Journal of Auditing, Finance, and Forensic Accounting

Available Online at: https://journal.trunojoyo.ac.id/jaffa

Volume 13
Issue 1

IFRS Sustainability Standards Implementation Readiness: Does Board of Directors Matters?

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Article Info:
Received: *March, 2025*
Revised: *April, 2025*
Accepted: *April, 2025*

DOI:
10.21107/jaffa.v13i1.29839

ISSN (Online):
2461-0607

Page:
91-109

ABSTRACT

Sustainability disclosure remains a dynamic and expanding area of research, particularly in light of the recent issuance of international sustainability standards, IFRS S1 and IFRS S2. This study investigates the effect of board size on a company's readiness to implement sustainability disclosure in accordance with IFRS S1 and IFRS S2. Furthermore, it examines whether the presence of independent directors moderates the relationship between board size and readiness for sustainability disclosure under these standards. The research sample consists of non-financial companies listed on the Indonesian Stock Exchange during the years 2022 and 2023, totaling 652 firm-year observations. The analysis employs Moderated Regression Analysis (MRA). The findings reveal that board size has a significant effect on the readiness to implement sustainability disclosure standards. However, independent directors do not moderate the relationship between board size and sustainability disclosure readiness based on IFRS S1 and IFRS S2. This study contributes to the sustainability reporting literature by providing empirical evidence on the relationship between board characteristics and a company's readiness to implement the newly introduced global sustainability disclosure standards, IFRS S1 and IFRS S2. This study advances the understanding of how governance structures may influence the adoption of these standards, particularly in emerging markets such as Indonesia.

Keywords:
Board Size, Sustainability Disclosure, IFRS S1, IFRS S2.

1. INTRODUCTION

In recent years, sustainability disclosure has undergone a profound transformation, evolving from voluntary and fragmented practices into a more standardized and integrated (Lai & Stacchezzini, 2021) it highlights the (interrelated. Initially regarded merely as a symbolic expression of corporate responsibility limited to reporting sustainability performance, sustainability disclosure has now evolved into a form of accountability that not only reports performance but also aligns corporate strategy with sustainability principles (Traxler et al., 2023) suitable management control systems (MCS. The reference frameworks used in presenting sustainability reports vary widely, such as published by: Carbon Disclosure Project (CDP), Climate Disclosure Standards Board

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(CDSB), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC), and Global Reporting Initiative (GRI) (Shauki, 2022).

A recent development in sustainability reporting is the issuance of two international sustainability standards by the International Sustainability Standards Board (ISSB) on June 26, 2023: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-Related Disclosures. These standards became effective on January 1, 2024. However, the mandatory adoption of IFRS S1 and S2 depends on regulatory decisions of each jurisdiction (Moses et al., 2025). In Indonesia, IAI has expressed strong support for this initiative and has issued guidance to assist companies in preparing for implementation. Furthermore, in December 2024, IAI released an exposure draft of the Sustainability Reporting Standards Statements 1 and 2 Sustainability Reporting Standards Statements 1 and 2 (commonly referred to as PSPK 1 and PSPK 2), which are based on IFRS S1 and IFRS S2 and will become effective in 2027. The transition from voluntary to mandatory disclosure also necessitates an organizational readiness to implement IFRS S1 and S2 effectively, including governance structures, internal controls, and data systems capable of capturing sustainability-related risks and opportunities. Therefore, based on that background, this study aims to examine the influence of the board of directors on a company's readiness to implement sustainability disclosure in accordance with IFRS S1 and IFRS S2. An important question that arises is whether the presence of independent directors can strengthen the influence of the board of directors on sustainability disclosure (Christensen et al., 2021).

This research is motivated by several factors: (1) sustainability disclosure based on the IFRS S1 and S2 standards is a relatively new field of study; (2) the use of disclosure indicators aligned with IFRS S1 and S2 structured around four thematic pillars: governance, strategy, risk management, and metrics and targets remains limited in prior research; (3) there is a need to explore sustainability disclosure practices in different countries and contexts, as previous studies have primarily focused on Europe (Girella et al., 2022), Poland (Indyk, 2022), Malawi (Kampanje, 2023), and Australia, New Zealand, and the UK (Moses et al., 2025); and (4) further investigation is warranted into the role of independent directors as a moderating variable.

