with diverse educational level in banks will not increase the extent of sustainability reporting. This finding does not support the theoretical stance of the Resource dependency theory that board members; with diverse education level such as BSc, MSc and PhD will improve a firm's sustainability reporting. The result of this study is consistent with the findings of Gold et al., (2021), Musa et al., (2020) and Iyafekhe et al (2020) who also found no relationship between board members' educational level and sustainability reporting. However, the result of the study is in dissonance with the work of Umukoro et al (2019) that reported that a positive relationship between board members' education level and sustainability reporting.

5. Conclusion and Recommendations

5.1 Conclusion

The study investigated the influence of board members' education level and industrial experience on sustainability reporting of listed deposit money bank in Nigeria. Based on the findings, this study, concludes that board members' industrial significantly influenced the extent of sustainability reporting of listed deposit money banks in Nigeria.

5.2 Recommendations

This study adds to few existing literatures on the influence of board members' education level and industrial experience on sustainability reporting in Nigeria The study made a methodological contribution by introducing a new concept – board members' industrial experience, to ascertain its impact on sustainability reporting. Based on the finding, this study recommends that banks should hire the services of directors with diverse industrial experience into the board.

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