

THE EFFECT OF GENDER DIVERSITY BOARDS ON SUSTAINABLE FINANCIAL REPORTING PRACTICES

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Abstract

This study aims to analyze board gender diversity's impacts on environmental, social, and governance (ESG) disclosure in Indonesia. Companies. This study examined the members of the ESG Leader Index and the IDX Kehati ESG Quality 45 Index. Based on regression analysis, the data results show that the proportion of women on the board of directors significantly reduces the risk level of those companies. The industrial sector and the market capitalization of the company's stock also strengthen the influence of board gender diversity on the company's ESG risk level. Thus, the industry contributes to the follow-up in designing organizational structures and implementing ESG initiatives. The higher the level of capitalization of a company's stock, the greater the company's initiative in increasing the number of women on the board of directors to meet the diversity requirements, thereby reducing the level of ESG risk. This study contributes to the literature on the quality of ESG reporting and the diversity of board gender, especially in emerging economies.

Keyword: Environment, Social, Government, ESG, Gender Diversity, Disclosure

INTRODUCTION

The increasing demands for applying Environmental, Social, and Governance (ESG) principles globally also affect conditions in Indonesia. The increasing demand for applying ESG principles in investment analysis, corporate strategy and decision-making pose challenges to Indonesia's business environment. On the other hand, corporations in Indonesia are still lagging in carrying out business activities based on environmental conservation, social responsibility, and sound governance principles. Based on the ESG Index survey of countries in the world conducted by Corporate Knights in 2019 on Investor.id, Indonesia is ranked 36th out of 47 capital markets. Even Indonesia is ranked below other Asean countries, which are Philippines, Singapore, Malaysia, and Thailand (Alfaruq, 2021).

ESG is a general term used in the capital market and by investors in assessing and evaluating the value of a company and predicting the company's performance in the future. Thus, ESG is a crucial factor in the investment decision-making process. Although the matrix used in ESG does not become a mandatory part of having to be presented in financial reporting, more and more companies are starting to report the presence of ESG in their annual financial reports, as well as as a stand-alone sustainability report.

ESG-based investment is growing and driving change. Based on a survey conducted by PwC, the implementation of ESG-based investment has grown in Indonesia in recent years. Besides being triggered by changes in the global environment, ESG-based investment is also driven by changes in the demand for millennial investors interested in investing in companies that can solve social, economic and environmental problems. In addition, the development of data and analytics also supports the company in providing more varied information, thus enabling the provision of ESG data. ESG-based investment has several equivalent terms, which include sustainable investing, responsible investing, and socially responsible investing.

The implementation of ESG in Indonesia was initiated by issuing the Financial Services Authority Regulation (POJK) 51/POJK/2017 concerning implementing Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation accompanied the launch of the Technical Guidelines for the Implementation of Sustainable Finance for the Banking Sector by OJK in 2018. In Article 2 (POJK) No 51/POJK/2017 regarding the Implementation of Sustainable Finance, it is stated that sustainable finance is implemented using eight principles which include: responsible investment, sustainable business strategies and practices, social & environmental risk management, governance, informative, inclusive communication, development of priority leading sectors, and coordination and collaboration (OJK, 2017).



Figure 1 Aspect of ESG

ESG generally refers to the main aspects of measuring the impact of sustainability and ethics in making decisions to invest in a particular business or company: environmental, social and governance. Investors generally use these three aspects of criteria in considering their investment decisions. On the environmental aspect, the ESG provides indicators that assist investors in considering how the company is performing in an environmentally friendly manner. Environmental aspects include the efforts made by the company to prevent natural damage, such as climate change, reducing carbon emissions, preventing pollution and water scarcity, and reforesting forests. On the social aspect, investors consider the way companies manage working relationships with employees, suppliers, customers and the communities. Thus, the social aspect includes several indicators of caring and interdependence in the social sphere, such as consumer satisfaction, data security, gender inclusion and diversity, community relations and mental health. In the aspect of governance, investors consider how the company builds leadership in implementing the good governance. Corporate governance will be reflected in the structure of the board of directors & board of commissioners, remuneration system for the directors and senior management, the audit system, internal control, and the protection of the rights of both majority and minority shareholders.

The implementation of ESG positively improve business performance and increasing issuers' share price, attracting investors, developing markets, enhancing the company's brand, increasing business networks, increasing customer loyalty, and opening complete access to financing sources. Guidelines for the Implementation of Sustainable Finance are intended to support the role of financial reports in improving social and environmental performance in Indonesia towards a sustainable approach in line with international standards and best practices. With the existence of the POJK, companies in Indonesia are expected to consider the social and

environmental risk management in the projects they support funding, considering the contribution to greener, climate-friendly and socially impacting businesses.