This study is further supported by the growing adoption of mandatory frameworks such as IFRS S1 and IFRS S2, issued by the International Sustainability Standards Board (ISSB) in 2023. These standards—IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2: Climate-related Disclosures—are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, encompassing governance, strategy, risk management, and metrics and targets (Jeanne et al., 2023).

This study adopts the context of corporate readiness for sustainability disclosure by IFRS S1 and IFRS S2, focusing on the 2022–2023 observation period, after the establishment of the ISSB and before the standards became effective. The measurement of sustainability disclosure is based on the four core elements of IFRS S1 and S2, with certain adjustments made due to the transitional nature of the period. This represents both a novelty and a limitation of the study. The research focuses on the board of directors, given its critical role in corporate governance, strategic decision-making, and its close relationship with corporate transparency and sustainability strategy (Anyigbah et al., 2023).

In the context of sustainability reporting, boards of directors play a critical role (Naciti, 2019; Villalba-Ríos et al., 2022). The board of directors is a key component of corporate governance, responsible for managing the company in accordance with its objectives and best interests. According to Financial Services Authority Regulation No. 33/POJK.04/2014, public companies must have at least two directors, including a president director. Both executive and non-executive directors play strategic roles in leading the company. This readiness is not uniform across organizations, as it depends on factors such as board diversity, the presence of a sustainability committee (Moses et al. 2025), the presence of independent directors (Naciti, 2019), absorptive capacity, organizational size, structure, culture, kakistocracy (Benhayoun et al., 2025), stakeholder engagement, and the availability of expertise in sustainability reporting.

A larger board is believed to offer a broader range of perspectives, which enhances decision-making that supports sustainability goals (Enciso-Alfaro & García-Sánchez, 2023; Taglialatela et al., 2023; Villalba-Rios et al., 2022). Within this structure, independent directors who are part of the non-executive board play a crucial role in monitoring managerial performance (Sandhu & Singh, 2019) and safeguarding the interests of stakeholders (Habbash, 2016). Owing to their independence from company management, independent directors are more likely to promote voluntary disclosure (Hu & Loh, 2018) and adopt a long-term strategic outlook that aligns with sustainable development objectives (Liao et al., 2015). Although the formal requirement for independent directors was revoked by the Indonesia Stock Exchange through Circular No. SE-00009/BEI.PPU/03-2021, many companies continue to maintain this role within their organizational structure. According to the resource dependence theory, a large Board of Director (BD) has a rich knowledge and greater ability to ensure the management of corporate resources (Pfeffer, 1972). A larger BD with high levels of links with the external environment may improve a company's access to various resources, which enhances its corporate disclosure and, more specifically, its compliance with mandatory disclosures.

Given their monitoring role and independence from management, independent directors may enhance the board's overall effectiveness in promoting transparent and accountable sustainability reporting. Thus, their presence could act as a moderating factor that amplifies the relationship between board size and the readiness to adopt sustainability disclosure in accordance with IFRS S1 and S2. This idea is also aligned with agency theory which posit that corporate governance mechanisms must work collaboratively to ensure that companies remain accountable to the environment and to resolve agency-related issues (Jensen & Meckling, 1976).

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Resource Dependency Theory and Agency Theory

Resource Dependency Theory, as outlined by Pfeffer & Salancik (1978), argues that the board of directors holds significant knowledge and capacity to manage corporate resources. Larger boards tend to have stronger connections with the external environment, improving access to resources and enhancing compliance with disclosure requirements (Borgi & Mnif, 2021). In this regard, the board serves as a key link between the company and external stakeholders, supporting strategic development. Nicholson & Kiel (2007) further emphasize that boards with extensive external ties can strengthen a company's resource base.

Applied to IFRS S1 and S2 readiness, the theory highlights the role of board size and independent directors in facilitating access to necessary resources and knowledge. Independent directors contribute through both human capital (expertise in reporting standards) and social capital (external networks), thereby improving sustainability reporting and supporting the adoption of international standards.

Agency theory, introduced by Jensen & Meckling (1976), focuses on the relationship between owners (principals) and management (agents), where conflicts may arise due to differing interests and information asymmetry (Anyigbah et al., 2023). To address these issues, effective corporate governance structures are necessary to promote accountability and environmental responsibility (Fakoya & Nakeng, 2019). The board plays a central role in aligning managerial and shareholder interests and reducing information gaps (Allegrini & Greco, 2013). Donnelly and Mulcahy (2008) note that larger boards may lower the risk of information asymmetry, while Bakri et al. (2024) suggest they enhance control over managerial behavior.

