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Research Paper

Sustainable banking in Indonesia and Malaysia: Optimizing corporate governance and the role of CEOs' social networks

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Abstract

The demand for sustainability reports has risen recently as stakeholders increasingly concern themselves with sustainable business practices. This research aims to analyze the role of CEOs' Social Networks and Corporate Governance in promoting Sustainability Report Disclosures, especially in the banking sector. Using the Global Reporting Initiative (GRI) standard reference for Sustainability Reports, this research compares two countries, Indonesia and Malaysia, from 2017 to 2022. This quantitative study employs content analysis and multivariate analysis through structural equation modeling (SEM). To facilitate the comparison between Indonesia and Malaysia, this study employs PLS-Multigroup with the help of WarpPLS software. In this study, the independent variables consist of CEOs' social networks and corporate governance, whereas the dependent variable is Sustainable Banking, operationalized through the quality of sustainability reports. The hypothesized influence in this study is grounded in the Resource-Based View. The results indicate that Indonesian banks score higher in terms of sustainability report disclosures on economic and environmental indicators. Furthermore, Corporate Governance significantly affects sustainable banking, while the CEOs' social networks have a significant effect when tested on combined models from Indonesia and Malaysia.

Keywords: CEOs' social networks, Corporate governance, Sustainability report practice, Indonesia, Malaysia.

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Introduction

The development and role of banking are of crucial importance today. Besides connecting parties with excess funds and those who need funds, banks provide financing for productive investment in companies and infrastructure projects. Sustainable banking development is a concept in which the banking sector strives to achieve inclusive, efficient, socially, and environmentally responsible economic growth (Corrado and Corrado, 2017). According to Riegler (2023), sustainable banking encompasses financial goods and services designed to address societal needs and protect the environment while yielding profits. Research conducted by Moufty et al. (2021) measure banking sector sustainability using sustainability reports.

The demand for sustainability reports has recently increased because consumers, investors, and the general public are becoming increasingly concerned with responsible and sustainable business practices. A sustainability report provides information about a company's environmental, social, and economic performance in the context of sustainable development (Abeysekera, 2022). All industrial sectors, including banking, are expected to publish high-quality sustainability reports. The banking industry is important for achieving sustainable development due to its unique intermediation role, which is critical for mobilizing financial resources toward sustainable goals (Alexander, 2014; Yip and Bocken, 2018).

Sustainability reports enable banks to be more transparent regarding the impacts of their activities on environmental, social, and corporate governance (Citterio and King, 2023). This transparency includes disclosures about sustainable business practices, risk mitigation measures, community engagement, and a commitment to sustainability principles. These reports help build stakeholder trust and increase banking accountability toward the public, customers, investors, and regulators (Mohammad and Wasiuzzaman, 2021). By identifying and measuring economic, social, and environmental impacts, banks can identify potential risks, such as reputational, legal, or operational risks associated with unsustainable practices. Sustainability reports can also help banks identify new opportunities, such as developing sustainable products or services that generate long-term profits.

Research by Gunawan et al. (2022) states that the quality of a sustainability report is determined by the human resources owned by the company, including through the role of the Chief Executive Officer (CEO) and the banking board of directors. The CEO has a major influence on the company's strategy and long-term thinking, while the board of directors is responsible for ensuring the company operates effectively and sustainably (Mahrani and Soewarno, 2018).

Resource-Based-View (RBV) is a theory that explains how a company's success depends on its resources (Gueler and Schneider, 2021). In this case, the CEO and board of directors are considered resources that can improve the quality of the company's sustainability report. Through their networks, the CEO can help companies obtain the information and resources needed to produce quality sustainability reports (Ngelo et al, 2022). Meanwhile, board diversity offers a range of expertise and perspectives that enable companies to deliver more comprehensive and transparent sustainability practices (Harjoto and Rossi, 2019).

Legitimacy theory explains that companies should maintain social legitimacy by meeting the expectations of society and stakeholders (Martens and Bui, 2023). Sustainability reports are essential for maintaining social legitimacy because they provide information about a company's social and environmental performance (Benvenuto et al., 2023). Meanwhile, stakeholder theory emphasizes the importance of businesses considering stakeholders' interests in decision-making (Mahajan et al., 2023). The CEO and board of directors can influence the quality of sustainability reports because of their role in considering stakeholders' interests (Doni et al., 2022). The CEO and board of directors represent corporate governance attributes (Lu et al., 2022).

In a country utilizing a one-tier corporate governance system, the company is managed by a single board of directors, which holds the responsibility for decision-making. Among ASEAN countries, Malaysia is mandated to adopt this governance framework. Data from the Center for Governance and Sustainability at NUS Business School, as reported in its publication Corporate Sustainability Reporting in ASEAN Countries, indicate that Malaysia achieved the highest score in sustainability report performance in 2020 (Asean CSR Network, 2020). In countries with a two-tier corporate governance system, there are two decision-making bodies: the supervisory board and the management board. Indonesia is an ASEAN country that follows a two-tier corporate governance system.

In both corporate governance systems, the CEO plays an important role in decision-making and the creation of sustainability reports (Arvidsson, 2022). The CEO's role in company development is often related to their level of activity in the community and interactions with CEOs from other companies. Professional relationships between CEOs are established through meetings, conferences, or other business activities, which can influence their business decisions and strategies (Mundi, 2023).

Previous studies show that CEOs' social networks can influence the quality and disclosure of sustainability reports. A study by Ngelo et al. (2022) found that the CEO's social networks can affect the decisions made by the company, especially regarding increasing CSR. Several studies also report that environmental and corporate sustainability performance is positively and significantly related to corporate governance (Husted and Sousa-Filho, 2019; Juwita and Honggowati, 2021). However, Nguyen et al. (2021) and Kumar et al. (2022) concluded that there was an insignificant relationship between corporate governance and corporate sustainability. Inconsistent previous research highlights the need for more in-depth research on the influence of CEOs' social networks and corporate governance on sustainability reports, especially in Indonesia and Malaysia.

This research aims to fill the gaps left by these inconsistencies. So far, this research is the first to combine content and quantitative analysis regarding corporate governance and the role of CEOs' social networks in banking sustainability. There are several strong reasons for the combination of corporate governance and CEOs' social networks in sustainability report disclosure. This combination makes it possible to apply a holistic approach to measuring and communicating a company's sustainable performance to stakeholders. The board of directors is the highest authority in the company and has an important role in directing the organization's vision, values, and goals. CEOs' social network disclosures, such as participation in various social or environmental initiatives, reflect the CEO's personal integrity and commitment to sustainable practices. This can also set a strong example for other executives. This research is also equipped with a comparison test between Indonesia and Malaysia. Malaysia is suitable for performance comparison because it received the highest ranking in sustainability report disclosures.

