

The Influence of Good Corporate Governance on ESG Risk Scores in Companies Listed on the Indonesia Stock Exchange in 2023

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ABSTRACT

This study aims to analyze the effect of good corporate governance as measured by the proportion of independent commissioners, gender diversity of the board of directors, and sustainability committee on ESG risk scores in companies listed on the Indonesia Stock Exchange in 2023, with profitability and company size as control variables. This study uses a sample of 79 companies assessed by Sustainalytics, taken using purposive sampling technique. The data used is secondary data analyzed using the Statistical Package for Social Sciences (SPSS) version 27 program with data testing techniques based on descriptive statistical analysis, classical assumption test, multiple linear regression analysis and hypothesis testing. The results showed that the proportion of independent commissioners and gender diversity of the board of directors have a negative and significant effect on ESG risk scores. However, the existence of a sustainability committee has no significant effect on the company's ESG risk score. This study proves that increasing the proportion of independent commissioners and gender diversity of the board of directors is effective in reducing ESG risk, while the existence of a sustainability committee has not been proven effective in reducing corporate ESG risk.

Keywords: Corporate Governance, ESG Risk Score, Independent Commissioner, Gender Diversity of Board of Directors, Sustainability Committee

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INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) issues have gained significant attention from various stakeholders, including investors, regulators, and the public. ESG is not only viewed as a measure of corporate social responsibility but also as a strategic factor influencing long-term business performance and sustainability (Eccles et al., 2020). Companies that effectively integrate ESG principles tend to gain a competitive advantage and are better equipped to navigate regulatory changes, social pressures, and global environmental challenges (Friede et al., 2015).

The ESG risk score serves as a key indicator in assessing a company's sustainability and risk exposure related to ESG issues. This score reflects how well a company identifies and manages risks associated with environmental, social, and governance factors. A lower ESG risk score indicates stronger sustainability management and responsible corporate governance (Dienes et al., 2016). Given its significance, understanding the determinants of ESG risk scores is crucial for stakeholders in making informed strategic decisions.

Corporate governance is one of the factors that is believed to have a substantial impact on ESG risk scores. Effective governance enhances transparency, accountability, and risk management, which can positively influence a firm's ESG performance (García-Sánchez et al., 2020). Several key governance aspects examined in previous research include board gender diversity, the proportion of independent commissioners, and the presence of a sustainability committee. Board gender diversity, for instance, is associated with broader strategic perspectives and improved decision-making quality, ultimately leading to better ESG performance (Post et al., 2011).

Furthermore, independent commissioners play a critical role in ensuring corporate transparency and accountability, as they are not directly affiliated with company management. These commissioners act as objective monitors, overseeing compliance with ESG principles. A study by Ararat et al. (2021) found that companies with a higher proportion of independent commissioners tend to disclose ESG-related information more transparently. Similarly, the existence of a sustainability committee is another important factor, as it is responsible for overseeing and implementing sustainability initiatives. Research by Haque & Ntim (2020) highlights that firms with active sustainability committees tend to have higher levels of ESG disclosure compared to those without such committees.

Given this context, this study aims to analyze the impact of corporate governance factors on ESG risk scores. By examining the relationship between governance structures and ESG risk, this research seeks to provide insights for companies, investors, and regulators in formulating more effective sustainability and governance strategies. Additionally, this study contributes to the academic literature on ESG risk determinants and offers practical recommendations for enhancing corporate sustainability performance.

METHODS OF RESEARCH

Research Type and Data Sources

This study employs a causal research design to examine the relationship between independent and dependent variables. The research adopts a cross-sectional approach with a quantitative methodology, utilizing secondary data obtained from the Indonesia Stock Exchange (IDX) website (idx.co.id) and ESG risk scores provided by Morningstar Sustainalytics (sustainalytics.com). The primary data sources include

corporate annual reports for the year 2023 and ESG risk assessments from IDX and Sustainalytics. The selection of 2023 as the research period is based on its relevance to the identified research problem.

Data Collection Method

The study relies on secondary data collected through literature review and document analysis. The literature review involves examining academic sources such as books, journals, research articles, and other relevant references. Additionally, document analysis is conducted by reviewing corporate annual reports and ESG risk scores available through Sustainalytics. This approach ensures that the data utilized in the study is reliable and valid for supporting empirical analysis.

Population and Sampling

The research population consists of all companies listed on the Indonesia Stock Exchange in 2023. A purposive sampling technique is applied, selecting firms that meet specific criteria, including being publicly traded on IDX and having available ESG risk scores from Sustainalytics. The selected sample is based on corporate annual reports and ESG risk assessments derived from a collaboration between IDX and Morningstar Sustainalytics. The sampling method is designed to align with the research objectives and enhance the accuracy of the findings.

