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Strengthening Governance for Sustainability: The Role of ESG Committees in Enhancing Corporate Sustainability Performance in Indonesia

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ABSTRACT

Purpose: This study examines the impact of Environmental, Social, and Governance (ESG) committees on corporate sustainability performance in Indonesia. It evaluates whether ESG committees enhance sustainability reporting and corporate transparency, particularly in industries with high environmental and social risks.
Methodology/approach: Using an Ordinary Least Squares (OLS) regression with a cluster approach, this study analyzes 907 non-financial firms listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. Robustness tests such as Coarsened Exact Matching (CEM) and fixed-effects regression ensure result reliability.
Findings: The findings reveal a significant positive relationship between ESG committees and corporate sustainability performance. Firms with ESG committees display higher ESG disclosure scores, especially in environmental and social aspects. This effect is more evident in high-risk industries and during crises like the COVID-19 pandemic.
Practical implications: This study highlights the need for regulatory frameworks that encourage ESG committees to enhance corporate accountability and sustainability. It provides insights for policymakers, investors, and executives on improving sustainability governance.
Originality/value: This research contributes to ESG governance literature with empirical evidence from an emerging market. It incorporates industry-specific and crisis-period analyses, offering a deeper understanding of ESG committee effectiveness.

Keywords: Corporate Governance; ESG Committees; Sustainability Performance.

INTRODUCTION

In recent years, attention to Environmental, Social, and Governance (ESG) issues has significantly increased, especially in the financial industry (Ludwig & Sassen, 2022). Global awareness of the impact of climate change and the urgency of sustainability are key factors driving many companies to integrate ESG aspects into their business strategies (He et al., 2023). This transformation is a response to regulatory pressure and a proactive strategic step to strengthen companies' long-term competitiveness. Companies are no longer focused solely on profitability but also social and environmental responsibility, which is increasingly recognized as a key element in business sustainability.

The United Nations (UN), through the Sustainable Development Goals (SDGs), highlights the importance of addressing environmental and socio-economic dimensions to achieve global sustainability (Amel-Zadeh & Serafeim, 2018). Besides the role of governments and households, companies also play a crucial part in achieving these goals. In addition to the moral impetus to contribute to sustainability, many companies now align their strategies with SDG targets to meet the demands of investors, who are increasingly factoring sustainability into their investment decisions (United Nation, 2017). This trend marks a fundamental shift in the business world, where responsibility towards environmental and social issues is no longer just a moral obligation but also a factor influencing investment attractiveness.

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One global commitment underscoring the importance of environmental responsibility is the Paris Agreement, which aims to limit global temperature rise to below 2°C, with an ambitious target of 1.5°C above pre-industrial levels (Rogelj et al., 2016). This agreement calls for concrete action from governments, the private sector, and huge companies to adopt more environmentally friendly and sustainable business practices. In Indonesia, companies, especially in the energy and natural resource sectors, are expected to take concrete steps to reduce carbon emissions and manage natural resources more efficiently, which aligns with these international commitments.

ESG considerations have become a core component of corporate strategy in response to regulations and as a source of long-term competitive advantage (Farrakhova, 2022). Companies that effectively manage ESG aspects can enhance their reputation with investors, strengthening their position in the global market. Although comparing ESG scores across providers can be complex and inconsistent, these scores remain essential in investment decision-making (Global Sustainable Investment Alliance, 2021). Investors increasingly use ESG performance as a primary criterion for assessing a company's long-term potential and stability.

In Indonesia, implementing sustainability principles is governed by regulations that require companies to report their sustainability performance. One key regulation is the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, which mandates financial institutions, issuers, and public companies to prepare environmental, social, and governance sustainability reports (Shakil, 2021). These reports aim to increase corporate transparency toward stakeholders and ensure that companies are responsible in their operations. Through this reporting, companies can demonstrate their commitment to sustainability while strengthening their position in the eyes of investors who increasingly demand accountability.

Sustainability reporting not only serves as a transparency tool but also allows companies to showcase their responsibility in supporting ESG and the impact generated by their operations (Khan et al., 2019). By preparing sustainability reports, companies can illustrate the extent of their commitment to sustainability and how their business practices align with their sustainability goals (Mohammad & Wasiuzzaman, 2021; Sharma & Sathish, 2022). This also helps companies identify and manage risks related to sustainability issues while enhancing their long-term performance.

ESG criteria, which include environmental, social, and governance indicators, are used by investors and companies to assess sustainability risks, impacts, and opportunities (KPMG, 2021). For investors and lenders, ESG metrics are essential for evaluating corporate performance. Meanwhile, consumers and other stakeholders use ESG-based information to assess a company's social and environmental practices to make purchasing decisions (Mirova, 2021). The growing focus on ESG among companies, policymakers, and regulators in recent years reflects a shift in corporate orientation toward more sustainable business practices (Agnese et al., 2024a).

