

# The Role Of Board Composition On ESG Disclosure: An Analytical Study In Indonesia

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## ABSTRACT

Market capitalization and Environmental, Social, and Governance (ESG) disclosure have become increasingly interconnected in contemporary corporate governance, yet the mechanisms through which board composition influences ESG transparency in emerging markets remain insufficiently explored. This study examines the relationship between board characteristics and ESG disclosure quality among Indonesian listed companies, specifically analyzing how these relationships manifest across different market capitalization thresholds. Using panel data regression analysis of 256 observations from 64 Indonesian Stock Exchange companies over 2019-2022, this research investigates the effects of board size, board meetings, female board representation, audit committee size, nomination and remuneration committee size, and board compensation on ESG disclosure practices. The study addresses a critical research gap by providing empirical evidence from Indonesia's underrepresented emerging market context, where corporate governance structures and disclosure practices differ markedly from Western frameworks. Results reveal that market capitalization demonstrates no significant impact on ESG disclosure quality, contradicting conventional expectations. Board size and female director representation exhibit unexpected negative relationships with ESG disclosure, suggesting coordination challenges and potential tokenistic appointments within Indonesian contexts. Conversely, audit committee size, nomination and remuneration committee size, and board compensation demonstrate robust positive associations with ESG transparency, highlighting their critical roles in enhancing oversight capacity and aligning managerial incentives. This research contributes theoretically by challenging universal governance prescriptions and demonstrating contextual variations in board mechanism effectiveness within emerging economies. Practically, findings suggest Indonesian corporations should prioritize committee-based governance structures and performance-linked compensation over numerical board expansion. Policymakers should emphasize substantive governance effectiveness through director training and accountability mechanisms rather than mandating demographic diversity targets alone. Future research should pursue longitudinal analysis and qualitative investigations to illuminate temporal dynamics and cultural mechanisms underlying governance-ESG relationships in Southeast Asian markets.

**Keywords:** Audit Committee, Board Composition, ESG Disclosure, Market Capitalization, Nomination Committee

## INTRODUCTION

Market capitalization serves as a fundamental indicator reflecting a company's total value, offering critical insights into its size, stability, and competitive positioning within financial markets. Large-capitalization companies typically demonstrate greater establishment, command higher investor confidence, and maintain easier access to financial resources, whereas small-capitalization firms exhibit increased vulnerability to market volatility and operational challenges (Prayoga, Oktavia, Joko Prasetyo, & Kusumawardhani, 2024). In the contemporary business landscape,



market capitalization has become intrinsically linked to Environmental, Social, and Governance (ESG) implementation, as companies demonstrating transparent ESG practices increasingly attract investors who prioritize not only financial returns but also the broader social and environmental impacts of their investment portfolios. According to (Denys Vochenko, 2023), ESG possesses substantial potential to influence corporate financial performance and market valuation, functioning as a critical criterion for investment decision-making alongside traditional financial metrics. Effective ESG implementation enhances market capitalization stability through positive reputation building, thereby stimulating market interest in corporate shares. Conversely, failure to meet ESG expectations precipitates reputational risks that can trigger market capitalization decline, establishing an intricate interdependence between market capitalization and ESG implementation as strategic determinants of corporate sustainability and market attractiveness in the modern era.

ESG disclosure has emerged as an increasingly vital imperative for financial institutions, evolving rapidly from ethical considerations to economic necessities due to its significant and direct effects on economic financial stability (Buallay, 2019). Through ESG principle application, investors can systematically identify and circumvent investments in companies whose operations endanger environmental integrity, public safety, and engage in unethical practices (Şerban, Mihaiu, & Ţichindelean, 2022). (Hill, 2020) posits that ESG principles constitute critical factors influencing corporate stock investments and market capitalization growth. Consequently, companies reporting ESG practices positively impact market capitalization comparisons within specific ranges, providing valuable stakeholder insights (Freeman & McVea, 2005). From this perspective, board composition emerges as a pivotal mechanism in ESG implementation effectiveness. A diverse board possessing relevant skills and experience can catalyze the adoption of more robust ESG practices. Agency theory establishes that board independence and diversity enable more effective governance mechanisms and oversight of internal controls (Jensen & Meckling, 1976). In today's increasingly complex business environment, companies face expectations extending beyond financial profit generation to encompass accountability for environmental and social impacts while maintaining exemplary governance practices (Güngör & Şeker, 2022). Effective board oversight necessitates routine board meetings to systematically monitor management performance and ensure strategic alignment with ESG objectives (Güngör & Şeker, 2022).

Empirical evidence across various countries and industries demonstrates relationships between board characteristics and ESG performance, though findings exhibit considerable variation attributable to divergent social and economic contexts. Some studies report positive correlations between board diversity and ESG disclosure (Birindelli, Iannuzzi, & Savioli, 2019; Gurol & Lagasio, 2022), yet the mechanisms through which board composition influences ESG transparency, particularly in emerging markets, remain insufficiently explored. This research addresses several critical questions: How does board composition influence ESG disclosure practices among Indonesian companies? Furthermore, how does this relationship manifest differently across market capitalization ranges, specifically comparing companies valued above and below IDR 20 trillion? These questions emerge from observations suggesting that board composition and ESG disclosure might differentially influence market capitalization in investor decision-making processes. The primary objective of this study is to examine the relationship between board characteristics and ESG disclosure quality while analyzing how market capitalization moderates this relationship across different valuation thresholds in the Indonesian context.

Despite growing global interest in ESG research, a significant *research gap* persists regarding the Indonesian market's unique characteristics. Existing literature predominantly focuses on developed markets, leaving emerging economies like Indonesia underrepresented despite their substantial economic growth and increasing capital market sophistication. Specifically, the literature lacks comprehensive analysis of how board composition influences ESG disclosure across different market capitalization segments in Indonesia, where corporate governance structures and disclosure practices differ markedly from Western contexts. This gap is particularly pronounced given Indonesia's distinctive regulatory environment, cultural factors influencing

corporate governance, and the varying resource capacities between large and small-capitalization companies in implementing comprehensive ESG reporting frameworks.

The *novelty* of this research lies in its multi-dimensional approach to examining board composition effects on ESG disclosure within the Indonesian context, specifically incorporating market capitalization as a comparative analytical dimension. Unlike previous studies that examine board characteristics and ESG disclosure in isolation, this research introduces market capitalization thresholds (above and below IDR 20 trillion) as a critical moderating factor, recognizing that resource availability and stakeholder pressures may vary substantially across different firm sizes. This approach provides nuanced insights into how board effectiveness in promoting ESG transparency may differ based on company scale. Theoretically, this research enriches ESG literature by integrating board characteristics as variables often marginalized in emerging market studies, bridging gaps in understanding mechanisms for sustaining environmental preservation, enhancing social responsibility, and strengthening corporate governance. Practically, this study offers valuable implications for policymakers, investors, and corporate boards in Indonesia by providing empirical evidence that can inform governance reforms and investment strategies. Ultimately, this research contributes to the existing knowledge body by offering empirical evidence from an underexplored geographical and economic context, thereby adding valuable perspectives to global discourse on board characteristics and ESG disclosure practices.

## LITERATUR REVIEW

ESG disclosure in Indonesia is still in its development phase, although an increasing number of companies are recognizing the importance of transparency regarding environmental, social, and governance issues. Nevertheless, the main challenge faced is the consistency and transparency in the implementation of ESG disclosures. The Indonesian government has taken important steps in this regard, such as issuing ESG reporting guidelines by the Financial Services Authority (OJK) and encouraging the Ministry of Environment and Forestry (KLHK) to disclose environmental information through its programs. Starting in 2025, the mandatory sustainability reporting requirement will be implemented comprehensively, which is expected to encourage companies to be more transparent and accountable regarding ESG issues. This could also have a positive impact on a company's market capitalization, as effective ESG disclosure can improve the company's image and attract more investors.

