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BOARD CHARACTERISTICS AND ESG PERFORMANCE: AN EMPIRICAL STUDY OF PUBLIC COMPANIES IN INDONESIA

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Abstract

This study examines the impact of board characteristics on the environmental, social, and governance (ESG) performance of publicly listed companies in Indonesia. Focusing on firms listed in the KOMPAS100 index, the research explores how board composition, including the number of directors and commissioners, gender diversity, independence, the presence of foreign members, and the sustainability committee, influences ESG scores. Using data from Sustainalytics, financial reports, and sustainability reports, the analysis includes control variables such as public shares, return on assets, leverage, firm age, firm size, and state ownership. Significant correlations were discovered between the characteristics of the board, the sustainability committee, and the ratings related to environmental, social, and governance factors (ESG). Companies that have larger boards, a higher proportion of female and independent directors, and international members exhibit superior environmental, social, and governance (ESG) performance. Sustainability committees contribute to the improvement of ESG outcomes. The findings indicate that implementing well-organized governance systems and having diverse board compositions are essential for successfully managing sustainability. The study utilized regression models to examine the influence of board features on ESG performance. Data from the KOMPAS100 index, which includes prominent Indonesian companies, was used for analysis. This empirical investigation offers useful insights into the ways in which corporate governance frameworks can influence sustainable business practices in the Indonesian context. Policymakers are advised to establish policies that encourage the formation of board diversity and sustainability committees. Corporate executives are recommended to optimize the composition of their boards in order to align with sustainability objectives, consequently enhancing environmental, social, and governance (ESG) performance and attaining competitive advantages.

Keywords: Board Characteristics, ESG Performance, Sustainability Committees, Public Companies, Indonesia

Introduction

The need for sustainable business has acquired universal attention as a serious worldwide concern. This realization has necessitated significant alterations in the way that societies operate and make decisions about their future. The increasing awareness of the urgent need for a shift towards sustainability is becoming increasingly apparent due to the climate crisis and other sustainability concerns (Varadarajan, 2017). Individuals from all over the world have come to the realization that the business methods and practices that are currently in place are not sustainable (Martínez-Bravo et al., 2024).

In recent years, there has been a paradigm shift in the corporate world, wherein the primary objective of organizations is no longer just generating profits, which has amplified the business sector's recognition of the importance of their social responsibilities towards the surrounding

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environment. There is a growing focus on sustainability principles within the realm of business operations. ESG (Environmental, Social, and Governance, abbreviated as ESG) performance attracts investor attention (Chen & Xie, 2022). ESG has emerged as a critical criterion for investors and other stakeholders to use to evaluate business performance. By incorporating sustainability as an aspect, investors and stakeholders can effectively evaluate the organization.

Especially in Indonesia, where awareness of sustainability continues to grow, public firms are expected to not only follow but also become pioneers in the successful application of ESG principles. This is justified by the Financial Services Authority Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. In addition, the ESG assessment and analysis that were carried out by IDX in collaboration with Sustainalytics released the ESG score of listing firms in Indonesia, as shown on the IDX website. The integration and implementation of sustainability at the firm greatly depends on the corporate leadership, as seen by the composition of the BOD (Board of Directors) and BOC (Board of Commissioners) (Naciti, 2019).

Studies analyzing the relationship between board characteristics and ESG performance have been conducted in multiple countries and also on a global scale (Abdelkader et al., 2024; Agnese et al., 2024; Alkhawaja et al., 2023; Chouaibi et al., 2022; Manita et al., 2018; Zhu et al., 2024), although none of them particularly focused in Indonesia. There is a lack of research and studies that specifically examine the ESG (environmental, social, and governance) factors within the Indonesian context (Sari and Nadhira Fitriani, 2024; Setiani and Novitasari, 2024). The lack of research in this area presents a difficulty in comprehending the correlation between board characteristics and ESG performance in the Indonesian context. The context of Indonesia is different from others due to its unique characteristics in market structure and regulation, which can potentially impact research findings. This research will differ from other studies in various aspects, including its emphasis on samples from Indonesia, a comprehensive combination of variables, the utilization of diverse theories, and actual data from Indonesia.

Given the reliability of an index, it is often used as a baseline for experimental datasets that represent a range of objectives, such as portfolio optimization, fundamental analysis, cluster analysis, price (technical) analysis, and even analysis of indices (Pranata et al., 2023). From this perspective, this study aims to analyze the impact of board composition on ESG performance on public companies in Indonesia listed on the KOMPAS100 index. Using this perspective, this study seeks to examine how the board composition can impact the ESG performance of companies listed on the KOMPAS100 index.

Research Objectives

1. To analyze the relationship of board characteristics, including the size of the board, the proportion of foreign members, female members, and independent members, on the ESG performance of Indonesian listed companies in the Kompas100 index during the period of August 2023.
2. To examine the influence of sustainability committees on the board and their effect on the ESG performance of companies listed in the Kompas100 index during the period of August 2023.
3. To provide actionable recommendations on optimal board structure to enhance the ESG performance of firms listed in the Kompas100 index during the period of August 2023.

Hypothesis Development

This research aims to examine how the composition of a company's board influences its ESG (Environmental, Social, and Governance) score. The analysis will consider various independent variables, including the number of board members of the board of directors and commissioners, the proportion of foreign members of the board of directors and commissioners, female members of the board of directors and commissioners, independent members of the board of directors and commissioners, and the existence of a sustainability committee. Furthermore,

control variables such as public shares, return on assets, leverage, firm age, firm size, and company type will be considered.