ESG reporting is essential in disclosing corporate social, environmental, and governance practices (N. Orazalin et al., 2023). However, beyond mere reporting obligations, the ESG activities implemented by companies have great potential to support sustainable growth, enhancing long-term profitability. One corporate governance mechanism that supports sustainability is the formation of ESG committees (Baraibar-Diez & D. Odriozola, 2019; Driss et al., 2024; López-Arceiz et al., 2022). According to the Sustainability Board Report (2021), over 70% of the world's 100 largest public companies have established ESG committees. These committees have proven effective in improving companies' sustainability performance (Velte, 2018).

Companies that voluntarily adopt sustainability policies are likelier to form separate board committees dedicated explicitly to stakeholder engagement and sustainability (Aguilera et al., 2021). ESG committees, which are subcommittees of the board of directors or executive management, are responsible for providing advice on social and environmental issues and assisting the board in handling the company's ESG practices (N. Orazalin, 2020). These committees also play a key role in designing, implementing, and evaluating sustainable development policies and ensuring the accuracy of information in the company's annual reports (Baraibar-Diez et al., 2019). The primary duties of ESG committees include managing sustainability-related risks and opportunities and ensuring the company meets its commitments to stakeholders (Guo & Yu, 2022).

However, research on the effectiveness of ESG committees remains debated. Studies by Forbes and Jenifer (2011) and Li et al. (2023) suggest that the relationship between these committees and SDG disclosures is seen as symbolic, merely reflecting a sustainability image without significantly impacting corporate performance. On the other hand, studies by Baraibar-

Diez & Odriozola (2019), Guo & Yu (2022), and Orazalin (2020) affirm the importance of ESG committees as significant governance instruments in improving corporate sustainability performance. These committees often involve stakeholders, including executives, board members, and external experts, in developing and implementing sustainability strategies (Burke et al., 2019; López-Arceiz et al., 2022).

ESG committees also signal to external stakeholders that the company is committed to sustainability and transparency while encouraging the reporting of SDG-related activities to demonstrate the company's progress and commitment (Velte & Stawinoga, 2020). Despite these committees' many advantages, research shows that ESG committees have a positive relationship with companies' sustainable growth rates. This is due to increased ESG disclosures and better ESG performance, which can positively impact the company's economic gains (Suttipun & Bomlai, 2019). Furthermore, ESG committees also play a role in addressing corporate governance needs to enhance sustainability agendas and strategies, which are key elements in shaping the future economic sustainability of companies.

LITERATUR REVIEW

Stakeholder Theory

Stakeholder theory as proposed by Donaldson & Davis, (1991) and Freeman, (1984) emphasizes that organizations should not only focus on the interests of shareholders but also actively manage and create value for various other stakeholders, such as employees, customers, business partners, governments, and the broader community. This approach aims to balance meeting the needs of all parties while minimizing risks and costs arising from an imbalance of interests among stakeholders. As a result, companies can maintain mutually beneficial and sustainable relationships across all operational lines. Stakeholder theory offers a different perspective from the traditional approach, which focuses solely on shareholders. In this view, businesses are part of a larger society with various stakeholders, such as employees, suppliers, and creditors, whose actions are influenced by the company. Freeman first introduced this theory in his monumental 1984 work, Strategic Management: A Stakeholder Perspective, which stressed that a company's primary objective is to meet its diverse stakeholders' needs (Javed et al., 2017). By fulfilling these needs, shareholder satisfaction can increase simultaneously (R. E. Freeman, 1984), while a positive corporate image can lead to improved financial performance.

ESG Commite Role

Gospodinov & Jamali (2018) noted that companies must have solid governance mechanisms to strengthen their sustainability orientation. Many companies have taken initiatives to enhance and align their governance structures according to stakeholder perspectives (Salviono & Gennari, 2019). Therefore, corporate governance is considered to play a critical role in driving sustainability (Helfaya et al., 2023). Recent empirical research also shows that the contribution of sustainability to financial performance (FP) is highly dependent on the company’s specific governance mechanisms. For example, board characteristics such as size and independence are key channels for strengthening the relationship between sustainability and corporate performance (Karim et al., 2020), indicating that effective governance mechanisms help companies maximize the benefits of sustainability.

In Indonesia, the obligation to report on sustainability has been regulated by several laws that increasingly encourage companies to take responsibility for their social, environmental, and governance impacts(Prisandani, 2023). One of the main regulations governing this is the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, which requires financial institutions, issuers, and public companies to submit sustainability reports as part of their annual reports. These reports must include information related to corporate social responsibility, environmental impact, and good corporate governance performance. This regulation has been gradually implemented since 2019 and aims to ensure that companies adopt more sustainable business practices.

Additionally, the Indonesia Stock Exchange (IDX) has regulations requiring issuers to disclose sustainability information related to social and environmental aspects, with a recommendation to use international standards such as the Global Reporting Initiative (GRI). Companies listed on the IDX are expected to report this information to attract investors who are concerned with socially and environmentally responsible business practices(Adhariani & du Toit, 2020). These regulations

also support transparency in sustainability reporting, making it easier for investors to evaluate a company's commitment to ESG (Environmental, Social, and Governance) issues.
In addition to the regulations issued by POJK and IDX, Law No. 40 of 2007 on Limited Liability Companies mandates that companies operating in sectors related to natural resources must implement and report their social and environmental responsibilities (CSR) in their annual reports(Tjahjadi et al., 2021). All these regulations demonstrate Indonesia's commitment to encouraging companies to not only focus on financial profits but also consider social and environmental impacts. Through the implementation of these regulations, companies are expected to be more transparent in managing and reporting their sustainability performance, which ultimately will provide long-term benefits for society and the environment.