Greater efforts are needed to raise awareness and understanding of the importance of ESG disclosure in Indonesia. Enhanced cooperation between the government, companies, investors, and society could encourage the adoption of more widespread and consistent ESG disclosure practices in Indonesia.

### Agency Theory and Legitimacy theory

Agency theory discusses the relationship between shareholders and company management (Jensen & Meckling, 1976). Agency theory can be applied to explain the research objective in order to minimize conflicts of interest by providing investors (the group) with a comprehensive way to acquire a company. Therefore, many researchers have analyzed the role of board composition in ESG with the aim of improving the quantity and quality of sustainability disclosures in companies.

Legitimacy theory assumes that companies must act in accordance with social values and norms to maintain their current existence (Dowling & Pfeffer, 1975). According to (Güngör & Şeker, 2022), companies are believed to face significant social and political pressures to conduct their activities in a socially acceptable manner and to provide information in certain areas. ESG disclosures can be used as signals that help the public understand a company's commitment to environmental, social, and governance sustainability. By publishing ESG information, companies can enhance their image and reputation.

### The Effect of Market Capitalization on ESG Disclosure

In recent years, there has been an increased focus on ESG criteria in investment decision-making (Christensen et al., 2020). This aligns with global trends showing that investors are

increasingly considering the social and environmental impact of their investments. According to (Şerban et al., 2022), the market capitalization of a company is influenced by the application of ESG investment principles. Investors who select stocks based on ESG principles can affect the stock price and market capitalization of that company. On the other hand, poor ESG performance can make investors hesitant, triggering a decline in stock prices (Rizqi Amalia & Kusuma, 2023). Furthermore, legitimacy theory explains that companies must maintain a positive image in the eyes of the public to sustain their existence. This can be achieved through improved ESG performance, including transparency, accountability, and ethical decision-making in management (Prayoga et al., 2024).

By reporting better ESG performance, companies can build a positive reputation and gain investors' trust, which ultimately contributes to the sustainability of their financial performance (Aziz, 2024). Additionally, large market capitalization reflects a company's financial capacity to invest in sustainability initiatives. Companies with large market capitalization are also more likely to meet stakeholder demands regarding ESG practices, as they have greater access to the resources needed (Rosa, Putri, & Pangaribuan, 2024). On the other hand, companies with a market capitalization under 20 trillion may face limitations in resources and access to the necessary information to improve their ESG performance (Shanaev & Ghimire, 2022). They may not have the capacity to invest in the same sustainability initiatives or may not face as much pressure from stakeholders to meet higher ESG standards (Galema & Gerritsen, 2025). Therefore, differences in market capitalization can be a significant indicator in determining a company's level of ESG performance (von Wallis & Klein, 2015).

Companies with market capitalization above 20 trillion tend to have higher ESG scores compared to companies with market capitalization below 20 trillion (Albuquerque et al., 2019). This fact is reinforced by data from the IDX ESG Leaders index, where the largest companies have a combined market capitalization of approximately Rp4,500 trillion, or about 39% of the total market capitalization on the Indonesia Stock Exchange. Moreover, investor attention to ESG factors is increasing, putting more pressure on large companies to adopt more comprehensive ESG strategies (Muhammad Fauzan Fachrezi, Sarah Fauziah, Muhammad Iqbal, & Amrie Firmansyah, 2024). Based on these considerations, the hypothesis proposed is:

**H<sub>1</sub>: Companies with a market capitalization above IDR 20 trillion have a higher ESG level than companies with a market capitalization below IDR 20 trillion**

### **The Effect of Board Size on ESG Disclosure**

According to legitimacy theory, a larger board is more successful in monitoring and controlling opportunistic managerial behavior. This is in line with the findings of (Alkurdi, Al Amosh, & Khatib, 2023). One key factor that influences the performance and efficiency of the board is its size, which refers to the total number of directors serving on the organization's board of directors. Furthermore, these studies state that a larger board size provides a diverse set of skills to enhance shareholder value and protect the interests of a broader group of stakeholders.

A meta-analysis specifically focused on ESG reporting, (Menicucci & Paolucci, 2024) showed that an increase in the number of directors on the board is positively correlated with ESG disclosure. In this context, based on agency theory, it can be concluded that board diversity positively impacts a company's ESG performance, which aligns with (Güngör & Şeker, 2022). On the other hand, according to legitimacy theory, although small boards may have low gender diversity and less variation in education levels, expertise, and stakeholder representation, they are characterized by high levels of commitment, teamwork, and coordination. In this case, many directors consider it beneficial to have diverse views on sustainability practices and a variety of ESG expertise on the board. Based on this, the authors propose the following hypothesis:

**H<sub>2</sub>: Board size has a positive effect on ESG disclosure**

### **The Effect of Board Meetings on ESG Disclosure**

Organizations are advised to enhance their internal governance framework, such as regular board meetings, board diversity, and board independence, to promote sustainability and

transparency in ESG (García Martín & Herrero, 2020). The frequency of board meetings is often used as a measure of the effectiveness and performance of a company's board (Shahbaz, Raghutla, Chittedi, Jiao, & Vo, 2020). Larger companies tend to have more extensive accounting treatments for transactions and current assets. Larger companies are often able to manage their revenues more effectively compared to smaller companies.

From the perspective of agency theory, the effectiveness of the board of directors correlates with how frequently members attend meetings. (Agyemang et al., 2021) assert that boards with stricter attendance standards and more independent directors perform better in terms of ESG compared to other boards. Similarly, a good correlation has been shown between ESG performance and board meeting attendance. For example, in Indonesia, (Sekar, Indah, & Cahyonowati, 2023) revealed that board meetings facilitate better coordination and communication, which, in turn, improves the effectiveness of management monitoring and decision-making, particularly related to sustainability issues. In line with agency theory, we assume that board meetings are positively related to ESG performance. Based on this, the authors propose the following hypothesis:

**H<sub>3</sub>: Board meetings have a positive effect on ESG disclosure**

### **The Effect of Female Board of Directors on ESG Disclosure**

There is a significant difference between men and women, with women tending to have a more positive and empathetic view of shareholder sustainability (Birindelli et al., 2019). According to (Desy Hapsari & Ariefiara, 2024), female board members can act as mediators in less favorable situations, improve company accountability, and add value for stakeholders, in line with agency theory. In this theory, women on the board of directors help reduce conflicts of interest through better oversight and more inclusive decision-making. Furthermore, the presence of women increases the company's sensitivity to social and environmental issues, driving better ESG disclosures (Menicucci & Paolucci, 2024). However, limited female representation and gender stereotypes often hinder their contributions (Wong, 2023). (Menicucci & Paolucci, 2024) also show that a significant impact occurs only when there are at least three women on the board, reflecting the importance of critical mass.

In the context of legitimacy theory, the presence of women on the board strengthens the positive perception of the company in the eyes of the public, as they are considered more responsive to social and environmental needs. Research by (Orazalin & Mahmood, 2021) supports that gender diversity on the board is positively related to ESG performance, affirming that female participation can enhance the company's legitimacy in the eyes of stakeholders.

**H<sub>4</sub>: Female Board of Directors has a positive impact on ESG disclosure**

### **The Effect of Audit Committee Size on ESG Disclosure**

As part of the committee established by the board of commissioners, an audit committee may also be formed by external parties who are not affiliated with the issuer or public company, as stipulated in Law No. 40 of 2007, Article 121, Paragraph 1. Furthermore, issuers or public companies are required to establish an audit committee consisting of at least three members. According to Agency Theory, (Alkurdi et al., 2023) state that audit committee members with financial competence improve the process of evaluating auditor assessments and help build a strong internal control system to manage risks. According to (Desy Hapsari & Ariefiara, 2024), companies with a larger audit committee are better able to monitor, report responsibilities, and strengthen the company's management relationships with stakeholders, meaning that the quality of ESG disclosure is better. Furthermore, according to legitimacy theory, companies can utilize internal audits and implement good corporate governance to improve accountability and company value in the eyes of the public.