The characteristics of a board play a crucial role in determining a company's ESG performance. According to the agency theory, boards that include a variety of members and are not influenced by external factors are more efficient in supervising management, ensuring that their activities are in line with long-term sustainability objectives, and minimizing conflicts of interest between shareholders and management (Lewa et al., 2024). The stakeholder theory highlights the importance of boards that represent a wide range of stakeholder interests in order to enhance environmental, social, and governance (ESG) performance by addressing the larger requirements of society (Freeman, 2023). In accordance with resource-based theory, boards that have diverse expertise can use their distinctive resources to improve environmental, social, and governance (ESG) performance, which gives them a competitive advantage (Varadarajan, 2023). The legitimacy theory suggests that having diverse boards helps a company gain credibility by ensuring that its activities are in line with societal expectations (Bengtson & Mossberg, 2023). The Triple Bottom Line concept emphasizes that boards that prioritize economic, social, and environmental factors can promote equitable and enduring corporate practices, hence enhancing ESG performance. Furthermore, Indonesian regulations, specifically POJK No. 51/POJK.03/2017, mandate that corporations adhere to sustainable finance principles and disclose their ESG (environmental, social, and governance) performance. These requirements highlight the board's responsibility for ensuring compliance and improving ESG performance.
(Hypothesis 1) The board characteristics and sustainability committee of a firm have an impact on its ESG score.