The joining of the IDX has demonstrated this effort to develop sustainable investment and improve ESG practices to become a member of the United Nations Sustainable Stock Exchange (SSE) Initiative in April 2019 and through various initiatives outlined in the Sustainable Finance Action Plan (PWC, 2021). In addition to joining the SSE Initiatives, the Indonesia Stock Exchange (IDX) launched the ESG index, namely the IDX ESG Leader, at the end of 2020 to stimulate ESG practices and trigger the implementation of sustainable investment in the Indonesian capital market and drive capital flows into the country. The IDX ESG Leader Index is an index that is intended to measure the performance of stocks with good assessment results on environmental, social and governance (ESG) components, transaction liquidity levels and sound financial performance. IDX collaborates with Sustainalytics and sets several criteria for companies included in the IDX ESG Leaders Index. The criteria include shares of companies originating from the IDX 80 Index with an ESG risk score and shares that do not have/are involved in significant controversy, excluding shares with both high and severe ESG risk scores. Meanwhile, on December 20, 2021, the Indonesia Stock Exchange launched a new index based on ESG and Indonesia's Biodiversity called the ESG Quality 45 IDX Kehati Index. The index contains 45 stocks that meet the ESG performance criteria and the company's financial quality and have a good level of liquidity. In addition, the shares included in the index are those of companies that do not have a core business in 9 KEHATI negative screening sectors, including 1). pesticides, 2). nuclear, 3). weaponry, 4). tobacco, 5). alcohol, 6). Pornography, 7). Gambling, 8). genetically modified organisms, 9). coal mining.

Recently, the issue of CSR and ESG disclosure has received more attention, as well as the issue of gender-based board diversity. Female directors tend to support ESG initiatives because women have different characteristics from men. The first factor is that women reportedly have different perceptions of their leadership roles. The second factor is those female directors have significant differences in educational background, communication style, experience, and personality. The third factor is that women tend to be more risk averse and ambiguity averse than men in decision-making.

Board diversity is the diversity in a board of directors' membership structure on several individual characteristics, which include gender, ethnicity, citizenship, education, ability, and others. Board gender diversity is gender diversity in the board of directors of an organization. Research Ben-Amar et al., (2017) analyzed the gender diversity's effect on the board of directors on organizational financial reporting, specifically examining the effect of gender diversity on the board of directors on financial reporting in Canada. Meanwhile, Wasiuzzaman & Wan Mohammad (2020) found that the presence of female directors on company boards in Malaysia increased the transparency level of ESG disclosure. This found is align with research by Ramon-Llorens et al. (2021), which states female directors who have technical skills and specific abilities can contribute to stakeholders and social issues so that they can support CSR disclosure. Nevertheless, on the other hand, women with political and social connections reduce the transparency of CSR. Research on the disclosure of sustainability reports in Indonesia by Tarigan & Samuel (2015) shows that the economic dimension of the sustainability report does not affect financial performance, while environmental and social harm financial performance.

The study aims to understand the effect of gender diversity at the board of directors level on increasing financial reporting transparency. This is an important issue for investors since that today's investors have a high interest in observing company transparency in terms of financial and non-financial activities, which include corporate responsibility towards social and environmental issues (Arayssi et al., 2020; Wasiuzzaman & Wan Mohammad, 2020). Currently, the gender equality issue in the world of work is growing, and more and more women are entering senior leadership positions, including at the board of directors level.

Several parties are involved in the financial reporting process in a corporate governance structure. These parties are the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the audit committee, and the board of commissioners. In the company's financial reporting, the CEO and CFO are the parties with direct involvement, considering that they are the parties who signed the financial statements and are responsible for the financial information. On the other hand, the board of commissioners and the audit committee have indirect involvement, considering that they both play a role in the oversight and review functions of the information presented. A diversified and independent board of directors and an environmental committee can align the company's financial and non-financial goals with limited resources and moderate the expectations of stakeholders with varying interests (Liao et al., 2015). The literature study by Rao & Tilt (2015) reviewed the relationship between gender diversity and CSR decisions using qualitative and longitudinal studies. The results of this study indicate that research has been conducted to link board diversity with the company's financial performance and should be developed in exploring how the board proceeds to make CSR decisions. In addition, examining the qualitative and quantitative effects of gender diversity on CSR decisions is necessary.

This research has two motivations. The first is that differences arising from gender will affect decision-making. Executives and directors will make decisions affecting financial reporting quality, efficiency and timeliness. Previous research in corporate finance, corporate governance and accounting found differences characteristics between men and women in the context of managerial and decision-making by the board. These studies state that top-level executives and female directors are more risks averse, tend to be less confident in decision-making, are more diligent, and want a higher intensity of supervision than top-level executives and female directors (Harjoto et al., 2015). The second thing is related to the previous studies results which analyzed the influence of gender on management & board decision-making. Research shows that women are often significantly underrepresented in leadership roles due to social discrimination, which states that women as minority individuals need higher education and more work experience to gain organizational roles. In addition, social discrimination will continue to be experienced after the individual has obtained a leadership position, for example, being blamed when the company's performance declines, in addition to problems with gaps in wages, glass ceilings, and scarcity in the labour market. These create social inequalities and challenges, as well as external pressures on top-level executives and female directors, which lead to being more risk averse and wanting more certainty, for example, in terms of reliability of financial reporting and timely audit reporting. Previous studies that examined the relationship of gender to financial reporting behaviour showed varying results regarding the effect of the presence of a female CEO associated with the quality of financial statements. Researchs by Ben-Amar et al. (2017), Ramon-Llorens et al. (2021), Wasiuzzaman & Wan Mohammad (2020) managed to find evidence that women's participation in boards is positively correlated with voluntary disclosure regarding ESG.