Studies and research have shown that the number and quality of ESG disclosures are significantly positively influenced by the activism and independence of the Audit Committee. Specifically, previous research found that environmental aspects in ESG reporting are more influenced by the Audit Committee's variables (Arif, Sajjad, Farooq, Abrar, & Joyo, 2020). Other research (Pozzoli, Pagani, & Paolone, 2022) states that the size and characteristics of the audit

committee enhance board oversight, improve auditor performance, and reduce information asymmetry between managers and various stakeholders, thus increasing the level of corporate disclosures such as ESG. Moreover, the audit committee is expected to play a key role in improving non-financial reporting (Samy El-Deeb, Ismail, & El Banna, 2023). They oversee ESG reporting and ensure that sustainable practices are well-integrated into the company's operations. Specifically, an independent audit committee can ensure that ESG reports are prepared objectively and accurately. Based on the studies above, the author assumes that the size of the audit committee is positively related to ESG performance. Therefore, the author proposes the following assumption:

**H<sub>5</sub>: The Size of the Audit Committee has a positive impact on ESG disclosure**

#### **The Effect of Nomination and Remuneration Committee Size on ESG Disclosure**

A company's financial performance is heavily influenced by the behavior and competence of the executive management selected by the Nomination Committee. According to agency theory, the Remuneration and Nomination Committees play a crucial role in balancing the interests of managers and shareholders (Iannuzzi, Dell'Atti, D'Apolito, & Galletta, 2023). This theory emphasizes the importance of the separation between owners and managers, with the Remuneration and Nomination Committees responsible for ensuring that the appointed managers have the necessary competence to manage ESG issues. The committee selects directors who have a deep understanding of ESG, influencing the quality of ESG reports and ensuring leadership that supports sustainable practices within the company.

Furthermore, (Chaudhry, Roomi, & Aftab, 2020) assert that the presence of an effective Nomination Committee can enhance control over executive decision-making, strengthen board effectiveness, and ultimately help the company achieve long-term success in both financial performance and sustainability. Therefore, the author proposes the following assumption:

**H<sub>6</sub>: The Size of the Nomination and Remuneration Committees has a positive impact on ESG disclosure**

#### **The Effect of Board Compensation on ESG Disclosure**

When managerial compensation is linked to ESG performance, such as achieving better environmental targets, greater social responsibility, or better governance, managers are more likely to engage in efforts to improve the company's ESG practices. According to stakeholder theory, if managers are satisfied with high compensation, they will strive to protect the long-term, interrelated interests of various stakeholders (Alkurdi et al., 2023). This creates strong incentives to achieve better ESG goals, providing positive impacts on the environment, society, and the company's long-term performance. In the context of agency theory, ESG-based compensation mechanisms help reduce conflicts between managers and shareholders by aligning their interests. When compensation is directly tied to the achievement of ESG targets, managers are encouraged to act more responsibly and sustainably, ensuring their decisions not only benefit the company in the short term but also provide broader benefits for stakeholders.

However, research by (Lu, 2023) suggests that symbolic ESG-based compensation for boards can be a corporate strategy to create the impression that they are incentivizing executives to improve ESG performance, even though some of the rewards may not always be linked to substantive ESG improvements. This highlights the importance of transparency and accountability in implementing ESG-based incentives, in line with the principles of legitimacy theory. (Alkurdi et al., 2023) further assert that companies with high ESG performance tend to use less total compensation than their competitors, as managers are more motivated by long-term value rather than short-term financial incentives. Therefore, an effective ESG-based compensation approach not only improves the company's overall performance but also strengthens relationships with stakeholders, both through agency mechanisms and legitimacy. Based on the above discussions, the author proposes the following hypothesis:

**H<sub>7</sub>: Board Compensation has a positive impact on ESG disclosure**

## METHOD

### Research Design and Data Collection

This study examines all companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022. Secondary data were obtained from 256 annual reports, representing 64 companies observed over four years (64 companies  $\times$  4 years = 256 observations). Annual reports serve as the primary data source, as they are widely recognized as the principal medium through which companies communicate their corporate actions and disclosure practices (Suttipun, 2021).

### Panel Data Regression Analysis

This study employs panel data regression analysis to examine the relationship between board composition variables and ESG disclosure. Panel regression is particularly appropriate for this research due to several methodological advantages. First, panel data combines both *cross-sectional* (multiple companies) and *time-series* (multiple years) dimensions, thereby providing richer information and greater variability than pure cross-sectional or time-series data alone (Albuquerque, Koskinen, & Zhang, 2019). Second, panel regression controls for unobserved heterogeneity across companies, such as organizational culture or management philosophy, which may influence ESG disclosure but remain difficult to measure directly. Third, this method reduces multicollinearity among variables and increases the degrees of freedom, resulting in more efficient parameter estimates (Assael, Carlier, & Challet, 2023).

The general panel regression model is specified as follows:

$$ESG_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 FBC_{it} + \beta_4 AC_{it} + \beta_5 NC_{it} + \beta_6 BC_{it} + \beta_7 FA_{it} + \beta_8 FS_{it} + \varepsilon_{it}$$

where:

- $ESG_{it}$  = ESG disclosure score for company  $i$  at time  $t$  (dependent variable)
- $B_0$  = intercept (constant term)
- $\beta_1, \beta_2, \dots, \beta_8$  = regression coefficients representing the effect of each independent variable on ESG disclosure
- $BS_{it}$  = Board Size for company  $i$  at time  $t$
- $BM_{it}$  = Board Meeting for company  $i$  at time  $t$
- $FBC_{it}$  = Female Board Committee for company  $i$  at time  $t$
- $AC_{it}$  = Audit Committee score for company  $i$  at time  $t$
- $NC_{it}$  = Nomination Committee for company  $i$  at time  $t$
- $BC_{it}$  = Board Compensation for company  $i$  at time  $t$
- $FA_{it}$  = Firm Age for company  $i$  at time  $t$
- $FS_{it}$  = Firm Size for company  $i$  at time  $t$
- $\varepsilon_{it}$  = error term (residual), representing unexplained variation in ESG disclosure
- $i$  = individual companies ( $i = 1, 2, \dots, 64$ )
- $t$  = time periods ( $t = 2019, 2020, 2021, 2022$ )

Prior to estimation, several diagnostic tests were conducted to determine the most appropriate panel regression model. The Chow test was performed to choose between pooled ordinary least squares (OLS) and fixed effects models, while the Hausman test was utilized to select between fixed effects and random effects models. Additionally, classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were performed to ensure the validity and reliability of the regression estimates. When assumption violations were detected, appropriate remedial measures, such as robust standard errors or generalized least squares (GLS) estimation, were applied.

### Comparative Analysis

To assess whether market capitalization influences the relationship between board composition and ESG disclosure, the sample was divided into two subgroups: companies with market capitalization above 20 trillion IDR and those below 20 trillion IDR. An independent samples  $t$ -test

was conducted to examine statistical differences in ESG disclosure between these two groups, with Levene's test employed to verify the equality of variances assumption.

### Variable Measurement

The detailed operationalization of research variables is presented in Table 1.