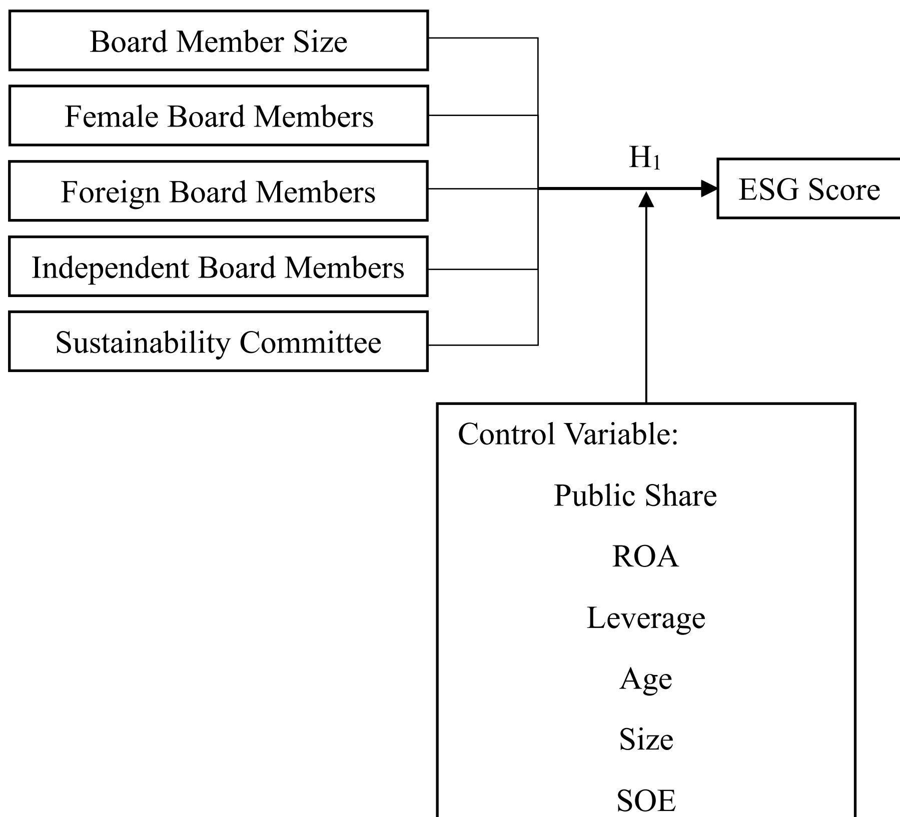

Figure 1. Conceptual Framework

Research Methods
Research Design

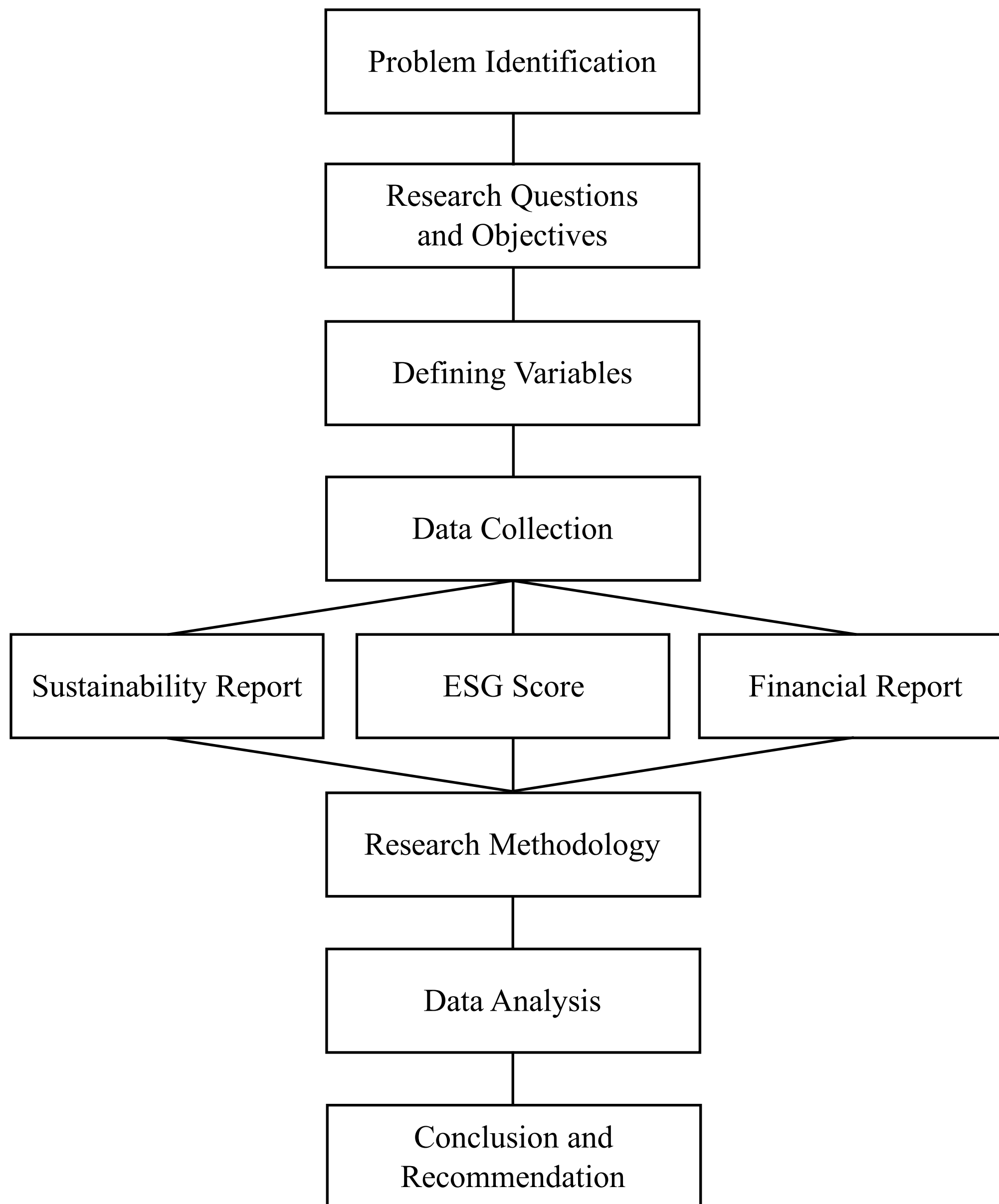

Figure 2. Research Design

Data Collection Method

The sample of data used on this research is the data of KOMPAS 100 stock index from major evaluation period August 2023 according to the attachment to IDX Announcement No. Peng-00190/BEI.POP/07-2023 issued on July 25, 2023. The sample dataset comprises 64 out of the total 100 equities that are part of the KOMPAS 100 index. Out of the sample data, 35 firms were eliminated since the ESG score data from Sustainalytics was not available for them and 1 firm was eliminated since the annual report from IDX and the firm website was not available.

The ESG score data is quantified and acquired from Sustainalytics, a grading service for companies that is also utilized by the Indonesia Stock Exchange. Subsequently, the remaining variables in the sample data related to each of these companies were collected from the financial reports and sustainability reports published annually by the Indonesian stock exchange and corporate websites. The variables utilized and data sources are concisely outlined in Appendix A.

Data Analysis Method

To analyze the relationship between ESG and board members, this research uses linear regression analysis. Sustainalytics provides the ESG score, which serves as the dependent variable in this research. The independent variables in this research include the size of the board of directors (BODSIZE), the size of the board of commissioners (BOCSIZE), the ratio of females on the board of directors (BODGender), the ratio of females on the board of commissioners (BOCGender), the ratio of independents on the board of directors (IndependentBOD), the ratio of independents on the board of commissioners (IndependentBOC), the ratio on the board of directors (ForeignBOD), the ratio of foreigners on the board of commissioners (ForeignBOC), and the presence of a dedicated sustainability committee within the company (SC). The control variables in this research include the percentage of public share (PS), the profitability factor (ROA), the liability factor (Leverage), the age of the company since legal recognition (Age), the total assets of the firm (SIZE), and the grouping of firms included as part of a stated owned company or not (SOE). The research implements the following equation for linear regression model analysis (Tjøstheim et al., 2022):

$$Y_i=\beta_0+\sum_{j=1}^{p}\beta_j X_{ij}+\varepsilon_i$$

The author applies this regression model by incorporating variables such as:

$$\hat{Y}_i=\beta_0+\beta_1X_{i1}+\beta_2X_{i2}+\beta_3X_{i3}+\beta_4X_{i4}+\beta_5X_{i5}+\beta_6X_{i6}+\beta_7X_{i7}+\beta_8X_{i8}+\beta_9X_{i9}+\beta_{10}X_{i10}+\beta_{11}X_{i11}+\beta_{12}X_{i12}+\beta_{13}X_{i13}+\beta_{14}X_{i14}+\beta_{15}X_{i15}$$

Description:
Y_i = ESG Score
X_1 = BODSize
X_2 = BOCSize
X_3 = BODGenDiv
X_4 = BOCGenDiv
X_5 = BODInd
X_6 = BOCInd
X_7 = SC
X_8 = ForBOD
X_9 = ForBOC
X_{10} = PS
X_{11} = ROA
X_{12} = Leverage
X_{13} = Size
X_{14} = Age
X_{15} = SOE