ESG Committees and Sustainability Performance

Stakeholder Theory by Freeman, (2003) provides a fundamental framework for understanding the relationship between organizations and their stakeholders. This perspective asserts that companies must actively engage with stakeholder groups that provide essential resources for their survival (Deegan & Blomquist, 2006). In emerging markets, stakeholder collaboration plays an even more critical role, particularly in ensuring sustainable business practices. López-Arceiz et al. (2022) emphasize that multinational companies in these markets require stakeholder mediation in decision-making, which is often facilitated through the formation of ESG committees (Park et al., 2023). ESG committees function as strategic governance mechanisms that integrate stakeholder concerns into corporate decision-making, allowing firms to align their sustainability initiatives with broader societal expectations. However, achieving this alignment requires the development of adaptive governance structures that can effectively respond to external pressures (Hung, 2011).

ESG committees enhance corporate legitimacy by addressing stakeholder concerns and ensuring transparency in sustainability initiatives (Eberhardt-Toth, 2017). Companies with well-structured ESG committees tend to exhibit stronger governance, improved accountability, and greater alignment with best sustainability practices. These committees serve multiple functions, from advising the board through formal reports and informal exchanges (Radu & Smaili, 2022) to helping identify opportunities that balance sustainability and shareholder value. More importantly, ESG committees play a risk mitigation role, particularly in preventing irresponsible corporate behavior and enhancing long-term corporate resilience (Burke et al., 2019; Eccles et al., 2014). They are responsible for auditing sustainability efforts, ensuring regulatory compliance, and monitoring environmental activities (Fuente et al., 2017; Paine, 2014). By holding firms accountable, ESG committees benefit both external stakeholders and internal decision-makers, reinforcing a culture of sustainability within organizations (Burke et al., 2019).

The role of ESG committees becomes even more pronounced in high-risk industries, such as energy, mining, and manufacturing. These sectors face heightened scrutiny due to their significant environmental and social impacts, requiring firms to implement more rigorous governance mechanisms (Ludwig & Sassen, 2022). Companies in these industries are subject to stricter regulatory oversight, higher reputational risks, and greater stakeholder pressure. Therefore, the presence of an ESG committee can be particularly instrumental in navigating these challenges, ensuring regulatory compliance, and proactively managing ESG-related risks. In such industries, ESG committees help develop structured sustainability strategies that address sector-specific concerns, reinforcing the firm's commitment to responsible business practices.

Beyond industry dynamics, economic crises further highlight the necessity of strong ESG governance. The COVID-19 pandemic exposed vulnerabilities in corporate governance structures, forcing companies to balance financial stability with sustainability commitments. Firms with well-established ESG committees demonstrated greater resilience, as they were able to integrate sustainability considerations into crisis management and strategic decision-making (Bose et al., 2022). ESG committees played a crucial role in helping firms navigate market volatility, regulatory uncertainties, and heightened stakeholder expectations during the crisis. Their involvement ensured that companies remained accountable to their sustainability goals while adapting to external disruptions. This suggests that the effectiveness of ESG committees in driving sustainability performance is amplified during economic uncertainty, further reinforcing their role as a stabilizing governance mechanism.

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Thus, ESG committees serve as a key governance tool that strengthens corporate sustainability, particularly in high-risk industries and during economic crises. Their role extends beyond compliance to shaping long-term sustainability strategies, mitigating risks, and maintaining corporate legitimacy in an evolving business environment.

H1: ESG Committees positively affect Sustainability Performance.

METHOD

Data and Sample

This study examines a sample of 907 non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022. Financial companies were excluded due to their distinct regulatory frameworks, governance structures, and financial systems. The data were obtained from secondary sources and manually collected from annual reports, sustainability reports, and the OSIRIS database for financial information. Further details on sample selection are provided in Table 1A. This research data also categorizes samples based on SIC industry codes.

The 2017–2022 period was chosen to capture recent trends in sustainability reporting in Indonesia, including the early implementation of various sustainability policies and the impact of the COVID-19 pandemic, which reshaped corporate priorities and sustainability initiatives. Indonesia was selected as the research setting due to its high exposure to ESG risks, particularly in mining, energy, and agribusiness—sectors with significant environmental and social impacts. Key challenges, such as high carbon emissions, deforestation, and social issues, contribute to these risks. However, Indonesian companies have made notable progress in managing ESG risks, with management scores exceeding the global average. This improvement is largely driven by stricter government regulations and growing pressure from global investors, fostering a more serious commitment to sustainability practices.