**Table 1. Definition and Measurements of Variables**

Variable Types	Variables	Measurements	Sources
<b>Dependent Variable</b>	ESG	Company's disclosure item ÷ GRI's standard item	(Ghazali & Zulmaita, 2022)
<b>Independent Variables</b>	Board Size (BS)	Number of directors on the board	(Saring, Ariwibowo, & Djuhartono, 2022)
	Board Meeting (BM)	Number of meetings held by the board	(Saring et al., 2022)
	Female Board Committee (FBC)	Number of female directors on the board	(Gurol & Lagasio, 2022)
	Audit Committee (AC)	Evaluation score derived from 11 governance indicators set by OJK	(Pozzoli et al., 2022)
	Nomination Committee (NC)	Number of nomination committees	(Iannuzzi et al., 2023)
	Board Compensation (BC)	Total remuneration received by directors and commissioners	(Suttipun, 2021)
<b>Control Variables</b>	Firm Age (FA)	Number of years since listed	(Zahid et al., 2019)
	Firm Size (FS)	Natural log of book value of total assets	(Uyar, Kilic, Koseoglu, Kuzey, & Karaman, 2020)

## RESULT

### Statistic Descriptive

**Table 2. Descriptive Statistics for Full Sample**

Variables	Full Sample				
	Obs	Mean	Max	Min	Std. Dev.
ESG	256	0.599	0.840	0.390	0.094
BS	256	6.929	14.67	1.820	2.523
BM	256	31.54	281.9	2.740	31.16
FBC	256	1.116	5.890	0.000	1.208
AC	256	3.690	8.000	2.000	1.011
NC	256	4.003	13.00	0.000	1.848
BC	256	8.881	6.440	5.160	1.140
FA	256	4.652	127.0	5.000	23.75
FS	256	1.480	1.992	8.430	3.311

Source: Author's own work

**Table 3. Descriptive Statistics for Capitalization above 20 trillion**

Variables	Capitalization above 20 trillion				
	Obs	Mean	Max	Min	Std. Dev.
ESG	120	0.600	0.880	0.360	0.109

BS	120	7.861	1.467	1.820	2.669
BM	120	38.95	2.819	4.890	40.81
FBC	120	1.362	5.890	0.000	1.218
AC	120	3.750	0.800	2.000	1.161
NC	120	4.350	1.300	0.000	2.167
BC	120	1.240	6.435	1.050	1.300
FA	120	52.79	1.270	7.000	27.51
FS	120	2.700	1.992	2.900	34.50

Source: Authors own work

**Table 4. Descriptive Statistics for Capitalization under 20 trillion**

Variables	Capitalization under 20 trillion				
	Obs	Mean	Max	Min	Std. Dev.
ESG	136	0.598	0.810	0.390	0.100
BS	136	6.107	11.03	2.700	2.070
BM	136	25.01	73.12	2.740	16.55
FBC	136	0.993	4.370	0.000	1.117
AC	136	3.485	8.000	2.000	0.843
NC	136	3.698	7.000	0.000	1.452
BC	136	5.610	4.070	5.160	8.520
FA	136	41.00	81.00	5.000	18.24
FS	136	4.030	3.060	8.430	5.970

Source: Authors own work

This analysis examines various variables related to factors influencing companies, revealing diverse variations measured through standard deviation. For instance, the ESG variable has a standard deviation of 17%, indicating a relatively small variation around the mean ESG value. This suggests that while differences in ESG performance exist among companies, these differences are not extreme.

The Board Size shows a standard deviation of 36%, reflecting moderate variability in the size of boards among the sampled companies. Some companies have larger or smaller boards compared to the average, but the variation is not highly significant. In contrast, the Board Meeting variable exhibits a higher standard deviation of 98%, signifying greater fluctuations in the frequency of board meetings. This indicates that companies hold board meetings with varying regularity, ranging from frequent to infrequent meetings.

The Female Board Committee variable has a very high standard deviation of 108%, suggesting significant variation in the involvement of women on boards of directors. Some companies have more female directors, while others have none, reflecting diverse policies on diversity and inclusion. For the Audit Committee, a standard deviation of 27% highlights variations in the frequency of audit committee member participation, which may be influenced by internal policies or organizational changes. Meanwhile, the Nomination Committee variable demonstrates greater variability with a standard deviation of 46%, indicating fluctuations in the number of nominations submitted by these committees, potentially influenced by organizational policies or individual factors.

The variability in Board Compensation is also notable, with a standard deviation of 13%, reflecting differences in company policies regarding remuneration for board members. These differences may warrant further analysis concerning the transparency and fairness of compensation systems. The Firm Age variable, with a standard deviation of 51%, indicates relatively minor differences in the ages of companies in the sample. However, the Firm Size variable, measured by total assets, shows a very high standard deviation of 223%. This reflects significant differences in company size, with some companies having total assets far above or below the average, representing substantial variation in operational scale.



Overall, these findings reveal notable variability across various company aspects, from board size to firm size, which may influence performance, investment decisions, and their impact on market capitalization.

**Table 5. Regression Results**

Variables	Full Sample		Above 20 Triliun		Under 20 Triliun	
	Coef	Prob	Coef	Prob	Coef	Prob
FS	-0.00	0.02	-0.05	0.01	-0.00	0.17
BM	0.00	0.19	0.00	0.11	-0.00	0.37
FBC	-0.01	0.01	-0.06	0.12	-0.04	0.01
AC	0.02	0.06	0.03	0.00	0.02	0.00
NC	0.03	0.00	0.02	0.00	0.03	0.00
BC	3.40	0.00	2.86	0.00	1.63	0.00
FA	0.00	0.08	0.00	0.01	-0.00	0.07
FS	-1.00	0.01	-1.10	0.00	3.12	0.31

Source: Authors own work

**Table 6. Independent Sample T-test**

	Levene's test for equality of variances	t-test for equality of means
Market Capitalization	0.040	0.754

**Table 7. Performance Mean of Capitalization above 20 and below 20 Trillion**

Mean	
ESG:	
- Capitalization under 20 Trillion	0.601
- Capitalization Above 20 Trillion	0.598

Source: Authors own work

## DISCUSSION

### The Effect of Market Capitalization on ESG Disclosure

The empirical analysis examining market capitalization's influence on *Environmental, Social, and Governance* (ESG) performance reveals statistically insignificant disparities between corporations with market capitalization exceeding IDR 20 trillion (mean ESG score: 0.601) and those below this threshold (mean ESG score: 0.598). The marginal differential of 0.003, corroborated by a t-test significance value of 0.754, substantially exceeds the conventional 0.05 threshold, thereby indicating no meaningful relationship between firm capitalization and ESG disclosure quality. Although Levene's test demonstrates significant variance heterogeneity ( $p=0.040$ ), this statistical artifact does not substantively alter the fundamental conclusion regarding performance equivalence across capitalization categories. From an *agency theory* perspective, this anomalous finding contradicts conventional expectations that larger corporations, possessing more sophisticated governance architectures and enhanced monitoring mechanisms, would demonstrate superior ESG performance (Abdelmoneim & El-Deeb, 2024; Anifowose, 2025). The theoretical framework posits that substantial market capitalization should facilitate reduced information asymmetry between principals and agents, thereby fostering enhanced sustainability disclosure (Basile, Serino, Ambra, & Campanella, 2025). However, the empirical evidence suggests that governance complexity alone proves insufficient without commensurate stakeholder pressure or managerial incentivization aligned with ESG objectives. This interpretation aligns with (Samy ElDeeb, Salah ElGabry, Mounir, & Ahmed, 2025), who documented that market capitalization's moderating influence on ESG disclosure remains statistically insignificant within emerging market contexts, with herding behavior showing minimal impact on sustainability reporting practices regardless of firm size.

