Jurnal Akuntansi dan Auditing Indonesia
https://journal.uii.ac.id/JAAI

# How do board characteristics influence the ESG disclosure in Indonesia?

Tiyas Kurnia Sari[1*], Nadhira Fitriani[2]
[1]Department of Accounting, Universitas Islam Indonesia, Yogyakarta, Indonesia
[2]Department of Accounting, Universitas Gadjah Mada, Yogyakarta, Indonesia
[*]Corresponding author email: tiyaskurnia@gmail.com

ARTICLE INFO

Article history:
Received 2024-02-13
Accepted 2024-03-07
Published 2024-03-15

Keywords:
*ESG disclosure*, *board characteristics*, *board size*, *board independence*, *gender diversity*.

DOI:
https://doi.org/10.20885/jaai.vol27.iss2.art9

ABSTRACT

Our study investigates the influence of board characteristics on ESG disclosure for companies listed on the Indonesia Stock Exchange listed from to 2018-2022. This study analyzes independent board members, board size, gender diversity, and audit committee independence as determinants of ESG disclosure in Indonesia's public companies. The data were derived from Thompson Reuters and multiple linear regression was used to test the effects. The results showed that gender diversity was the only factor that was not significant. Independent commissionaires and board size positively affect ESG disclosure. Meanwhile, audit committee independence negatively and significantly affects ESG disclosure. Although ESG disclosure practices are still uncommon in Indonesia, the importance of board characteristics can be determined based on the results.

## Introduction

The Sustainable Development Goals (SDGs) that must be achieved in 2030 have encouraged companies to realize the importance of a business that respects sustainability aspects. Specifically, Goal No. 6 (ensuring sustainable consumption and production patterns) urges companies to adopt sustainable practices and to include sustainability information in their reporting cycle, such as ESG Disclosure (Buallay, 2019).

The encouragement of sustainable business and ESG are formally encouraged by the Indonesia Financial Service Authority (OJK) Regulation No. 51/ POJK.03/2017 concerning the Application of Sustainable Finance that requires financial service institutions, issuers, and publicly listed companies to apply sustainable finance and prepare a Sustainability Report. In addition, the OJK also issued a sustainable action plan called the Sustainable Finance Action Plan ("RAKB") under OJK Regulation No. 51/POJK.03/2017. RAKB is expected to become the basis for all IDX personnel to support the creation of a capital market ecosystem that emphasizes the development of sustainable finance (Yakovlev & Nikulina, 2019). The IDX became a part of the Task Force on Climate-related Financial Disclosures (TCFD) Supporters in June 2021.

However, the implementation of sustainability disclosure in Indonesia, particularly ESG disclosure, is still not followed by many public companies, which may be caused by its voluntary traits (Lubis & Rokhim, 2021) and lax of regulatory control (Lubis & Rokhim, 2021; Prihandono & Yuniarti, 2023). Thus, a good corporate governance system is important to ensure that ESG disclosure is implemented effectively in emerging markets such as Indonesia.

The influence of board characteristics on Environmental, Social, and Governance (ESG) disclosure in Indonesian companies is a critical area of research that has garnered increasing attention in corporate governance literature. Understanding the factors driving ESG disclosure is essential for promoting sustainable and responsible business practices (Fulton et al. 2012; Jain et al. In 2019, Kotsantonis et al. 2016; Torre et al. 2020; Zumente and Bistrova 2021).

Several studies have examined the relationship between board characteristics and ESG disclosure in various countries, providing valuable insights into the significance of board diversity, gender diversity, and corporate governance in influencing ESG practices (Bhatia and Marwaha, 2022; Halid et al., 2022; Kamaludin et al., 2022; Lee et al., 2023; Manita et al., 2018; Pramono and Nasih, 2022). While existing literature has explored the impact of board characteristics on ESG disclosure in various countries, there is a lack of comprehensive research focusing specifically on Indonesian companies and a noticeable research gap in understanding the specific influence of board characteristics on ESG disclosure (Harymawan et al., 2022; Lubis & Rokhim, 2021; Wahyuningtyas & Susesti, 2022).

P ISSN 1410-2420 | E ISSN 2528-6528

Several studies have examined the impact of board diversity, gender diversity, size, and independence on ESG disclosure and performance (Cucari et al., 2017). Cucari et al. (2018) explore the diversity of the Board of Directors (BoD) in Italian-listed companies and their influence on voluntary ESG disclosure. Similarly, (Manita et al., 2018) investigated the relationship between board gender diversity and ESG disclosure in the USA, finding a positive correlation moderated by a "critical mass" effect. Furthermore, (Arayssi et al. (2020) focused on the impact of board composition on ESG disclosures in Gulf Cooperation Council (GCC) countries, highlighting the scarcity of studies in this context. Halid et al. (2022) contribute to the literature by emphasizing the effect of board characteristics on ESG scores in Malaysian firms. Harjoto and Wang (2020) extend the existing literature by examining the relationship between board network centrality and ESG performance. Popov and Makeeva (2022) aimed to summarize trends and findings in the academic literature on the board of directors as a determinant of ESG performance and non-financial disclosure quality.