Table 1A Data Distribution

Panel A: Sample selection for firm-year observations			Firm-year
Number of firm-years with available information			1391
Less:			
Financial Industry (SIC 6)			122
The firm-years with missing data			362
Total observations			
Panel B: Yearly distribution			907
Year	Req	%	Cum
2017	39	4,3	4,3
2018	53	5,8	10,1
2019	57	6,3	16,4
2020	72	7,9	24,3
2021	179	19,8	44,1
2022	507	55,9	
Total	907	100	
Panel C: Industry distribution			
Industries	Req	%	Cum
0 (Agriculture)	56	6,2	6,2
1 (Mining)	180	19,8	26
2 (Construction)	220	24,3	50,3
3 (Manufacture)	114	12,5	62,8
4 (Transportation)	139	15,3	78,1
5 (Wholesale)	91	10	88,1
7 (Services)	72	7,9	96
8 (Hospotality)	35	4	
Total	907	100	

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Variable Operationalizations

This study employs eight variables, consisting of one dependent variable, one independent variable as the research focus, and six control variables. Sustainability performance (ESG) is defined as the disclosure of sustainability indicators in annual reports and sustainability reports, covering economic, environmental, and social aspects as outlined in the respective GRI guidelines. Specifically, GRI G3 includes 123 items, GRI G3.1 contains 126 items, and GRI G4 comprises 150 items. Unlike other frameworks, the GRI standards provide two reporting options: the core option and the comprehensive option. The number of items disclosed under the core option varies among companies, as they can select the items most relevant to their conditions. Meanwhile, the comprehensive option includes 147 items. This study assumes that companies use the applicable GRI guidelines during the observation year if they do not explicitly specify which GRI series they follow. To measure sustainability performance, this study uses the corporate sustainability disclosure index. This index assigns a score of 1 for each item disclosed in the sustainability report or sustainability statement and a score of 0 if the item is not disclosed.

The independent variable in this study is the sustainability committee (SC), which refers to a group of members with in-depth understanding, expertise, and experience in sustainability. The existence of this committee aims to ensure that sustainability principles are effectively integrated into corporate strategy and operations. This variable is assigned a value of 1 if the company has a formal and structured sustainability committee and zero if no such committee exists.

Table 1. Variable Operationalizations

Variables	Operationalizations	Sources
Dependent variable		
Sustainability Performance (SP)	The disclosure of sustainability indicators in the annual and sustainability reports, which include economic, environmental, and social performance indicators divided by the number of items that must be disclosed according to the GRI standard guidelines.	Sustainability Report
Independent variable		
Sustainability Committee (SC)	A dummy variable equal to 1 if firm have an ESG committee and 0 otherwise.	Sustainability Report, Annual Report
Control variables		
BIG4	Dummy variable, 1 for a firm appoints a Big 4 auditor, 0 otherwise.	Annual Report
Firm Size (FSIZE)	The natural logarithm of the total assets at the end of the year.	OSIRIS
Return on Assets (ROA)	The ratio of net income to total assets.	OSIRIS
Price-to-Book Value (PBV)	Market Price per Share / Book Value per Share	OSIRIS
Leverage (LEV)	Total liabilities divided by total assets	OSIRIS
Board size (BSIZE)	Total member of firm's board	OSIRIS
This Table outlines all variables that were used in the primary analysis of this study. Additional variables that are used in robustness tests and additional analysis will be discussed in each respective section.		

Empirical Model

This study utilizes OLS regression with a cluster approach to mitigate heteroscedasticity issues. Additionally, two fixed effects—year and industry—are included to strengthen the robustness of the analysis. The empirical model for hypothesis testing is as follows:

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$ESG\ i.t = \beta0 + \beta1SC\ i.t + \beta2FBIG4i.t + \beta3SIZEi.t + \beta4ROAi.t + \beta5PBVi.t + \beta6\ LEV\ i.t + \beta7BSIZEi.t + YEAR\ FE + INDUSTRY\ FE + \varepsilon_{it}$

RESULT

Descriptive Statistics Test Results

Statistic Descriptive

Table 2. Descriptive Statistics

	N	Mean	Standard Deviation	Median	Minimum	Maximum
ESG	907	0.437	0.189	0.417	0.000	1.000
SC	907	0.152	0.359	0.000	0.000	1.000
BIG4	907	0.378	0.485	0.000	0.000	1.000
FSIZE	907	27.013	3.854	28.078	17.897	31.949
PBV	907	2.464	4.296	1.259	-2.849	29.394
ROA	907	0.082	0.121	0.069	-0.421	0.573
LEV	907	0.646	3.677	0.460	0.000	101.866
BSIZE	907	8.913	3.668	8.000	4.000	28.000

This table presents the descriptive statistics for the sample 907 observations
Source: Authors own work

Table 2 presents the descriptive statistics for the study sample. The ESG variable has a mean of 0.437, with some firms fully disclosing all recommended ESG items (maximum = 1), while others provide no disclosure (minimum = 0). This suggests a relatively high ESG reporting level among Indonesian listed firms compared to previous studies in Australia (Yakar Pritchard & Çalıyurt, 2021)and international datasets (Al-Hadi et al., 2019).
For control variables, firm size (FSIZE) has a mean of 27.013, indicating that firms in the sample are relatively large. PBV shows high variation (mean = 2.464, range = -2.849 to 29.394), reflecting differences in market valuation. ROA averages 0.082 (8.2%), suggesting moderate profitability, while LEV exhibits significant dispersion (mean = 0.646, max = 101.866), indicating extreme leverage levels in some firms. Board size (BSIZE) varies from 4 to 28, with an average of 8.913, reflecting diverse governance structures.