Results and Discussion

	Base Regression Model			Higher than Average			Lower than Average			High Emission		
		(p-value)	Coefficient	1	(p-value)	Coefficient	2	(p-value)	Coefficient	3	(p-value)	Coefficient
Independent Variables:												
BODSize	x	0.004	-1.460399		0.950	-0.069958	x	0.049	-1.977409		0.217	-1.161766
BODGenDiv	x	0.012	-15.12305		0.469	-9.465747		0.293	-9.579286	x	0.048	-23.72197
BODInd		0.594	-5.793232		0.510	-11.5693		-	-		0.829	-6.001241
ForBOD		0.181	-7.411585		0.589	-6.235262		0.772	-3.200667		0.283	-8.692811
BOCSize		0.776	-0.163517		0.717	-0.039492		0.631	-0.534655		0.277	-1.207892
BOCGenDiv		0.255	-7.693535		0.194	-15.82147		0.272	-14.34006		0.926	1.418483
BOCInd		0.121	-11.73418		0.814	-3.229564		0.139	-23.19385		0.436	-14.68796
ForBOC	x	0.024	16.31027		0.276	-6.235262		0.067	20.44753		0.096	21.72862
SC	x	0	-15.4835	x	0.025	-12.76204		0.159	-12.47692	x	0.013	-11.23425
Control Variables:												
PS		0.176	9.862667		0.961	-0.764262		0.441	9.429731		0.447	11.06557
ROA		0.280	15.669		0.925	2.338426		0.149	46.390		0.535	12.46007
Leverage		0.089	-7.861261		0.437	-7.411864		0.591	-4.530156		0.140	-10.96654
Age		0.881	0.0147247		0.995	0.001115		0.617	-0.090661		0.636	0.0903374
Size		0.086	1.69516		0.757	0.6441943		0.137	2.748138		0.853	-0.343643
SOE		0.389	3.068083		0.663	3.540331		0.289	5.934077		0.312	5.442794
constant		0.801	6.936394		0.595	30.98293		0.650	-23.10149		0.220	73.66422
Average VIF		1.73			3.04			2.65			2.25	
Adj R-Sqr		0.5348			0.4974			0.3971			0.4445	
No. Obs		64			31			33			30	

	Low Emission			Mature (>20 years)			Not Mature (<20 years)		
	4	(p-value)	Coefficient	5	(p-value)	Coefficient	6	(p-value)	Coefficient
Independent Variables:									
BODSize		0.348	-0.856857		0.494	-0.606708	x	0.003	-2.7498
BODGenDiv		0.452	-6.276879		0.122	-24.79274		0.487	-6.998079
BODInd		0.867	-2.499131		0.667	-9.154701		0.943	-2.033123
ForBOD		0.467	-7.486902		0.832	-4.327496	x	0.041	-19.50265
BOCSize		0.386	0.7447856		0.819	-0.200926		0.822	0.2734501
BOCGenDiv		0.497	-5.705225		0.085	-22.74679		0.565	5.621067
BOCInd		0.228	-12.38014		0.942	2.236228		0.151	-12.38111
ForBOC		0.546	9.477031		0.215	14.44237	x	0.047	41.85689
SC		-	-		0.201	-11.12704	x	0	-20.18282
Control Variables:									
PS		0.464	8.252097		0.619	6.620443		0.063	22.65822
ROA		0.857	-5.793451		0.629	31.0403		0.951	0.982
Leverage		0.562	-4.725776		0.737	-4.490702		0.781	2.119296
Age		0.734	-0.048183		0.805	-0.115851		0.565	-0.175378
Size		0.454	1.35955		0.898	-0.312407		0.113	2.103948
SOE		0.632	-2.957582		0.370	6.200605		0.730	-2.207551
constant		0.866	-8.245288		0.459	60.1786		0.894	-4.948971
Average VIF		2.98			3.05			2.98	
Adj R-Sqr		0.3210			0.0923			0.6872	
No. Obs		34			30			34	

Figure 3. Board Characteristics and ESG Performance

Table 1. Summary of findings

Result	Findings
Base regression	• A higher number of BOD have lowered the ESG score. • A higher number of woman ratio on BOD have lowered the ESG score. • The establishment of Sustainability Committee has lowered the ESG score. • A higher number of foreign BOC have increased the ESG score.
Sub-sampling 1	• The establishment of Sustainability Committee has lowered the ESG score.
Sub-sampling 2	• A higher number of BOD have lowered the ESG score.
Sub-sampling 3	• A higher number of woman ratio on BOD have lowered the ESG score. • The establishment of Sustainability Committee has lowered the ESG score.
Sub-sampling 4	-
Sub-sampling 5	-
Sub-sampling 6	• A higher number of BOD have lowered the ESG score. • The establishment of Sustainability Committee has lowered the ESG score. • A higher number of foreign BOC have increased the ESG score.

The analysis reveals that increasing the number of members on the board of directors (BODSize) will adversely affect ESG performance. This aligns with the conclusions of the research conducted by Agnese et al. (2024); Zhu et al. (2024)but contradicts the findings of Alkhawaja et al. (2023).

The analysis reveals that adding more female members to the board of directors (BODGenDiv) will negatively impact ESG performance. These findings align with the results of the study conducted by Abdelkader et al. (2024); Alkhawaja et al. (2023); Sari & Nadhira Fitriani (2024). However, in contrast to the conclusions drawn by Bigelli et al. (2023); Setiani & Novitasari (2024); Zhu et al. (2024), the current investigation presents different findings.

Based on the performed analysis, it has been found that increasing the number of commissioners from foreign countries (ForBOC) will have a beneficial effect on ESG performance. Bigelli et al. (2023) found similar conclusions in their research.