Deep diving into the existing study, many of the studies conducted regarding the effect of board characteristics on ESG disclosure are still inconsistent. Involvement and the percentage of females have a positive influence on the disclosure of ESG (Arayssi et al., 2020; Lalasio & Cucari, 2019; Manita et al., 2018; Wasiuzzaman & Wan Mohammad, 2020). However, other findings (Cucari et al., 2018; Husted & Sousa-Filho, 2019) reveal that gender diversity does not influence by gender disclosure. This inconsistency is one of the grounds for conducting further research on how gender diversity in board composition affects ESG disclosure. Apart from composition, a measure of board quality has also been considered (Farooq et al., 2018). The credibility and transparency of financial and non-financial reports can also be seen from the independence of the commissioner's (Al-Shaer & Zaman, 2018; Arif et al., 2020)

Therefore, this study aims to address this research gap by investigating "what are board characteristics factors that influence ESG disclosure in companies in Indonesia?" By examining the relationship between board diversity, gender diversity, board size, board independence, and their impact on ESG disclosure in Indonesian companies, this study seeks to provide valuable insights for policymakers, regulators, and organizations that aim to enhance their ESG practices in the Indonesian context.

The following section presents a literature review and theoretical background as frameworks that will inform and guide the research, elucidating how these theoretical constructs will be operationalized or scrutinized within the study. Following this, the development of hypotheses and methods is presented as the most crucial part of the research process, followed by the research results and discussion, and ends with the conclusion, limitations, and recommendations for conducting future research.

## Literature Review

### Legitimacy Theory

Chen and Roberts (2010) state that legitimacy theory focuses on the congruence between a company's value system and society, as well as the company's goals in meeting social expectations. According to this theory, society gives companies authority to own and use resources and to employ their employees (Deegan, 2014). Thus, if there is a discrepancy between the values of the company and society, then society will assume that the company has violated its social contract, this situation will have an impact on the threat to the legitimacy of the company (Lokuwaduge & Heenetigala, 2017)

Legitimacy theory suggests that organizations engage in environmental, social, and governance (ESG) disclosure to maintain their legitimacy in the eyes of stakeholders. Board characteristics play a crucial role in influencing ESG disclosure practices. Research has shown that board diversity, including gender diversity, is positively associated with ESG disclosure (Manita et al., 2018; Masi et al., 2021; Nicolò et al., 2021; Wasiuzzaman & Subramaniam, 2023)

According to legitimacy theory, firms with poor sustainability performance may strategically use additional sustainability disclosures to influence the perception of market participants and maintain their legitimacy (Abd-Elmageed, 2021; Kumawat & Patel, 2022). This aligns with the notion that organizations engage in ESG disclosure to mitigate concerns and maintain their legitimacy (Abd-Elmageed, 2021).

### Institutional Theory

The scope of institutional theory is institutionalized social structures (Bebbington et al., 2014). Institutional theory assumes that business organizations are influenced by broad social structures, such as public and private regulations, and the existence of other non-governmental and independent organizations to oversee corporate behavior (Baldini et al., 2018).

Institutional theory suggests that the characteristics of the board of directors play a crucial role in influencing Environmental, Social, and Governance (ESG) disclosure practices in companies. Several studies have examined the relationship between board characteristics and ESG disclosure. Cucari et al. (2018) found that board diversity is related to ESG disclosure, while Manita et al. (2018) suggested that female directors require time to influence ESG disclosure. Additionally, Arayssi et al. (2020) highlighted the joint effect of political connections on the board and important board characteristics, such as board independence, foreign directors, and gender diversity, in influencing ESG disclosures in GCC countries.

### Stakeholder Theory

Stakeholder theory is crucial in understanding the relationship between Environmental, Social, and Governance (ESG) disclosure and corporate behavior. According to stakeholder theory, companies incorporate ESG practices into their policies and operations to meet the expectations of various stakeholders, including customers, employees, communities, and investors (Alsayegh et al., 2020). By adhering to stakeholder norms and expectations through ESG disclosure, companies seek to enhance their credibility and reputation, ultimately leading to improved access to resources (Alsayegh et al., 2020). This alignment with stakeholder theory indicates that ESG disclosure is not solely a reaction to stakeholder demands but also a strategic method to establish trust and uphold legitimacy with key stakeholders (Kao, 2023). However, the difference between stakeholder theory and others is that the former focuses on the relationship between the company and various stakeholders in the company's environment, both internal and external. Chen & Roberts, (2010) explain that stakeholder theory recognizes that the impact of each stakeholder group on the company is not the same and that the expectations of stakeholder groups are not only different but also conflicting. The rationale for action in this theory is to obtain approval from powerful stakeholders.

### Independence of the Board of Commissioners

Independent board members are individuals who do not have any affiliations or relationships that could compromise their ability to make impartial decisions or provide oversight. They are expected to act in the best interests of the company and its stakeholders, free from undue influences or conflicts of interest.

Arayssi et al. (2020) argue that increasing the independence of commissioners as part of the development of an appropriate board structure not only improves shareholder welfare but also improves the efficiency of resource allocation and social activities and improves social responsibility. Similarly, Cucari et al. (2017) highlights the important role of board characteristics, including board independence, in improving corporate governance and social disclosure. Both researchers have highlighted the influence of the independence of the board commissioner as a mechanism to gain trust from stakeholders and increase company legitimacy as suggested by legitimacy and stakeholder theory.

Furthermore, Lagasio and Cucari (2019) demonstrated that board independence visibly enhances voluntary ESG disclosure, contributing to the ongoing debate on corporate governance mechanisms that lead to more ESG disclosure. These results are supported by previous research by Manita et al. (2018) and Arif et al. (2020), who found that high commissioner independence affects company compliance with the GRI framework and the quantity of ESG disclosures.

Collectively, these findings suggest that a high proportion of independent board members may have a positive effect on ESG disclosure in Indonesia. Therefore, the first hypothesis is as follows:
$H_1$: A high proportion of independent boards has a positive effect on ESG disclosures in Indonesia.