The board of directors is the centre of the company, which deals with company performance and financial reporting activities. Therefore, the relationship between the board of directors' characteristics and the tendency of financial statement fraud in companies is an issue that needs to be analyzed further, considering that it can have a significant impact on users of financial statements Kamarudin et al. (2018). Previous research has shown that women tend to be more ethical when judgments making and behave more ethically than men. Meanwhile, women tend to be more risk-averse than men. Gender differences from the company's top management will affect the decision-making and direction of company policies. Associated with avoiding violations of financial reporting rules, gender diversity in top management can indeed be assumed to have financial reporting decisions implications.

The results of previous studies and the phenomenon of gender equality in Indonesia are interesting for researchers to determine the effect of gender-based board diversity on violations of financial reporting rules in Indonesia. In the practice of gender-based board diversity, the researcher wants to analyze gender differences at the corporate executive level on ESG performance reporting initiatives. Is there a difference between female executives and male executives? In this study, researchers examined the effect of gender diversity in the board of directors, on ESG performance level in Indonesia. The company seeks to display its best performance in financial statements to attract the interest of stakeholders. This is why management intends to present the ESG performance report. This study aims to analyze the effect of gender board diversity on sustainable financial reporting in Indonesia, namely in the form of reporting on ESG performance.

LITERATURE REVIEW

The Need for Sustainable Financial Reporting

The growing demand for corporate social responsibility reports in Indonesia and ASEAN countries is increasingly getting the attention of the public and shareholders is a big step for improving the quality of governance, responsibility and accountability in the business sphere. Countries in ASEAN have taken steps that have a severe impact of increasing disclosure of their CSR activities. In Indonesia, the demand for reporting on CSR activities is considered a mitigation and value-creation strategy. However, on the other hand, ESG also increases risk exposure for several organizations, both market and industry, because it creates greater complexity for companies, both in applying corporate social responsibility to social and performance issues, as well as transparency in reporting financial activities (Ben-Amar et al., 2017).

Boards Gender Diversity

Board diversity refers to the board of directors' ethnicity, race, gender, and nationality (Cucari et al., 2018). However, the notion of diversity in the board composition can be seen as a mixture of several factors in the board, not only about the composition of the disparity (male/female) or geographical characteristics but also factors such as differences in skills, knowledge and expertise of board members from various backgrounds and varied industries. Directors who can obtain external resources and maintain relationships with external organizations can then provide a supply of social capital. Several previous studies have concluded that board diversity influences company decisions regarding the availability of more diverse perspectives and non-traditional viewpoint to solving problems (Liao et al., 2015). A more diverse board of directors gives a better signal in understanding the business environment, enhances the ability of the board of directors to recognize diverse shareholder groups interest, and provides benefits from individual experts through various types of provisions essentially prestige, finance and knowledge.

The BOD is essential in allocating external resources and managing relationships with external. The approach states that a BOD who can perform efficiently will be able to provide an image, background, expertise, capabilities, reputation, and network to organizations outside the company. Thus, a diverse board will increase the information flow that will influence the process of decision-making. Among all of board diversity attributes, the combination of diverse board gender (female directors on the board) and the characteristics of the board deserve attention to explore how gender affects managerial decisions related to financial reporting (Rao & Tilt, 2015).

Stakeholder & Shareholder Theory

The stakeholder theory is one of the main theories used as a grand theory in explaining the topic of sustainable financial reporting (Wasiuzzaman & Wan Mohammad, 2020). Stakeholder theory was first coined by Edward Freeman (1984), which aims to eliminate the gap in shareholder theory, which explains that corporate managers have a broader scope so that all their actions and activities in business can have an impact. The impact that stakeholders can cause includes several parties: suppliers, creditors, consumers, competitors, employees, and the community that the business operates.

The theory of shareholder was coined by Milton Friedman (1970) in the article "The Social responsibility of Business to increase Profit". In the article, Friedman argued that every business's primary and sole responsibility is to increase and maximize shareholder profits because shareholders own the business. In shareholder theory, the management's main objective is to maximize shareholder value because managers are hired as agents to run the business for the principal's benefit. Therefore, managers have a moral and legal obligation to assist shareholders.

Financial Statements

According to Kasmir (2011) in Tussiana & Lastanti (2017), financial statements are data about the state of a company that is needed by individuals who invest in companies. Statements of financial position, changes in equity, profit or loss, cash flows, and notes to financial statements are components of a complete financial statement. Financial statements prepared based on the components and applicable provisions for comparison with the previous financial period.

According to Kieso et al. (2014), financial statements aim to describe the company's financial situation so that financial statement supporters can make decisions. Users can influence the decisions if relevant information is available at the right time. The information contained in it can show the condition of the company and how the company fulfils its obligations in the short & long term, the assets's use and distribution, as well as the incurred costs.

