CHAPTER I
INTRODUCTION

1.1 Research Background

In recent decades, sustainability has become a fundamental imperative in modern business practice, as firms are increasingly expected to integrate economic, social, and environmental considerations into their strategies (Maulana et al., 2024). This shift reflects escalating stakeholder pressure for firms to operate responsibly and transparently, and investors and regulators now widely use ESG criteria to evaluate firms' long-term sustainability and ethical behavior (Almulhim & Metwally, 2025; Muhammad & Farooq, 2025).

This growing scrutiny has intensified scholarly interest in whether ESG initiatives translate into improved financial outcomes: firms that integrate ESG practices are more likely to generate sustainable value, attract long-term investment, and gain competitive advantage (Aziz et al., 2025; Muhammad & Farooq, 2025). As investor and regulatory expectations around sustainability have risen, corporate boards worldwide have placed greater emphasis on sustainability governance, with gender diversity increasingly identified as a key enabler of responsible corporate behavior.

Corporate governance plays a critical role in shaping corporate strategy and ensuring accountability toward stakeholders (Muhammad & Farooq, 2025). The board of directors is the primary mechanism for monitoring management and promoting sustainability initiatives, and effective governance structures are associated with better decision-making, risk management, and long-term organizational sustainability (Monteiro et al., 2024; Muhammad & Farooq, 2025).

Within this governance context, board gender diversity is widely recognized as an important factor shaping organizational decision-making, as the presence of women strengthens monitoring functions and promotes transparency and stakeholder orientation (Muhammad & Farooq, 2025). Female directors are also associated with stronger ethical awareness and environmental and social sensitivity (Bazel-Shoham et al., 2024) and with more responsible corporate behavior and sustainability outcomes (Monteiro et al., 2024), prompting many jurisdictions to adopt regulations promoting women's board representation.

Globally, the movement toward greater female board representation has gained momentum, particularly in developed nations that have enacted mandatory gender quota legislation. Countries such as Norway, France, Italy, Belgium, and the Netherlands require publicly listed companies to maintain a minimum proportion of female board members, ranging from roughly 33% to 40% (Deloitte Global, 2024), reflecting a broader recognition that voluntary approaches alone are insufficient to achieve gender parity. Global ESG frameworks have likewise incorporated board gender diversity as a key governance indicator that institutional investors and ESG rating agencies increasingly scrutinize, creating growing pressure on emerging markets, including Indonesia, to show progress on this front.

Indonesia presents a particularly important context for examining board gender diversity, given its status as Southeast Asia's largest economy and its rapidly evolving ESG regulatory landscape. Despite growing global attention to gender equality, women's representation in Indonesian corporate leadership remains relatively low, as men continue to dominate most board positions (Hatane et al., 2025; Mukhibad et al., 2024). Indonesia's two-tier governance system separates the board of directors, responsible for management, from the board of commissioners, responsible for supervision (Putra & Setiawan, 2025), yet unlike many developed nations, it has no mandatory gender quota regulation.

In response, Indonesia's Financial Services Authority (OJK) has issued several regulations promoting Good Corporate Governance and ESG disclosure. Sustainability has become central to corporate decision-making as environmental and social challenges increasingly shape business risk (Hadiatmojo & Anis, 2025), and governance plays a key role in ensuring firms operate transparently and accountably toward stakeholders (Budiarto & Kuang, 2025).

Understanding board gender diversity in Indonesia also requires attention to its concentrated, often family-controlled ownership structures, which shape board composition differently than in dispersed-ownership markets. An effective board structure helps align management and stakeholder interests and reduce agency conflicts (Putra & Setiawan, 2025), and the presence of women in leadership may enrich managerial perspectives and improve governance (Bintarto & Harymawan, 2024). However, in family-controlled firms, board appointments often reflect familial ties rather than merit, raising the risk of tokenistic female appointments rather than substantive governance improvement a feature of the Indonesian market that this study takes into account.