### Size of the Board of Commissioners

The board of commissioners is an institutional organ that consists of a mixture of background, education, gender, and expertise, which will be used to form a support system to improve the quality of voluntary disclosure (Arayssi et al., 2020). Jizi (2017) states that a large board of commissioners is more efficient in managing the company's ESG agenda and increasing the company's profile through the publication of its social and environmental activities. This research supports the legitimacy effect gained by a company with a larger size of the board.

Jizi et al. (2014) argued that a large board of commissioners will put more pressure on management to carry out CSR activities. The large size of the board of commissioners has advantages such as better workload allocation, a wider network, and diverse experiences and backgrounds (Jizi, 2017). Conversely, the small size of the board of commissioners will have an impact on increasing workload and responsibility, which can affect the board’s role in overseeing the company's ESG activities. The rationale behind this argument is that institutional theory states that the similarity of practice in adopting ESG practice closely related to the normative and mimetic mechanism on how company gain legitimacy from its stakeholder.

Husted and Filho (2019) explained that large boards can reduce the variability of company performance because they require more negotiations to reach an agreement and tend to make decisions that deviate from public interest.

Wasiuzzaman and Wan Mohammad (2020) found that board size has a positive effect on ESG disclosure. Husted and Filho (2019) also found similar results: large boards tend to significantly increase ESG disclosure. Another research by Tamimi and Sebastianelli (2017) found a significant positive association between board size and ESG disclosure. The higher the number of commissioners, the higher the level of voluntary disclosure in a company (Lagasio & Cucari, 2019).

$H_2$: Board size has a positive effect on ESG disclosure in Indonesia.

### Gender Diversity of the Board of Commissioners

Glass, Cook, and Ingersoll (2016) stated that green strategies are more effectively achieved in companies characterized by gender-diverse leadership teams. Singh et al. (2008) show that women tend to have more experience in community and service organizations, whereas men have more leadership experience in large companies. These differences in career paths may indicate that women are more accustomed to community-focused policies and may provide a different perspective to the board of commissioners on CSR issues (Lee et al., 2023). Glass et al., (2016) summarized previous studies and stated that men are more shareholder-focused and short-term oriented in their approach to corporate strategy, whereas women are more willing to bear high costs and focus on various stakeholders with long-term prospects. All that research indicates that the presence of women can represent different quality in an institution and promote more voluntary practice such as ESG disclosure.

This can be related to what was conveyed by Wasiuzzaman and Wan Mohammad (2020) that women are more afraid of risk (risk-averse) and ambiguity (ambiguity-averse) when making decisions than are men. Thus, female commissioners tend to take action to reduce information asymmetry and prevent the loss of their reputation.

In addition, female commissioners tend to have psychological characteristics that facilitate hearing the claims of certain stakeholders to strengthen their sensitivity to these claims (Zhang et al., 2013). Arayssi et al. (2020) explained that a smooth communication network with other stakeholders can be created due to the psychological characteristics of female commissioners to avoid misunderstandings, information asymmetry, or ignorance. Lin et al. (2016) stated that men are more agentive which is characterized by problem-solving, assertiveness, and independence, in contrast to women who are more communal which are characterized by facilitative and friendly behavior, so they tend to act in a social environment. Then, the presence of a female commissioner signals that the company is friendly to diversity. Thus, the company gains legitimacy from female workers and other minorities, and the company has met social expectations and enhanced its reputation.

Arayssi et al., (2020) found that female commissioners' participation increased the level of ESG disclosure. Increasing the number of female commissioners on the board increases the transparency of ESG reporting (Wasiuzzaman & Wan Mohammad, 2020). Manita et al. (2018) found that feminization of the board of commissioners is positively correlated with the disclosure of ESG if the proportion of women is significant and sufficient to prevent and outperform invisibility phenomena as an effect of the number of minorities on the board. An increase in the percentage of women on the board increases voluntary disclosure (Lagasio and Cucari, 2019).

$H_3$: Board gender diversity has a positive effect on ESG disclosure in Indonesia.

### Audit Committee Independence

Farooq et al. (2018) emphasized that the independence of the audit committee, which is an effective measure of board quality, can increase the certainty of the reliability of financial reports and support the process of making board decisions in accordance with the interests of shareholders. Independent commissioners can increase the credibility and transparency of financial and non-financial reports (Arif et al., 2020a). Al-Shaer and Zaman (2018) explain that sustainability reporting can be influenced by the audit committee as a supervisory organ because of the qualitative characteristics of the audit committee in terms of qualifications, expertise, and diligence. Audit committee independence is an independent commissioner involved in the audit committee. An independent commissioner is expected to be able to add to the oversight function of the audit committee and provide an objective evaluation of ESG activities and reporting. Finally, effective ESG activities and reporting are expected to meet stakeholder expectations.

Arif et al. (2020a) find that independent commissioners can improve ESG compliance and disclosure. Al-Shaer and Zaman (2018) found a positive relationship between audit committee independence and ESG reporting quality.

$H_4$: Audit committee independence has a positive effect on ESG disclosure in Indonesia.

## Research Method

This research is a quantitative study that uses multiple linear regression analysis as a tool for testing hypotheses. This study used secondary data sources taken from the Thompson Reuters Database. The sample in this study is a public company listed on the Indonesia Stock Exchange in 2019-2022 and has data related to environmental, social, and governance scores (ESG Score). Using this method, there were 729 companies listed on the IDX during the year of observation. However, only 205 final companies had an ESG score at five years of observation.

