Almana : Jurnal Manajemen dan Bisnis
Volume 8, No. 1/ April 2024, p. 110-118
ISSN 2579-4892 print/ ISSN 2655-8327 online
DOI: 10.36555/almana.v8i1.2460

The Influence of GCG on Disclosure of ESG Scores of Companies Listed on the IDX

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Abstract: A sustainability report became one of the requirements for corporations to publish as one of the key factors of why the investor wants to invest in the corporation. In Indonesia, there is a regulation for corporations to implement sustainability. Along with good corporate governance, generated a good sustainability report. In Indonesia, approximately about 55% of the companies have published sustainability reports. Hence, this research is purposed to know the influence of good corporate governance in sustainability reports in Indonesia. This research uses a quantitative research design to collect numerical data to test the hypothesis. In this research, 54 companies listed on the IDX that had published sustainability reports for 5 consecutive years were used. In addition, the study collected secondary data from the selected companies' annual, financial, and sustainability news from 2017 to 2021. The results of this research indicate that board independence significantly affects the disclosure of the ESG Scores of companies included in the IDX index. As a result, the board independence of companies in Indonesia is one of the components that help improve ESG Scores' disclosures.
Keywords: ESG Score; Good Corporate Governance; IDX

INTRODUCTION

Awareness of companies' role in ESG is supported by increasing pressure for companies to publish reports on company activities and initiatives in ESG (Wan Mohammad et al., 2022). The company's role in ESG demonstrates its obedience and awareness of protecting the environment as a citizen (Arayssi et al., 2020).

Previously, in Indonesia itself, sustainability implementation activities by companies were still voluntary. However, currently, some regulations require companies in Indonesia to publish sustainability reports, namely the Financial Services Authority Regulation Number 51/POJK.03/2017 Article 2 Paragraph 1 explains that every financial service institution and public company is required to implement this sustainability. This is also supported by (Indonesia Sustainability, 2022), which states that sustainability reports positively impact companies in building customer, investor, and stakeholder trust.

According to data on companies listed on the Indonesian Stock Exchange (IDX), about 55% of companies publish reports on the sustainable development of all listed companies. This means that around half of the companies listed on the IDX still need to publish sustainability reports. However, there are only 54 companies that published this sustainability report over the five years 2017 to 2021.

Submitted: January 05, 2024; Revised: -;
Accepted: March 31, 2024; Published: April 30, 2024;
Website: http://journalfeb.unla.ac.id/index.php/almana/article/view/2460

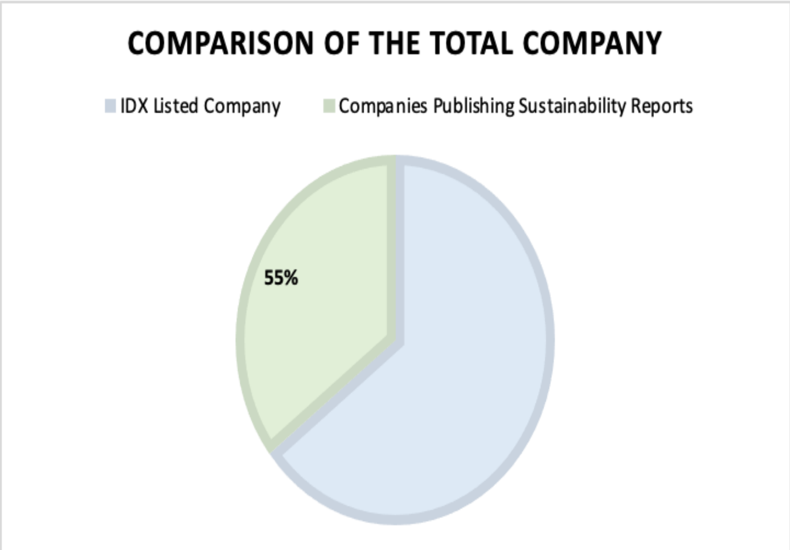

Figure 1. Comparison of the Total Company Published Sustainability Reports
Source: idx.com (2023)

Schoenmaker & Schramade (2019) revealed that sustainability is a process in which a company considers the environment and its surroundings in carrying out its business, which leads to a sustainable long-term business with the target of considering the environment and social so that it can a positive impact on the community and the surroundings and can increase value company. The sustainability approach contains three integrated concepts consisting of ESG.