The data in the financial statements must be helpful, and the characteristics are easy to understand to assist users in determining the decisions that must be taken. It is assumed that users must have knowledge of economic, business, and accounting activities and be willing to learn them to evaluate the actions taken. Financial statements must be presented honestly and describe the actual situation so that the information produced can be relied on by users. In the financial statements, there are several periods of purpose so that they can be compared to make it easier for users.

HYPOTHESES DEVELOPMENT

Board diversity is the heterogeneity in a board of directors membership composition on several individual characteristics, which include gender, ethnicity, citizenship, education, ability, and others. Board gender diversity is gender diversity in the board of directors of an organization. Orazalin (2020) analyzes the effect of gender diversity on the board of directors on organizational financial reporting, which specifically examines the effect of gender diversity on the board of directors on financial reporting. This study aims to understand the effect of gender diversity at the board of directors level on increasing financial reporting transparency. Women directors have a tendency to support ESG initiatives because women have a number of different characteristics from men, including different perceptions of their leadership roles, experience, educational background, personality, and communication style, as well as a tendency to be more risk averse and ambiguity averse than men, in terms of decision making. With the proportion of women on the board of directors, it will reduce the risk of ESG.

H1 : Board gender diversity has a negative effect on the level of ESG risk

In the capital market, the IDX grouped companies into categories of similar industrial sectors. Meanwhile, the type of industry variable uses dummy numbers 1-9 which shows the category of type of industry based on the grouping used in the IDX. Companies that are in the industrial sector group that have an impact on the preservation of the earth tend to put more effort into showing ESG performance for the public and the general public.

H2: Type of industry strengthens the effect of board gender diversity on the level of ESG risk

Market capitalization or market cap is one indicator of the performance of a stock, which is related to the fundamentals of a company. For investors, market cap is a measure that shows the size of the company. Market capitalization shows how much exposure a company has to the public. The larger the market capitalization of a company, the stronger the company's initiatives in carrying out ESG efforts. Thus, the greater the market capitalization, it will give the more substantial effect of board gender diversity on the level of ESG risk.

H3: Market capitalization strengthens the effect of board gender diversity on the level of ESG risk

METHOD

This study aims to analyze the effect of gender board diversity on sustainable financial reporting in Indonesia, namely in the form of reporting on ESG performance. This study applies a deductive approach because it focuses on developing hypotheses based on a theory. The scope of this research is the accounting field, especially financial accounting with the specific scope of discussion is the level of presentation and disclosure of the company's ESG performance.

The population in this study are companies on the Indonesia Stock Exchange's list. Established the purposive sampling method, the sample selection focused on companies that have implemented ESG and have a good reputation for ESG performance, which IDX categorized into the IDX ESG Leaders Index and the IDX Kehati Quality 45 ESG Index on the IDX.

The IDX ESG Leader Index is an index that is intended to measure stock performance of stocks with a reasonable assessment of the environmental, social and governance (ESG) components, the level of transaction liquidity and financial performance. In determining ESG Leaders Index, the IDX sets several criteria, including shares of companies originating from the IDX 80 Index that have an ESG risk score, stocks that do not have high controversy, excluding stocks with high or heavy ESG risk scores. The data on the companies included in the index are obtained from the IDX website.

Variables and Measurements

a) Independent Variable

The independent variable studied in this study is gender diversity in the board of directors as measured by analyzing the proportion of female commissioners in the sample companies. The variable proportion of the female board of commissioners will be measured by using the percentage of the number of women on the board of directors, divided by the total number of members on the board of directors. This proxy adopts one of the 3 proxies conducted in the research of Ben-Amar et al., (2017) in measuring board gender diversity.

b) Dependent Variable

The dependent variable studied in this research is the presentation of sustainable financial statements, as measured by the ESG risk rating. The company's ESG risk rating data is

obtained from the Sustainalytics website, which is an independent institution that measures and ranks the ESG risk and performance of companies in the world. Sustainalytics measures ESG risk at the company level by measuring ESG risk that cannot be managed using a set of MEI, thus only considering a number of issues that provide substantial potential for the company's economic value. The company's ESG measurement covers several aspects including: corporate governance, MEI, and idiosyncratic risk. Idiosyncratic risk is unsystematic risk, ie risk that is not correlated with market risk. The ESG risk rating is categorized into 5 risk levels, as follows:

Table 1 ESG Risk Rating

Neglible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	>40

The ESG risk rating is designed to assist investors in identifying and understanding the financial material of ESG risk in the company's portfolio and understanding the effect of these risks on the company's performance.

c) Moderating Variable

There are 2 moderating variables used in this study, namely the type of industry and market capitalization variables. In the capital market, the IDX grouped companies into categories of similar industrial sectors. Meanwhile, the type of industry variable uses dummy numbers 1-9 which shows the category of type of industry based on the grouping used in the IDX. Each company used in the sample already has a particular type of industry, which will then be used in dummy categorization 1-9. There are 9 categories of industrial sectors used which stated in Table 3.2:

Table 2 Industry Types

No	Type
1	Agriculture
2	Mining
3	Basic and Chemical
4	Various Industries
5	Consumer Goods
6	Property, Real Estate and Building Constructions
7	Infrastruktur, Utilities and Transportation
8	Financial
9	Trade, Services and Investment

Market capitalization or market cap is one indicator of the performance of a stock, which is related to the fundamentals of a company. Market capitalization is the aggregate the company's market value. The calculation of market capitalization is based on the total multiplication of the number of company outstanding shares traded in the market with the company share price. Market cap is used by investors to measure the company quality. For investors, market cap is a measurement of the the company size. The market cap data is taken from data on the Indonesia

Stock Exchange website which is collected at one point in time. Related to data processing, the market cap value will be logged to deal with too significant variations in data.