The dependent variable in this study was the ESG score. The ESG scores used in this study were based on compilation data from the Thompson Reuters database. There are at least three reasons for using the ESG Score data. First, the ESG Score is used as the dependent variable taken directly from secondary data sources, such as the Thompson Reuters and Bloomberg Database, which has been used extensively in ESG research (Arayssi et al., 2020; Baldini et al., 2018; Wasiuzzaman & Wan Mohammad, 2020). Second, Thompson's ESG score was designed transparently and objectively to measure a company's ESG performance across ten different themes (Demers et al., 2021). Third, the score was collected by analyzing various reporting sources owned by companies, such as annual reports, company websites, non-profit organization websites, stock exchange filings, CSR reports, and news sources (Thomson Reuters, 2017). Thus, the data collected are more comprehensive when compared to just looking at one reporting media, such as an annual report.

Four independent variables are used in this study. The first independent variable is Board Independence, which is measured based on the percentage of independent commissioners, as reported by the company. The second independent variable is the size of the board of commissioners, which is measured based on the number of members of the board of commissioners at the end of the reporting period. The third independent variable is the Gender Diversity of the Board of Commissioners, which is measured based on the percentage of women on the board of commissioners. The fourth independent variable is Audit Committee independence, measured based on the percentage of independent members on the audit committee.

In addition to these variables, in line with various previous studies that try to control for other variables that can affect the ESC score, this study also uses three control variables: company size, leverage, and return on equity. Companies with larger assets and better financial performance are often expected to make investments and report extensive ESG activities (Arif et al., 2020b). Therefore, companies with high assets and ROE have a positive impact on ESG scores. This finding is consistent with the results reported by Arayssi et al. (2020), Baldi et al. (2018), and Manita et al. (2020), who find that company size has a significant and positive effect on ESG reporting. Cucari et al. (2017) and Wasiuzzaman and Wan Mohammad (2020) found that company size did not affect ESG. In this study, company size is calculated based on the natural logarithm of the company's total assets at the end of the reporting period. Meanwhile, ROE is calculated based on the ratio of the company's net profit to the total equity of shareholders.

The third control variable, leverage, was calculated based on the ratio of total debt to total equity. Companies with higher leverage are assumed to experience more financial pressure; therefore, they report fewer items related to ESG (Baldini et al., 2018). This finding is in line with previous research that used leverage as a risk factor for a company, which can negatively affect the value of the ESG score (Manita et al., 2018). However, different results were found in research conducted by Wasiuzzaman and Wan Mohammad (2020), where a higher level of leverage increased the ESG score.

The research hypothesis was tested based on the following regression model estimates:

$$\boldsymbol{ESG\ Score_{it}} = \alpha + \beta_1 BI_{it} + \beta_2 BS_{it} + \beta_3 BGD_{it} + \beta_4 ACI_{it} + \beta_5 FS_{it} + \beta_6 Lev_{it} + \beta_7 ROE_{it} + \varepsilon_t \quad (1)$$

| | | |
|---|---|---|
| ESG Score | : | ESG value of company i in year t based on Thomson database |
| BI | : | Board Independence/Proportion of independent commissioners |
| BS | : | Board Size/Number of members of the board of commissioners |
| BGD | : | Board Gender Diversity/Proportion of female board members |
| ACI | : | Audit Committee Independence/ Proportion of independent audit committees |
| FS | : | Firm Size / Company Size |
| Lev | : | Leverage |
| ROE | : | Return on Equity |

$\alpha$ is intercept, $\beta_x$ is regression coeficient, i is the individual company sample, t is the year of observation and $\varepsilon_t$ is standard error.

## Results and Discussion

Table 1 shows the ESG disclosure scores of companies in Indonesia. The average ESG disclosure score achieved by the sample companies was 46.5, with a standard deviation of 20.05. The highest disclosure score 85.81 is for Vale Indonesia (INCO), while the lowest disclosure score (9.51) is for Gudang Garam (GGRM).

The board independence variable shows that 43.45% of the sample companies have an independent board of commissioners on average. The minimum value of this variable is 15% of the members of the Board of commissioners are independent members, and with the maximum value owned by the sample company, 100% or all members of the board of commissioners are independent members. These results indicate that the practice of selecting independent commissioners is well known among Indonesian companies.

The board size variable had an average value of 6.44 with a standard deviation of 2.04. These results indicate that the average number of members on the board of commissioners in the sample company is six. Most members of the board of commissioners were held by 12 people and the minimum number of members was held by three people.

Board gender diversification variable, the results show low participation among female directors on company boards, with the mean and standard deviation of board gender diversity being 8.10 percent and 1.5 percent, respectively. The minimum score for gender diversification of the sample companies was 0, or they did not have female commissioners, and the highest score was 43% for women. These results indicate the need to implement several reforms to encourage the increased representation of women in their capacities as members of the corporate boards of commissioners. In addition, the audit commission independence variable has an average value and standard deviation of 43.45 percent and 14.82%, respectively. Higher audit committee independence is expected to provide institutional pressure for companies to disclose a wider range of ESG items.