Operational Definition of Variables

The study includes independent, dependent, and control variables. The independent variables consist of the proportion of independent commissioners, board gender diversity, and the presence of a sustainability committee (Sugiyono, 2019). The dependent variable is the ESG risk score provided by Sustainalytics (Cheasty, 2019). Control variables include profitability, measured by Return on Assets (ROA), and firm size, calculated using the natural logarithm of total assets (Hirdinis, 2019; Wahyudi, 2021).

Data Analysis Method

Data analysis is conducted using descriptive statistics, classical assumption tests, multiple linear regression, and hypothesis testing. Descriptive statistics summarize the data, including minimum, maximum, mean, and standard deviation values (Ghozali, 2021). Classical assumption tests encompass normality, multicollinearity, and heteroscedasticity tests to ensure that the regression model meets fundamental statistical assumptions (Ghozali, 2021). Multiple linear regression analysis is employed to assess the influence of independent variables on the dependent variable using the following regression model:

$$ESG = \alpha + \beta_1 BI_i + \beta_2 BD_i + \beta_3 SC_i + \beta_4 ROA_i + \beta_5 FS_i + \epsilon$$

Hypothesis Testing

Hypothesis testing is performed using t-tests (partial tests), F-tests (simultaneous tests), and the coefficient of determination (R^2). The t-test evaluates the individual impact of each independent variable on the dependent variable, while the F-test examines the overall influence of all independent variables combined (Ghozali, 2021). The coefficient of determination (R^2) measures the explanatory power of the independent variables in predicting variations in the dependent variable. A higher R^2 value indicates that

the regression model effectively explains the variability of the dependent variable (Ghozali, 2021).

RESULT AND DISCUSSION

Descriptive Statistical Analysis

A descriptive statistical analysis was conducted to examine the ESG risk score as the dependent variable, alongside the proportion of independent commissioners, board gender diversity, and the existence of a sustainability committee as independent variables. Additionally, profitability and firm size were included as control variables. The summary of the descriptive statistics is presented in the following table:

Table 1. Descriptive Statistical Results

	ESG	BI	BD	SC	ROA	FS
<i>N</i>	79	79	79	79	79	79
<i>Mean</i>	29,3215	0,4753	0,205	0,3797	0,0741	30,7466
<i>Maximum</i>	53,10	0,83	0,50	1,00	0,42	37,62
<i>Minimum</i>	12,67	0,30	0,00	0,00	-0,12	21,67
<i>Std. Dev.</i>	9,64793	0,11965	0,17690	0,48842	0,8895	2,65022

Source: Processed Data, 2024

The findings indicate that the average ESG risk score of 29.3215 suggests that most firms in the sample fall into the medium-risk category concerning ESG factors. The ESG risk scores range from a minimum of 12.67 to a maximum of 53.10, with PT Erajaya Swasembada Tbk recording the lowest score (12.67) and PT Adaro Minerals Indonesia Tbk having the highest (53.10). The mean proportion of independent commissioners stands at 47.53%, reflecting a relatively high level of adherence to corporate governance principles. In terms of gender diversity on the board, the average value of 0.2205 reveals that female representation at the board level remains low. Furthermore, only 37.97% of companies in the sample have a dedicated sustainability committee, indicating that ESG oversight structures are not yet widely implemented.

Multiple Linear Regression Analysis

A multiple linear regression analysis was performed to evaluate the impact of independent variables on ESG risk scores. The regression results are summarized in the table below:

Table 2. Multiple Linear Regression Results

Model		Unstandardized Coefficient		t	Sig.
		B	Std. Error		
1	(Constant)	3,958	0,424	9,342	0,001
	Independent Commissioner	-0,806	0,289	-2,787	0,007
	Board of Directors Gender Diversity	-0,706	0,191	-3,700	0,001
	Sustainability Committee	-0,075	0,073	-1,021	0,311
	Profitability	0,283	0,408	0,643	0,444
	Company Size	-0,003	0,014	-0,207	0,905

The estimated regression equation used in this study is as follows:

$$\ln(\text{ESG}) = 3.958 - 0.806\text{BI} - 0.706\text{BD} - 0.075\text{SC} + 0.283\text{ROA} - 0.003\text{FS} + \varepsilon$$

The regression analysis reveals that the proportion of independent commissioners has a negative and statistically significant effect on ESG risk scores ($p = 0.007$). This suggests that companies with a higher proportion of independent commissioners tend to have lower ESG risk scores, indicating better governance and risk management in sustainability practices. Similarly, board gender diversity exhibits a negative and significant influence on ESG risk scores ($p = 0.001$), implying that greater female representation on corporate boards contributes to lower ESG risks. Conversely, the existence of a sustainability committee, profitability, and firm size do not have a statistically significant impact on ESG risk scores, as their p -values exceed the 0.05 threshold. This implies that these factors, in the context of the sampled companies, do not play a decisive role in determining ESG risk exposure.