The structure of this research is as follows: section 2 reviews the existing literature, which investigates the relationships between variables and the theories used as the basis of the study, followed by hypothesis development. Section 3 describes the methodology and data, followed by results and analysis in section 4. Sections 5 and 6 discuss this research and future research, as well as a conclusion and implications in section 7. The final section describes the implications for Asian business.

Literature Review

Sustainable banking refers to financial products and services designed to meet societal needs, protect the environment, and generate profits (Riegler, 2023; Yip and Bocken, 2018). It is closely related to terms such as Corporate Social Responsibility (CSR) banks, ethical banks (Birindelli et al., 2018; San-Jose et al., 2011), eco-banking, and green banking (Khan et al., 2021). As a concept, sustainable banking has been extensively analyzed, given the role banking plays in promoting sustainable development. By creating sustainability reports, banks can identify significant economic, environmental, and societal impacts and disclose them according to globally accepted standards. The sustainability report, developed in 1992, is based on international standard references from the Global Reporting Initiative (GRI). The GRI promotes the use of sustainability reports to help companies become more sustainable and contribute to sustainable development (Farisyi et al., 2022; Jainet et al., 2024).

A study by Moufty et al. (2021) uses sustainability reports as a primary methodological instrument to evaluate and measure the sustainability performance of banking organizations. The authors examine the content and disclosures in these reports to assess different aspects of environmental, social, and governance (ESG) practices in the banking industry. The researchers aim to evaluate how effectively banks integrate sustainable practices, comply with sustainability standards, and measure the overall impact of their sustainability activities by systematically analyzing the content of these reports. This method facilitates a comprehensive assessment of banking sustainability, offering insights into how well banks align their strategies with global sustainability objectives and stakeholder expectations.

Hypothesis Development

The Resource-Based View (RBV) posits that the resources a company possesses significantly influence its performance (Barney, 1991). CEO social networks are considered a valuable resource that can enhance the quality of corporate sustainability reports (Shi et al., 2021). Similarly, corporate governance, reflected in the diversity of the board of directors and the activities of directors within company operations, plays a crucial role (Gurol and Lagasio, 2021). Research by Wang et al. (2016) in China indicates that organizations that prioritize their social responsibilities and practice transparent and ethical accounting garner more societal support and experience better financial growth. Legitimacy Theory explains how organizations can maintain their existence by gaining public support through the provision of financial and sustainability information perceived as trustworthy and fair (Dowling and Pfeffer, 1975). This theory serves as a framework to understand how companies strive to align their operations with stakeholder expectations and norms to uphold their legitimacy and social license to operate. This hypothesis is particularly effective in elucidating the disparities in sustainable banking practices between countries such as Indonesia and Malaysia.

Moreover, an increasing number of countries, including Indonesia and Malaysia, are encouraging or mandating companies to report their sustainability performance. The publication of sustainability reports enables financial institutions to be more transparent about their environmental, social, and corporate governance impacts (Dmuchowski et al., 2023).

Indonesia and Malaysia have differing sustainability reporting regulations and standards. In Indonesia, sustainability reporting by companies is governed by the Financial Services Authority's (OJK) Regulation No. 51/POJK.03/2017 concerning the Application of Sustainability Principles for Financial Services Institutions. Meanwhile, in Malaysia, sustainability reporting is regulated by the Malaysia Sustainable Reporting Framework developed by Bursa Malaysia and the Securities Commission Malaysia (Kamaludin et al., 2022). Banks in Indonesia and Malaysia exhibit several differences based on regulations, financial industry structures, economic development, and local cultures. The differences in social, cultural, and environmental contexts between Indonesia and Malaysia can influence sustainability reports. Based on this background, the first hypothesis of this research is:

H1 There are differences between sustainable banking in Indonesia and Malaysia.

Corporate Governance and Sustainable Banking

Research by Juwita and Honggowati (2021) confirms the influence of corporate governance on the disclosure of sustainability reports during the pre-pandemic period in Indonesia. Corporate governance itself is a mechanism that regulates a company to create added value for all its stakeholders. Stakeholder theory encompasses a collection of policies and practices related to stakeholders, values, compliance with legal provisions, respect for society and the environment, and the commitment of the business world to contribute to sustainable development (Doni et al., 2022). Strong corporate governance ensures that strategic decisions taken by financial institutions are grounded in sustainability principles. Effective boards of directors and executive management consider environmental, social, and corporate governance factors, including assessing the potential impact on the environment, society, and other stakeholders while prioritizing long-term sustainable goals for banking in Indonesia and Malaysia. Banking boards of directors in Indonesia are responsible for making strategic decisions and supervising company operations. Meanwhile, the banking sector in Malaysia also encourages the presence of independent members on the board of directors to enhance transparency and accountability through a one-tier system. Based on this background, the second hypothesis of this research is:

H2 Corporate Governance has a significant influence on Sustainable Banking.

H2a Corporate Governance has a significant influence on sustainable banking in

Indonesia.

H2b Corporate Governance has a significant influence on Sustainable Banking in Malaysia.

CEOs’ Social Networks and Sustainable Banking

Social capital theory elucidates the connection between CEOs’ social networks and sustainable banking. This theory emphasizes the value derived from an individual’s social ties and networks, making it particularly relevant for analyzing how a CEO’s social networks impact a bank’s sustainability strategy (Hoi et al., 2018).

The term "CEOs’ Social Networks" refers to the professional relationships among CEOs of companies across various industries and regions. This concept encompasses the connections established through meetings, conferences, and other business activities, which can influence their decisions and strategies. A study by Ngelo et al. (2022) demonstrates that CEOs’ social networks can enhance corporate performance through knowledge transfer, resource access, and increased innovation.

Analysis by Ngelo et al. (2022) found that CEOs with diverse professional experience tend to produce higher-quality sustainability reports. The industries and organizational complexities in Indonesia and Malaysia vary in size, growth, and market dynamics. Indonesia has a larger population and a rapidly growing internet market, while Malaysia has a smaller market, particularly in terms of population. This disparity in population and market size impacts the number of banking customers in the two countries and may influence the operational scale and challenges faced by CEOs in both regions. Based on this background, the third hypothesis of this research is:

H3 CEOs’ social networks have a significant influence on sustainable banking.

H3a CEOs’ social networks have a significant influence on sustainable banking in Indonesia.

H3b CEOs’ social networks have a significant influence on sustainable banking in Malaysia.

Moderation of Country Group

In addition to differences in binding regulations, the social, cultural, and environmental contexts between Indonesia and Malaysia can influence sustainability reports, as well as corporate governance and stakeholder interactions in each country.