Univariate Analyses

This study includes a Pearson correlation analysis to examine relationships between key variables. Table 3 presents the correlation results, providing insights into the relationships between ESG score, sustainability committee (SC), return on assets (ROA), firm size (FSIZE), affiliation with Big 4 audit firms (BIG4), price-to-book value (PBV), leverage (LEV), and board size (BSIZE). There is a statistically significant positive relationship between ESG score and the presence of a sustainability committee (SC) (coefficient = 0.267, $p < 0.001$), indicating that companies with a dedicated sustainability committee tend to have higher ESG scores.

Table 3. Pearson Correlation

	ESG	SC	BIG4	FSIZE
ESG	1.000			
SC	0.267***	1.000		
	(0.000)			
BIG4	0.276***	0.100***	1.000	
	(0.000)	(0.003)		
FSIZE	0.034	-0.005	0.128***	1.000
	(0.307)	(0.888)	(0.000)	
PBV	-0.056*	0.017	0.030	0.083**
	(0.093)	(0.617)	(0.368)	(0.013)
ROA	0.146***	0.106***	0.252***	-0.026

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	(0.000)	(0.001)	(0.000)	(0.437)
LEV	-0.031	0.031	-0.035	0.039
	(0.350)	(0.353)	(0.286)	(0.242)
BSIZE	0.294***	0.224***	0.392***	0.224***
	(0.000)	(0.000)	(0.000)	(0.000)

	PBV	ROA	LEV	BSIZE
PBV	1.000			
ROA	0.230***	1.000		
	(0.000)			
LEV	0.021	-0.184***	1.000	
	(0.529)	(0.000)		
BSIZE	0.021	0.138***	0.066**	1.000
	(0.527)	(0.000)	(0.048)	

Note: This table reports correlation analysis. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Source: Authors own work

Similarly, ESG score positively correlates with Big Four affiliation (coefficient = 0.276, $p < 0.001$), suggesting that firms audited by Big 4 tend to exhibit better ESG disclosure. A positive correlation is also observed between ESG score and ROA (coefficient = 0.146, $p < 0.001$), implying that more profitable firms tend to have better ESG disclosure. However, ESG and firm size (FSIZE) are not significantly correlated (coefficient = 0.034, $p = 0.307$), indicating that firm size may not directly influence ESG disclosure in this sample. Regarding corporate governance variables, SC is positively correlated with BSIZE (coefficient = 0.224, $p < 0.001$) and BIG4 (coefficient = 0.100, $p < 0.01$), suggesting that firms with larger boards and those audited by Big 4 are more likely to establish a sustainability committee. BIG4 also has a significant positive correlation with firm size (coefficient = 0.128, $p < 0.001$), indicating that larger firms tend to be audited by Big 4. Regarding financial characteristics, PBV positively correlates with ROA (coefficient = 0.230, $p < 0.001$), reflecting that firms with higher profitability generally have better market valuation. Meanwhile, ROA and LEV have a negative correlation (coefficient = -0.184, $p < 0.001$), suggesting that highly leveraged firms tend to be less profitable. These correlations collectively highlight the interplay between corporate governance, financial performance, and ESG disclosure, suggesting that firms with stronger governance mechanisms and better economic health tend to engage more actively in sustainability initiatives.

Table 4. T-test Based on Sustainability Committee

	MEAN			
	SC=0	SC=1	Coef	t-value
ESG	0.416	0.555	-0.139***	-8.319
BIG4	0.358	0.493	-0.135***	-3.026
FSIZE	27.024	26.974	0.050	0.140
PBV	2.434	2.633	-0.199	-0.500
ROA	0.078	0.113	-0.035***	-3.210
LEV	0.481	0.506	-0.025	-0.929
BSIZE	8.545	10.761	-2.216***	-6.924

Note: This table reports correlation analysis. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Source: Authors own work

Table 4 compares firms with (SC = 1) and without (SC = 0) a sustainability committee. Firms with a sustainability committee have significantly higher ESG scores (0.555 vs. 0.416, $p < 0.001$), indicating greater ESG disclosure. They are also more likely to be audited by a Big Four

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firm (0.493 vs. 0.358, p < 0.001) and have higher profitability (ROA = 0.113 vs. 0.078, p < 0.001). This suggests that firms with a sustainability committee exhibit stronger ESG performance, better financial outcomes, and a higher likelihood of affiliation with major audit firms.

Board size is also significantly more prominent in firms with a sustainability committee (10.761 vs. 8.545, p < 0.001), reinforcing the role of governance structure in sustainability initiatives. However, firm size, leverage, and price-to-book value show no significant differences. These findings suggest that ESG practices, external governance, and profitability are key determinants of sustainability committee presence. The existence of a sustainability committee, therefore, has meaningful implications for corporate characteristics and performance, further distinguishing firms that prioritize ESG governance from those that do not.