Table 3 Research Variables

Variable Type	Variable Name	Variable Structure
Dependent Variables	ESG Risk Rating	ESG Risk Rating
Independent Variables	Boards Gender Diversity	Proportion of female board of commissioners
Moderating Variables	Market Capitalization	Log Capital Market
	Type of Industry	Dummy Numbers 1-9 which indicate industry type

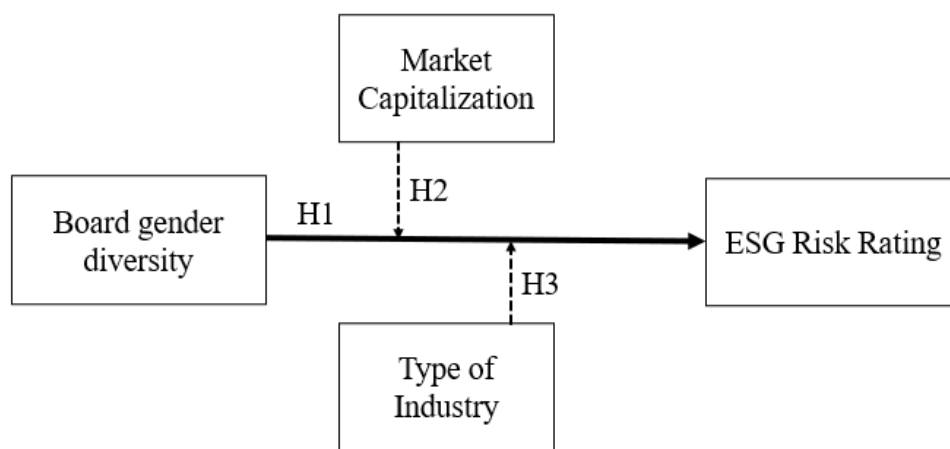


Figure 2 Research Model

DATA ANALYSIS TECHNIQUE

The tests that will be carried out include the test of descriptive statistic, classical assumption tests, and hypothesis testing. In testing the hypothesis, there are 3 types of tests, namely testing the effect of board gender diversity on sustainable financial reporting, testing the effect of market capitalization in moderating the effect of board gender diversity on sustainable financial reporting, and testing different types of industry on sustainable financial reporting. Statistical testing will be carried out using the SPSS application.

RESULTS AND DISCUSSION

This study aims to analyze the effect of gender board diversity on sustainable financial reporting in Indonesia in the form of reporting on ESG performance. This study applies a deductive approach because it focuses on developing hypotheses based on a theory. The scope of this research is the field of accounting, especially financial accounting with the specific scope of discussion being studied is the level of presentation and disclosure of the company's ESG performance.

Sample and Population

This purpose of the study is to analyze the effect of gender board diversity on financial reporting, specifically the application of ESG disclosure in Indonesia. The population are companies listed on the Indonesia Stock Exchange. The sample is limited to companies that

implement ESG, which are companies in the IDX ESG Leaders Index and the IDX Kehati Quality 45 ESG Index on the IDX.

The IDX ESG Leader Index is an index that is intended to measure stock performance of stocks with a reasonable assessment of the environmental, social and governance (ESG) components, the level of transaction liquidity and financial performance. In determining IDX ESG Leaders Index, the IDX sets several criteria, including shares of companies originating from the IDX 80 Index that have an ESG risk score, stocks that do not have high controversy, and do not include stocks with high or heavy ESG risk scores.

Until 2022, IDX has issued a number of shares selected in the IDX ESG Leader index, namely for the 2020/2021 period and the 2021/2022 period. IDX conducts periodic evaluations of IDX ESG Leaders, namely the significant evaluations are carried out in early March and September, while minor evaluations are carried out in early June and December. The issuer's stock selection is supported by Sustainalytics, an independent institution that conducts ESG risk assessments of companies around the world. Based on these criteria, the following is a detailed list of shares of the IDX ESG Leaders Index and the IDX Kehati ESG Quality 45 Index during 2020 to 2022 as follows:

Table 4 Research Sample Selection Criteria

No	Indeks	Number of Sampel
1	IDX ESG Leaders 2020 on December, 2020	30
2	IDX ESG Leaders 2021 on June-September 2021	30
3	ESG Quality 45 IDX Kehati di BEI on December, 2021 until June, 2022	45
4	Less: Companies that are included in the index more than 1x will be counted as 1 sample	(40)
5	Less: Stocks of companies whose ESG scores are not on the Sustainalytics website	(7)
Total Sample used in data processing		58