Environmental is a concept of sustainability in which there are challenges for companies to participate in protecting the planet so that it is still livable and habitable and preserving the environment for long-term business continuity (Schoenmaker & Schramade, 2019). Social tension is also a challenge for companies because, as is known, social tensions in the world are still not evenly distributed. Therefore, the company's role is needed in helping to create social welfare and build a good corporate reputation. Governance, the final concept of ESG, is the company's role in building relationships with external parties that focus on better and more sustainable corporate governance (Schoenmaker & Schramade, 2019).

In their research, (Romano et al., 2020) suggested that there is a influence of significant the presence of women on the board of directors in companies both from a financial perspective and better disclosure of ESG. This demonstrates that the presence of women directors in the company can enhance the company's ESG rating disclosure.

Research by (Jizi et al., 2022) argues that three concepts in the application of sustainability affect the ESG score on improving the company's financial performance in terms of relatively higher returns and stock price values. Besides improving company finances, the ESG score enhances a good reputation. So, it can be concluded that disclosing the ESG score provides a competitive advantage for the company.

Board independence is critical in monitoring and linking the company's strategic policies to the interests and expectations of stakeholders (Al Farooque et al., 2020). This is due to the lack of independence of the board of directors in the company's operations so that supervision in the implementation of sustainability will be more efficient.

Board independence tends to produce better results in decision-making, resulting in improved corporate governance and oversight (Ismail et al., 2019). Consequently, the

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independence of the board of directors can improve the performance and value of the enterprise in implementing its sustainability.

Based on research by Bravo & Reguera-Alvarado (2019), it is stated that meetings or meetings of the board of directors tend to improve reporting practices and lead to better ESG disclosures due to the exchange of opinions, suggestions, and consultations from the board of directors so that decisions are produced that are mutually agreed upon.

Research Tania & Hesniati (2022) also state that in OJK regulations, there is a policy that requires every company to hold a meeting at least once every two months to discuss the problems faced and discuss ESG disclosure strategies and policies that involve companies to increase ESG value company.

Board size is the total number of directors, including executive and non-executive directors (De Masi et al., 2021). In his research, it was also stated that many boards of directors make company oversight more effective, and the size of the board of directors also allows companies to get more professional members in various fields.

Board size significantly affects the firm's ESG score (Arayssi et al., 2020). It was also stated that there were members of the board of directors who had various backgrounds to assist in solving the problems encountered and that there would be various opinions, which could then be concluded into one mutually agreed-upon opinion.

METHODS

In this study, the companies involved have published sustainable reports totaling 454 companies. There are criteria for selecting research objects, i.e., companies that have published sustainability reports over the past five years, from 2017 to 2021. Therefore, 54 companies from various sectors have been determined to become research objects, namely companies listed on the IDX that publish sustainability reports for five consecutive years from 2017 to 2021.

Secondary data, which are annual company and financial reports, will be used to test the available data for research purposes (Verma, 2019). The study consists of 3 variables that become indicators. This variable is constituted by the dependent variable, namely the ESG score. Then, there are independent variables: board gender diversity, board independence, board meetings, and board size. Finally, there is a control variable, namely firm size.

Table 1. Measurements for Each Model

Variable Name	Model Name	Proxy	Source
ESG Score	ESG	Global reporting index (GRI) score on corporate sustainability reports.	(Tettamanzi et al., 2022)
Board Gender Diversity	BGD	The proportion of women directors to total directors.	(García-Sánchez et al., 2020)
Board Independence	BI	The proportion of total independent directors to total directors.	(Arayssi et al., 2020)
Board Size	BS	The number of directors in the company.	(Bravo & Reguera-Alvarado, 2019)
Board Meeting	BM	The number of meetings of the directors of the corporation over a year within the corporation.	(De Masi et al., 2021)
Firm Size	FS	Natural logarithm of total assets.	(Nicolò et al., 2021)

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Source: Data processed (2023)

In this study, descriptive statistical tests were conducted on every variable. Next, a model test method is performed to determine what test model is best to use. Finally, the method of verifying assumptions also determines the effect of each independent variable on the dependent variable. These tests were all conducted to determine the significance of the variables.

RESULTS AND DISCUSSION

The number of companies registered on the IDX up to 2021 is 824. Of the group of companies, there are only 54 companies that publish sustainability reports for five consecutive years. Therefore, the number of samples in this study is 270 data samples. The sample data used in this study can be seen in the table below.