From this perspective, agency theory can be used to examine how board size and the presence of independent directors affect IFRS S1 and S2 implementation. Larger boards strengthen oversight and monitoring, reducing agency problems. A greater presence of independent directors improves transparency and limits managerial opportunism, thus enhancing readiness for international reporting standards.

Board Size and Sustainability Disclosure Readiness

The board of directors possesses a high level of knowledge and greater capability to ensure the effective management of a company's resources. A larger board of directors tends to have stronger connections with the external environment, thereby enhancing the company's access to various resources.

Empirical studies e.g., Hillman & Dalziel (2003) demonstrate that firms with boards characterized by heterogeneous external linkages and functional competencies exhibit superior resource acquisition and strategic adaptability, underscoring the centrality of board composition in mitigating environmental uncertainty. The board's sensitivity to sustainability disclosures depends on its composition (Bolourian et al., 2021). In terms of governance, an ideal board size is considered to be between 5 and 11 members (Dess et al., 2015). According to Vitolla et al. (2020), a board composed of individuals with diverse backgrounds, experiences, and competencies can enhance information symmetry between management and stakeholders. Board size may also influence organizational effectiveness and long-term competitive advantage (Girella et al., 2022).

The board plays a dynamic role in monitoring, supervising, and achieving corporate objectives, encouraging better organizational behavior, greater transparency, and increased disclosure of environmental practices (Katmon et al., 2019). Certo (2003) argues that a larger board constitutes a source of human and social capital, as its members' diverse knowledge and understanding of the external environment enhance the quality of sustainability disclosures. Diversity within the board also enables the company to stay aligned with the latest sustainability reporting trends (Hu & Loh, 2018).

Board size is commonly used as a proxy to examine the relationship between board characteristics and sustainability disclosure. A larger board with diverse backgrounds and experiences is expected to provide more effective oversight and improve the quality of sustainability reporting. The variation in board size allows for a broader range of perspectives and expertise, contributing to increased transparency and accountability in social and environmental reporting. As a result, many studies use board size as an indicator to assess whether a larger board influences sustainability disclosure practices and the successful implementation of sustainability strategies. Thus, board size serves not only as a measure of monitoring effectiveness but also as a tool to evaluate its broader impact on sustainability practices. A larger board may provide diverse perspectives and resources, enhancing the organisation's readiness for sustainability reporting. Based on the explanation above, then:

H1. Board size is positively associated with sustainability disclosure readiness

Independent Director as a Moderator: Board Size and Sustainability Disclosure Readiness

Independent directors are members of the board who have no affiliation with major shareholders, other board members, or the board of commissioners. The concept of the “Independent Director” was first introduced in Indonesia through a circular issued by the Indonesia Stock Exchange (IDX), numbered SE-00001/BEI/01-2014, which replaced the term “Non-affiliated Director” with “Independent Director”. However, the IDX later revoked this circular through SE-00009/BEI.PPU/03-2021. Although Indonesia no longer has a regulation mandating the presence of independent directors, many companies still choose to appoint them as part of their governance structures.

Agency theory posits that independent directors enhance board monitoring and reduce principal–agent conflicts (Jensen & Meckling, 1976), thereby facilitating more rigorous sustainability disclosure processes. Empirical studies provide evidence of the moderating role of board independence in the relationship between board characteristics and disclosure outcomes. Studies in China and the United States further confirm that higher proportions of independent directors amplify the positive association between board size and the depth of CSR disclosures (Alipour et al., 2019; Rossi et al., 2021).

Worldwide evidence also shows that independent directors enhance the board’s capacity to translate its size into actionable sustainability disclosure readiness by improving decision quality and stakeholder trust (Tajuddin et al., 2024). The ISSB’s IFRS S1 and S2 explicitly call for strong governance and board capabilities to ensure transparent, decision-useful sustainability information. The proportion of independent directors positively moderates the relationship between board size and a firm’s readiness to implement sustainability disclosures in accordance with IFRS S1 and IFRS S2, such that the positive effect of board size on disclosure readiness is stronger when independent director representation is higher.

