

CHAPTER 1

INTRODUCTION

1.1 Background

The composition of a company's board plays a critical role in shaping its governance practices and overall corporate strategy. The characteristics of a heterogeneous and diverse board, encompassing a wide range of perspectives, experiences and backgrounds, is envisioned to be a driving aspect of innovative decision-making and addressing the complex challenges faced by modern businesses. This diversity not only influences the board's ability to understand and respond to the needs of various stakeholders, but also contributes to a culture of inclusiveness that is increasingly recognized as critical to sustainable corporate governance (Vorecol, 2024). In addition, implementing sustainable corporate governance requires a commitment to ethical practices, accountability and transparency. Board with diverse characteristics are able encourage this commitment by ensuring that different voices are heard in discussions about corporate responsibility and sustainability initiatives (Hidayah, Nugroho, & Mais, 2023).

Based on previous research (Ding, Wang, Xu, & Lin, 2024) and (Nicolò, Zampone, Sannino, & Iorio, 2022), board characteristics such as board size, proportion of independent members, board attendance, and international experience of board members have been shown to influence the effectiveness of corporate oversight and strategic decision-making. Board with optimal composition are able to improve the company's ability to manage risks, strengthen long-term vision, and adapt business strategies to global market dynamics (Hidayah, et al., 2023). Thus, strengthening board characteristics not only contributes to better governance outcomes, but also positions the company to thrive in an increasingly competitive and socially conscious marketplace. The importance of board characteristics in corporate governance is also reflected in efforts to increase transparency and accountability reporting to stakeholders including investors, employees and society at large (Humansmart, 2024). Companies that prioritize diversity and expertise at the highest levels of leadership tend to be able to build public trust and demonstrate

a real commitment to sustainable business practices. In the last decade, the issue of improving a company's bottom line through an active commitment to social, environmental and governance issues has become a new milestone in the business world (Anis & Avrilia, 2024). This was reinforced by the launch of the 2030 agenda to improve Sustainable Development (SD) by the UN in 2015. This discusses marking breakthrough steps in the processes needed to align the Company's strategy (Hidayah, et al., 2023).

Some of these aspects are investment decisions and business models with economic, social, and environmental dimensions from SD. Growing concerns about companies' Corporate Social Responsibility (CSR) and Sustainable Development (SD) practices are in line with the need to expand the boundaries of corporate transparency and accountability (Dubbink & Liederkerke, 2008). As a result, all companies are increasingly being led to go beyond simple financial aspects. The simple financial aspects in question are information about the various non-financial dimensions that influence the process of creating self-worth related to the company (ORZEŁ, 2020). This is summarized in ESG, which is defined as an information service program regarding the environment, society and corporate governance. This integration itself aims to meet the expectations of various stakeholders regarding corporate sustainability and CSR metrics to the general public. CSR disclosure is not only a means of communication, but also reflects the company's intention to implement sustainability initiatives in a real way (Windari & Dewi, 2024). In this context, CSR disclosure is often used as an indicator of the level of corporate transparency and management quality, which in turn can increase investor confidence and access to capital markets (Andini, Nursabela, & Nurmallasari, 2021). Moreover, CSR disclosure not only helps companies meet stakeholder demands but also strengthens their position in the global capital market (Suhardjanto, Fitriyana, & Wahyuningtyas, 2017).

Therefore, through an active commitment to social, environmental, and governance issues as reflected in transparent and integrated CSR disclosures, companies can go beyond simple profit goals and create long-term value for all stakeholders (Chen, Friedman, & Simons, 2014). Corporate strategy, investment decisions, and business models that integrate the economic, social, and

environmental dimensions of Sustainable Development (SD) have an important role in increasing company value and creating a positive impact on society. Previous research has shown that sustainability disclosure through Environmental, Social, and Governance (ESG) disclosure can increase company value by strengthening stakeholder trust and providing a competitive advantage (Qureshi, Kirkerud, Theresa, & Ahsan, 2020).

Figure 1. 1 ESG (Environmental, Social, and Governance) Framework



Sources: (Otosection, 2025).

Through the development of company value, the *triple bottom line* approach introduced by Elkington (1994) emphasizes the importance of balancing economic, social, and environmental aspects to achieve sustainable development goals. This strategy not only helps companies meet the needs of consumers who are increasingly concerned about environmental issues but also creates long-term value through resource efficiency and product innovation. In addition, investment decisions that focus on sustainability enable companies to respond to changing market preferences and global regulatory pressures such as the Paris Agreement. The close relationship between sustainability strategy and CSR disclosure described above shows that companies that are actively committed to social and environmental issues can generate economic benefits while fulfilling their

responsibilities to stakeholders (Pizzi, Venturelli, & Caputo, 2021). In addition to strengthening extensive dialog with stakeholders, ESG information is also conducive to strategic and financial benefits involving managers, investors, and market participants.

In Indonesia itself, the main regulation governing ESG disclosure is Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017. The regulation explains the obligation of financial services institutions, issuers, and public companies to prepare sustainability reports that include ESG aspects. Although ESG reporting is currently voluntary, the OJK is targeting 100% mandatory implementation by May 2025 across all Indonesian companies (Peraturan Otoritas Jasa Keuangan, 2017). In this context, board characteristics are considered to be the key factor in increasing stakeholders' level of trust in a company. These characteristics are also believed to improve the internal decision-making processes and facilitate access to critical resources and the alignment of company strategy with the external environment (Ding et al., 2024).