Institutional theory analyzes the impact of institutional contexts—such as national regulations, conventions, and cultural values—on organizational activities (Jepperson and Meyer, 2021). This hypothesis is particularly relevant for examining how country groups can influence the relationship between corporate governance and sustainable banking, as well as between CEOs’ social networks and sustainable banking.

The manner in which companies engage stakeholders in the sustainability reporting process may also differ between Indonesia and Malaysia. Each country has unique practices regarding stakeholder consultation and the acceptance of input, which can be reflected in how information about stakeholder involvement is presented in sustainability reports. Based on this background, the fourth hypothesis of this research is:

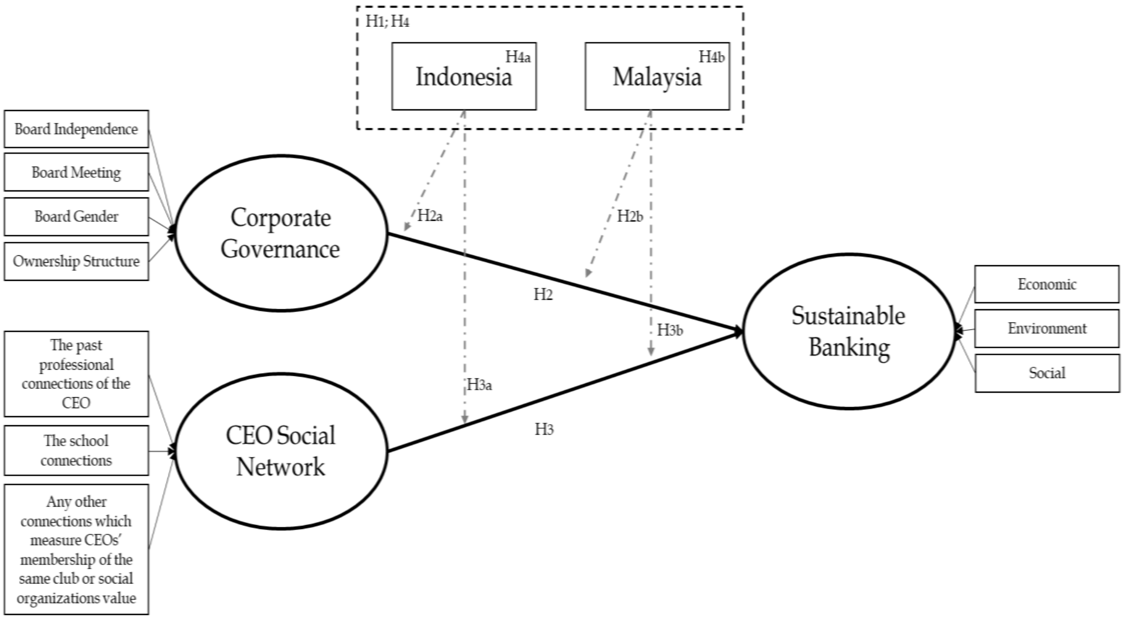
H4 Country group moderates the influence of Corporate Governance and CEOs' Social Network on Sustainable Banking

H4a Corporate governance significantly affects sustainable banking, moderated by country groups.

H4b CEOs' social networks significantly affect sustainable banking, moderated by country groups.

The research framework in this study is depicted in Figure 1 below:

Figure 1: Research framework



Methodology

To answer the research hypotheses, this paper combines several research methods. Firstly, the researchers employ content analysis to quantify the coverage of sustainability indicators in reports based on GRI standards for both Indonesian and Malaysian banks. Content analysis is a research method used to analyze text or other content to identify patterns, themes, sentiments, or characteristics. In this case, the company's communication is reflected through sustainability reports (Gupta, 1982). Mareceki (2009) explains validity in qualitative research as an evaluation of the extent to which the research evidence supports or justifies the interpretations and conclusions based on it. Therefore, it can be concluded that validity in qualitative research relates to the accuracy of research procedures, ensuring that the results and conclusions can be trusted as general truths.

To test validity, particularly in the content analysis method for measuring sustainability reports, the authors use the Total Compliance Rate (TCR) index, adapted from Traxler and Greiling (2019). With a total of 89 items, the maximum score that can be obtained is 178. This research defines three scoring categories: 0 for no disclosure, 1 for partial disclosure, and 2 for full disclosure.

$$\boxed{TCR = \frac{\Sigma \text{ the number of items expressed}}{178}}$$

The data used in this research comes from the official website of the Indonesian Stock Exchange and the publication of sustainability reports from Bursa Malaysia. The population of this research consists of all listed banks in Indonesia and Malaysia, totaling 136 banks.

Next, multivariate analysis is conducted using Structural Equation Modeling (SEM). This research employs SEM-PLS with the help of SEM WarpPLS 7.0 software. The multivariate analysis aims to identify whether the CEOs' Social networks and corporate governance influence sustainable banking. To compare Indonesia and Malaysia, this research uses multigroup analysis. Multigroup analysis, often referred to as multisampling analysis, is used to conduct data analysis based on sample characteristics from two or more data sets. Testing for categorical moderator variables is performed using multigroup analysis (PLS-MGA) (Silalahi, 2017). The moderation effect demonstrates the interaction between the independent variable and the moderator variable in influencing the dependent variable. The groups compared in this research are countries with a one-tier corporate governance system (Malaysia) and those with a two-tier corporate governance system (Indonesia). The multigroup PLS is measured by comparing and testing significance using the Smith-Satterthwait test (Ghozali and Latan, 2015). To calculate the t-statistics, the following formula is used:

$$\boxed{t = \frac{\text{Path sample } 1 - \text{Path sample } 2}{\sqrt{SE^2 \text{sample } 1 + SE^2 \text{sample } 2}}}$$

Note:

Path sample 1	= path coefficient for group 1
Path sample 2	= path coefficient for group 2
SE sample 1	= standard error value of group 1
SE sample 2	= standard error value of group 2

The sampling technique used in this research is purposive sampling, where samples are selected based on specific considerations and criteria. Based on the requirement to publish sustainability reports in accordance with the 2016 GRI standards for the past

six years (2017–2022), 17 banks were identified as research samples: 12 from Indonesia and 5 from Malaysia.
The sample selection criteria for this research are as follows:

1. Banks listed on the stock exchange: the Indonesian Stock Exchange for Indonesian banks and Bursa Malaysia for Malaysian banks.
2. Banks that have published sustainability reports for the 2017–2022 period, following the GRI-Standard index.
3. Banks with complete data regarding the variables analyzed in this research.

Table 1: Sample distribution

Country	**Board Structure Criteria**	**Number of banks**	**(%)**	**Number of Sustainability Reporting**
Malaysia	Mandatory One-Tier Board Structure	5	29.41%	30
Indonesia	Mandatory Two-Tier Board Structure	12	70.59%	72
Total		17	100.00%	102

The dependent variable in this research is Sustainable Banking, which is measured using disclosure indicators from the Sustainability Reporting Index (SRI) (Moufty et al., 2021; Wijayanti and Setiawan, 2023).