The conducted study has observed a detrimental effect on ESG performance when a company has a sustainability committee (SC). This statement is in opposition to the conclusions drawn by Agnese et al. (2024); Setiani & Novitasari (2024); Zhu et al. (2024) in their respective studies.

Based on the examined results, it can be observed that the results are consistent with Hypothesis 1 (H1). The composition of the board (including the number of BODs, the ratio of women on BODs, and the number of foreign BOCs) and the existence of sustainability committees do impact firm ESG scores. Nevertheless, the results indicate that the influence varies depending on some characteristics that lead to a decrease in ESG scores, whereas others result in an increase.

Business Solution

From the research findings it can be concluded that, in case of listing firms on Indonesia, it is found that:

A Higher Number of BOD Have Lowered the ESG Score

Agency Theory argues that a conflict of interest may arise between management (the agent) and shareholders (the principal). As the number of BODs increases, the likelihood of possible conflict may also increase. Increased levels of BODs can result in more intricate coordination and slower decision-making processes, thus impeding the successful execution of ESG plans. Increased BODs can lead to a diffusion of decision-making and supervision responsibilities, potentially reducing individual accountability. This can diminish the emphasis on ESG initiatives.

Stakeholder Theory posits that companies should take into account the concerns and interests of different stakeholders when making decisions. Nevertheless, in practical application, an increase in BODs may provide a greater number of conflicting interests and perspectives, thereby diverting attention away from ESG objectives towards more immediate or short-term advantageous priorities.

The Resource-Based Theory posits that a company's competitive advantage is based upon its resources and capabilities. However, an increase in the number of directors may necessitate additional resources for board remuneration, benefits, and operations, thereby diminishing the resources allocated for ESG activities. If the number of directors increases without a significant increase in ESG-related expertise, the board's ability to effectively oversee and lead ESG strategies might decline.

The Legitimacy Theory posits that firms strive to acquire legitimacy from society by fulfilling social and moral expectations. However, increasing the number of Board of Directors (BODs) members can be perceived as a symbolic or ornamental effort if it lacks a genuine dedication to Environmental, Social, and Governance (ESG) principles. This could lead society to view it as only an attempt to meet statutory obligations without actually implementing major changes.

Boards of a greater size might demonstrate disagreement or a lack of unity in terms of ESG (Environmental, Social, and Governance) priorities, perhaps resulting in diminished focus on ESG efforts. The larger the number of members on the board, the more challenging it gets to communicate effectively, which might impede the successful execution of ESG policies and initiatives.

The likely solution is to enhance the framework and procedure of board supervision in order to tackle problems related to coordination and responsibility. An enhanced organizational framework enables greater specialization of tasks and more streamlined decision-making processes. Increasing the ESG-related knowledge and abilities of board members can enhance their comprehension and commitment to ESG actions. By integrating ESG commitments throughout the organization, the company will ensure that ESG objectives are aligned with the overall corporate plan. Promoting a productive decision-making process among board members is crucial for overcoming obstacles to the adoption of ESG policies. Effective allocation of resources for ESG efforts is crucial to provide the required support for the success of ESG projects.

A Higher Number of Woman Ratio on BOD Have Lowered the ESG Score

Agency Theory posits that a conflict of interest may arise between the management, acting as the agent, and the shareholders, acting as the principal. Under these circumstances, increasing the proportion of women in the Board of Directors could fail to produce the expected benefits if there are particular challenges in the decision-making procedure. Additionally, the experience gap factor may arise when female members of the Board of Directors are relatively new to their roles, leading to a lack of expertise that could impact their ability to effectively implement ESG initiatives. Furthermore, there may be an element of reluctance to change, where other members of the Board of Directors may resist changes brought by women, thereby hindering the advancement of ESG efforts.

Stakeholder theory posits that companies should take into account the concerns and interests of diverse stakeholders when making decisions. Female members of the Board of Directors (BOD) may have the pressure of fulfilling various conflicting demands, originating from both internal sources within the firm and external factors such as societal and cultural expectations. These pressures have the potential to divert attention from Environmental, Social, and Governance (ESG) objectives. Although women serving on the Board of Directors (BOD) may have a strong dedication to Environmental, Social, and Governance (ESG) issues, their capacity to exert a meaningful impact on ESG policies may be hindered by insufficient cooperation from male board members and existing corporate structures.

Resource-Based Theory posits that a company's competitive advantage is derived from its diverse set of resources and capabilities. Insufficient allocation of resources by firms to assist women-led ESG initiatives on the Board of Directors could make their efforts useless.

Women's effectiveness in the Board of Directors (BOD) can be greatly influenced by social and cultural variables. Female directors may encounter cultural biases that interfere with their capacity to effectively implement substantial changes, such as ESG efforts. Women in particular environments may face constraints on their ability to make important decisions within a corporation due to traditional gender role stereotypes.

Integrating women into the Board of Directors (BOD) may encounter practical obstacles, such as adjusting to a corporate culture that is predominantly male, potentially impeding their ability to effectively implement Environmental, Social, and Governance (ESG) programs. If the Board of Directors simply selects women to fulfill quotas or statutory obligations, without showing a sincere dedication to their empowerment, it may potentially reduce the expected beneficial impact on Environmental, Social, and Governance (ESG) matters.

Comprehensive Training and Development for Female Board of Directors Members, conduct targeted training and development programs for female members of the Board of Directors to improve their proficiency in directing Environmental, Social, and Governance (ESG) initiatives and exerting influence on corporate policies.