Main Regression

Table 5. Main Regression

	(1)	(2)	(3)
	ESG	ESG	ESG
SC	0.139***	0.107***	0.098***
	(7.698)	(6.173)	(5.716)
BIG4		0.066***	0.071***
		(4.954)	(5.172)
FSIZE		-0.001	-0.000
		(-0.533)	(-0.262)
PBV		-0.004***	-0.004***
		(-2.975)	(-3.075)
ROA		0.112**	0.087
		(2.051)	(1.596)
LEV		-0.018	-0.018
		(-0.972)	(-0.989)
BSIZE		0.009***	0.008***
		(4.650)	(3.641)
_cons	0.416***	0.343***	0.303***
	(64.812)	(7.965)	(5.158)
Year FE	No	No	Yes
Industry FE	No	No	Yes
r2	0.071	0.169	0.221
r2_a	0.070	0.163	0.204
N	907	907	907

Note: This table reports correlation analysis. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Source: Authors own work

The regression results in Table 5 confirm that the sustainability committee (SC) positively and significantly influences ESG performance across all models. In Model 1, SC has a coefficient of 0.139 (t = 7.698, p < 0.001), which remains significant in Model 2 (0.107, t = 6.173, p < 0.001) and Model 3 (0.098, t = 5.716, p < 0.001) after controlling for industry and year fixed effects.

Robbustnest Test

Coarsened Exact Matching (CEM)

Based on Table 6, the Coarsened Exact Matching (CEM) analysis was conducted to address potential endogeneity issues in this study, such as reverse causality, self-selection bias, and omitted variable bias. This method ensures that firms with and without a sustainability committee (SC) are more balanced in comparison by minimizing characteristic differences that could influence the outcomes.

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Table 6. Coarsened Exact Matching (CEM)

	SC=1	SC=0
All	**769**	**138**
Matched	**738**	**137**
Unmatched	**31**	**1**

	(1)
	ESG
SC	0.100***
	(5.810)
BIG4	0.073***
	(5.041)
FSIZE	-0.001
	(-0.369)
PBV	-0.005***
	(-2.798)
ROA	0.097
	(1.635)
LEV	-0.008
	(-0.354)
BSIZE	0.008***
	(3.694)
_cons	0.297***
	(4.971)
Year FE	Yes
Industry FE	Yes
r2	0.220
r2_a	0.203
N	875

The results in Panel A of the table indicate that out of 769 firms with an SC, 738 were successfully matched with firms without an SC, while only 31 remained unmatched. For firms without an SC (SC=0), 137 were matched with those with an SC, with only one firm left unmatched. This demonstrates the effectiveness of the CEM method in producing a more balanced sample.
Panel B of the table presents the regression results after applying CEM. The SC variable remains positively and significantly associated with ESG ($\beta = 0.100$, $t = 5.810$, $p < 0.01$), indicating that a sustainability committee substantially enhances a firm's ESG performance. Additionally, the control variables BIG4 ($\beta = 0.073$, $t = 5.041$, $p < 0.01$) and BSIZE ($\beta = 0.008$, $t = 3.694$, $p < 0.01$) also have a positive and significant influence on ESG. In contrast, PBV shows a negative and significant effect ($\beta = -0.005$, $t = -2.798$, $p < 0.01$), meaning that firms with a higher price-to-book ratio tend to have lower ESG scores.Including Fixed Effects for year and industry ensures that the regression results account for external factors that are not directly observable. The R-squared value ($r^2 = 0.220$) and Adjusted R-squared ($r^2\_a = 0.203$) indicate that the model has a moderate predictive ability for ESG. Overall, these results suggest that the analysis using the CEM method reinforces the main findings of this study, confirming that the presence of a sustainability committee positively impacts a firm's ESG performance.

Additional Analyses

Table 7. Additional Analyses ESG Classification

	(1)	(2)	(3)
	Environment	Social	Governance
SC	0.100***	0.100***	0.085**
	(4.868)	(5.063)	(2.430)
BIG4	0.060***	0.073***	0.113***
	(3.707)	(4.490)	(3.500)

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FSIZE	-0.002	0.000	0.004
	(-1.159)	(0.126)	(1.130)
PBV	-0.005***	-0.004***	0.002
	(-3.287)	(-3.062)	(0.736)
ROA	0.113*	0.059	0.063
	(1.684)	(0.958)	(0.615)
LEV	-0.030	-0.026	0.039
	(-1.349)	(-0.998)	(1.000)
BSIZE	0.009***	0.011***	0.002
	(3.811)	(4.335)	(0.412)
_cons	0.291***	0.315***	0.490**
	(4.196)	(4.734)	(2.196)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
r2	0.158	0.267	0.096
r2_a	0.140	0.252	0.077
N	907	907	907

Table 7 presents additional analyses that classify ESG performance into three dimensions: Environment, Social, and Governance. The results show that the presence of a sustainability committee (SC) has a substantial and significant positive effect on both Environmental and Social performance, with coefficients of 0.100 ($t = 4.868$, $p < 0.01$) for Environment and 0.100 ($t = 5.063$, $p < 0.01$) for Social. Meanwhile, its effect on Governance remains positive but slightly weaker, with a coefficient of 0.085 ($t = 2.430$, $p < 0.05$). This suggests that while sustainability committees contribute to governance structures, their influence is lower than the environmental and social aspects.