The Sustainability Reporting Index (SRI) is based on the Global Reporting Initiative (GRI) framework, which covers three main categories: economic, environmental, and social. Each indicator is evaluated through content analysis to calculate the SRI (Moufty et al., 2021; Wijayanti and Setiawan, 2023). The process for calculating the Sustainability Reporting Index (SRI) is as follows:

$$\boxed{SRI\ (i,t) = \sum_{i=1}^{N} Score\ (j)}$$

Note:

ds = 2 for full disclosure, 1 for partial disclosure, and 0 for no disclosure on economic, environmental, and social indicators
N = 17 for the 1-th economic indicator
N = 32 for the 1-th environment indicator
N = 40 for the 1-th social indicator
M = The maximum possible score is 178

The independent variables in this research are CEOs' Social Networks and Corporate Governance. Previous studies by Hafsi and Turgut (2012) and Beji et al. (2020) have examined the structural characteristics of the board—such as Board Size, Board Independence, Board Meetings, CEO Duality, and Ownership Structure—and evaluated the demographic attributes of the board, including Gender, Tenure, Educational Level, Nationality, and Ideology.

The CEOs' social networks are measured by assessing CEOs' direct ties, including their past professional connections, educational affiliations, and memberships in specific clubs, groups, or organizations (Shi et al., 2021). Detailed information on the variables is provided in Table 2 below.

Table 2: Variable information

Variables	Description/ Composition	Measurement	References
(Panel A: Dependent Variables)			
Sustainable Banking	Sustainability Reporting Index (SRI)	Sustainability Reporting Index – Economic	Moufty et al. (2021), Umukoro et al. (2019), Wijayanti and Setiawan (2023)
		Sustainability Reporting Index - Environment	
		Sustainability Reporting Index - Social	
(Panel B: Independent Variables)			
Corporate Governance	Board Independence	The number of directors sitting on a company's board is divided by the average board size of all companies.	Khaireddine et al. (2020)
	Board Meeting	Number of Meetings per Year	Birindelli et al. (2018), Ofoegbu et al. (2018)
	Ownership Structure	Percentage of share ownership by all directors on the board	Harjoto and Rossi, (2019)
	Board gender	Percentage of women on the board	Harjoto and Rossi, (2019), Khaireddine et al. (2020)
CEOs' Social Network	CEOs' Social Network	Past professional connections of the CEO	Mundi (2023), Shi et al. (2021)
		School Connection	
		Additional social relationships exist among persons who were members of the same club or other social organizations.	

Results

Differences between Sustainable Banking in Indonesia and Banking in Malaysia

Each country has distinct government regulations and guidelines for sustainable banking, which include variations in reporting standards, capital requirements, investment guidelines, and tax incentives provided to financial institutions that focus on sustainable practices. These regulatory differences may influence how banks in various countries incorporate environmental, social, and corporate governance (ESG) factors into their policies and operations (Citterio and King, 2023; Yuen et al., 2022).

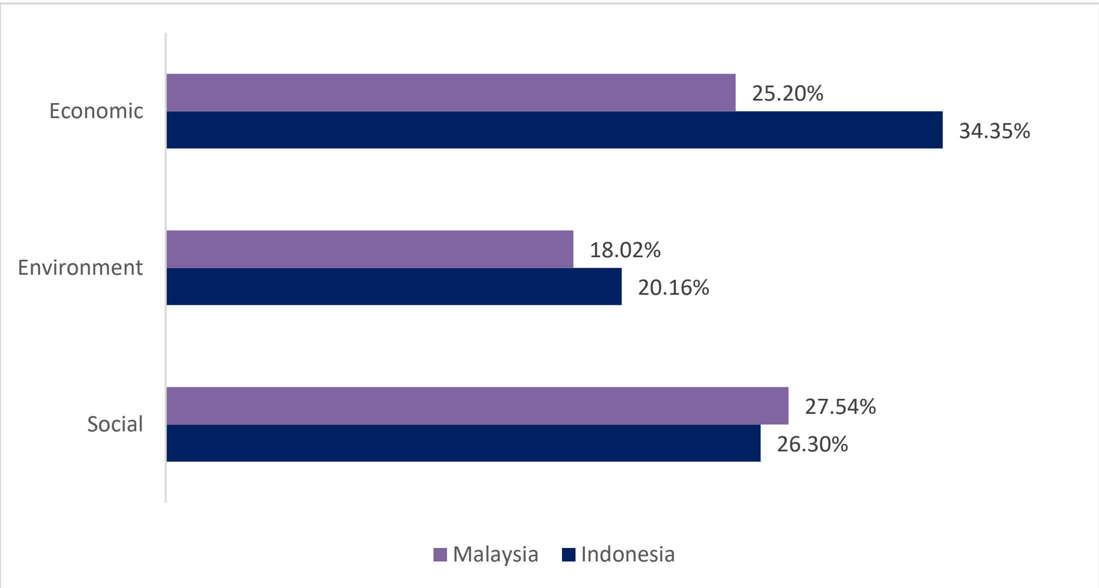
In Indonesia, sustainability reporting is mandated by the Financial Services Authority (OJK) through Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainability Principles for Financial Services Institutions (Permatasari and Gunawan, 2023). This regulation requires financial service institutions, including banks, insurance companies, and securities firms registered in Indonesia, to prepare sustainability reports. The OJK regulation is based on several principles, including accountability, sustainability, business relevance, integration, comparability, transparency, and completeness, which must be applied when compiling a sustainability report.

In Malaysia, sustainability reporting is governed by Bursa Malaysia and the Securities Commission Malaysia through the Malaysia Sustainable Reporting Framework (Kamaludin et al., 2022). In 2015, Bursa Malaysia revised its listing requirements to integrate sustainability-related practices. Additionally, the Malaysian Stock Exchange issued Sustainability Reporting Guidelines in 2018 to enhance ESG practices across Malaysian companies, including banks.

This research focuses on the banking sector in both Indonesia and Malaysia. The level of disclosure compliance in sustainability reports is assessed using the Total Compliance Rate (TCR) approach (Traxler and Greiling, 2019). TCR measures the number of disclosures divided by the maximum possible disclosure score for each indicator. A comparison of the TCR values between Indonesian and Malaysian banks is presented in Figure 2.

For the Economic and Environmental Sustainability Report disclosure indicators, Indonesian banks show higher TCR values, with disclosures of 34.55% and 20.16%, respectively. In comparison, Malaysian banks scored 15.20% and 18.02% in the disclosure of the Sustainability Report for Economic Indicators.

