

CHAPTER 1

INTRODUCTION

1.1. Background

The rapid growth of industrial activity in the global era has created complex relationships between corporations, society, and the natural environment. Corporate Social Responsibility (CSR) has evolved from a voluntary corporate initiative into a fundamental pillar of sustainable business practice. Stakeholders, including investors, regulators, employees, and communities increasingly expect firms to demonstrate transparency and accountability in their social, environmental, and economic activities (Shu & Chiang, 2020). This growing expectation has placed CSR disclosure at the centre of corporate governance discussions, particularly in emerging economies where institutional frameworks and regulatory oversight are still developing.

In Indonesia, CSR reporting has gained mandatory legal standing since the enactment of Law No. 40 of 2007 on Limited Liability Companies, and has been reinforced by OJK Regulation No.51/POJK.03/2017 on the Implementation of Sustainable Finance. Despite this regulatory foundation, the scope and quality of individual CSR items disclosed remains largely voluntary. Consequently, the extent of CSR disclosure varies considerably across Indonesian listed firms, reflecting differences in corporate governance quality, ownership structure, and management priorities.

The manufacturing sector occupies a central position in this discourse. As one of the largest contributors to Indonesia's gross domestic product and among the heaviest industrial polluters, manufacturing companies listed on the Indonesia Stock Exchange (IDX) face heightened stakeholder pressure to demonstrate transparency in their social and environmental performance. The adoption of the Global Reporting Initiative (GRI) Standards, particularly the 2021 edition, which replaced the GRI Standards 2016 framework, has provided a tighter and internationally comparable benchmark for evaluating CSR disclosure quality.

Despite the increasing adoption of sustainability reporting practices, concerns regarding the quality and completeness of CSR disclosure remain prevalent. Wahyuningrum et al. (2025) examining Indonesian listed companies from 2016 to 2022 found that although the number of sustainability reports increased substantially following the implementation of mandatory reporting requirements, improvements in environmental disclosure quality remained inconsistent across reporting years and industries. This study concluded that mandatory reporting had not always translated into substantive transparency and accountability, as many firms continued to provide disclosures that varied considerably in depth and informational value. These findings suggest that the existence of sustainability reports alone does not necessarily guarantee high-quality disclosure. The persistence of uneven disclosure quality may indicate that some firms continue to view sustainability reporting primarily as a means

of maintaining organizational legitimacy rather than as a comprehensive accountability mechanism.

Evidence of this issue can also be observed among Indonesian manufacturing firms. Fitri et al. (2026) reported relatively low disclosure levels across several environmental indicators under the GRI Standards, particularly GRI 301–305. Approximately 18% of sampled firms disclosed information regarding materials used (GRI 301-1), fewer than 13% disclosed recycled input materials (GRI 301-2), while disclosure relating to reclaimed products and packaging (GRI 301-3) was absent across the sample. Similar disclosure gaps were identified across energy, water, biodiversity, and emissions indicators. These findings further indicate that the completeness and quality of sustainability disclosure among Indonesian manufacturing companies remain a challenge despite increasing reporting expectations.

According to PwC's Asia Pacific Sustainability Counts Report, 80% of companies studied in Indonesia in 2022 used the GRI Standards for sustainability reporting (PwC Indonesia, 2023). The article then discusses how less than half of companies in Asia-Pacific, including Indonesia, submitted their ESG disclosures to independent external assurance in 2022. This means that most CSR reports circulating in the market lack third-party verification of their accuracy or completeness. This gap makes the role of the audit committee crucial. Without external assurance, the audit committee becomes the primary internal check against selective, misleading,

or superficial disclosures. However, simply having an audit committee on paper is not enough. What matters in practice is how the committee is formed, how many members it has, how often it meets, and whether its members have professional experience, particularly in audit accounting.

Within the corporate governance architecture, the audit committee plays a critical oversight role. According to OJK Regulation No.55/POJK.04/2015, every publicly listed company in Indonesia must establish an audit committee composed of independent commissioners responsible for supervising financial reporting, internal controls, and disclosure quality. The audit committee's effectiveness in discharging these functions is widely believed to depend on its structural characteristics, including the number of members (size), the frequency of meetings (meeting frequency), and the proportion of members possessing relevant financial and accounting expertise or certified audit (financial expertise).

Prior studies generally suggest that audit committee characteristics have an important role in enhancing CSR disclosure and reporting quality. Hunjra et al. (2025) found that audit committee size and meeting activity significantly improve CSR activities among firms operating in Asian emerging economies. Similarly, Mohammadi et al. (2021) documented significant positive effects of audit committee size and financial expertise on CSR disclosure among Iranian listed firms. Although these studies provide valuable evidence, most have been conducted in different institutional environments and industry settings. Consequently, the extent to

which these findings apply to Indonesian manufacturing firms operating under the GRI Standards 2021 framework remains unclear.