Maroun et al. (2014) emphasized that independent directors play a role in influencing business decisions and strategies and contribute to sustainability reporting practices. Independent directors hold greater authority and are not dependent on company management. Their presence on the board enhances the effectiveness of management performance and duties (Nguyen & Thanh, 2022). Companies’ consideration of reputation management leads them to act more responsibly and transparently and disclose better information. This may create a positive correlation between independent directors and the production of sustainability reports aligned with international sustainability reporting standards (Buhr & Freedman, 2001).

Companies supported by strong independent directors are better equipped to identify and monitor risks related to standards implementation and provide comprehensive oversight of their application, thereby ensuring that company disclosures are aligned with applicable standards (Alzeban, 2018). As a result, companies with independent directors can satisfy stakeholders by providing high-quality information (Adams & McNicholas, 2007; Deegan et al., 2000). Githaiga & Kosgei (2023), Girella et al. (2022), and Wijayanti & Setiawan (2023) have all reported a positive relationship between independent directors and sustainability reporting. Based on the explanation above, then:

H2. The independent directors on the board positively moderates the relationship between board size and sustainability disclosure readiness.

3. RESEARCH METHODS

Sample and data

This study uses companies listed on the Indonesian Stock Exchange during the 2022–2023 period, excluding companies with SIC code 6 industry classification, and companies that published Sustainability Reports, Annual Reports, and Integrated Reports in both 2022 and 2023. Companies under SIC code 6 are excluded due to their distinct characteristics and indicators compared to non-financial industries, as well as their stricter regulatory environment. The research sample is 652 observations. The data used in this study are secondary data, which includes Sustainability Reports, Annual Reports, Integrated Reports, as well as data from the Bloomberg and Osiris databases.

Variable

Board Size, is the independent variable measured by the total number of directors serving on a company's board. Board Independence is the moderating variable measured by the total number of independent directors. This approach aligns with prior research methodologies that assess the influence of board composition on corporate governance outcomes.

Sustainability disclosure readiness concerning IFRS S1 and IFRS S2 is the dependent variable. This is assessed through a scoring system that evaluates the extent to which a company's disclosures align with the indicators specified in these standards. Each disclosure is scored on a scale from 0 to 22, with higher scores reflecting greater alignment and, consequently, higher readiness. This measurement approach is adapted from Bahari et al. (2022), who developed a framework for assessing sustainability reporting quality in Southeast Asian companies. Table 1 show disclosure measurement indicator for IFRS S1 & IFRS S2.

In addition, several control variables are included in this study: firm size, firm age, leverage, and industry classification. Firm size is defined as the total assets owned by a company, representing its level of wealth (Sudana & Dwiputri, 2018). It is measured using the natural logarithm of total assets, in line with prior studies (Githaiga & Kosgei, 2023). Firm age refers to the number of years the company has been in operation and is calculated as the difference between the year of observation and the year of establishment, thereby capturing the firm's longevity (Wijayanti & Setiawan, 2023; Githaiga & Kosgei, 2023). Leverage is defined as a financial ratio that reflects the extent to which a company relies on debt financing. It is measured using the debt-to-assets ratio, following the approach of Brigham & Houston (2019) and Girella et al. (2022). Lastly, industry classification is introduced as a dummy variable, where a value of 1 indicates companies operating in high-risk industries, and 0 otherwise, to account for industry-specific risks that may influence sustainability disclosure readiness.

Data and Technique Analysis

The analytical techniques employed in this study consist of three stages. First, descriptive statistical analysis is used to summarize the data, making it easier to read and interpret by presenting information such as minimum, maximum, and average values. Second, Pearson correlation analysis is conducted to determine the direction and significance of bivariate relationships among variables measured on an interval or ratio scale (Sekaran & Bougie, 2016). Third, Moderated Regression Analysis (MRA) is performed to test the hypotheses.