Figure 2: Total compliance rate (TCR) for sustainable banking in Indonesia and Malaysia



Banks' awareness and willingness to adopt sustainable practices may differ between Indonesia and Malaysia. Banks in Indonesia have taken more advanced steps in integrating economic and environmental factors into their sustainability reports compared to those in Malaysia. Each country faces unique environmental challenges; Indonesia, for example, has diverse ecosystems and contends with issues such as deforestation, forest degradation, and the sustainability of natural resources. These geographical conditions and environmental concerns contribute to higher disclosure rates in banking sustainability reports in Indonesia.

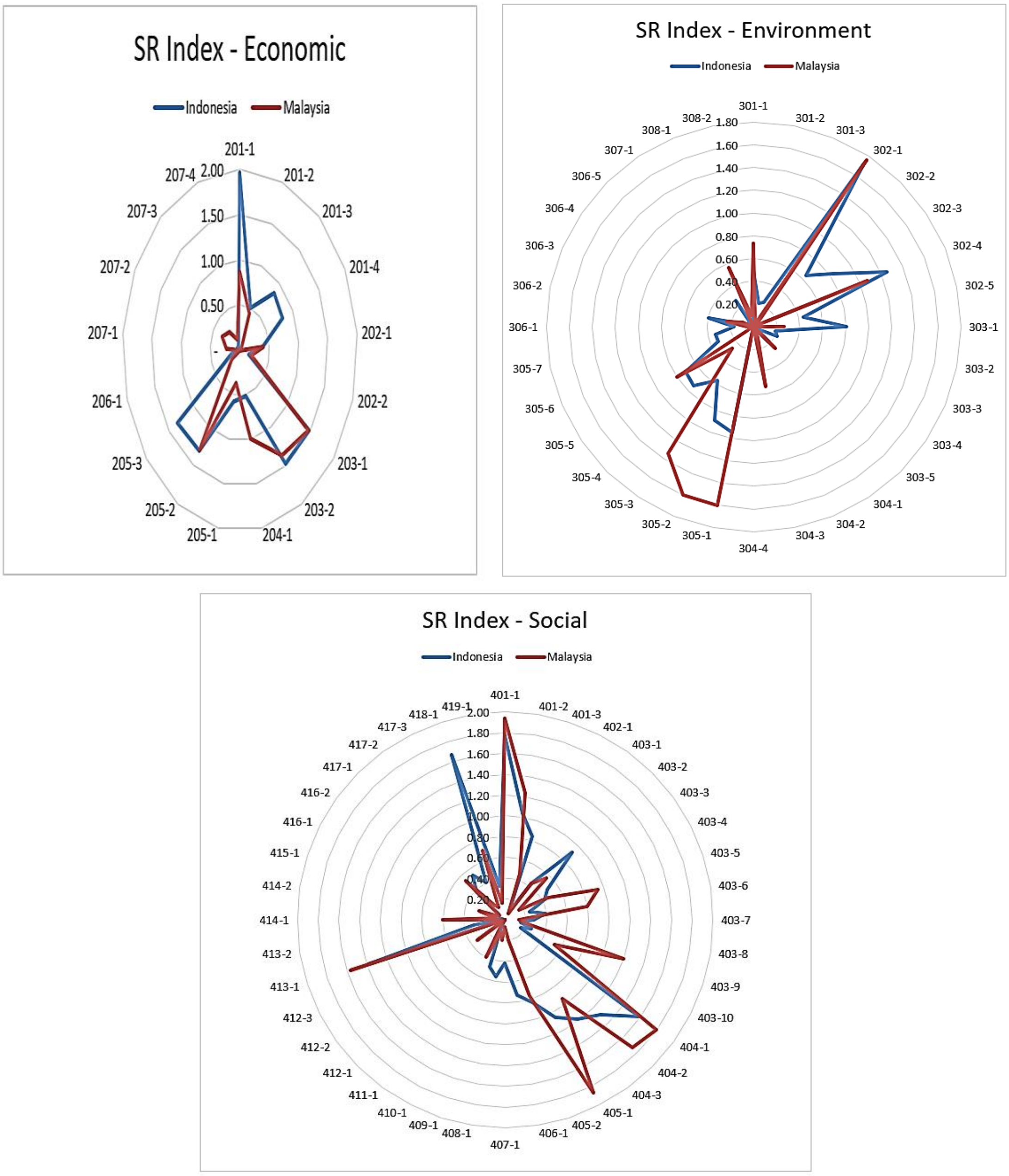
However, when examining the sustainability report disclosures related to social indicators, Malaysia demonstrates a better disclosure score, achieving a value of 27.54% compared to Indonesia's score of 26.30%. Banks in Malaysia have adopted best practices and are more attuned to stakeholder demands regarding social disclosures. This may involve closer dialogue with stakeholders, broader social responsibility initiatives, or more progressive policies addressing various social issues. Figure 3 below illustrates a comparison of sustainability report disclosures for each indicator and item.

Additionally, the comparison of each bank in the sample is presented in Table 3. In Indonesia, the bank with the highest disclosure score is PT Bank Tabungan Negara (BBTN), which scored 0.41. Conversely, the bank with the highest Sustainability Report Index (SRI) in Malaysia is Rashid Hussein Bank (RHB), which scored 0.28. Overall, the SRI score for banks in Indonesia is 0.26, slightly higher than that of banks in Malaysia, which is 0.24.

Table 3: Sustainability reporting index for both Indonesia and Malaysia

Indonesia						**Malaysia**					
No	**Bank**	**SRI**			**Total SR Index**	**No**	**Bank**	**SRI**			**Total SR Index**
		Econ.	**Env.**	**Social**				**Econ.**	**Env.**	**Social**	
1	BBCA	0.29	0.10	0.26	0.22	1	AMMB Holdings	0.16	0.15	0.30	0.22
2	BBKP	0.25	0.11	0.22	0.20	2	CIMB Group	0.18	0.18	0.24	0.21
3	BBNI	0.17	0.12	0.18	0.17	3	Hong Leong Bank	0.25	0.19	0.23	0.22
4	BBRI	0.32	0.22	0.24	0.27	4	Malayan Banking	0.28	0.20	0.25	0.26
5	BBTN	0.36	0.35	0.44	0.41	5	RHB Bank	0.21	0.18	0.28	0.28
6	BJBR	0.35	0.35	0.29	0.34		**Total Score**				**0.24**
7	BJTM	0.27	0.20	0.24	0.24						
8	BMRI	0.38	0.20	0.28	0.28						
9	BNGA	0.32	0.24	0.31	0.31						
10	BNII	0.17	0.18	0.20	0.20						
11	BNLI	0.15	0.16	0.24	0.21						
12	NISP	0.27	0.20	0.26	0.23						
	Total Score				**0.26**						

Figure 3: Sustainability report index: Indonesia v. Malaysia



Partial Least Square (PLS) Analysis

Formative Model Evaluation (Outer Model)

PLS analysis for variables with formative indicators involves validity testing, which is conducted by ensuring that there is no multicollinearity (multicollinearity is indicated by a VIF value > 10) and that the outer weights of indicators are significant for the latent variables (Jogiyanto, 2011). In this research, data was analyzed using three models. Model 1 includes data from all banks in Indonesia and Malaysia; Model 2 focuses on banking in Indonesia, while Model 3 measures data from banking in Malaysia. The evaluation results of the formative measurement model (outer model) are presented in Table 4.