Ownership structure in Indonesia is highly concentrated, with family ownership being the predominant form among listed companies (Utama et al., 2017). Family owned firms may handle CSR disclosure differently compared to widely held firms because controlling families often possess stronger incentives to protect long-term reputation and maintain relationships with key stakeholders. Consequently, family ownership may influence how effectively governance mechanisms operate in shaping disclosure practices. Hunjra et al. (2025) found that family ownership strengthens the relationship between audit committee characteristics and CSR activities among firms in emerging Asian economies. These findings suggest that family ownership should not merely be viewed as a background characteristic but rather as a governance factor that may shape the effectiveness of audit committee oversight in promoting CSR disclosure. Although prior studies have examined the relationship between audit committee characteristics, family ownership, and CSR-related outcomes, empirical evidence remains limited in the context of Indonesian manufacturing firms operating under the GRI Standards 2021 framework. Furthermore, existing studies have largely focused on different industries, countries, and reporting periods. Consequently, the combined effect of audit committee characteristics and family ownership on CSR disclosure quality

remains insufficiently understood within the Indonesian manufacturing context.

This study also addresses an important temporal and reporting-framework gap. The analysis covers the period from 2023 to 2025, representing the early implementation phase of the GRI Standards 2021, which became effective for reporting periods beginning on or after 1 January 2023. As companies continue adapting to evolving sustainability reporting expectations, examining audit committee characteristics within this contemporary setting provides updated evidence regarding the governance mechanisms associated with CSR disclosure quality. Consequently, this study contributes more recent insights than much of the existing literature, which predominantly relies on pre 2023 observations.

Against this backdrop, the present study addresses the question of whether the structural characteristics of the audit committee, specifically its size, meeting frequency, and financial expertise, influence the quality of CSR disclosure among Indonesian manufacturing firms, and whether this influence is contingent on the degree of family ownership. The study focuses on the period 2023 to 2025, leveraging GRI Standards 2021 as the measurement framework for CSR disclosure quality, and employs moderated regression analysis to test the moderation hypothesis.

1.2. Research Question

The increasing emphasis on corporate governance and sustainability reporting in Indonesia, particularly following the implementation of GRI

Standards 2021, companies are expected to provide more transparent and comprehensive CSR disclosure. In this context, the audit committee plays an important monitoring role in ensuring the quality and credibility of corporate disclosures. Characteristics of the audit committee, such as committee size, meeting frequency, and expertise, may influence how effectively the committee performs its oversight responsibilities regarding CSR reporting. In addition, family ownership, remains highly dominant among Indonesian manufacturing firms. Family ownership may strengthen or weaken the effectiveness of corporate governance mechanisms depending on how controlling families influence monitoring practices and disclosure policies.

Considering the issues and research gaps discussed previously, this study is guided by the following research questions:

1. Does audit committee size influence CSR disclosure?
2. Does audit committee meeting frequency influence CSR disclosure?
3. Does audit committee expertise influence CSR disclosure?
4. Does family ownership moderate the relationship between audit committee size and CSR disclosure?
5. Does family ownership moderate the relationship between audit committee meeting frequency and CSR disclosure?
6. Does family ownership moderate the relationship between audit committee expertise and CSR disclosure?

1.3. Research Objectives

This study aims to examine and empirically investigate the influence of audit committee characteristics on CSR disclosure among Indonesian manufacturing firms during the 2023–2025 period. In addition, this study seeks to analyze whether family ownership moderates the relationship between audit committee characteristics and CSR disclosure. Based on the problems identified earlier, this study aims to achieve the following objectives:

1. To analyze the influence of audit committee size on CSR disclosure.
2. To analyze the influence of audit committee meeting frequency on CSR disclosure.
3. To analyze the influence of audit committee expertise on CSR disclosure.
4. To analyze whether family ownership moderates the relationship between audit committee size and CSR disclosure.
5. To analyze whether family ownership moderates the relationship between audit committee meeting frequency and CSR disclosure.
6. To analyze whether family ownership moderates the relationship between audit committee expertise and CSR disclosure.

1.4. Significance of the Study

This research is expected to provide both theoretical and practical contributions as follows:

1.4.1. Theoretical Significance

This research is expected to contribute to the academic literature on corporate governance and sustainability reporting. By examining the role of audit committee characteristics, this study provides additional empirical evidence on how internal monitoring functions influence CSR disclosure quality among Indonesian manufacturing firms. It also contributes to the understanding of ownership structure dynamics by analyzing family ownership as a moderating factor, which is highly relevant in Indonesia due to the dominance of family-controlled companies.

1.4.2. Practical Significance

This study also provides benefits for various stakeholders in practice. For companies, the findings may serve as useful input for strengthening the effectiveness of audit committees in overseeing sustainability reporting, ultimately improving transparency, stakeholder trust, and corporate reputation. For regulators and policymakers such as the Financial Service Authority (OJK), the findings may provide empirical evidence regarding the role of audit committee characteristics and ownership structure in influencing CSR disclosure quality. Such evidence may assist in evaluating the effectiveness of existing corporate governance and sustainability reporting frameworks. The study is also beneficial for investors and minority shareholders, the study highlights how family ownership concentration may affect the independence and effectiveness of the audit committee, informing investment and governance risk assessments.

Additionally, the findings can serve as a reference for future researchers who aim to explore broader aspects of governance and sustainability reporting in Indonesia.