Table 1. Descriptive Analysis Results

| Variable | Minimum | Maximum | Means | Std. Deviation |
|---|---|---|---|---|
| ESG | 9.51 | 85.81 | 46.5667 | 20.05205 |
| BI | .15 | 1.00 | .4345 | .14820 |
| BS | 3 | 12 | 6.44 | 2041 |
| BGD | .00 | .43 | .0810 | .10560 |
| ACI | .33 | 1.00 | .8468 | .21668 |
| FS | 1 | 1511805 | 154410.97 | 312847.279 |
| L | .00 | 1215.39 | 90.8519 | 165.64551 |
| ROE | -128.21 | 178.21 | 18.3160 | 30.48042 |

Source: Secondary Data Processed (2022)

Researchers tested for multicollinearity using the Spearman correlation matrix and VIF. The results show that there is no possibility of multicollinearity symptoms for any variable in the sample. These results are indicated by VIF values < 10 and tolerance > 0.01 for all variables. The effect of the characteristics of the board of commissioners on ESG disclosure for the five periods was tested using a multiple regression model. The results support H1; that is, the independence of the board of commissioners has a positive effect on ESG disclosure (2.833; sig = 0.005). This finding is consistent with those of Arif et al. (2020b), Lagasio and Cucari (2019), and Manita et al. (2018), who found that adherence to the GRI framework and ESG disclosure is influenced by the composition of large independent commissioners. Furthermore, Jizi (2017) explains that independent commissioners on the board tend to be good corporate actors and successfully promote a company's CSR agenda. Arayssi et al. (2020) confirmed this result by explaining that an independent commissioner protects its reputation by sending a signal to the market that the company also pays attention to the interests of other stakeholders.

Table 2. Regression Analysis Results

| Variables | Predictions | coefficient | t-statistics | Sig. |
|---|---|---|---|---|
| BI | + | .185 | 2,833 | 005 |
| BS | + | .554 | 9,586 | .000 |
| BGD | + | -.105 | -1,820 | .070 |
| ACI | + | -.202 | -3,151 | 002 |
| FS | + | -.162 | -2,798 | 006 |
| Lev | - | -.206 | -3,625 | .000 |
| ROE | + | 095 | 1,670 | .097 |

Source: Secondary Data Processed (2022)

Furthermore, board size has a significant effect on ESG disclosures. The results support H2, with a coefficient of 9.586 (sig = 0.000). These results are consistent with those of previous studies by Wasiuzzaman and Wan Mohammad (2020), Husted and Filho (2019), Lagasio & Cucari (2019), Jizi (2017), and Tamimi & Sebastianelli (2017), who argue that the larger the board commissioners, the higher is the level of voluntary disclosure (ESG). Jizi (2017) explains that the large number of commissioners has a diversity of knowledge and experience, as well as a better allocation of workload. Thus, the board of commissioners is more efficient in managing the CSR agenda and advocating CSR disclosures to meet social expectations.

The presence of female commissioners, indicating gender diversity, had a negative effect on ESG disclosure (-1.820; sig=0.07). Therefore, the test results did not support H3. The third hypothesis predicts a positive relationship between gender diversity and ESG disclosure. This finding is in contrast to the results of previous studies by Arayssi et al. (2020) and Manita et al. (2018). However, the results of this study were consistent with those of Cucari et al. (2018) and Husted and Filho (2019). The results show that the presence of a female commissioner does not imply a different perspective (Giannarakis, 2014). Thus, gender diversity does not determine a positive ESG disclosure level. Cuadrado-Ballesteros et al. (2017) and Jain et al. (2019) stated that the relationship between CSR behavior and gender is complex because of the characteristics of female commissioners, which also relate to their specific expertise and experience, and their role as independent or non-independent commissioners. In addition, these results may depend on trends in female participation in the board of directors. In Indonesia, the level of women's participation on the board of commissioners varies from small to medium. Husted and Filho (2019) explain that the negative relationship between gender diversity and ESG disclosure is due to the fact that women's roles have not been able to provide a unique perspective on board decisions. Additionally, women are outnumbered to exert their influence on ESG disclosure. In descriptive statistics, only a small number of companies had a balanced number of female commissioners, with a maximum rate of 43%.

Related to the fourth hypothesis, which tests the effect of audit committee independence on ESG disclosure, the results show that audit committee independence has a significant negative effect on company ESG disclosures, with a coefficient of -3.151 (sig = 0.002). This is in line with the research conducted by Farooq et al. (2018), who examined the effect of independent audit committees on company performance. The results show that independent audit committees negatively affect company performance. The ESG Score is a form of non-financial performance owned by the company, so the negative association between the two can be caused by the quality factor of the independent members who do not put enough pressure on the company to have performance or initiatives related to ESG (Leung et al., 2014). Furthermore, if independence alone is not sufficient to encourage ESG disclosure practices, the expertise specifications of each AC member of the audit committee also need to be further investigated regarding their impact on ESG disclosure.

The results of the regression on the control variable indicate that firm size negatively affects ESG disclosure. This is in contrast to previous studies that assumed that the greater the assets of a company, the higher the ESG disclosures it implements. Institutional conditions in Indonesia that still do not regard ESG as an important factor in company operations could be the reason for the negative association between the two (Setyahuni & Handayani, 2020). Large companies in Indonesia have not been able to see financial and institutional benefits from the practice of disclosing ESG, so they consider disclosure as an activity that adds costs without financial feedback for the company (Handayani, 2019). Return on Equity was found to not affect ESG disclosure in Indonesia. Leverage has a significantly negative effect on ESG disclosure. This finding is in line with previous research that used leverage as one of the company's risk factors that can negatively affect the value of the ESG score (Manita et al., 2018). This implies that firms with higher leverage have more financial pressure and thus report fewer items related to ESG.

## Conclusion

This study was conducted to identify the institutional characteristics that can influence ESG disclosure practices in Indonesian companies. For this purpose, legitimacy, institutional, and stakeholder theories are used as a foundation to examine factors that can influence ESG disclosure practices. By using the ESG Score contained in the Thompson Reuters database, this study attempts to examine the effect of four independent variables: Board Independence, board size, board of commissioners' gender diversity, and audit committee independence.