Table 4: Measurement model evaluation results

Variable	Indicator	Model 1			Model 2 (Indonesia)			Model 3 (Malaysia)		
		PValue	VIP	Result	PValue	VIP	Result	PValue	VIP	Result
CG	Board Independence	<0.001	1.413	Valid	0.287*	1.075	Valid	0.010	1.606	Valid
	Board Meeting	<0.001	1.421	Valid	<0.001	1.219	Valid	0.002	2.638	Valid
	Ownership Structure	0.018	1.081	Valid	0.005	1.102	Valid	0.005	1.772	Valid
	Board gender	<0.001	1.558	Valid	<0.001	1.248	Valid	0.483*	1.464	Valid
SN	Profession	<0.001	1.060	Valid	<0.001	1.087	Valid	0.047	1.037	Valid
	School	<0.001	1.089	Valid	0.052*	1.020	Valid	<0.001	1.286	Valid
	Club or Social	<0.001	1.065	Valid	<0.001	1.100	Valid	<0.001	1.323	Valid
SB	SRI - Economic	<0.001	1.697	Valid	<0.001	1.943	Valid	0.005	1.365	Valid
	SRI - Environment	<0.001	1.991	Valid	<0.001	2.133	Valid	0.003	1.549	Valid
	SRI - Social	<0.001	1.796	Valid	<0.001	2.083	Valid	0.005	1.365	Valid

Based on the table above, there are PV values > 0.001, which means that the indicators are invalid. Since this research uses formative constructs, invalid indicators are retained because removing a formative indicator will change the meaning of the construct (Hair, 2013).

Furthermore, other indicators produce P values < 0.001, indicating that the probability is < alpha (5%), thus validating the measurements for the corporate governance, CEOs' social networks, and sustainable banking variables.

From Table 4, it is also noted that all indicators for the Corporate Governance, CEOs' Social Network, and Sustainable Banking variables yield VIP values of less than 10. This indicates that there is no multicollinearity among the indicators measuring Corporate Governance, CEOs' Social Networks, and Sustainable Banking.

Structural Model Evaluation (Inner Model)

After evaluating the measurement model, the structural model (Inner Model) was assessed. The evaluation of the structural model in the Partial Least Squares (PLS) formative research model is used to test the relationships between constructs and to measure the extent to which the model can explain and predict observed phenomena (Benitez et al., 2020). The evaluation of the Inner Model in this research employs the Goodness of Fit model. The results of the goodness of fit model are summarized in the following table.

Table 5: Goodness of fit model results

Variable	Model 1		Model 2 (Indonesia)		Model 3 (Malaysia)	
	R^2	Q^2	R^2	Q^2	R^2	Q^2
Sustainable Banking	0,153	0,136	0,122	0,110	0,312	0,289

Table 5 shows the results of the goodness of fit model for the variables in this research. In model 1, the r-squared of the sustainable banking variable is 0.153 or 15.3%. This indicates that the Corporate Governance and CEOs' Social Networks variables explain 15.3% of the variance in the sustainable banking variable. In comparison, the remaining 84.7% is attributed to other variables not discussed in this research. Meanwhile, in model 1, the q-square predictive relevance (Q^2) value is 0.136 or 13.6%. Thus, it can be concluded that the model in this research has a relevant predictive value, where the model used can explain 13.6% of the information contained in the research data.

In model 2, the r-squared of the sustainable banking variable is 0.122 or 12.2%. This indicates that 12.2% of the variance in the sustainable banking variables in Indonesia can be explained by the Corporate Governance and CEOs' Social Networks variables, while the remaining 87.8% is attributed to other variables not discussed in this research. Meanwhile, in model 2, the q-square predictive relevance (Q^2) value is 0.110 or 11.0%. Thus, it can be concluded that the model in this research has a relevant predictive value, where the model used can explain 11.0% of the information contained in the research data.

In model 3, the r-squared of the sustainable banking variable is 0.312 or 31.2%. This indicates that 31.2% of the variance in the sustainable banking variables in Malaysia can be explained by the Corporate Governance and CEOs' Social Networks variables, while the remaining 68.8% is attributed to other variables not discussed in this research. Meanwhile, in model 3, the q-square predictive relevance (Q^2) value is 0.289 or 28.9%. Thus, it can be concluded that the model in this research has a relevant predictive value, where the model used can explain 28.9% of the information contained in the research data.

Testing the Direct Effect Hypothesis

Table 6: Results of direct effect hypothesis testing

		Model 1			Model 2 (Indonesia)			Model 3 (Malaysia)		
Independent	**Dependent**	**Path Coeff.**	**P Value**	**Result**	**Path Coeff.**	**P Value**	**Result**	**Path Coeff.**	**P Value**	**Result**
Corporate Governance	Sustainable Banking	-0.194	0.021	Sig.	0.305	0.003	Sig.	0.447	0.002	Sig.
CEOs' Social Networks		0.338	<0.001	Sig.	0.180	0.055	InSig.	0.212	0.104	InSig.

The conversion of the path diagram into a measurement model is intended to determine the effect directly. The direct model effects are presented in Table 7. Through path coefficient calculations, it can be seen that the structural model formed is as follows:

$$\text{Model 1: } Y = -1.194\ X1 + 0.338\ X2$$
$$\text{Model 2: } Y = 0.305\ X1 + 0.180\ X2$$
$$\text{Model 3: } Y = 0.447\ X1 + 0.212\ X2$$