Table 1. Measurement Indicators for Sustainability Disclosure IFRS S1 and IFRS S2

No	General Disclosure Requirement	Disclosure Area	Indicators
1	IFRS S1 (Sustainability-related financial information)	Governance	a. Processes b. Controls c. Procedures
		Strategy	Risk Management
		Risk Management	a. Identification b. Assessment c. Prioritization d. Monitoring
		Metrics & Targets	a. Measurement b. Monitoring c. Management
2	IFRS S2 (Climate-related)	Governance	a. Processes b. Controls c. Procedures
		Strategy	a. Risk Management b. Climate resilience
		Risk Management	a. Identification b. Assessment c. Prioritization d. Monitoring
		Metrics & Targets	a. Absolute GHG emissions, b. Corporate GHG Standards

Source: IFRS S1 and IFRS S2

Table 2. Statistic Descriptive

Variable	N	Minimum	Maximum	Mean	Std. Deviation
SDR	652	1.00	22.00	17.1810	3.75409
BSIZE	652	1.00	12.00	4.2684	1.78663
INDEP	652	.00	10.00	2.7561	1.59117
AGE	652	3.00	113.00	34.1626	17.26582
LEV	652	.01	117.38	.9138	6.46426
SIZE	652	17.34	33.73	27.2249	3.50310
D_IND	652	0	1	.51	.500

Source: Data processed in 2024

4. RESULTS AND DISCUSSION

Table 2 presents the descriptive statistics, including the minimum, maximum, mean, and standard deviation of the research variables. The mean value of SDR is 17.18, indicating that, on average, companies in the sample are moderately prepared for sustainability disclosure in accordance with IFRS S1 and S2 standards. This suggests that while companies are working towards adopting sustainability disclosure practices, there is still room for improvement. The mean value of BSIZE is 4.27, indicating relatively small boards, which may reflect an emphasis on lean governance structures and streamlined decision-making. This suggests that the typical board size is relatively small, with a focus on more streamlined decision-making processes. The mean value of INDEP is 2.76, indicating that, on average, companies in the sample have just under three independent directors on their boards. This suggests that independent directors form a small proportion of the board, which could affect the overall independence and oversight of the company's decision-making processes.

Table 3 shows the results of the Pearson correlation. There is a positive and significant correlation between board size (BSIZE) and sustainability disclosure readiness (SDR), with a correlation coefficient of 0.113 at the 1% significance level. This suggests that as the size of the board increases, the company's readiness to implement sustainability disclosures also improves. This aligns with the regression results, where a larger board was found to positively influence sustainability disclosure readiness. Similarly, independent directors (INDEP) exhibit a positive and significant correlation with sustainability disclosure readiness (SDR), with a coefficient of 0.118 at the 1% significance level. This suggests that companies with more independent directors are more likely to have better sustainability disclosure practices. The presence of independent directors could contribute to more rigorous monitoring and decision-making processes, promoting transparency in sustainability reporting. There is a strong positive and significant correlation between board size (BSIZE) and independent directors (INDEP), with a coefficient of 0.533 at the 1% significance level. This indicates that companies with larger boards tend to have a higher proportion of independent directors. This relationship is expected, as larger boards typically have more members, which may increase the likelihood of including independent directors to enhance governance and oversight.

The data analysis technique in this study is Moderated Regression Analysis (MRA). MRA is conducted to test the interaction of moderating variables in the association between independent variables and dependent variables (Ghozali, 2018). The regression equation of Moderated Regression Analysis is as follows:

$SDR = \alpha_1 + \beta_1 BSIZE + \beta_2 SIZE + \beta_3 AGE + \beta_4 LEV + \beta_5 D\_IND$

$SDR = \alpha_1 + \beta_6 BSIZE + \beta_7 INDEP + \beta_8 SIZE + \beta_9 AGE + \beta_{10} LEV + \beta_{11} D\_IND$

$SDR = \alpha_1 + \beta_{12} BSIZE + \beta_{13} INDEP + \beta_{14} BSIZE*INDEP + \beta_{15} SIZE + \beta_{16} AGE + \beta_{17} LEV + \beta_{18} D\_IND$

Table 3. Correlation Pearson

	SDR	BSIZE	INDEP	SIZE	AGE	LEV	D_ IND
SDR	1						
B-SIZE	0.113***	1					
IN-DEP	0.118***	0.533***	1				
SIZE	0.109***	0.216***	0.011	1			
AGE	-0.002	0.257***	0.136***	0.167***	1		
LEV	0.019	-0.048	0.006	-0.075*	-0.050	1	
D_ IND	-0.268***	0.075*	-0.066*	-0.097**	0.079**	0.071*	1