Based on the research results, ESG disclosure practices in Indonesia remain relatively weak. This can be seen from the number of companies that have an ESG score in the 2019-2022 reporting year, with only 42 companies, which is only around 6% of the total companies listed on the IDX. The results indicate that the independence of the board of commissioners has a positive effect on ESG disclosure, board size has a positive and significant effect on corporate ESG disclosure, the presence of female commissioners indicates that gender diversity has a negative effect on ESG disclosure, and audit committee independence has a significant negative effect on corporate ESG disclosure.

Given the positive effect of board independence on ESG disclosure practices, Indonesian companies should prioritize ensuring the independence of their board of commissioners. This can be achieved by appointing independent directors who are not affiliated with the company or its management, thereby enhancing oversight and accountability in ESG reporting. The positive and significant impact of board size on corporate ESG disclosure suggests that companies should carefully consider the composition of their boards. While larger boards may offer diverse perspectives and expertise, it is essential to strike a balance to ensure effective decision-making and governance processes.

Despite the negative effect of gender diversity on ESG disclosure practices as indicated in the study, companies should not overlook the importance of gender diversity on boards. Efforts should be made to promote gender equality and inclusivity in board compositions, as diverse perspectives can lead to better decision-making and governance outcomes.

The limitation of this study lies in its small sample size. This can be influenced by the limited number of Indonesian companies that conduct ESG activities and disclosures. To overcome the limitation of small sample size in the study, future research should aim to expand the sample by including a more comprehensive range of Indonesian companies engaged in ESG activities and disclosures. Researchers could collaborate with industry associations or regulatory bodies to access a broader pool of companies for analysis. Further research can be improved by using the disclosure index built by the researcher, compared to the scores available in certain databases. It is hoped that by using the disclosure index, the number of companies that can be used as samples can be increased to enrich the results of the research. A comparative study of ESG disclosures between countries with the same economic and institutional characteristics as Indonesia can also be a suggestion for future research.

## References

Abd-Elmageed, M. H. (2021). Are Tax Avoidance, Corporate Social Responsibility and Financial Performance Affecting Firm Value in the Egyptian Listed Companies?, *25*(1) الفكر المحاسبي. https://doi.org/10.21608/atasu.2021.170161

Alsayegh, M. F., Rahman, R. A., & Homayoun, S. (2020). Corporate Economic, Environmental, and Social Sustainability Performance Transformation Through ESG Disclosure. *Sustainability*, *12*(9). https://doi.org/10.3390/su12093910

Al-Shaer, H., & Zaman, M. (2018). Credibility of sustainability reports: The contribution of audit committees. *Business Strategy and the Environment*, *27*(7), 973–986. https://doi.org/10.1002/bse.2046

Arayssi, M., Jizi, M., & Tabaja, H. H. (2020). The impact of board composition on the level of ESG disclosures in GCC countries. *Sustainability Accounting, Management and Policy Journal*, *11*(1), 137–161. https://doi.org/10.1108/SAMPJ-05-2018-0136

Arif, M., Sajjad, A., Farooq, S., Abrar, M., & Joyo, A. S. (2020). The impact of audit committee attributes on the quality and quantity of environmental, social and governance (ESG) disclosures. *Corporate Governance: The International Journal of Business in Society*, *21*(3). https://doi.org/10.1108/CG-06-2020-0243

Baldini, M., Maso, L. D., Liberatore, G., Mazzi, F., & Terzani, S. (2018). Role of Country- and Firm-Level Determinants in Environmental, Social, and Governance Disclosure. *Journal of Business Ethics*, *150*(1), 79–98. https://doi.org/10.1007/s10551-016-3139-1

Bebbington, J., Unerman, J., & O'Dwyer, B. (2014). Sustainability reporting: Insight from institutional theory. In *Sustainability accounting and accountability* (pp. 273–285). Routledge.

Bhatia, S., & Marwaha, D. (2022). The Influence of Board Factors and Gender Diversity on the ESG Disclosure Score: A Study on Indian Companies. *Global Business Review*,*23*(6). https://doi.org/10.1177/09721509221132067

Buallay, A. (2019). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality: An International Journal*, *30*(1), 98-115. https://doi.org/10.1108/meq-12-2017-0149

Chen, J. C., & Roberts, R. W. (2010). Toward a More Coherent Understanding of the Organization–Society Relationship: A Theoretical Consideration for Social and Environmental Accounting Research. *Journal of Business Ethics*, *97*(4), 651–665. https://doi.org/10.1007/s10551-010-0531-0

Cuadrado-Ballesteros, B., Martínez-Ferrero, J., & García-Sánchez, I. M. (2017). Mitigating information asymmetry through sustainability assurance: The role of accountants and levels of assurance. *International Business Review*, *26*(6), 1141–1156. https://doi.org/10.1016/j.ibusrev.2017.04.009

Cucari, N., Esposito De Falco, S., & Orlando, B. (2018). Diversity of Board of Directors and Environmental Social Governance: Evidence from Italian Listed Companies: Diversity of BoD and ESG: Evidence from Italian Listed Companies. *Corporate Social Responsibility and Environmental Management*, *25*(3), 250–266. https://doi.org/10.1002/csr.1452

Cucari, N., Esposito De Falco, S., & Orlando, B. (2018). Diversity of Board of Directors and Environmental Social Governance: Evidence from Italian Listed Companies. *Corporate Social Responsibility and Environmental Management*, *25*(3), 250-266. doi:10.1002/csr.1452

Deegan, C. (2014). *Financial accounting theory* (4th edition). McGraw-Hill Education Australia Pty Ltd.