Table 2. Number of Samples In Research

Description	Total
Companies that publish sustainability reports on the IDX	824 companies
Companies that do not meet the criteria	(770 Companies)
The sample companies	54 companies
Total research sample	270 Samples

Source: idx.com (2023)

Table 3. Statistic Descriptive

	Statistic Descriptive				
	N	***Minimum***	***Maximum***	***Mean***	***Std. Deviation***
ESG	270	0,24837	0,90850	0,44130	0,12516
BGD	270	0,64000	1,00000	0,95684	0,07388
BI	270	0.00000	0,33333	0,06798	0,09788
BM	270	4,00000	282,00000	37,14074	29,88520
BS	270	2,00000	17,00000	6,69259	2,48526
FS	270	24,10837	35,08436	31,26928	1,77773

Source: Data processed (2023)

Based on the results of descriptive statistical tests, there are values obtained from 270 samples of companies that have published sustainability reports for five consecutive years. The ESG score ranges from 0.24837 to 0.90850, with an average value of 0.44130 and a standard deviation of 0.12516.

The range of values for the board gender diversity (BGD) variable, which describes the proportion of female directors in a company, is 0.64 to 1. The average value is 0.95684, and the standard deviation is 0.07388. The value of the board independence (BI) variable, the percentage of independent directors in the company on the results of descriptive statistical tests, ranges from 0 to 0.33333 with an average value of 0.06798 and a standard deviation of 0.09788.

The variable number of board meetings (BM), the total number of meetings in a year for a company, ranges from 4 to 282 with an average value of 37.14074 and a standard deviation value of 29.88520. Then, the number of board size variables (BS) explains the number of company directors with values ranging from 2 to 17. The average

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value of this variable is 6.69259, with a standard deviation value of 2.48526. Finally, there is a control variable, firm size (FS), with a ratio ranging from 24.10837 to 35.08436. The average value of FS is 31.26928, with a standard deviation value of 1.77773.

Chow test is used to choose between the Fixed Effect Model or Pooled Least Square. If the likelihood value is less than 0.05, then the model that should be used is the fixed-effect model. If the fixed effect model is selected, it is necessary to carry out the Hausman test. Conversely, if the probability value of the Chow test results is more significant than 0.05, then the least-squared model should be used. Based on the Chow test results below, the probability value of the chi-square cross-section is 0.00000, which is less than 0.05. Therefore, the model to be used is the fixed-effect model which will be monitored by the Hausman test.

Table 4. Chow Test Result

	Chow Test		
Effects Test	***Statistic***	***d.f.***	***Prob.***
Cross-section F	3,15449	(53,211)	0,00000
Cross-section Chi-*square*	157,55408	53	0,00000

Source: Data processed (2023)

After selecting the fixed-effect model, the next step is to select either the fixed-effect model or the random-effect model using the Hausman test. If the probability value obtained from the test results is below 0.05, then the chosen model is the fixed-effect model. Conversely, if the probability value is above 0.05, then the model used is the random-effect model. The probability value on the Hausman test results can be seen in the random cross-sectional test with a value of 0.02670 where the test result is below 0.05. As a result, the test model selected to test the data from this study uses the fixed-effect model.

Table 5. Hausman Test Result

	Hausman Test		
Test Summary	***Chi-Sq. Statistic***	***Chi-Sq. d.f.***	***Prob.***
Cross-section random	12,66959	5	0,02670

Data processed (2023)

According to the test's results below, the probability value is 0.00000. Where the value is less than 0.05, it is thus concluded that the independent variables significantly impact the dependent variable. If the probability value is below 0.05, the independent variables have an essential effect on the dependent variable.

Table 6. F Test Result

	F Test	
Dependent Variable	***F-statistic***	***Probability***
ESG *Score*	3.13317	0.00000

Source: Data processed (2023)

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Table 7. t Test Result

			t Test		
Variable	***Coefficient***	***Std. Error***	***t-Statistic***	***Prob.***	**Result**
BGD	0,10084	0,17653	0,57123	0,56850	Insignificant
BI	-0,30840	0,09840	-3,13408	0,00200	Significant
BM	0,00037	0,00049	0,75528	0,45090	Insiginificant
BS	-0,00064	0,00632	-0,10185	0,91900	Insignificant
FS	0,10836	0,03723	2,91043	0,00400	Significant
C	-3,03207	1,16575	-2,60097	0,01000	

Source: Data processed (2023)

Based on the results of the t-test above, it can be seen that the probability value of BGD is 0.56850, which means that the board gender diversity variable has no significant effect on the dependent variable. The probability value of BI is 0.00200, which means the board variable's independence significantly affects the dependent variable.