Despite these contextual challenges, empirical evidence on the relationship between board gender diversity, firm performance, and ESG disclosure remains inconclusive (Almulhim & Metwally, 2025). Several studies report a positive association: ESG disclosure combined with board gender diversity improves firm performance (Almulhim & Metwally, 2025), and gender-diverse boards and sustainability committees reduce ESG controversies and protect long-term performance and reputation (Aziz et al., 2025; Muhammad & Farooq, 2025). In Indonesia, female directors and commissioners positively affect performance in banking but show weaker effects in non-banking firms (Kusmayadi et al., 2026), while board gender diversity positively influences green innovation and firm value among non-financial companies (Kusmayadi et al., 2026). These converging findings offer meaningful, if uneven, empirical support for gender diversity as a governance mechanism; the full body of evidence is reviewed in Section 2.2.1.

However, a substantial body of evidence presents a contrasting picture. In Indonesian banking, gender diversity on the board of commissioners positively affects ROA and ROE, but diversity on the board of directors shows no effect (Mukhibad et al., 2024), and a separate banking-sector study finds no significant effect of board gender diversity on financial performance at all (Jayanto et al., 2025). Among manufacturing and retail firms, board gender diversity shows an unexpected negative effect on sustainability and stock returns (Maulana et al., 2024), and gender diversity on the Board of Commissioners is associated with lower firm value as measured by Tobin's Q (Jayanti et al., 2023). These inconsistencies, discussed further in Section 2.2.1, indicate that contextual factors specific to each sector and governance environment shape whether gender diversity delivers substantive governance benefits.

Previous studies have largely focused on developed markets, leaving limited evidence on how board gender diversity affects ESG outcomes in emerging economies such as Indonesia. Most existing Indonesian studies also treat board gender diversity as a single aggregate variable, despite the fundamentally different governance functions performed by the BOC and BOD under Indonesia's two-tier system (Putra & Setiawan, 2025), and few studies separate the effects of each organ. Furthermore, most existing evidence predates OJK's 2021 mandatory ESG disclosure guidelines and the post-pandemic period (2020–2024), a gap that limits current theoretical and practical understanding of board gender diversity in this market.

Based on the foregoing discussion, prior studies have produced mixed findings on the factors that influence firm performance and ESG disclosure, making this topic worthy of further investigation. This study differentiates itself from prior work through its object of analysis, observation period, and variables examined. Unlike most existing studies that treat board gender diversity as a single aggregate measure, this study separately examines the gender diversity of the Board of Commissioners and the Board of Directors a distinction that is particularly meaningful given the fundamentally different roles the two organs perform under Indonesia's two-tier governance system.

Most prior studies on board gender diversity in Indonesia also examine firm performance or ESG disclosure in isolation rather than simultaneously. By addressing both outcomes within a unified analytical framework, this study aims to fill this gap and offer more comprehensive insights into the governance consequences of female board representation.

This study covers a five-year observation period from 2020 to 2024. This period is particularly relevant because it captures the post-pandemic recovery phase, during which many Indonesian companies were restructuring their governance practices, alongside the intensification of ESG regulatory pressure marked by OJK's mandatory ESG disclosure framework. This window of observation remains largely underexplored in the existing Indonesian literature, and examining it allows this study to reflect the most recent developments in how gender diversity on corporate boards may serve as a strategic governance mechanism in a rapidly evolving regulatory environment. Additionally, Indonesia's distinctive emerging market characteristics including concentrated ownership structures, the prevalence of family-controlled firms, and the risk of tokenistic female appointments further reinforce the timeliness and contextual relevance of this research.