***,**,* significance at level 1%, 5%, and 10%
Source: Data Processed, 2024

Table 4
Regression Test

Variable	SDR	SDR	SDR
BSIZE	0.267***	0.208**	0.325**
	3.220	2.107	2.227
INDEP		-0.309	0.331*
		-1.051	1.483
BSIZE*INDEP			-0.40
			-1.087
SIZE	0.067	0.074*	0.073*
	1.611	1.753	1.735
AGE	-0.005	-0.005	-0.005
	-0.536	-.0565	-0.588
LEV	0.028	0.27	0.026
	1.275	1.230	1.193
D_IND	-0.264***	-2.000***	-1.979***
	-7.180	-6.942	-6.855

***,**,* significance at level 1%, 5%, and 10%
Source: Data Processed, 2024

The regression results presented in Table 4 show a positive significant relationship between board size and sustainability disclosure readiness (SDR). In Model 1, the coefficient for BSIZE is 0.267, which is statistically significant at the 1% level ($p < 0.01$). This implies that an increase in the number of directors on the board leads to a higher level of sustainability disclosure readiness. This result supports the first hypothesis (H1), which posits that board size is positively associated with sustainability disclosure readiness. A larger board provides more diverse perspectives, potentially improving the company's governance and decision-making processes, which could enhance the company's commitment to sustainability reporting.

The second hypothesis (H2) suggests that the presence of independent directors moderates the positive relationship between board size and sustainability disclosure readiness. However, the regression results in Model 3 show that the interaction term between BSIZE and INDEP is not statistically significant. The coefficient for BSIZE*INDEP is -0.40 with a p-value of 0.687, which indicates no moderating effect of independent directors. Therefore, H2 is rejected, suggesting that independent directors do not strengthen the influence of board size on sustainability disclosure readiness. This finding is contrary to expectations, and it implies that while independent directors might play a role in governance, they do not appear to significantly enhance the relationship between board size and the readiness for sustainability disclosure under IFRS S1 and S2 standards.

Based on the findings from Equation 2, INDEP does not have a significant direct effect on Sustainability Disclosure Readiness (SDR). Similarly, Equation 3 indicates that the interaction between BSIZE* INDEP does not significantly influence SDR. These results suggest that independent directors, in this context, function as a homologizer moderator. A homologizer moderator is characterized by its lack of significant impact on the relationship between an independent variable (e.g., board size) and a dependent variable (e.g., SDR). This means that the presence or proportion of independent directors does not alter the effect of board size on a company's readiness to disclose sustainability information.

The control variables included in the regression analysis provide further insights into the factors influencing sustainability disclosure readiness. Firm size (SIZE) has a positive and statistically significant coefficient in Models 2 and 3, indicating that larger firms tend to have a higher level of readiness for sustainability disclosure. This suggests that larger companies may have more resources and capabilities to meet the requirements of sustainability reporting. On the other hand, firm age (AGE) does not have a significant effect on sustainability disclosure readiness, as its coefficient is negative but not statistically significant. This implies that the length of time a company has been in operation does not appear to influence its preparedness for sustainability disclosure under the IFRS S1 and S2 standards. Similarly, leverage (LEV), which reflects a company's reliance on debt, does not exhibit a significant relationship with sustainability disclosure readiness. This suggests that the level of debt financing does not play a crucial role in determining a company's readiness for sustainability reporting. Finally, industry classification (D_IND) shows a significant negative coefficient in all models, indicating that companies operating in higher-risk industries tend to have lower sustainability disclosure readiness. This finding could be attributed to the additional challenges faced by firms in high-risk sectors in meeting sustainability reporting requirements, possibly due to industry-specific complexities or regulatory constraints.

The results of this study suggest that larger board sizes are associated with greater readiness among companies to implement sustainability reporting standards IFRS S1 and IFRS S2. This finding aligns with prior research by Formigoni et al. (2021), Girella et al. (2022), and Wijayanti & Setiawan (2023), which identified a positive relationship between board size and sustainability reporting practices. Larger boards can provide a broader range of expertise, knowledge, and experience, which is beneficial in navigating the complexities of sustainability reporting. The diverse perspectives and skills present in larger boards enhance a company's ability to monitor and disclose sustainability-related information effectively.