Descriptive Statistical Analysis

Descriptive statistical test aims to identify patterns of information in a data and present information about the data. The variables include sustainable financial reporting variables, boards gender diversity, market capitalization and type of industry. The following figure shows an overview of the proportion of the research sample based on the distribution of industry types and the level of ESG risk:

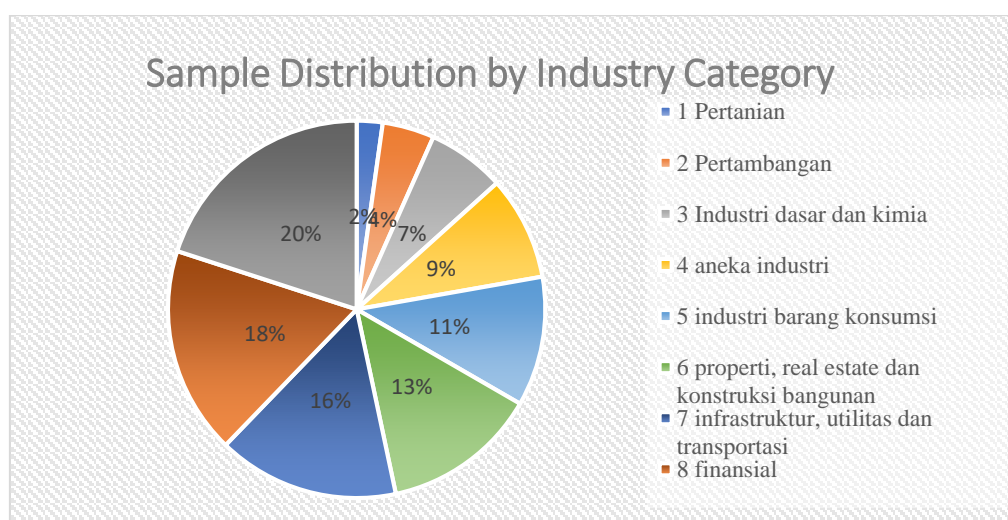


Figure 3 Distribution of Samples by Industry Category

Based on the distribution of samples by industry category, the number of samples of company shares mostly came from the types of trade, services and investment, namely 13 companies. However, the minimum number of samples comes from the agricultural industry, which is only 1 company. This proportion shows that most of the companies that fall into the IDX ESG Leader category are companies engaged in trade, services and investment.

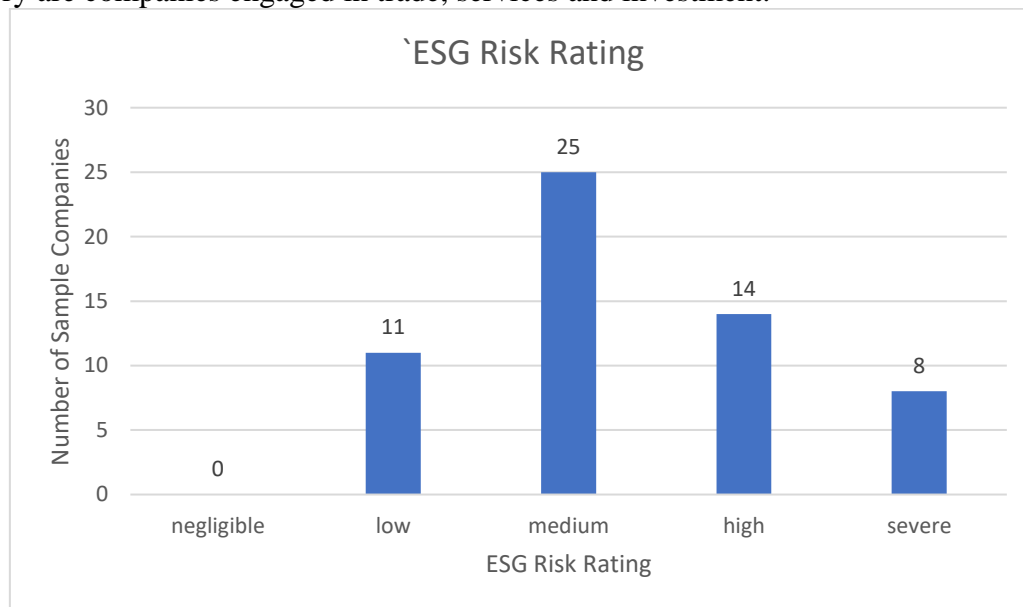


Figure 4 Distribution of Samples based on ESG Risk Rating

Based on the distribution of samples according to the ESG risk rating category, the most significant number of samples is at the medium risk level, which is as many as 25 companies. There are 14 companies at high ESG risk level, 11 companies at low ESG risk level and 8 companies at severe risk level (very high risk). This proportion shows that most of the companies that fall into the IDX ESG Leader category are companies that are at a medium ESG risk level.

Based on descriptive statistical analysis conducted on the ESG, WOCB, log market cap level variables. The minimum ESG risk level is at 11.30, while the maximum ESG risk level is at 45.10 with an average of 28.26. The number of WOCBs or women in corporate boards in companies is at least 0, and at most is 5 with an average of 1.2. If you look at the percentage of women in corporate board (WOCB), the minimum percentage is 0, and the maximum percentage of WOCB in the sample is 71% and the average is 17%. Based on the market cap log value, the minimum market cap log value is 0.08 and the maximum is 2.95 with an average of 1.40.