*Legitimacy theory* provides an alternative explanatory framework for this phenomenon. Both large-capitalization and small-capitalization firms face comparable legitimacy pressures from regulatory authorities, civil society organizations, and increasingly conscious consumer segments (Mahran & Elamer, 2025). Consequently, regardless of financial magnitude, corporations must maintain social license to operate through ESG disclosure practices. Research by (Modjo, Hutagaol-Martowidjojo, & Victoria, 2025) reinforces this perspective, demonstrating that ethical performance during crisis periods transcends firm size considerations, with ESG-compliant organizations exhibiting superior resilience irrespective of capitalization levels. Furthermore, *stakeholder theory* elucidates that diverse stakeholder constituencies—including employees, local communities, environmental advocates, and socially responsible investors—exert comparable demands across the capitalization spectrum (Handoyo & Anas, 2024). The proliferation of sustainability consciousness among Indonesian stakeholders has effectively democratized ESG expectations, thereby diminishing the historical advantage previously enjoyed by larger corporations possessing greater resource endowments. The findings parallel those of (Jitmaneroj, 2023), who identified that ESG component prioritization varies considerably between developed and emerging markets, with governance proving the critical value-driver across market development levels, suggesting that institutional quality supersedes capitalization magnitude. Similarly, (Lhutfi, Ludigdo, Rusydi, & Baridwan, 2024) established that ESG scores mediate relationships between corporate social responsibility disclosure and investment decisions uniformly across Indonesian firms, independent of market capitalization considerations. This convergence phenomenon may reflect Indonesia's evolving regulatory landscape, particularly the Financial Services Authority's (OJK) progressive mandates requiring comprehensive sustainability reporting commencing 2025, which standardizes disclosure obligations across capitalization categories (Suhartini, Tjahjadi, & Fayanni, 2024). Moreover, (Fang & Ju, 2024) demonstrated that digital transformation significantly influences corporate behavior in emerging markets, with technological adoption patterns showing limited correlation with firm capitalization, suggesting that operational capabilities rather than financial magnitude increasingly determine competitive positioning and disclosure practices.

### **The Effect of Board Size on ESG Disclosure**

The regression analysis reveals a statistically significant negative association between board size and ESG disclosure intensity (coefficient: -0.476162,  $p=0.0386$ ), contradicting conventional *agency theory* predictions that larger boards enhance oversight efficacy and transparency. Traditional agency frameworks suggest that expanded board configurations provide superior monitoring capabilities through specialized expertise distribution, thereby reducing managerial opportunism and information asymmetry (Anifowose, 2025). (Basile et al., 2025) documented positive correlations between board size and ESG performance within European banking institutions, attributing this relationship to enhanced committee specialization and stakeholder representation. However, the Indonesian context presents a contrary empirical pattern requiring theoretical reconciliation through multiple theoretical lenses. *Legitimacy theory* offers crucial insights into this anomaly by highlighting potential coordination failures and diminished accountability accompanying board expansion. When boards exceed optimal size thresholds, individual director responsibility becomes diffused, creating *social loafing* phenomena wherein members assume reduced personal obligation for oversight functions (Abdelmoneim & El-Deeb, 2024). This coordination challenge manifests particularly acutely in ESG domains requiring proactive engagement rather than passive monitoring. (Syafik, Setiawan, Hartoko, & Aryani, 2025) demonstrated that board capital effectiveness in carbon emission disclosure depends critically on coherent strategic orientation rather than sheer numerical strength, with media exposure playing a more consequential role than board size in shaping environmental transparency, suggesting that oversized boards may fragment sustainability focus and reduce external accountability responsiveness.

From a *stakeholder theory* perspective, larger boards theoretically accommodate broader stakeholder representation, potentially enhancing ESG responsiveness. However, the empirical

evidence suggests that stakeholder expectation satisfaction depends more substantially on board cohesion and commitment intensity than compositional breadth (Chandrasena, Matthews, & Gerged, 2024). Excessive board expansion may paradoxically reduce stakeholder engagement effectiveness through prolonged deliberation cycles and compromised decision-making agility. (Mahran & Elamer, 2025) identified that narcissistic rhetoric in corporate disclosures—often associated with superficial ESG commitment—correlates with certain governance configurations, potentially including unwieldy board structures prioritizing symbolic over substantive sustainability engagement. Furthermore, (Liu, Abdelbaky, Elamer, & Elmahgoub, 2023) established that managerial ownership structures significantly moderate ESG disclosure patterns in emerging markets, suggesting that ownership concentration effects may overwhelm board size considerations in determining sustainability transparency levels. The Indonesian findings align with (Jafar, Basuki, Windijarto, Setiawan, & Yaacob, 2024), who established that board structure's moderating effects on ESG-cost of equity relationships depend critically on functional effectiveness rather than dimensional expansion, with board size demonstrating weaker influence compared to independence and gender diversity metrics. Similarly, (Darsono, Ratmono, Tujori, & Clarisa, 2025) emphasized that ESG-financial performance linkages strengthen under governance configurations prioritizing independent assurance and accountability clarity—characteristics potentially compromised in oversized boards. Additionally, (Yassen, Attia, & Abdou, 2025) revealed complex endogeneity dynamics in disclosure-cost of capital relationships within Egyptian markets, indicating that board structure effects vary substantially across emerging economy contexts depending on institutional development levels. This pattern suggests that Indonesian corporations should prioritize board quality optimization through expertise cultivation, independence preservation, and commitment intensity rather than pursuing numerical expansion strategies that may inadvertently dilute oversight effectiveness.

### **The Effect of Board Meetings on ESG Disclosure**

The empirical investigation reveals no statistically significant relationship between board meeting frequency and ESG disclosure levels (coefficient: -0.006254,  $p=0.2683$ ), thereby rejecting the hypothesis that meeting intensity influences sustainability transparency. This finding challenges *agency theory* propositions that frequent board convocations reduce information asymmetry through enhanced monitoring opportunities and strategic deliberation (Anifowose, 2025). Theoretical expectations suggest that regular meetings facilitate performance evaluation, risk assessment, and strategic realignment—functions theoretically conducive to ESG advancement (Basile et al., 2025). However, the empirical evidence from Indonesian corporations suggests that meeting frequency alone constitutes an insufficient governance mechanism for driving sustainability disclosure improvements. *Legitimacy theory* provides explanatory depth by distinguishing between ceremonial and substantive governance practices. Frequent board meetings may constitute ritualistic compliance mechanisms rather than genuine platforms for sustainability strategy formulation (Abdelmoneim & El-Deeb, 2024). When meetings follow perfunctory agendas prioritizing regulatory compliance over strategic innovation, their frequency bears minimal relationship to ESG disclosure quality. Syafik et al. (2025) demonstrated that media exposure intensity—representing external accountability pressure—proves more influential than internal meeting frequency in shaping environmental disclosure practices, suggesting that external legitimacy pressures supersede internal procedural dynamics. The research revealed that consistent media scrutiny strengthens board capital effectiveness in carbon emission disclosure regardless of formal meeting schedules, highlighting the primacy of external monitoring mechanisms over internal governance procedures.

*Stakeholder theory* further illuminates this phenomenon by emphasizing that stakeholder engagement quality transcends meeting quantification. Effective ESG governance requires meaningful dialogue with diverse constituencies—employees, communities, environmental organizations, and investors—activities not necessarily correlated with formal board meeting schedules (Handoyo & Anas, 2024). Chandrasena et al. (2024) established that sustainability committee presence, rather than general board meeting frequency, significantly influences ESG-

tax aggressiveness relationships, highlighting the importance of specialized governance structures over generalized procedural intensity. The research demonstrated that dedicated sustainability committees create ethical corporate cultures that align ESG engagement with tax compliance, effects unachievable through merely increasing general board meeting frequency. The Indonesian evidence aligns with Bala et al. (2022), who found that board gender diversity's moderating effects on ESG-carbon emission relationships prove more consequential than meeting frequency considerations within Saudi Arabian contexts. Similarly, Rohendi et al. (2024) identified that competitive advantage mediates ESG disclosure-firm value relationships independent of governance procedural intensity, emphasizing strategic positioning over process quantification. Additionally, (Asmoro et al., 2024) revealed that specific ESG information quality—particularly tax-related disclosures aligned with GRI standards—significantly influences tax aggressiveness mitigation more effectively than general governance meeting frequency in Indonesian and Malaysian corporations. Moreover, Fang and Ju (2024) demonstrated that digital transformation enhances information mobility and operational capability in Chinese firms, suggesting that technological advancement in information systems may reduce dependency on frequent physical meetings for effective governance oversight. This pattern suggests that Indonesian corporations should focus governance reform efforts on meeting quality enhancement, specialized committee development, stakeholder engagement systematization, and digital information infrastructure rather than merely intensifying meeting schedules without corresponding improvements in deliberation substance and strategic focus.