Increase Support and Collaboration within the BOD, ensure that female members of the Board of Directors receive comprehensive support from the whole board and operate within a cooperative work environment. Overcoming Cultural and Social Bias, address cultural and social biases that could hinder the successful performance of female members of the Board of Directors in executing ESG initiatives. Optimizing Resource Allocation, assign suitable resources to facilitate Environmental, Social, and Governance (ESG) initiatives led by female members of the Board of Directors (BOD).

Improving Transparency and Accountability, enhance the level of openness and responsibility in the process of making decisions related to environmental, social, and governance (ESG) matters, in order to guarantee the successful execution of initiatives led by women on the Board of Directors (BOD).

The Establishment of Sustainability Committee Has Lowered the ESG Score

Agency Theory posits that a conflict of interest may arise between the management, acting as the agent, and the shareholders, acting as the principal. Given the circumstances, the presence of a sustainability committee could fail to produce the expected benefits if there are specific

difficulties in executing and supervising its activities. Companies may establish sustainability committees without a genuine commitment to implementing successful ESG activities, using them simply to showcase compliance or fulfill external requirements.

Stakeholder Theory posits that companies should take into account the concerns and interests of different stakeholders when making decisions. The Sustainability Committee may lack the necessary authority or influence inside the firm to make significant decisions or effectively execute Environmental, Social, and Governance (ESG) principles. Committee members may encounter opposing perspectives, both internally and externally, that might hinder the successful implementation of ESG initiatives.

Resource-Based Theory posits that a company's competitive advantage is derived from its resources and capabilities. Inadequate resources allocated to the Sustainability Committee may result in weak and ineffective Environmental, Social, and Governance (ESG) initiatives. The lack of experience in ESG among committee members may hinder their ability to make meaningful contributions.

A corporate culture that lacks support for change or innovation in environmental, social, and governance (ESG) concerns may impede the committee's efforts to execute ESG initiatives. If there is not a sincere dedication to sustainability, the presence of the committee could undermine the legitimacy and efficacy of ESG initiatives.

The Sustainability Committee may encounter bureaucratic impediments within the firm, thereby impeding the execution of ESG policies and activities. The company's overarching strategy may not be in accordance with the committee's objectives and priorities, resulting in insufficient commitment to ESG activities.

Sustainability committees can enhance their influence on strategic decision-making by establishing a distinct and powerful mandate. This ensures the incorporation of ESG policies and activities into all aspects of the company's operations. A greater degree of authority also empowers the committee to enact substantial transformations in company operations that prioritize environmental and social sustainability.

In order to properly fulfill their responsibilities, sustainability committees must have adequate resources, such as financial support, time allocation, and access to pertinent data. By appropriately allocating resources, the committee may successfully adopt more efficient ESG programs and policies. Adequate resources also enable the committee to carry out the research and development required for sustainable innovation.

Members of the sustainability committee should possess competence and a comprehensive understanding of environmental, social, and governance (ESG) issues. By means of training and capacity-building, committee members can acquire knowledge and skills regarding the most recent trends and optimal methods in sustainability. The committee's strong experience empowers them to make well-informed and strategic decisions to advance the company's ESG goals.

Establishing a corporate culture that upholds Environmental, Social, and Governance (ESG) ideals is crucial for the effectiveness of sustainability initiatives. Companies can foster employee engagement by fostering a culture of sustainability throughout the organization, hence driving active involvement from employees. Developing an ESG-friendly culture is crucial for integrating sustainable measures into the company's daily operations.

ESG policies and programs can experience delays due to bureaucratic obstacles. Through the optimization of procedures and the elimination of administrative obstacles, companies can enhance the effectiveness of their sustainability initiatives. Streamlining administrative processes also enables sustainability committees to promptly address emerging developments and obstacles encountered in pursuit of ESG objectives.

A Higher Number of Foreign BOD Have Lowered the ESG Score

Agency Theory posits that a conflict of interest may arise between the management, acting as the agent, and the shareholders, acting as the principal. Foreign directors may prioritize the concerns of global shareholders or parent firms over local ones, leading to decisions that are less aligned with local environmental, social, and governance (ESG) goals. Foreign directors may

prioritize short-term goals related to financial or operational targets, thus impeding the implementation of long-term ESG measures that necessitate substantial investment.

The Stakeholder Theory posits that companies should take into account the concerns and interests of different stakeholders when making decisions. Foreign directors may exhibit a lack of involvement with local stakeholders, potentially leading to the formulation of policies and choices that do not align with their requirements and expectations. Inadequate engagement with local stakeholders might diminish the effectiveness of communication and collaboration in executing ESG efforts.

The effectiveness of foreign directors in implementing ESG policies may be influenced by cultural and regulatory differences between their country and the local context. Foreign directors may have limited comprehension of the indigenous culture, societal conventions, and environmental protocols unique to Indonesia, therefore their choices may not align well with local requisites and anticipations. Foreign directors may possess distinct ESG (Environmental, Social, and Governance) goals influenced by their background in their respective countries of origin, which may not align with the specific requirements and difficulties of the local context.

The effectiveness of ESG policy implementation can be hindered by communication and coordination challenges between foreign directors and local directors. Language barriers can impede efficient communication between international directors and local directors, resulting in miscommunication and a lack of collaboration.

Contextual factors in corporate administration and functioning. Foreign directors may have a significant rate of personnel changes, thus impeding the consistency and stability in the execution of ESG policies. Foreign directors may be experienced with a regulatory environment that is distinct from the local one, which could result in their lack of knowledge or failure to comply with local ESG laws.