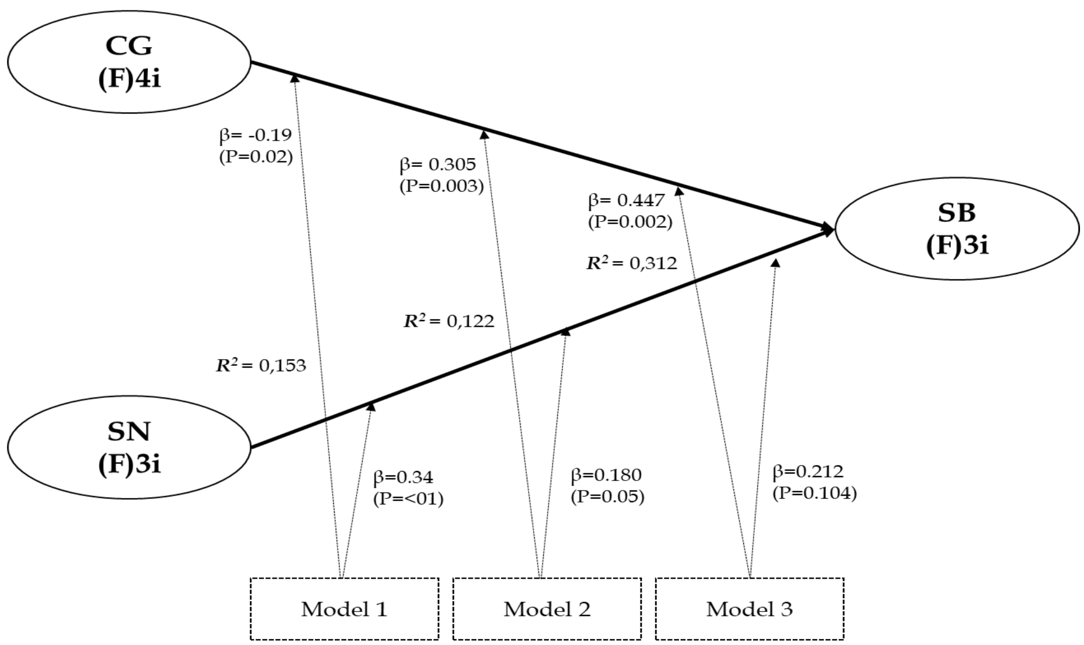
From the results of testing the hypothesis of the direct influence in model 1, as shown in Table 6 above, it can be seen that the p-value for the influence of corporate governance on sustainable banking is 0.021. The test results indicate that the p-value is <0.05, meaning that corporate governance significantly affects sustainable banking.

Meanwhile, the P-value for the CEOs' social network's influence on sustainable banking is <0.001, indicating that the CEOs' social networks significantly influence sustainable banking.

In model 2, the results of testing the hypothesis of direct influence show that the p-value for the influence of corporate governance on sustainable banking is 0.003. This result can be interpreted to indicate that corporate governance has a significant effect on sustainable banking. Meanwhile, the p-value for the CEOs' social network's influence on sustainable banking is 0.055; this result suggests that the CEOs' social networks do not significantly influence sustainable banking in Indonesian banks.

In model 3, the results of testing the hypothesis of direct influence indicate that the p-value for the influence of corporate governance on sustainable banking is 0.002. The test results show that the p-value is <0.05, meaning that corporate governance significantly affects sustainable banking. Meanwhile, the p-value for the CEOs' social network's influence on sustainable banking is 0.104, indicating that the CEOs' social network does not have a significant influence on banking in Malaysia.

Figure 4: Result of the analysis



Partial Least Square Multigroup (PLS-Multigroup) Analysis

This research also conducted a multigroup test to determine whether the country group acts as a moderator variable, influencing the relationship between the independent variable and the dependent variable, and to identify which category more strongly moderates this influence. Multigroup testing was performed to address the research hypotheses H4, H4a, and H4b.

Moderation testing employs Fisher's t-test (Ghozali and Latan, 2015). The test criteria state that if the |t-test| ≥ | t-table| (1.96), then the moderating variable is considered to significantly moderate the influence of the independent variable on the dependent variable.

The results are presented in Table 7, showing that the influence of Corporate Governance (CG) on Sustainable Banking (SB) in Indonesian banks has a path coefficient value of 0.091 and a Standard Error (SE) value of 0.107. This indicates that the CG variable positively and significantly influences SB in Indonesia. Meanwhile, the path coefficient and SE for the CEOs' social network's influence on SB in Indonesia are 0.031 and 0.111, respectively, indicating that the CEOs' social networks variable also positively and significantly influences SB in Indonesia.

The moderation test on the effect of CG on SB yields a t-value of 3.998. The test results show that the|t-test| t-table > 1.96. This indicates that the two paths are significantly different between the Indonesian bank group and the Malaysian bank group, allowing us to conclude that the country group acts as a moderator variable for the influence of CG on SB.

In contrast, the moderation testing on the influence of the CEOs' social networks on SB produces a t-value of 0.917. This indicates that the two paths are not significantly different between the Indonesian bank group and the Malaysian bank group, leading to the conclusion that the country group is not a moderator variable for the influence of the CEOs' social networks on SB.

Table 7: Multigroup testing results

Country Group		**Direct Effect**	
		Corporate Governance → Sustainable Banking	**CEOs' Social Networks→ Sustainable Banking**
Indonesia	Coefficient	0.091	0.031
	SE	0.107	0.111
Malaysia	Coefficient	0.222	0.067
	SE	0.146	0.164
Multigroup Analysis	**t**	**3.998**	**0.917**

Discussion

The Influence of Corporate Governance on Sustainable Banking

Corporate governance refers to the rules, practices, and processes by which a company is directed and controlled (Gendron, 2018). It involves balancing the interests of a company's various stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and society. On the other hand, sustainable banking is an approach that considers environmental, social, and governance factors in its decision-making to promote sustainable development.

The PLS test results show that, overall, in models 1, 2, and 3, corporate governance significantly influences banking sustainability. This research reinforces the findings of Husted and Sousa-Filho (2019) and Juwita and Honggowati (2021).

Legitimacy theory is a sociological concept suggesting that organizations, including banks, must gain and maintain the approval and support of their stakeholders to operate effectively (Hadi and Udin, 2021). In the context of sustainable banking, legitimacy theory posits that banks must align their actions and practices with societal expectations and sustainability values to be regarded as legitimate and credible.

Effective corporate governance encourages banks to adopt a long-term vision rather than focusing solely on short-term financial gains (Moscariello and Masiello, 2013). Sustainable banking necessitates consideration of the long-term impact of actions on the environment, society, and stakeholders. By aligning their governance practices with sustainability goals, banks can promote responsible and sustainable practices.

The Influence of CEOs' Social Networks on Sustainable Banking

Using the PLS test, the CEOs' Social Networks significantly influence banking sustainability in model 1. The results of this test confirm the findings of Ngelo et al. (2022). A CEO's network refers to the connections, relationships, and interactions with individuals, organizations, and other stakeholders (Mundi, 2023).

The research results underscore the importance of company resources, particularly human resources, in enhancing the company's capabilities. The Resource-Based View (RBV) supports the role of a company's resources in increasing its credibility, particularly through the reporting of sustainability reports.