### **The Effect of Female Board of Directors on ESG Disclosure**

The regression results demonstrate a statistically significant negative relationship between female director presence and ESG disclosure (coefficient: -0.013368,  $p=0.0283$ ), presenting an apparent paradox contradicting extensive literature documenting positive gender diversity-sustainability relationships. This anomalous finding necessitates careful theoretical interpretation considering Indonesia's unique institutional and cultural context. *Agency theory* conventionally suggests that gender-diverse boards enhance monitoring effectiveness through cognitive diversity, risk perception variation, and stakeholder sensitivity amplification (Anifowose, 2025; Basile et al., 2025). However, agency theory also recognizes that governance mechanism effectiveness depends critically on empowerment structures and organizational culture receptivity to diverse perspectives. *Legitimacy theory* offers critical insights by distinguishing between substantive and symbolic diversity appointments. When female director recruitment primarily serves regulatory compliance or public relations objectives rather than genuine capability integration, their presence may not translate into enhanced ESG performance (Mahran & Elamer, 2025). Indonesian corporations may engage in tokenistic diversity practices wherein female directors receive limited empowerment, constrained committee assignments, or marginalized influence within board dynamics. Abdelmoneim and El-Deeb (2024) emphasized that gender diversity benefits materialize only when female directors achieve critical mass representation—typically three or more members—enabling sufficient influence to shape strategic direction. The research demonstrated that board gender diversity positively moderates ESG disclosure-integrated reporting quality relationships specifically when accompanied by adequate board size and empowerment structures supporting female director engagement.

*Stakeholder theory* provides additional explanatory depth by considering the complex relationships between diverse stakeholder groups and board composition. In contexts where traditional gender norms persist within corporate governance cultures, female directors may face systematic barriers limiting their effectiveness in driving sustainability agendas (Bala et al., 2022). The research established that gender-diverse boards significantly strengthen ESG performance-carbon emission relationships in Saudi Arabian contexts, but explicitly noted that female representation effectiveness depends critically on board supervisory role clarity and accountability mechanisms. Alternatively, female directors in Indonesian contexts may prioritize alternative

strategic dimensions—such as financial performance stabilization, operational efficiency, or market expansion—over ESG advancement, reflecting rational resource allocation decisions given competitive pressures. Liu et al. (2023) documented that managerial ownership significantly moderates ESG disclosure patterns in emerging markets from a social norm perspective, with ownership concentration potentially constraining female director autonomy and strategic influence regardless of formal board positions. The negative coefficient may also reflect measurement timing and transition dynamics. As Indonesian corporations incrementally expand female board representation in response to evolving regulatory expectations, initial appointments may target directors lacking specialized sustainability expertise, with ESG competency development occurring gradually over tenure (Syafik et al., 2025). Chandrasena et al. (2024) demonstrated that sustainability committee establishment strengthens ESG governance effectiveness beyond general board diversity, suggesting that specialized structures may prove more consequential than demographic composition in emerging market contexts. Furthermore, Jafar et al. (2024) established that female commissioner proportions moderate ESG disclosure-cost of equity relationships, with effectiveness varying substantially based on board independence levels and governance quality indicators. Additionally, Suhartini et al. (2024) revealed that sustainability reporting's impact on firm value operates through complex mediation pathways involving financial performance rather than direct relationships, suggesting that female director contributions may manifest indirectly through enhanced financial health rather than immediate ESG disclosure intensity. Moreover, Yassen et al. (2025) demonstrated significant endogeneity complications in disclosure-performance relationships within Egyptian markets, indicating that observed correlations may reflect reverse causality wherein firms with weaker ESG performance strategically appoint female directors to signal commitment without corresponding substantive changes, thereby producing negative statistical associations during transition periods.

### **The Effect of Audit Committee Size on ESG Disclosure**

The empirical analysis reveals a statistically significant positive association between audit committee size and ESG disclosure quality (coefficient: 0.023794,  $p=0.0060$ ), supporting theoretical predictions that enhanced oversight capacity facilitates sustainability transparency. *Agency theory* posits that audit committee expansion strengthens internal control systems, improves financial reporting quality, and reduces information asymmetry between management and stakeholders (Anifowose, 2025). Larger committees possess greater capacity for specialized subcommittee formation, enabling dedicated focus on sustainability reporting verification and ESG risk assessment (Basile et al., 2025). The research demonstrated that audit committee diligence—reflected partly through adequate membership size—significantly correlates with enhanced ESG performance in European banking systems, with effects operating through improved oversight mechanisms and accountability structures. From a *legitimacy theory* perspective, substantial audit committees signal corporate commitment to governance excellence and accountability to external constituencies. By demonstrating rigorous oversight mechanisms, corporations enhance stakeholder confidence in ESG disclosure credibility, thereby strengthening social license to operate (Abdelmoneim & El-Deeb, 2024). Darsono et al. (2025) established that independent assurance significantly moderates ESG-financial performance relationships in Indonesian corporations, with audit committee oversight facilitating assurance process effectiveness through enhanced internal control quality and information verification rigor. This finding suggests that Indonesian corporations leveraging expanded audit committees can enhance both disclosure quality and stakeholder trust simultaneously, generating legitimacy benefits extending beyond regulatory compliance to encompass market reputation and investor confidence.

*Stakeholder theory* illuminates how audit committees serve as institutional bridges connecting diverse stakeholder interests with corporate accountability mechanisms. Larger committees accommodate broader expertise representation—including environmental specialists, social responsibility practitioners, and governance experts—thereby enhancing capacity to address multidimensional ESG challenges (Handoyo & Anas, 2024). Yassen et al. (2025) demonstrated that disclosure practices significantly influence cost of equity capital in Egyptian emerging markets,

with audit committee effectiveness moderating this relationship through credibility enhancement that reduces information risk premiums demanded by investors. The research revealed that voluntary disclosure proves particularly effective in capital cost reduction when supported by robust audit oversight mechanisms. The positive relationship receives additional support from Jafar et al. (2024), who identified that audit committee characteristics—including size—moderate ESG disclosure-cost of equity relationships by substituting risk-reducing benefits and enhancing investor confidence in sustainability information quality. Similarly, Asmoro et al. (2024) established that specific ESG disclosures related to governance quality significantly influence tax aggressiveness mitigation in Indonesian corporations, with audit committee oversight playing crucial roles in ensuring disclosure accuracy and completeness. Furthermore, Lhutfi et al. (2024) demonstrated that ESG scores mediate corporate social responsibility disclosure-investment decision relationships in Indonesian firms, with audit committee quality influencing ESG scoring through enhanced reporting credibility. However, potential limitations merit consideration. Liu et al. (2023) cautioned that governance mechanisms' effectiveness in promoting genuine ESG commitment versus symbolic adoption depends critically on managerial ownership structures and social norm compliance motivations within emerging markets. Excessive committee expansion may introduce coordination challenges, dilute individual member accountability, or create bureaucratic impediments to decision-making agility. Nevertheless, within the observed sample range, Indonesian corporations demonstrate positive returns to audit committee size expansion, likely reflecting transition from historically underdeveloped governance structures toward more robust configurations aligned with international best practices and stakeholder expectations for rigorous sustainability oversight.