Foreign directors must possess a comprehensive understanding of the local context in Indonesia, encompassing the cultural nuances, regulatory framework, and unique obstacles encountered by companies. By acquiring a deeper comprehension, foreign directors can enhance their ability to make decisions that are both pertinent and impactful within the local context.

Enhancing communication and coordination between foreign directors and local directors helps minimize misunderstandings and enhance synergies. This ensures that the company's Environmental, Social, and Governance (ESG) objectives are comprehended and backed by all levels inside the organization.

To improve sustainability performance, it is necessary to synchronize the goals of the foreign director with the company's environmental, social, and governance (ESG) objectives. Alignment can be accomplished by articulating shared objectives and establishing transparent performance metrics.

Involving local stakeholders, like employees, communities, and regulators, can assist foreign directors in comprehending and addressing their requirements and anticipations. This participation can additionally cultivate support and enhance the credibility of the company's ESG initiatives.

It is crucial to achieve excellent environmental, social, and governance (ESG) performance by making sure that foreign directors have a clear understanding of and adhere to all the local laws and regulations. Thorough compliance to regulations can help prevent legal problems and enhance the company's reputation among local stakeholders.

Implementation Plan & Justification

A Higher Number of BOD Have Lowered the ESG Score

In relation to the solutions examined, the company can adopt the following implementation plan

1. Strengthening Board Oversight Structures and Processes
    - Revise the Board Charter: Revise and clarify the Board Charter to explicitly outline the duties and obligations of each Board member, with specific emphasis on Environmental, Social, and Governance (ESG) activities.

- Enhanced Supervisory Capability: Create a specialized committee within the board with the responsibility of supervising the execution of the ESG policy. The composition of this committee should comprise board members who possess both expertise and a strong dedication to ESG (Environmental, Social, and Governance) matters.
- Performance Measurement and Evaluation: Develop and implement a framework for evaluating the performance of board members and senior management that incorporates ESG metrics.

2. Enhanced ESG Proficiency Among Board Members
   - Training and Development: Conduct training programs and workshops for board members on Environmental, Social, and Governance (ESG) subjects, comprising up-to-date trends, rules, and optimal practices.
   - Hiring of ESG Experts: To enhance the board's viewpoint, it is advisable to recruit fresh board members or advisers that possess extensive knowledge and competence in environmental, social, and governance (ESG) matters.
   - Collaboration with External Experts: Collaborate with ESG consultants or experts to provide strategic and operational direction for the creation and execution of ESG policies.
3. Strong Commitment to ESG Goals Across the Organization
   - Integration of ESG into Corporate Strategy: Incorporate ESG objectives and metrics into the company's strategic plan and ensure their integration into the company's vision and mission.
   - Communication and Transparency: Enhance both internal and external communication regarding the company's Environmental, Social, and Governance (ESG) commitments and performance. Release comprehensive and precise sustainability reports that are easily accessible and provide clear information.
   - Participatory Initiatives: Empower all employees in ESG initiatives through inclusive programs like environmental awareness campaigns, volunteer activities, and incentives for employees who contribute to ESG initiatives.
4. Optimization of the Decision-Making Process
   - Enhancing the Process of Meetings: Revise the structure and frequency of board meetings to enhance their focus and efficiency, incorporating well-defined agendas and organized priorities.
   - Use of Technology: Utilize technology and digital collaboration tools to enhance the effectiveness of communication and documentation in the process of decision-making.
   - Task Delegation: Delegate operational duties to specialized committees or persons in order to allow the Board to dedicate greater attention to strategic decision-making.
5. Effective Allocation of Resources
   - ESG Budget: Create a specific financial plan for ESG initiatives and ensure that the amount of money allocated is sufficient to support a range of ESG programs and projects.
   - Human Resources: Hire and educate committed personnel to oversee and implement ESG efforts, such as the position of ESG Manager or Sustainability Officer.
   - Impact Measurement: Develop and deploy an impact measurement system capable of consistently monitoring and reporting the outcomes of environmental, social, and governance (ESG) projects.

A Higher Number of Woman Ratio on BOD Have Lowered the ESG Score

In relation to the solutions examined, the company can adopt the following implementation plan:

1. Comprehensive Training and Development for Female Board of Directors Members
   - The Continuous Learning Program: Conduct regular training programs specifically designed for female members of the Board of Directors, with a focus on ESG

(Environmental, Social, and Governance), leadership, and strategic decision-making subjects.
- Mentorship Programs: Establish mentorship programs that facilitate connections between female members of the Board of Directors and experienced business leaders who possess extensive knowledge and proficiency in Environmental, Social, and Governance (ESG) matters.
- Workshops and Seminars: Arrange frequent workshops and seminars focused on the most recent trends, optimal methods, and tactics for implementing ESG.