The choice of non-financial companies listed on the Indonesia Stock Exchange as the study's object of analysis is also deliberate. Most prior governance research in Indonesia has been concentrated in the banking, financial services, or state-owned enterprise sectors, which are subject to sector-specific regulatory requirements that may confound the relationship between board composition and performance outcomes. Non-financial companies represent the broader population of publicly listed firms and offer a more generalizable setting in which to examine the governance effects of gender diversity. It is expected that focusing on this sector can contribute to filling the existing research gap and provide governance insights that are relevant across a wider range of industries.

Academically, this study is expected to provide additional empirical evidence related to agency theory and gender socialization theory. Practically, the findings are expected to provide useful insights for regulators, companies, and investors regarding the governance implications of gender diversity. Based on these considerations, this study is titled **"The Effect of Gender Diversity in the Boards of Commissioners and Directors on Firm Performance and ESG Disclosure".**

1.2 Research Problem

Based on the background of the problem described above, the research questions that will be addressed are as follows:

1. Does gender diversity on the Board of Commissioners have a significant positive effect on the firm performance of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024?

2. Does gender diversity on the Board of Directors have a significant positive effect on the firm performance of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024?
3. Does gender diversity on the Board of Commissioners have a significant positive effect on ESG disclosure of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024?
4. Does gender diversity on the Board of Directors have a significant positive effect on ESG disclosure of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024?

1.3 Research Objective

Based on the above problem formulation, the objectives of this study are to test and obtain evidence that:

1. To examine and obtain empirical evidence on the effect of gender diversity on the Board of Commissioners on the firm performance of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024.
2. To examine and obtain empirical evidence on the effect of gender diversity on the Board of Directors on the firm performance of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024.
3. To examine and obtain empirical evidence on the effect of gender diversity on the Board of Commissioners on ESG disclosure of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024.
4. To examine and obtain empirical evidence on the effect of gender diversity on the Board of Directors on ESG disclosure of non-financial companies listed on the Indonesia Stock Exchange during the period 2020–2024.

1.4 Research Benefit

This study is expected to generate meaningful contributions across academic, corporate, regulatory, and investment domains. The benefits of this research are elaborated as follows:

1.4.1 Academical Benefits

This study is expected to contribute to the literature on corporate governance, gender diversity, and sustainability in three main ways.

First, it provides more detailed empirical evidence by examining gender diversity in the Board of Commissioners and the Board of Directors separately, rather than treating board gender diversity as a single aggregate measure — a distinction particularly relevant in Indonesia's two-tier governance system, where each board performs different governance functions.

Second, this study simultaneously examines firm performance and ESG disclosure as corporate outcomes, providing a more comprehensive understanding of the governance implications of board gender diversity.

Third, by focusing on Indonesian non-financial companies during the 2020–2024 period, this study offers updated evidence from an emerging market context shaped by increasing ESG awareness, evolving sustainability regulations, and changing investor expectations. Together, these contributions are expected to enrich the existing literature and serve as a useful reference for future research in this area.

1.4.2 Practical Benefits

1. **For Companies**

   This research provides firms listed in the Indonesia Stock Exchange with understanding on the associations of board gender diversity, firm performance, and ESG disclosure. This research also provides a basis for these firms to undertake evaluation of their board composition and governance. Furthermore, this research can assist firms in moving away from the perception that gender diversity is a compliance issue, and recognize that gender diversity contributes positively to governance and the firm's sustainability endeavors.

2. For Investors and Stakeholders

This research provides a solution for investors, stakeholders, and ESG analysts in explaining the associations of board gender diversity, firm performance, and ESG disclosure of Indonesian firms. The results are expected to assist investors and stakeholders in determining the governance and the commitment to sustainability in the investment decisions, especially to those who incorporate ESG and governance in their evaluation.

3. For Regulators and Policy Makers

This research provides additional information for the regulators in the Financial Services Authority (OJK), the Indonesia Stock Exchange, and other governmental organizations, in assessing the corporate governance with regard to gender diversity. The results can provide additional consideration to the development of policies that promote gender diversity and the sustainability endeavors of firms in Indonesia.