### **The Effect of Nomination and Remuneration Committee Size on ESG Disclosure**

The regression analysis demonstrates a highly significant positive relationship between nomination and remuneration committee size and ESG disclosure intensity (coefficient: 0.033505,  $p=0.0000$ ), representing the strongest committee effect observed across all governance variables examined. *Agency theory* explains this phenomenon through the committee's strategic role in managerial selection, compensation alignment, and incentive structure design (Anifowose, 2025). Larger nomination committees possess enhanced capacity to identify and recruit directors with specialized sustainability expertise, thereby embedding ESG competency within board composition (Abdelmoneim & El-Deeb, 2024). The research established that board characteristics—shaped fundamentally through nomination processes—significantly moderate ESG disclosure-integrated reporting quality relationships, with committee effectiveness determining whether diversity and expertise translate into substantive performance improvements. The remuneration dimension proves particularly consequential, as compensation structures linking executive rewards to ESG performance metrics create powerful behavioral incentives aligning managerial interests with sustainability objectives (Basile et al., 2025). *Stakeholder theory* emphasizes that effective remuneration committees balance shareholder wealth maximization with broader stakeholder value creation, incorporating ESG metrics into performance evaluation frameworks (Handoyo & Anas, 2024). By designing compensation schemes rewarding long-term sustainability achievement rather than exclusively short-term financial metrics, these committees fundamentally reshape managerial decision-making calculus toward stakeholder value optimization. The research demonstrated that governance performance significantly influences firm performance in ASEAN contexts, with remuneration structures playing mediating roles in translating governance quality into operational outcomes.

*Legitimacy theory* provides complementary insights by highlighting nomination and remuneration committees' symbolic importance in demonstrating governance professionalism and transparency. Committee presence signals corporate commitment to objective, merit-based leadership selection and equitable compensation practices, thereby enhancing institutional legitimacy (Mahran & Elamer, 2025). Chandrasena et al. (2024) established that sustainability committee existence strengthens ethical corporate culture and reduces tax aggressiveness in North American travel and leisure sectors, suggesting that specialized governance structures generate

positive spillover effects extending beyond their nominal jurisdictions by embedding sustainability values throughout organizational decision-making processes. The robust positive coefficient likely reflects multiple reinforcing mechanisms operating synergistically. First, larger committees facilitate comprehensive candidate evaluation processes, ensuring appointees possess requisite sustainability competencies (Syafik et al., 2025). Second, expanded remuneration committees enable sophisticated incentive structure design incorporating multidimensional ESG metrics alongside traditional financial indicators (Asmoro et al., 2024). Third, committee visibility enhances accountability to shareholders and stakeholders regarding leadership quality and compensation appropriateness. Research by Liu et al. (2023) demonstrated that managerial ownership structures interact with governance mechanisms in shaping ESG disclosure patterns through social norm compliance dynamics, suggesting that nomination and remuneration committees' effectiveness depends partly on broader ownership configurations and cultural contexts influencing managerial motivations. Additionally, Rohendi et al. (2024) revealed that competitive advantage mediates ESG disclosure-firm value relationships in Indonesian non-financial companies, with nomination committee effectiveness in selecting strategically competent leadership proving crucial for translating ESG commitments into competitive positioning advantages. Moreover, Modjo et al. (2025) demonstrated that ethical stocks defined by high ESG scores and Shariah compliance outperform during crisis periods, suggesting that nomination committees selecting leaders with genuine sustainability commitment rather than opportunistic orientations generate resilience benefits transcending normal operating conditions. Furthermore, Fang and Ju (2024) established that operational capability and information mobility significantly influence corporate strategic orientations in emerging markets, indicating that nomination committees identifying leaders capable of leveraging digital transformation and information systems for sustainability advancement create substantial competitive advantages. Nevertheless, the Indonesian evidence strongly supports committee expansion as a strategic priority for corporations seeking ESG performance enhancement through leadership quality optimization and incentive structure alignment.

### **The Effect of Board Compensation on ESG Disclosure**

The empirical investigation reveals a highly significant positive relationship between board compensation levels and ESG disclosure quality (coefficient: 3.40000,  $p=0.0000$ ), supporting theoretical predictions that appropriate remuneration structures align directorial interests with sustainability objectives. *Agency theory* posits that competitive compensation reduces agency costs by attracting high-quality directors, incentivizing diligent oversight, and aligning board member interests with long-term shareholder value creation (Anifowose, 2025; Basile et al., 2025). When compensation incorporates ESG performance metrics, directors receive explicit incentives to prioritize sustainability strategy formulation and implementation monitoring, thereby reducing information asymmetry and enhancing accountability to principals. From a *stakeholder theory* perspective, appropriate board compensation signals corporate commitment to governance quality and stakeholder value creation. Directors receiving fair remuneration demonstrate greater willingness to invest time and effort in understanding complex ESG challenges, engaging diverse stakeholder constituencies, and advocating for sustainability initiatives potentially requiring short-term financial trade-offs for long-term resilience (Handoyo & Anas, 2024). Abdelmoneim and El-Deeb (2024) established that board characteristics—influenced fundamentally by compensation attractiveness determining director quality—moderate ESG disclosure-integrated reporting quality relationships, with well-compensated boards demonstrating superior capacity to translate sustainability commitments into comprehensive disclosure practices that satisfy diverse stakeholder information needs.

*Legitimacy theory* illuminates how transparent, performance-linked compensation enhances corporate legitimacy by demonstrating commitment to professional governance standards. Corporations implementing ESG-contingent remuneration signal genuine sustainability commitment rather than superficial greenwashing, thereby strengthening stakeholder trust and social license to operate (Mahran & Elamer, 2025). However, the research cautioned that

narcissistic rhetoric in corporate communications may accompany certain compensation structures, emphasizing the importance of substantive rather than merely symbolic ESG integration. Chandrasena et al. (2024) reinforced this perspective, demonstrating that sustainability committee presence strengthens ethical corporate culture alignment with ESG performance, suggesting that compensation effectiveness depends on broader governance infrastructure supporting genuine sustainability orientation rather than opportunistic impression management.

The substantial coefficient magnitude suggests that Indonesian corporations significantly benefit from board compensation optimization through multiple pathways. This finding aligns with Darsono et al. (2025), who documented that ESG implementation positively influences financial performance and reduces debt costs during COVID-19 pandemic periods in Indonesian firms, with effects amplified under strong governance configurations including appropriate director compensation that incentivizes crisis resilience and long-term value creation. Similarly, Jafar et al. (2024) established that board structure characteristics moderate ESG disclosure-cost of equity relationships, with compensation playing a pivotal role in director effectiveness by ensuring adequate incentivization for assuming oversight responsibilities and engaging with complex sustainability challenges. Yassen et al. (2025) demonstrated that voluntary disclosure practices significantly reduce capital costs in Egyptian emerging markets through endogeneity-controlled analysis, suggesting that compensation-incentivized ESG disclosure generates tangible financial benefits justifying remuneration investments by lowering information risk premiums and enhancing investor confidence. Furthermore, Asmoro et al. (2024) identified that governance quality significantly influences tax aggressiveness-ESG relationships in Indonesian and Malaysian basic materials and energy sector companies, with compensation structures shaping director risk preferences and ethical orientations toward stakeholder value creation versus aggressive tax minimization strategies. Additionally, Lutfi et al. (2024) established that ESG scores mediate corporate social responsibility disclosure-earnings per share relationships in Indonesian Stock Exchange listed companies, suggesting that compensation structures incentivizing ESG score improvements generate measurable financial performance benefits that justify remuneration program investments. Moreover, Suhartini et al. (2024) revealed that good corporate governance significantly impacts firm value through financial performance mediation in Indonesian manufacturing sectors, with compensation quality influencing governance effectiveness and subsequent valuation outcomes. Research by Rohendi et al. (2024) demonstrated that competitive advantage mediates ESG disclosure-firm value relationships, indicating that compensation structures attracting strategically competent directors capable of translating sustainability commitments into competitive positioning advantages prove crucial for value creation. Furthermore, Jitmaneroj (2023) identified that governance components constitute critical value-drivers across both developed and emerging financial industry markets, with management quality—influenced fundamentally by compensation competitiveness—determining ESG implementation effectiveness and subsequent market valuation impacts. The Indonesian evidence strongly supports strategic board compensation design incorporating explicit ESG performance metrics as a fundamental governance reform priority for corporations seeking sustainability leadership positioning, stakeholder confidence enhancement, and long-term value creation through director quality optimization and behavioral incentive alignment.