2. Increase Support and Collaboration within the BOD
   - Team-Building Activities: Facilitate collaborative activities to enhance interpersonal connections and foster cooperation among board members, regardless of gender (both men and women).
   - Inclusivity Training: Offer comprehensive training on inclusion and diversity to every member of the Board of Directors (BOD) with the aim of fostering an atmosphere that actively promotes and appreciates the valuable contributions made by women.
   - Periodic Evaluation Meetings: Conduct regular feedback sessions where members of the Board of Directors can express their opinions and provide suggestions for enhancing support for Environmental, Social, and Governance (ESG) projects.
3. Overcoming Cultural and Social Bias
   - Awareness Campaigns: Implement internal awareness initiatives to educate employees and management on the significance of gender diversity and its influence on corporate performance.
   - Bias Training: Provide comprehensive unconscious bias training to all members of the Board of Directors and senior management in order to mitigate the impact of cultural bias.
   - Policy Revisions: Revise company rules to ensure they are aligned with gender equality principles and effectively address any prevailing biases.
4. Optimizing Resource Allocation
   - Dedicated ESG Budget: Create a specific budget for environmental, social, and governance (ESG) initiatives and ensure that this budget includes financial support for programs managed by women on the Board of Directors (BOD).
   - Resource Allocation: Ensure sufficient allocation of both people and material resources to facilitate the implementation of women-led environmental, social, and governance (ESG) policies on the Board of Directors (BOD).
   - Performance Metrics: Develop and apply precise performance criteria to evaluate the influence of environmental, social, and governance (ESG) initiatives led by female members of the Board of Directors (BOD).
5. Improving Transparency and Accountability
   - Regular Reporting: Implement a consistent reporting timetable to provide updates and outcomes of ESG initiatives, including dedicated reports highlighting the contributions made by female members of the Board of Directors.
   - Accountability Mechanisms: Introduce accountability measures, such as setting performance targets for individuals and teams, to guarantee that every member of the Board of Directors is held responsible for their contribution to environmental, social, and governance (ESG) matters.
   - Stakeholder Engagement: Involve external stakeholders in the evaluation and assessing of ESG initiatives to enhance transparency and foster confidence.

The Establishment of Sustainability Committee Has Lowered the ESG Score

In relation to the solutions examined, the company can adopt the following implementation plan:

1. Enhance the Authority and Impact of the Sustainability Committee
    - Revise Committee Charter: Revise committee charters to establish precise and clear directives, along with substantial duties in ESG decision-making.
    - Direct Reporting Lines: To enhance influence and accountability, it is important that the committee reports directly to the board.
2. Provide Adequate Resources
    - Allocated funds: Create a specific budget to provide financial support for committee activities and initiatives.
    - Resource Accessibility: Ensure that the committee is provided with essential resources, such as data, technology, and human assistance.
3. Enhance Committee Expertise and Capacity
    - Expert Recruitment: Enhance the committee's competence and knowledge by recruiting members who possess expertise in ESG.
    - Training and Development: Provide continuous training sessions for committee members regarding the most up-to-date ESG concerns and best approaches.
4. Establishing a Culture That Supports ESG
    - Awareness Campaign: Implement an internal awareness campaign to promote the significance of ESG efforts and the committee's involvement in accomplishing those objectives.
    - Integration and Engagement: Engage all staff in ESG initiatives to foster a business culture that promotes sustainability.
5. Streamlining Bureaucratic Obstacles
    - Optimize Workflows: Streamline administrative procedures to accelerate the execution of ESG policies and initiatives.
    - Effective Communication Channels: Facilitate the establishment of transparent and efficient communication channels between the committee and other departments within the company in order to enhance coordination and collaboration.

A Higher Number of Foreign BOD Have Lowered the ESG Score

1. Increase Local Understanding and Engagement
    - Local Induction Programs: Organize a local orientation program for foreign directors that encompasses instruction on indigenous culture, societal norms, and environmental regulations.
    - Community Engagement: Promote the active involvement of foreign directors in community activities and dialogue forums with local stakeholders.
2. Enhancing the effectiveness of Communication and Coordination
    - Language Training: Offer language courses to both foreign and local directors to mitigate language obstacles and enhance communication with local teams.
    - Coordination Tools: Utilize digital collaboration platforms to facilitate efficient coordination between foreign directors and local directors.
3. Ensuring Goal Alignment
    - Alignment Workshops: Conduct workshops to synchronize ESG objectives and priorities among foreign directors and local directors, guaranteeing mutual comprehension and support of shared goals.
    - Performance Metrics: Incorporate environmental, social, and governance (ESG) performance indicators into the performance assessments of foreign directors to ensure their attention is directed towards long-term objectives.
4. Improving Stakeholder Engagement

- Stakeholder Mapping: Perform stakeholder mapping to identify the specific requirements and anticipations of the local community, and utilize this data in the process of making informed decisions.
- Regular Engagement: Conduct frequent meetings with local stakeholders to establish solid connections and ensure that ESG policies align with their requirements.

5. Enhance Adherence to Local Regulations
   - Regulatory Compliance Training: Deliver localized regulatory training for foreign directors to ensure their comprehension and adherence to local environmental, social, and governance (ESG) standards.
   - Compliance Audits: Perform routine regulatory compliance audits to verify that firm policies and practices adhere to local regulations.

Conclusion

Incorporating effective ESG practices in companies can result in significant enhancements in their overall performance and sustainability. ESG practices embrace not only environmental and social responsibilities but also reinforce corporate governance, making firms more appealing to investors, customers, and other stakeholders. This study provides valuable insights into the impact of board composition, the existence of sustainability committees, and the influence of several control variables on ESG scores in Indonesian public companies. The robustness test shows that the regression model used is valid and reliable. The analysis reveals that certain aspects of board composition have a beneficial impact on ESG performance, while others may unintentionally hinder it. This highlights the complex connection between board composition and sustainability performance.

Overall, the composition and qualities of a company's board have a significant impact on its ESG performance. Although the concept of having varied and specialized committees is theoretically advantageous, it is crucial to have effective practical execution and supportive mechanisms in place to fully realize their potential benefits. Successful ESG performance requires both a complex organizational structure and a sincere dedication to and seamless integration of ESG principles within the board's activities.

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