De Masi, S., Słomka-Gołębiowska, A., Becagli, C., & Paci, A. (2021). Toward sustainable corporate behavior: The effect of the critical mass of female directors on environmental, social, and governance disclosure. *Business Strategy and the Environment*, *30*(4), 1865-1878. doi:10.1002/bse.2721

Demers, E., Hendrikse, J., Joos, P., & Lev, B. (2021). ESG did not immunize stocks during the COVID-19 crisis, but investments in intangible assets did. *Journal of Business Finance & Accounting*, *48*(3-4), 433-462. doi:10.1111/jbfa.12523

Farooq, M. U., Kazim, I., Usman, M., & Latif, I. (2018). Corporate governance and audit fees: Evidence from a developing country. *Pakistan Journal of Commerce and Social Sciences (PJCSS)*, *12*(1), 94–110.

Fulton, M., Kahn, B., & Sharples, C. (2012). Sustainable investing: Establishing long-term value and performance. *Available at SSRN 2222740*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222740

Giannarakis, G. (2014). The determinants influencing the extent of CSR disclosure. *International Journal of Law and Management*, *56*(5), 393–416. https://doi.org/10.1108/IJLMA-05-2013-0021

Glass, C., Cook, A., & Ingersoll, A. R. (2016). Do Women Leaders Promote Sustainability? Analyzing the Effect of Corporate Governance Composition on Environmental Performance: Women Leaders. *Business Strategy and the Environment*, *25*(7), 495–511. https://doi.org/10.1002/bse.1879

Halid, S., Mahmud, R., Mohd Suffian, M. T., & Abdul Rahman, R. (2022). Does Firm's Board Affects ESG? Malaysian Evidence. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *12*(1). doi:10.6007/ijarafms/v12-i1/11609

Yawika, M. K., & Handayani, S. (2019). The Effect of ESG Performance on Economic Performance in the High Profile Industry in Indonesia. *JOURNAL OF INTERNATIONAL BUSINESS AND ECONOMICS*, *7*(2). doi:10.15640/jibe.v7n2a12

Harjoto, M. A., & Wang, Y. (2020). Board of directors network centrality and environmental, social and governance (ESG) performance. *Corporate Governance: The International Journal of Business in Society*, *20*(6), 965-985. doi:10.1108/cg-10-2019-0306

Harymawan, I., Nasih, M., Agustia, D., Putra, F. K. G., & Djajadikerta, H. G. (2022). Investment Efficiency and Environmental, Social, and Governance Reporting: Perspective From Corporate Integration Management. *Corporate Social Responsibility and Environmental Management*. https://doi.org/10.1002/csr.2263

Husted, B. W., & Sousa-Filho, J. M. de. (2019). Board structure and environmental, social, and governance disclosure in Latin America. *Journal of Business Research, 102*, 220-227. doi:10.1016/j.jbusres.2018.01.017

Jain, M., Sharma, G. D., & Srivastava, M. (2019). Can Sustainable Investment Yield Better Financial Returns: A Comparative Study of ESG Indices and MSCI Indices. *Risks*, *7*(1), 15. doi:10.3390/risks7010015

Jizi, M. (2017). The Influence of Board Composition on Sustainable Development Disclosure. *Business Strategy and the Environment*, *26*(5), 640–655. https://doi.org/10.1002/bse.1943

Jizi, M. I., Salama, A., Dixon, R., & Stratling, R. (2014). Corporate Governance and Corporate Social Responsibility Disclosure: Evidence from the US Banking Sector. *Journal of Business Ethics*, *125*(4), 601–615. https://doi.org/10.1007/s10551-013-1929-2

Kamaludin, K., Ibrahim, I., Sundarasen, S., & Faizal, O. (2022). ESG in the boardroom: evidence from the Malaysian market. *International Journal of Corporate Social Responsibility*, *7*(1). doi:10.1186/s40991-022-00072-2

Kao, M.-F., Jian, C.-H., & Tseng, C.-H. (2024). Managerial ability and voluntary ESG disclosure and assurance: evidence from Taiwan. *Sustainability Accounting, Management and Policy Journal*, *15*(1), 207-231. doi:10.1108/sampj-08-2022-0428

Kotsantonis, S., Pinney, C., & Serafeim, G. (2016). ESG Integration in Investment Management: Myths and Realities. *Journal of Applied Corporate Finance*, *28*(2), 10–16. https://doi.org/10.1111/jacf.12169

Kumawat, R., & Patel, N. (2022). Are ESG Disclosures Value Relevant? A Panel-Corrected Standard Error (PCSE) Approach. *Global Business Review*, *23*(6), 1558-1573. doi:10.1177/09721509221128637

Lagasio, V., & Cucari, N. (2019). Corporate governance and environmental social governance disclosure: A meta-analytical review. *Corporate Social Responsibility and Environmental Management*, *26*(4), 701–711. https://doi.org/10.1002/csr.1716

La Torre, M., Mango, F., Cafaro, A., & Leo, S. (2020). Does the ESG Index Affect Stock Return? Evidence from the Eurostoxx50. *Sustainability*, *12*(16), 6387. doi:10.3390/su12166387

Lee, N., Heryana, Z. A.-B., & Hendriyeni, N. S. (2023). Do Women on Board, Institutional Ownership, and Governance Committee Relate to Environmental, Social, Governance (ESG) Disclosure? *Proceedings of the 4th Asia Pacific Management Research Conference (APMRC 2022)*, 150-165. doi:10.2991/978-94-6463-076-3_11