CEOs with extensive social networks can access a broader range of resources, including knowledge, expertise, and financial capital. If a CEO's network includes sustainability experts, environmental organizations, or impact investors, they can leverage these connections to gather insights, adopt best practices, and secure funding for sustainable banking initiatives.

As influential figures, CEOs can use their social networks to expand their reach to various stakeholders. By advocating for sustainable banking within their networks, CEOs can influence investors, customers, employees, and suppliers to align their actions with sustainability principles, thereby creating positive effects for the company.

The Influence of Corporate Governance and CEOs' Social Networks on Sustainable Banking with Moderation by Country Groups

The influence of corporate governance on sustainable banking has been confirmed in both Indonesia and Malaysia. Corporate governance plays an important role in shaping banks' practices and strategies, particularly regarding their approach to sustainability. In both countries, the impact of corporate governance on sustainable banking has been recognized. The corporate governance structure influences the bank's strategic direction and decision-making processes. Boards of directors and management teams with a strong commitment to sustainability are more likely to integrate environmental, social, and governance factors into their strategies and operations. They consider the long-term impact on the environment and society, aligning their goals with sustainable banking principles.

Meanwhile, the CEOs' social networks do not influence banking sustainability in Indonesia and Malaysia. CEOs' social networks operate in a completely different industry and business domain than banking institutions. Social networks focus on providing online platforms for social interaction, content sharing, and advertising, while banks are financial institutions that offer a variety of financial services. As a result, their main areas of expertise and influence are entirely separate. While social networks CEOs may not directly impact banking sustainability, collaboration between different industries can still encourage sustainable practices. For example, social networks and banks can collaborate on joint initiatives to promote financial literacy, support social causes, or raise awareness about sustainable projects. Additionally, social networks can use their platforms to raise awareness about sustainability and encourage users to adopt environmentally and socially responsible practices.

Although collaboration and partnerships between different industries can positively contribute to sustainability efforts, CEOs' social networks are unlikely to directly influence the sustainability practices of banking institutions in Indonesia and Malaysia due to the differing nature of their businesses and regulatory frameworks.

Conclusion and Future Research

This study seeks to examine how CEOs' social networks and corporate governance influence the practices of sustainability report disclosure, particularly within the banking industry. The results of this study indicate that corporate governance influences banking sustainability, especially in Indonesia and Malaysia. This research recommends practical implications and encourages banks to have diverse boards of directors with expertise in sustainability, environmental issues, social responsibility, and corporate governance. This diversity among directors ensures a broader perspective and more comprehensive consideration of sustainability issues in decision-making.

Additionally, this research encourages banks to form special sustainability committees within their board structure. These committees can focus on sustainability issues, oversee initiatives, and monitor progress, providing a dedicated focus on sustainable banking efforts.

To harness the potential of CEOs' social networks, banks can conduct sustainability leadership training and workshops for CEOs to increase their understanding of sustainability issues and their importance in the banking sector. This training can equip CEOs with the knowledge and skills to advocate for sustainable practices within their social networks. Banks can also encourage CEOs to actively engage with sustainability experts and connect with sustainability-focused organizations within their social networks.

This research has limitations regarding data collection and banking research in Indonesia and Malaysia. Future research can be expanded to include comparisons with other countries, not just those in ASEAN. Another potential variable that can be considered in future studies is the gender of the CEO, as the perspectives of men and women can differ, potentially influencing the disclosure of sustainability reporting in organizations. Instead of focusing solely on the banking sector, cross-comparisons between sectors such as banking and construction, or even between regions, such as ASEAN and Europe, could also be valuable areas for future research.

Practical Implications for Asian Business

Banking in Asia is one of the most important industries for the world economy (Le, 2019). The banking sector in Asia exhibits significant variations regarding the types of banks, services provided, and differing banking regulations. As a region experiencing rapid economic growth, Asia has become a primary target for global financial institutions seeking to expand their business (Aoyagi, 2015). Given the central role of banking in the global economy, banks must prioritize sustainability in their operations. Companies that establish transparent, accountable, and efficient organizational structures tend to perform better in the long term. Therefore, business practitioners, particularly banks in Asia, need to focus on building and strengthening robust governance systems to support their growth and sustainability.

Business practitioners in Asia should review their governance practices with an emphasis on transparency, accountability, responsibility, independence, and fairness. Strengthening independent boards, improving sustainability reporting, and enhancing internal monitoring mechanisms can significantly enhance the effectiveness of corporate governance. It is essential for practitioners to recognize the cultural, regulatory, and market differences in these countries and adapt their strategies to leverage the advantages of CEOs' social networks effectively.

A diverse and contextual approach is crucial for addressing the differences in banking sustainability between Indonesia and Malaysia. This includes implementing good governance practices, fostering strong CEOs' social networks, understanding local market dynamics, and adapting strategies accordingly. For example, companies in Indonesia and Malaysia can adopt different approaches to strengthen relationships with local stakeholders, comply with relevant regulations, and exploit unique market opportunities.

Moreover, the focus on banking sustainability offers Asian companies an opportunity to play a more proactive role in sustainable economic development. By adopting responsible business practices and enhancing relationships with local communities, companies can create long-term value for all stakeholders. This includes supporting small and medium-sized enterprises, increasing financial literacy, and reducing the environmental impact of their operations.

Banking institutions can initiate partnerships with various stakeholders to promote sustainable development. This may involve collaborating with government agencies on sustainable economic initiatives, working with non-governmental organizations to improve access to financial services for marginalized communities, and participating in global efforts to address environmental challenges.

With the indicators in this research focusing on educational connections, the banking sector might also consider academia as a valuable stakeholder. Leveraging the expertise of academics in market forecasting, alongside the banking sector's industry experience, can enhance sustainability efforts. Academics engage in comprehensive research and analysis of sustainability issues, providing empirical data and recommendations that support informed decision-making. Their collaborative networks with researchers, institutions, and other stakeholders allow for a broader exchange of knowledge and resources to bolster sustainability initiatives.

Incorporating insights from the resource-based view (RBV) theory can further deepen this analysis. By recognizing that unique organizational resources—such as strong governance frameworks, extensive CEOs' social networks, and robust stakeholder relationships—can serve as competitive advantages, banks can tailor their sustainability strategies to maximize these resources. This approach not only strengthens their market position but also enhances their ability to achieve sustainable growth.

By taking these steps, Asian banks can improve their sustainability performance, build trust with stakeholders, and contribute to inclusive and sustainable economic growth across the region. Ultimately, this research underscores the importance of adaptability and responsiveness to the diverse business contexts within Asia. By understanding and addressing the differences in governance, social networks, and market dynamics, business practitioners can optimize banking sustainability and achieve long-term success. In navigating the complex and varied challenges of Asian financial markets, collaboration among governments, companies, and civil society is essential for fostering an inclusive and sustainable business ecosystem.

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