Furthermore, the BM probability value is 0.45090, so it can be interpreted that the board meeting variable has no significant effect on the dependent variable. The BS probability value is 0.91900, which means that the effect on the board size variable is insignificant on the dependent variable. Finally, the probability value of the FS control variable is 0.01000, which means that the firm size control variable has a significant effect on the dependent variable.

The regression model may be constructed from the value of the regression coefficient, as follows:

ESG Score = -3,03207 + 0,10084 Board Gender Diversity – 0,30840 Board Independence + 0,00037 Board Meeting – 0,00064 Board Size

The test results on the gender diversity board show that the effect of this variable on the disclosure of the company's ESG score is not significant, so the first hypothesis is rejected. This indicates that the presence or absence of women in the composition of directors in the company does not affect the disclosure of the ESG score.

This study contradicts the research by Jizi et al. (2022), Romano et al. (2020), and (Aabo & Giorici, 2022) state that board gender diversity has a significant effect on the disclosure of ESG scores. The smaller proportion of women on the board of directors, such as only 1 or 2 people in the company, shows no difference with all members of the board of directors consisting of all men (De Masi et al., 2021).

According to (Sánchez-Teba et al., 2021), research indicated that the presence of women in the proportion of firm management in Indonesia tends to be lower. This is because Indonesia still adheres to a patrilineal system or principles in which men dominate decision-making, etc.

Testing the research found that board independence significantly affects the company's ESG score so this assumption can be accepted. This means that the presence of an independent director in the company can increase the disclosure of the company's ESG score.

These results are similar to research (Birindelli et al., 2018) and (Ismail et al., 2019) where the presence of an independent director of a company can increase the value of the ESG score because it adds social and economic credibility to the company so that corporate image also gets better (Romano et al., 2020).

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Independent directors tend to pay more attention to the welfare and environmental activities and usually have a broader perspective than the interests of shareholders. Independent directors know the importance of environmental, social, and other responsibilities for corporate sustainability (Jizi et al., 2022).

In the context of corporate governance, Board Independence encompasses the concept of autonomy. This involves having directors who are not directly tied to the company, ensuring a professional management approach free from conflicts with executives who might disregard regulations related to sound corporate practices (Annisa Widyasari & Khornida Marheni, 2022).

The results of the study show that the effect of board meetings on disclosing ESG scores is not significant, so this hypothesis is rejected. This means that the number of meetings is not something that can increase the disclosure of the company's ESG score. This statement contradicts the research of García-Sánchez et al. (2020) and De Masi et al. (2021). However, this statement is consistent with research that indicates that the disclosure of a company's ESG score will not be impacted by the number of meetings in a year.

Based on the results of testing the data, it is stated that the board size variable has an insignificant effect on the disclosure of the company's ESG score, so the hypothesis is rejected. This means that how many members of the board of directors in the company does not affect the company's ESG score disclosure.

This statement also contradicts the results of studies by Arayssi et al. (2020) and (Albitar et al., 2020) which state that board size significantly affects the disclosure of ESG scores. However, research aligns with this statement, which states that too many directors in a company make it inefficient because it can hinder decision-making (Sulistyo & Hatane, 2020).

CONCLUSION

Most companies listed on the Indonesian stock index have published a sustainability report. Corporate governance consists of the gender on the board, independent director on the board, frequencies of board meetings, and the size of the board influence the sustainability report. The following statement becomes the reason for this research to know the influence of good corporate governance on a sustainability report in ESG Score. The results of this study indicate that gender diversity on boards of directors, Board meetings, and board size variables did not significantly affect the dependent variable, the ESG score. Only one variable significantly affects the disclosure of the ESG score variable, namely board independence. This is an assumption that can be accepted in the context of this study.

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Submitted: January 05, 2024; Revised: -;
Accepted: March 31, 2024; Published: April 30, 2024;
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Volume 8, No. 1/ April 2024, p. 110-118
ISSN 2579-4892 print/ ISSN 2655-8327 online
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