This observation is supported by agency theory, which posits that an increased number of board members can reduce information asymmetry between management and stakeholders. Larger boards are better equipped to oversee management activities, ensuring that disclosures are transparent and aligned with stakeholders' interests. Research indicates that board size is negatively associated with information asymmetry, suggesting that larger boards can mitigate the challenges associated with complex reporting requirements.

In summary, the presence of a larger board appears to enhance a company's preparedness for adopting IFRS S1 and S2 standards, by leveraging the collective expertise of its members and reducing information asymmetry, thereby facilitating more comprehensive and reliable sustainability disclosures. Based on equation 3, indicate that a higher proportion of independent directors on the board is associated with increased readiness of companies to implement sustainability reporting standards IFRS S1 and IFRS S2. This observation aligns with prior research by Githaiga and Kosgei (2023), Girella et al. (2022), and Wijayanti and Setiawan (2023), which found a positive relationship between board independence and the quality of sustainability disclosures. Independent directors contribute significantly to identifying and monitoring risks associated with the adoption of sustainability reporting standards. Their independent oversight enhances the board's ability to guide companies towards long-term value creation and improved transparency. This role is supported by both Resource Dependency Theory and Agency Theory. Resource Dependency Theory posits that independent directors bring valuable external resources and perspectives, facilitating better decision-making and strategic alignment with sustainability goals. Agency Theory suggests that independent directors serve as effective monitors of management, reducing agency costs and ensuring that managerial actions align with shareholders' interests, particularly in the context of sustainability reporting.Therefore, the presence of independent directors not only strengthens the governance structure but also plays a pivotal role in enhancing a company's preparedness for comprehensive sustainability reporting in line with IFRS S1 and S2 standards.

5. CONCLUSIONS AND SUGGESTIONS

This study aims to investigate the impact of board size on a company's readiness to implement sustainability disclosure in accordance with the IFRS S1 and IFRS S2 standards. Furthermore, it examines the moderating role of independent directors in the relationship between board size and the readiness to adopt these sustainability-related disclosure standards. The study sample is composed of 652 observations from 2022 to 2023. The analysis reveals that board size is positively associated with sustainability disclosure readiness, indicating that companies with larger boards are more likely to be prepared for sustainability reporting according to IFRS S1 and S2 standards. Larger boards bring a broader range of perspectives and expertise, which contribute to better governance and decision-making, thereby enhancing sustainability disclosure practices. However, independent directors (do not significantly moderate the relationship between board size and SDR, suggesting that while independent directors are positively correlated with both board size and sustainability disclosure readiness, their presence does not necessarily amplify the positive effect of board size on disclosure readiness. The descriptive statistics show that, although companies, on average, exhibit moderate readiness for sustainability disclosures, there is considerable variation in board size and the number of independent directors across firms. Some companies have small boards or lack independent directors entirely, which may limit their ability to effectively adopt sustainability reporting practices.

In light of these findings, it is recommended that companies consider expanding their board size to include individuals with diverse expertise and backgrounds, as this could lead to more effective decision-making and better sustainability disclosure practices. Additionally, while independent directors do not appear to moderate the relationship between board size and SDR, their role in improving governance remains crucial. Companies should aim to ensure that their boards include an adequate representation of independent directors to foster transparency and accountability, especially in relation to sustainability matters. Furthermore, firms, particularly those in high-risk industries or with smaller boards, should adopt governance best practices, such as forming sustainability committees, to enhance their sustainability disclosure readiness. Finally, companies that are less prepared for sustainability disclosure should focus on strengthening their governance structures, investing in board education on sustainability, and aligning their reporting practices with global standards, potentially with the help of external experts, to improve their transparency and accountability in sustainability reporting.

This study has several limitations. First, the measurement of the variable sustainability disclosure readiness, determined by the degree to which presented information aligns with indicators in IFRS S1 and IFRS S2 standards, is general and has not been widely adopted, making it untested. Second, the research sample is limited due to the unavailability of sustainability reports from many companies. Based on the findings, future research is encouraged to expand the measurement of board characteristics by considering additional aspects such as board ownership structure, age, gender, and educational background of board members, to gain a more comprehensive understanding of the board's role in influencing a company's readiness to adopt the new sustainability reporting standards. Further studies may also develop the analysis by incorporating other determinants that may affect the readiness for sustainability disclosure.

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