The model's explanatory power varies across ESG dimensions, with Social having the highest R-squared value ($r^2 = 0.267$), followed by Environment ($r^2 = 0.158$), while Governance has the lowest ($r^2 = 0.096$). This indicates that governance-related factors may be influenced by other determinants not captured in the model. The weaker effect of SC on Governance suggests that governance structures may be more rigid and shaped by regulatory frameworks rather than voluntary sustainability initiatives.

Table 8. Additional Analyses Sensitive Industry

	(1)	(2)
	Non-Sensitive Industry	Sensitive Industry
SC	0.082***	0.134***
	(4.274)	(4.084)
BIG4	0.036**	0.152***
	(2.525)	(5.238)
FSIZE	0.003	0.002
	(1.158)	(0.529)
PBV	-0.002	-0.006**
	(-1.013)	(-2.380)
ROA	0.153**	-0.079
	(2.263)	(-0.892)
LEV	-0.002	-0.046
	(-0.122)	(-0.959)
BSIZE	0.006**	0.011***
	(2.564)	(2.681)
_cons	0.262***	0.163
	(3.912)	(1.498)
Year FE	Yes	Yes
Industry FE	Yes	Yes
r2	0.217	0.298

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r2_a	0.194	0.252
N	663	244

Table 8 presents additional analyses that examine the impact of sustainability committees (SC) across different industry types: non-sensitive industries (Column 1) and sensitive industries (Column 2). The results indicate that SC has a positive and significant effect on ESG performance in both industry groups, with a more substantial impact in sensitive industries ($\beta = 0.134$, $t = 4.084$, $p < 0.01$) compared to non-sensitive industries ($\beta = 0.082$, $t = 4.274$, $p < 0.01$). This suggests that sustainability committees are more crucial in sectors with higher environmental and social risks, likely due to greater regulatory scrutiny and stakeholder pressure.

The model's explanatory power, as indicated by R-squared values, is higher for sensitive industries ($r^2 = 0.298$) than for non-sensitive industries ($r^2 = 0.217$), suggesting that the factors included in the model more strongly influence ESG performance in sensitive sectors. The adjusted R-squared values ($r^2\_a = 0.252$ for sensitive industries and $r^2\_a = 0.194$ for non-sensitive industries) further confirm that the model explains more ESG variability in sensitive sectors.

Table 9. Additional Analyses COVID-19

	(1)	(2)
	Non COVID-19	COVID-19
SC	0.026	0.111***
	(0.80)	(5.86)
BIG4	0.050	0.078***
	(1.32)	(5.19)
FSIZE	0.002	-0.001
	(0.59)	(-0.42)
PBV	-0.003	-0.003**
	(-1.14)	(-2.39)
ROA	-0.029	0.106*
	(-0.14)	(1.86)
LEV	0.045	-0.029
	(0.83)	(-1.60)
BSIZE	-0.002	0.010***
	(-0.54)	(4.00)
_cons	0.301***	0.406***
	(2.66)	(6.27)
Year FE	Yes	Yes
Industry FE	Yes	Yes
F	57.382	14.816
r2_a	0.059	0.235
N	149	758

Table 9 examines the role of sustainability committees (SC) in ESG performance before (Non-COVID-19, Column 1) and during the COVID-19 period (COVID-19, Column 2). The findings reveal that SC had no significant impact on ESG performance before the pandemic ($\beta = 0.026$, $t = 0.80$), indicating that, in stable economic conditions, the existence of sustainability committees alone did not drive ESG outcomes meaningfully. However, during the COVID-19 crisis, SC's effect became both statistically significant and practically relevant ($\beta = 0.111$, $t = 5.86$, $p < 0.01$). Although the effect size of 0.111 might appear moderate, its practical implications are notable. A 0.111 increase in ESG performance per unit increase in SC presence suggests that firms with stronger sustainability governance structures exhibited improved ESG performance more substantially during crises. This reinforces the idea that sustainability committees play an increasingly strategic role when external shocks—such as a global pandemic—intensify corporate accountability and stakeholder scrutiny. The adjusted R-squared (r^2_a), which measures the explanatory power of the model, also increased from 0.059 before COVID-19 to 0.235 during the pandemic, suggesting that ESG performance was more strongly influenced by the examined factors under crisis conditions. Additionally, the larger sample size during COVID-19 (N = 758) compared

to the pre-pandemic period (N = 149) indicates a heightened corporate engagement in sustainability-related activities. This aligns with the notion that firms facing external shocks tend to accelerate their sustainability commitments to maintain legitimacy and long-term viability.