Table 4.2 Descriptive Statistic Analysis

	Minimum	Maksimum	Mean	Std. Deviasi
ESGRating	11,30	45,10	28,2603	9,08484
WOCB	0,00	5,00	1,2069	1,22487
PWOCB	0,00	0,71	0,1702	0,17268
LogMarketCap	0,08	2,95	1,4084	0,63240

Classic Assumption Test

Normality test is a test carried out to determine the distribution pattern of the data used in research, so that researchers can determine the appropriate statistical test in testing research

hypotheses. To determine the normality of data distribution using Kolmogorov-Smirnov, SPSS refers to the value of Sig. in the Shapiro-Wilk column. The sig value shows significance or is called the p value or probability value. The test results show a value of 0.200 more than 0.05, it can be said data is typically distributed.

Table 5 Kolmogorov-Smirnov One-Sample Test Results

Variabel	n	Asymp. Sig (2 -tailed)
ESG Rating	58	0,200

Multicollinearity Test Result

There is no multicollinearity problems in the model if the tolerance value is > 0.1 and the VIF value is < 10. The statistical test results show that the research model is free from multicollinearity problems.

Table 6 Multicollinearity Test Result

		Sector	PWOCB
Collinearity Statistics	Tolerance	0,955	0,955
	VIF	1,047	1,047

Autocorrelation Test Result

The regression model has a D-W Test of 2.138 which is in the area where no autocorrelation problem. Thus the estimation regression model does not contain problems autocorrelation.

Table 7 Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,514 ^a	0,264	0,237	7,93320	2,138

Heteroscedasticity Test Result

Sig value of all sector variables = 0.764 and Sig of PWOCB variables = 0.707. Sig value of all independent variables is greater than = 0.05. The test decision is not to reject H0. This means that the estimated regression model does not contain heteroscedasticity problem.

Table 8 Heteroscedasticity Test Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30,839	1,625		18,977	0,000
	PWOCB	-15,151	6,732	-0,288	-2,250	0,028

a. Dependent Variable: ESGRating

Simple Linear Regression Test

To resolve the effect of the board gender diversity variable on the ESG level, a test of linear regression was carried out using the SPSS statistical tool, and the following output was produced:

Table 9 Linear Regression Test Result

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	71,795	29,060		2,471	0,017
	Sector	-1,329	4,396	-0,042	-0,302	0,764
	PWOCB	-21,898	57,857	-0,052	-0,378	0,707

Based on the results of simple linear regression testing on the effect of board gender diversity and type of industry on the ESG risk rating, the following equation is obtained:

$$ESG = 30,839 -15,151 WoCB$$

ESG : ESG Risk Categorization

S : Industry Categorization

WoCB : Percentage of Women in Corporate Board

Table 10 Multiple Linear Regression Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,288 ^a	0,083	0,067	8,77728

a. Predictors: (Constant), PWOCB

Based on the test on the effect of the board gender diversity variable as measured by the women percentage on the board of commissioners (PWOCB) on the ESG rating, it is known that the model has an Adjusted R Square value of 0.067. This value indicates that the board gender diversity variable studied in this study is able to explain 6.7% changes in the company's ESG ranking, while the 93.3% is influenced by other variables.

Table 11 F-Test Result

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	390,185	1	390,185	5,065	0,028 ^b
	Residual	4.314,274	56	77,041		
	Total	4.704,459	57			

The results of the F test on the research model show that the model has a significance level of 0.028 which is smaller than the p-value. So, it can be concluded that the board gender diversity variable can explain the changes that occur in the dependent variable studied, namely sustainable financial reporting.

Table 11 t-test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	30,839	1,625		18,977	0,000
	PWOCB	-15,151	6,732	-0,288	-2,250	0,028

a. Dependent Variable: ESGRating

Based on the test results on the effect of the sector type variable and the proportion of women on the board of directors, it is known that the board gender diversity has a negative effect on the level of ESG risk. These results can be seen from the variable coefficient, namely -15.151 and a significance level of 0.028 which indicates that the board gender diversity has a negative/inverse and significant effect on the level of ESG risk. The conclusion shows that hypothesis 1 which states that board gender diversity has a negative effect on the level of ESG risk is supported.

The second hypothesis purpose is to test the effect of the the type of industrial sector as moderating variable, in the relationship between the board gender diversity variable and the ESG ranking. This test is done by comparing the difference in the value of R square before and after entering the moderating variable in the regression equation.

Table 12
T-test Result Before Including Industry Type as Moderating Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,288 ^a	0,083	0,067	8,77728

a. Predictors: (Constant), PWOCB

Table 13
T-test Result After Including Industry Type as Moderating Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,520 ^a	0,270	0,230	7,97404

a. Predictors: (Constant), PWOCBXSECTOR, Sector, PWOCB

Based on the comparison of test results on the effect of moderating variables in the form of sector types, it is known that there is an increase in the value of R square. The value of R Square before there is a moderating variable is 8.3%, and then the value of R Square after there is a moderating variable is increased to 27%. These changes indicate that the type of industry strengthens the effect of board gender diversity on the level of ESG risk, so it can be concluded that hypothesis 2 is supported.