Despite the growing attention to corporate social responsibility (CSR) and sustainable development (SD), there are still doubts about the depth and sincerity of corporate actions, especially those related to concern for the environment, social equality, and the quality of board-level governance. On the other hand, concern that companies may selectively disclose information to cover up important issues such as pollution, labor exploitation, or lack of background representation on the board, have come to the fore. By examining the interaction between board characteristics and sustainability practices, companies can demonstrate a real commitment to CSR and SD principles, rather than just a symbolic attempt to improve public image (Ding et al., 2024).

This study was conducted on manufacturing companies listed on the IDX (Indonesia Stock Exchange) in 2018-2023. This study used data taken from manufacturing companies listed on the IDX Indonesia in 2018-2023. On the other hand, this upcoming research is still relevant and useful because it can help implement OJK regulations regarding 100% ESG mandatory reporting performance in all Indonesian companies by 2025. This research is a continuation

of previous research conducted by (Ding et al., 2024) and (Nicolò et al., 2022), which examined the influence of board characteristics on ESG performance in China and the European Union. While their studies focused on 1,392 companies from 21 EU countries (2014–2019) and 1,931 A-share listed companies in China, this research analyzes manufacturing companies listed on the Indonesia Stock Exchange during 2018–2023. On the other hand, the author chose Indonesia as a place of research because both Indonesia and several countries in the European Union are still engaged in improving the effectiveness of corporate non-financial governance and accountability through various means deemed relevant.

1.2 Problem Formulation

Based on the description above, the problem to be studied is:

1. Is there a significant relationship between board characteristics and the ESG combined score of manufacturing companies listed on the IDX 2018-2023?
2. Is there a significant relationship between board characteristics and the environmental performance score of manufacturing companies listed on the IDX 2018-2023?
3. Is there a significant relationship between board characteristics and the social performance score of manufacturing companies listed on the IDX 2018-2023?
4. Is there a significant relationship between board characteristics and the governance performance score of manufacturing companies listed on the IDX 2018-2023?

1.3 Research Objective

The purpose of this research is :

1. To observe and analyze empirically the effect of board characteristics on the ESG combined score of manufacturing companies listed on the IDX 2018-2023.
2. To observe and analyze empirically the effect of board characteristics on the environmental performance score of manufacturing companies listed on the IDX 2018-2023.
3. To observe and analyze empirically the effect of board characteristics on the social performance score of manufacturing companies listed on the IDX 2018-2023.
4. To observe and analyze empirically the effect of board characteristics on the governance performance score of manufacturing companies listed on the IDX 2018-2023.

1.4 Research Benefit

The influence of board characteristics on sustainable corporate governance and non-financial disclosure in Indonesia offers many research benefits that contribute to the success of organizations and broader community goals. For academics, this research is expected to add insight and literature regarding the role of board composition in improving sustainable corporate governance and non-financial disclosure practices in manufacturing companies listed on the Indonesian stock exchange in 2018-2023. In other respects, this study is motivated by previous analysis which indicates that optimal board characteristics can improve the quality of decision-making by combining various perspectives, encouraging innovative solutions, and overcoming various challenges in sustainability governance. This is also in line with efforts to improve the company's reputation, as companies with well-structured boards are often viewed more positively by stakeholders, leading to stronger customer loyalty and brand value. In addition, effective board composition increases investor confidence by promoting transparency and accountability,

making companies more attractive to socially responsible investors who prioritize sustainability and ethical practices.

Research on this topic also highlights how strong board governance align with global standards and contribute to the achievement of the United Nations Sustainable Development Goals (SDGs), such as promoting equality and reducing inequality. In addition, diverse and competent boards improve the risk management processes by encouraging open dialogue and robust assessment of environmental, social, and governance (ESG) risks. Companies with optimal board characteristics have also been shown to excel in non-financial disclosure practices, providing stakeholders with transparent insights into sustainability initiatives and social impacts. Although the direct impact on financial performance can vary, evidence shows that effective board composition contributes to long-term financial success through innovation, better risk management, and improved corporate reputation. Overall, research on the influence of board characteristics on sustainable corporate governance and non-financial disclosure in Indonesia provides valuable insights into how inclusive leadership shapes corporate practices and drives progress towards sustainability goals.

1.5 Writing Systematic

The systematic writing in this study consists of five chapters. The first chapter contains an introduction that discusses the background of the problem, the formulation of the problem, the purpose of the research, the benefits of the research, and the systematic writing. Furthermore, the second chapter explains the literature review which contains the literature used as a theoretical basis, a review of previous research, hypothesis development hypotheses, and conceptual frameworks. Then, the third chapter contains research methods consisting of research design, population, sample, type and source of research variable data along with data analysis methods. Then, the fourth chapter contains research results containing data analysis and discussion of the results of hypothesis testing. Finally, the fifth chapter contains conclusions, limitations and suggestions for further researchers.