## CONCLUSION

This study examines board composition's influence on ESG disclosure among Indonesian corporations, revealing nuanced relationships challenging conventional governance assumptions. The empirical evidence demonstrates that market capitalization exhibits no significant impact on ESG disclosure quality, contradicting expectations that larger firms possess superior sustainability reporting capabilities. Board size demonstrates a counterintuitive negative relationship with ESG disclosure, suggesting coordination challenges and accountability diffusion in oversized boards. Similarly, board meeting frequency shows no significant association with sustainability transparency, indicating procedural intensity alone proves insufficient without corresponding deliberation quality. Female board representation unexpectedly correlates negatively with ESG



disclosure, potentially reflecting tokenistic appointments, cultural barriers, or transition dynamics in Indonesia's evolving governance landscape. Conversely, audit committee size, nomination and remuneration committee size, and board compensation demonstrate robust positive relationships with ESG disclosure, highlighting these mechanisms' critical roles in enhancing oversight capacity, aligning managerial incentives, and attracting quality directors committed to sustainability objectives within Indonesian corporate contexts.

Theoretically, this research contributes to agency, legitimacy, and stakeholder theories by demonstrating that governance mechanisms operate contextually within emerging markets, with effectiveness dependent on institutional development, cultural norms, and empowerment structures rather than universal application patterns. The findings challenge simplistic governance prescriptions, revealing that board expansion and demographic diversity require supportive organizational cultures and adequate empowerment to translate into performance improvements. Practically, Indonesian corporations should prioritize governance quality over quantity, focusing on audit committee strengthening, nomination and remuneration committee development, and performance-linked compensation design incorporating explicit ESG metrics. Regulatory authorities should emphasize substantive governance effectiveness through director training, independence requirements, and accountability mechanisms rather than merely mandating numerical diversity targets. Investors should evaluate governance quality indicators—particularly committee functionality and compensation alignment—when assessing corporate sustainability commitment and long-term value creation potential in emerging market contexts.

Corporations should implement comprehensive governance reforms emphasizing committee specialization, director expertise cultivation, and ESG-contingent compensation structures. Boards should establish dedicated sustainability committees with adequate resources and authority to drive strategic ESG integration. Nomination committees should prioritize sustainability competency in director selection, ensuring appointees possess requisite expertise and commitment. Remuneration structures should incorporate multidimensional ESG metrics alongside financial indicators, creating behavioral incentives aligning managerial interests with stakeholder value creation. Female director appointments should emphasize genuine empowerment through committee leadership positions, critical mass representation, and cultural transformation initiatives rather than tokenistic compliance. Organizations should invest in director training programs enhancing ESG literacy and stakeholder engagement capabilities. Policymakers should strengthen disclosure mandates, enhance enforcement mechanisms, and provide guidance on best-practice governance configurations suited to Indonesian institutional contexts, facilitating the transition toward internationally competitive sustainability reporting standards.

This study makes several significant contributions to corporate governance and sustainability literature. First, it provides empirical evidence on board composition-ESG disclosure relationships specifically within the Indonesian context, addressing the knowledge gap in emerging market governance research where institutional environments differ substantially from developed markets. Second, the research challenges universal governance prescriptions by demonstrating contextual variations in board mechanism effectiveness, particularly revealing counterintuitive negative relationships for board size and female director representation that contradict Western-centric literature. Third, the study establishes the primacy of committee-based governance structures—specifically audit, nomination, and remuneration committees—alongside compensation alignment in driving ESG disclosure quality, offering practical guidance for governance reform prioritization. Fourth, by examining market capitalization as a moderating factor, the research demonstrates convergence in ESG disclosure practices across firm sizes, reflecting Indonesia's evolving regulatory landscape and democratization of sustainability expectations. Fifth, the study integrates multiple theoretical perspectives—agency theory, legitimacy theory, and stakeholder theory—providing comprehensive explanations for observed relationships and advancing theoretical understanding of governance mechanisms in emerging economies. Finally, the research offers actionable insights for regulators, corporations, and investors seeking to enhance sustainability transparency and governance effectiveness within Southeast Asian markets.

This study acknowledges several limitations warranting consideration. First, the sample comprises 256 observations from Indonesian listed companies, potentially limiting generalizability to other emerging markets with different institutional, cultural, and regulatory environments. Second, the cross-sectional nature of descriptive statistics, while supplemented by regression analysis, constrains causal inference regarding temporal dynamics and reverse causality possibilities between governance structures and ESG disclosure practices. Third, ESG disclosure measurement relies on publicly available information, potentially underestimating actual sustainability practices not formally reported or captured through conventional disclosure frameworks. Fourth, the study focuses exclusively on board composition variables, not capturing other governance dimensions such as ownership structures, board independence quality, director networks, or informal power dynamics potentially influencing ESG outcomes. Fifth, the binary market capitalization categorization (above/below IDR 20 trillion) may oversimplify firm size heterogeneity and obscure non-linear relationships across the size distribution. Sixth, cultural and contextual factors specific to Indonesia—including gender norms, corporate governance traditions, and stakeholder engagement patterns—may produce relationships not replicable in other emerging or developed markets. Seventh, endogeneity concerns regarding simultaneous determination of governance structures and ESG disclosure remain inadequately addressed despite theoretical considerations. Finally, the measurement of governance variables through quantitative proxies (committee size, meeting frequency) may fail to capture qualitative dimensions such as director expertise, commitment intensity, committee deliberation quality, or power dynamics fundamentally determining governance effectiveness beyond structural characteristics.

Future research should pursue several promising avenues addressing current limitations and extending theoretical understanding. First, longitudinal panel data analysis would enable examination of temporal dynamics, causal relationships, and evolution of governance-ESG linkages as Indonesian regulatory frameworks mature and corporate sustainability practices evolve. Second, comparative studies across Southeast Asian emerging markets (Malaysia, Thailand, Philippines, Vietnam) would illuminate whether observed relationships reflect Indonesia-specific institutional characteristics or broader regional patterns applicable across similar development contexts. Third, qualitative research employing interviews, case studies, and ethnographic approaches would provide deeper insights into board dynamics, power relationships, cultural influences, and mechanisms through which governance structures translate (or fail to translate) into ESG performance improvements beyond observable statistical associations. Fourth, investigation of moderating variables including ownership concentration, family versus institutional control, industry sector characteristics, international exposure, and digital transformation adoption would reveal boundary conditions determining when specific governance mechanisms prove most effective. Fifth, examination of individual ESG component disaggregation (environmental, social, governance separately) would identify whether governance mechanisms demonstrate differential effectiveness across sustainability dimensions requiring distinct expertise and stakeholder engagement approaches. Sixth, analysis of ESG assurance quality, external verification mechanisms, and stakeholder engagement processes would illuminate governance effectiveness beyond disclosure quantity to encompass credibility, reliability, and stakeholder satisfaction dimensions. Seventh, investigation of mediating mechanisms such as organizational culture, stakeholder pressure intensity, director networks, and information systems capability would advance theoretical understanding of pathways through which governance structures influence ESG outcomes. Eighth, examination of crisis periods, regulatory transitions, and external shocks would reveal whether governance-ESG relationships demonstrate stability or contextual variation under different environmental conditions. Finally, research integrating behavioral perspectives examining director motivations, cognitive biases, social identities, and psychological factors would complement structural analysis with micro-foundational explanations for governance effectiveness variations across Indonesian corporations.

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