Testing the third hypothesis is to test the effect of the moderating variable, namely the market capitalization variable, in the relationship between the board gender diversity variable and the ESG ranking. This test is done by comparing the difference in the value of R square before and after entering the moderating variable in the regression equation.

Table 14
T-test Result Before Including Market Capitalization as Moderating Variable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,288 ^a	0,083	0,067	8,77728

a. Predictors: (Constant), PWOCB

Table 15
T-test Result After Including Market Capitalization as Moderating Variable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,357 ^a	0,128	0,079	8,71832

a. Predictors: (Constant), LogMarketCap, PWOCB, PWOCB \times Marketcap

Based on the comparison of the test results on the effect of the moderating variable in the form of the level of market capitalization, it is known that there is an increase in the value of R square. The value of R Square before there is a moderating variable is 8.3%, and then the value of R Square after there is a moderating variable is increased to 12.8%. These changes indicate that the level of market capitalization strengthens the effect of board gender diversity on the level of ESG risk so that it can be concluded that hypothesis 3 is supported.

Table 16 Hypotheses Test Results

Hipotesis	Indicators	Keputusan
Board gender diversity has a negative effect on the level of ESG risk	Sig 0,028	H1 supported
Type of industry strengthens the effect of board diversity on the level of ESG risk	The moderating variable increases R square by 19%	H2 supported
Market capitalization strengthens the effect of board diversity on the level of ESG risk	Moderating variable increases R square by 4.5%	H3 supported

Discussion

The Effect of Gender Diversity Board on ESG Risk Level

Based on the results of testing the first hypothesis, it is found that the board gender diversity has a negative and significant effect on the level of ESG risk. The results of statistical testing show that the board gender diversity as measured by the percentage of women in the composition of the board of directors has a negative effect on the level of ESG risk. The higher the percentage of women on the board of directors, the lower the ESG risk level. This is in line with the characteristics of women who tend to be more ethical when making judgments and have more ethical behavior than men, and women tend to be more risk averse than men. Gender differences from the top management of the company will affect the decision making and direction of company policies. Associated with avoiding violations of financial reporting rules, gender differences from top management of the company can certainly be assumed to have implications for financial reporting decisions, namely in the presentation of sustainable financial statements.

The Effect of Industry Type in Strengthening the Effect of Gender Diversity Boards on ESG Risk Level

Based on the results of testing the second hypothesis, it is found that the type of industry strengthens the effect of board gender diversity on the level of ESG risk. The results of statistical testing indicate that the type of industry can moderate the relationship between the influence of board gender diversity on the level of ESG risk. These results indicate that in certain industrial sectors, companies have special considerations in designing the composition of the board of directors and conducting sustainable financial reporting in the context of ESG. If the company is in a business sector with a high risk of ESG, the company will be stronger in taking initiatives to adjust the proportion of diversity in the organizational structure.

Effect of Market Capitalization in Strengthening the Effect of Board Diversity on ESG Risk Level

Based on the results of testing the third hypothesis, it is found that market capitalization strengthens the effect of board gender diversity on the level of ESG risk. The results of statistical tests show that market capitalization can moderate the relationship between the effect of board gender diversity on the level of ESG risk. These results indicate that in companies with a certain level of market capitalization, companies have special considerations in designing the composition of the board of directors and conducting sustainable financial reporting in the context of ESG. If the company is at a large capitalization level, and faces a lot of public exposure, the greater the company's intention to take initiatives to adjust the proportion of diversity within the organizational structure to achieve lower ESG risk. This is in line with the signal theory that companies will try to give a good signal to the public by carrying out various initiatives that show good performance.

CONCLUSION

This study aims to analyze the variables that can affect sustainable financial reporting in Indonesia, namely in the form of reporting on ESG performance. Specifically, this study examines the effect of board gender diversity on ESG risk in companies that are members of the ESG Leader Index and the IDX Kehati ESG Quality 45 Index. This study analyzed 58 sample companies and tested using regression analysis. The results obtained from data processing are as follows:

1. The proportion of women on the board of directors has a significant effect on reducing the company's ESG risk level.
2. The industrial sector also has an influence in strengthening the influence of board gender diversity on the company's ESG risk level, thus the industrial sector contributes to the company's follow-up in designing organizational structures and carrying out ESG initiatives.
3. The level of market capitalization of the company's stock has an effect on strengthening the effect of board gender diversity on the company's ESG risk level. The higher the level of capitalization of a company's stock, the greater the company's initiative in increasing the proportion of women on the board of directors to meet the diversity requirements, thereby reducing the level of ESG risk.

Suggestion

This research involves several indicators including ESG ranking, board gender diversity, type of industry sector and total market capitalization. Researchers collect data at one time, so there is a possibility of not being able to detect changes in variable data that occur at a certain point

in time. Further research can consider collecting data in more detail for each period, to be able to monitor any changes in the data that occur. For further researchers, it can also involve other variables that can affect the company's ESG performance.

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