However, unlike SC, PBV (Price-to-Book Value) exhibited a significantly negative relationship with ESG performance during COVID-19 ($\beta = -0.003$, $p < 0.05$). While the absolute magnitude of the coefficient is small, its persistent negative relationship suggests that higher-PBV firms systematically deprioritized ESG initiatives. This trend likely stemmed from increased market volatility, which pressured high-PBV companies to focus on operational efficiency and short-term financial stability rather than sustainability investments (Harjoto et al., 2021)

DISCUSSION

The sustainability committee (SC) positively and significantly influences ESG performance across all models. In Model 1, SC has a coefficient of 0.139 ($t = 7.698$, $p < 0.001$), which remains significant in Model 2 (0.107, $t = 6.173$, $p < 0.001$) and Model 3 (0.098, $t = 5.716$, $p < 0.001$) after controlling for industry and year fixed effects. These findings support the hypothesis that firms with a sustainability committee tend to engage in better ESG practices. This is particularly relevant in Indonesia's regulatory context, where Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 mandates public companies and financial institutions to report their sustainability initiatives. The presence of an ESG committee helps firms comply with this regulation while strengthening corporate strategies to meet increasing stakeholder expectations on sustainability. These results align with Orazalin et al. (2024), who found that ESG committees play a crucial role in climate change efforts by improving carbon performance. Similarly, Abdullah A et al. (2023) highlighted that firms establish ESG committees to align with corporate ESG targets and support the Sustainable Development Goals (SDGs).

Overall, this study reinforces that ESG committees significantly enhance corporate sustainability performance. Companies with these committees are better equipped to meet regulatory requirements and achieve long-term sustainability objectives. In Indonesia, these findings highlight the importance of ESG committees as a governance mechanism that enhances transparency and ESG-related performance.

These findings reinforce the conclusion that sustainability committees significantly enhance ESG performance, particularly in the Environmental and Social domains. However, the weaker effect on Governance implies that additional mechanisms, such as more vigorous regulatory enforcement and greater board independence(Z. Li et al., 2023), may be needed to strengthen governance practices further. These insights provide a deeper understanding of the role of sustainability governance structures in shaping firm-level ESG performance (Abdullah et al., 2023).

In summary, while the practical effect of SC on ESG performance is meaningful and grows in importance during uncertainty, the effect of PBV though statistically significantis relatively small in magnitude, implying that the financial market's valuation of a firm does not drastically dictate its ESG engagement(Bose et al., 2022). These findings underscore the adaptive function of sustainability committees, which serve as routine governance mechanisms in stable conditions and as critical strategic structures that help firms manage risks and uphold ESG commitments during crises (Baraibar-Diez & D. Odriozola, 2019).

From a policy perspective, regulators need to strengthen the role of SCs by mandating their existence, establishing clear role standards, and encouraging transparent ESG reporting. Fiscal incentives and access to green financing can be provided to companies with active SCs that contribute to sustainability efforts. Moreover, ESG education for companies and investors is crucial to ensure that sustainability is understood as a long-term strategy rather than just a compliance obligation. With these measures, SCs can serve as an effective governance mechanism in promoting sustainable practices while enhancing business resilience and economic stability.

Despite its important contributions, this study has several limitations. First, the sample is limited to non-financial firms listed on the Indonesia Stock Exchange (IDX), making the findings less generalizable to financial institutions and privately held companies. Second, ESG performance is assessed based on disclosure scores, which may not fully reflect the actual effectiveness of sustainability efforts. Third, variations in SC structures and operational mechanisms across firms are not accounted for, which could influence their sustainability impact.

Future research could explore several areas to deepen the understanding of SCs' roles. Expanding the study to include financial institutions and private companies would provide a broader perspective on SC effectiveness across different organizational structures. Additionally, qualitative methods such as interviews and case studies could offer deeper insights into how SCs drive sustainability beyond formal disclosures. Future studies should also assess the long-term financial and strategic benefits of SCs, as well as their contribution to corporate value and competitive advantage. Lastly, cross-country comparisons could provide a more comprehensive understanding of how different regulatory environments and governance models influence SC effectiveness. Overall, this study underscores that SCs serve as an essential governance mechanism in improving corporate sustainability. Companies are encouraged to establish and strengthen SCs to meet evolving stakeholder expectations and regulatory demands. By implementing effective SCs, firms can drive long-term sustainability, enhance business resilience, and create lasting value for all stakeholders.

CONCLUSION

This study investigates the influence of sustainability committees (SC) on corporate ESG performance in Indonesia. The findings indicate that SCs contribute positively and significantly to ESG outcomes, particularly in environmental and social aspects. Firms with well-structured SCs demonstrate increased transparency and accountability, aligning their sustainability strategies with global standards and investor expectations. Additionally, SCs play a more significant role in high-risk industries and during crises such as the COVID-19 pandemic, highlighting their importance in enhancing corporate resilience and stakeholder trust. Therefore, corporate management must ensure that SCs function not merely as regulatory compliance tools but as integral components of broader business strategies by strengthening their role in decision-making, ESG reporting transparency, and stakeholder engagement.

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