Coefficient of Determination (R^2) Analysis

The coefficient of determination (Adjusted R^2) was computed to assess how well the independent variables explain variations in the dependent variable. The results indicate an Adjusted R^2 value of 0.230, meaning that the model accounts for 23% of the variance in ESG risk scores. The remaining 77% is influenced by other factors not included in this study.

Hypothesis Testing

A simultaneous hypothesis test (F-test) was conducted to evaluate the collective impact of the independent variables on ESG risk scores. The results show a significance value of 0.001 (< 0.05), indicating that the independent variables, when considered together, have a statistically significant effect on ESG risk scores.

The Influence of Independent Commissioners' Proportion on ESG Risk Scores

The findings of this study support the first hypothesis, which suggests that the proportion of independent commissioners is negatively associated with ESG risk scores. The analysis indicates that a higher proportion of independent commissioners correlates with a lower ESG risk for companies. This aligns with stakeholder theory, which emphasizes that independent commissioners play a crucial role in safeguarding the interests of various stakeholders, ensuring that corporate decisions are not solely driven by short-term profits but also consider sustainability aspects (Agnese et al., 2024; Pane & Nainggolan, 2024). These results reinforce prior research indicating that independent commissioners enhance oversight effectiveness concerning ESG practices. However, these findings contrast with Indriani et al. (2024), who found no significant impact of independent commissioners' proportion on ESG risk. The discrepancy may stem from differences in governance measurement methods and ESG scoring approaches. Regulatory frameworks encouraging a greater proportion of independent commissioners can strengthen corporate governance and reduce ESG-related risks (Arayssi et al., 2020).

The Effect of Board Gender Diversity on ESG Risk Scores

This study confirms that board gender diversity has a negative influence on ESG risk scores, supporting the second hypothesis. The results suggest that greater gender diversity within the board leads to lower ESG risk exposure. A more diverse board enhances the quality of oversight and strengthens risk management in sustainability issues, as female directors tend to be more attuned to environmental, social, and governance concerns (Mallidis et al., 2024). These findings align with research by Menicucci & Paolucci (2024) and Pane & Nainggolan (2024), which indicate that female board members contribute to improved ESG performance and reduced ESG risk scores. However, this study diverges from Manita et al. (2018), who found no significant link between gender diversity and ESG risk. Based on these findings, companies should consider promoting a more balanced gender composition on their boards to enhance sustainability initiatives and mitigate ESG-related risks effectively.

The Impact of Sustainability Committees on ESG Risk Scores

The results indicate that the presence of a sustainability committee does not significantly influence ESG risk scores, leading to the rejection of the third hypothesis. This suggests that the existence of such committees in companies has not yet proven effective in reducing ESG-related risks. These findings contradict research by Setiani & Novitasari (2024), who identified a positive contribution of sustainability committees to ESG performance, even though their direct impact on ESG risk was not statistically significant. However, the results are consistent with the study by Muntaha & Haryono (2021), which found that CSR or sustainability committees do not affect ESG scores. The effectiveness of sustainability committees could be improved by enhancing their roles, increasing members' competencies, and ensuring better integration with the company's broader governance framework. Additionally, clearer regulations regarding the responsibilities, composition, and authority of sustainability committees may be necessary to enable them to play a more substantial role in ESG risk mitigation.

The Influence of Control Variables on ESG Risk Scores

Profitability and firm size were included as control variables in this study, but the analysis reveals that neither has a significant impact on ESG risk scores. Profitability shows a coefficient of 9.034 with a significance level of 0.444, while firm size has a coefficient of -0.048 with a significance level of 0.905. These findings contradict studies by Sharma et al. (2020) and Fatika Masyitoh & Indrabudiman (2024), which reported that profitability and firm size influence ESG performance. The divergence may be attributed to the fact that this study focuses on ESG risk scores as the dependent variable rather than ESG disclosure or performance. The results suggest that in Indonesia, governance factors—such as independent commissioners and board gender diversity—play a more significant role in ESG risk mitigation than financial factors or company size. Consequently, effective ESG implementation does not necessarily depend on a firm's scale but rather on governance structures that are more independent and diverse.

CONCLUSION

This study concludes that the proportion of independent commissioners and board gender diversity have a negative impact on ESG risk scores, highlighting their effectiveness in managing sustainability-

related risks. However, the presence of a sustainability committee does not exhibit a significant influence. Based on these findings, companies are encouraged to strengthen corporate governance by increasing the number of independent commissioners and female directors while also clarifying the role of sustainability committees to enhance their effectiveness. Investors should take governance factors into account when making investment decisions. Future research should consider extending the study period and exploring additional variables, such as ownership structure and board composition, to gain a deeper understanding of their impact on ESG risk.

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