Leung, S., Richardson, G., & Jaggi, B. (2014). Corporate board and board committee independence, firm performance, and family ownership concentration: An analysis based on Hong Kong firms. *Journal of Contemporary Accounting & Economics*, *10*(1), 16-31. doi:10.1016/j.jcae.2013.11.002

Lin, X., Zhang, D., & Li, Y. (2016). Delineating the dimensions of social support on social networking sites and their effects: A comparative model. *Computers in Human Behavior*, *58*, 421–430. https://doi.org/10.1016/j.chb.2016.01.017

Lokuwaduge, C. S. D. S., & Heenetigala, K. (2017). Integrating Environmental, Social and Governance (ESG) Disclosure for a Sustainable Development: An Australian Study: ESG Disclosure in Australian De Silva Lokuwaduge and Heenetigala. *Business Strategy and the Environment*, *26*(4), 438–450. https://doi.org/10.1002/bse.1927

Lubis, M. F. F., & Rokhim, R. (2021). The Effect of Environmental, Social, and Governance (ESG) Disclosure and Competitive Advantage on Companies Performance as An Implementation of Sustainable Economic Growth in Indonesia for Period of 2015-2019. *IOP Conference Series: Earth and Environmental Science*, *940*(1), 012059. https://doi.org/10.1088/1755-1315/940/1/012059

Manita, R., Bruna, M. G., Dang, R., & Houanti, L. (2018). Board gender diversity and ESG disclosure: Evidence from the USA. *Journal of Applied Accounting Research*, *19*(2), 206–224. https://doi.org/10.1108/JAAR-01-2017-0024

Nicolò, G., Zampone, G., Sannino, G., & De Iorio, S. (2022). Sustainable corporate governance and non-financial disclosure in Europe: does the gender diversity matter? *Journal of Applied Accounting Research*, *23*(1), 227-249. doi:10.1108/jaar-04-2021-0100

Popov, K., & Makeeva, E. (2022). Relationship Between Board Characteristics, ESG and Corporate Performance: A Systematic Review. *Journal of Corporate Finance Research / Корпоративные Финансы | ISSN: 2073-0438, 16(4), 5-20. doi:10.17323/j.jcfr.2073-0438.16.4.2022.5-20*

Pramono, C., & Nasih, M. (2022). The Effect of Gender Diversity in The Boardroom and Company Growth on Environmental, Social, and Governance Disclosure (ESGD). *Journal of Accounting and Investment*, *23*(3), 460-477. doi:10.18196/jai.v23i3.14402

Prihandono, I., & S. Yuniarti, D. (2023). Indonesia Sustainability Reporting Standard: What Needs to be Improved? *Padjadjaran Journal of International Law*, 7(1), 1-23. doi:10.23920/pjil.v7i1.1159.

Setyahuni, S. W., & Handayani, R. S. (2020). On the Value Relevance of Information on Environmental, Social, and Governance (ESG): An Evidence From Indonesia. *Journal of Critical Reviews*, 7(12), 50–58.

Singh, V., Terjesen, S., & Vinnicombe, S. (2008). Newly appointed directors in the boardroom:. *European Management Journal*, *26*(1), 48-58. doi:10.1016/j.emj.2007.10.002

Tamimi, N., & Sebastianelli, R. (2017). Transparency among S&P 500 companies: An analysis of ESG disclosure scores. *Management Decision*, *55*(8), 1660–1680. https://doi.org/10.1108/MD-01-2017-0018

Thomson Reuters. (2017). *Thomson Reuters ESG Score*. https://www.esade.edu/itemsweb/biblioteca/bbdd/inbbdd/archivos/Thomson_Reuters_ESG_Scores.pdf

Wahyuningtyas, E. T., & Susesti, D. A. (2023). Gender Diversity Impact on ESG Performance: Evidence from Indonesian and Malaysian Manufacturing Sector. *Proceedings of the International Conference on Global Innovation and Trends in Economics and Business (ICOBIS 2022)*, 105-111. doi:10.2991/978-94-6463-068-8_8

Wasiuzzaman, S., & Subramaniam, V. (2023). Board gender diversity and environmental, social and governance (ESG) disclosure: Is it different for developed and developing nations? *Corporate Social Responsibility and Environmental Management, 30*(5), 2145-2165. doi:10.1002/csr.2475

Wasiuzzaman, S., & Wan Mohammad, W. M. (2020). Board gender diversity and transparency of environmental, social and governance disclosure: Evidence from Malaysia. *Managerial and Decision Economics*, *41*(1), 145–156. https://doi.org/10.1002/mde.3099

Yakovlev, I. A., Financial Research Institute, Moscow 127006, Russian Federation, Nikulina, S. I., & Financial Research Institute, Moscow 127006, Russian Federation. (2019). Indonesia's Strategy for Sustainable Finance. *Financial Journal*(6), 83-95. doi:10.31107/2075-1990-2019-6-83-95

Zhang, J. Q., Zhu, H., & Ding, H.-b. (2013). Board Composition and Corporate Social Responsibility: An Empirical Investigation in the Post Sarbanes-Oxley Era. *Journal of Business Ethics*, *114*(3), 381-392. doi:10.1007/s10551-012-1352-0

Zumente, I., & Bistrova, J. (2021). ESG Importance for Long-Term Shareholder Value Creation: Literature vs. Practice. *Journal of Open Innovation: Technology, Market, and Complexity*, *7*(2), 127. doi:10.3390/joitmc7020127