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Quality of Sustainability Disclosure, Foreign Board, and Firm Performance? Evidence from Indonesia

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Abstract
Purposes: This study intends to investigate the impact of sustainability disclosure and foreign board quality on firm performance. This research also analyzes the impact of each category of sustainability disclosure quality on company performance.
Methods: General Least Square (GLS) is the analytic method used to test the hypothesis. 315 observations from 46 chemical and basic industries compose the sample.
Findings: This study reveals that the quality of sustainability disclosure and the presence of foreign boards have a considerable favorable impact on the performance of companies. Then, the additional study revealed that the social and environmental categories had a considerable positive impact on the organization's success. In addition, there is no correlation between the economic category and the company's performance.
Novelty: To the author's knowledge, this is the first study to examine Indonesia's chemical and basic industrial sectors. This research is distinctive in that it employs a more thorough sustainability disclosure quality measurement, namely developing a measuring instrument with analysis content based on GRI Guidance. Then, this study examines the relationship between the quality of sustainability disclosure and firm performance.

Keywords: *Sustainability Disclosure, Foreign Board, Firm Performance.*

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INTRODUCTION

In recent decades, the relationship between sustainability, corporate governance (CG), and business performance has been a major issue of study among scholars and practitioners worldwide (Mardnly et al., 2018; López-Quesada et al., 2018; Rinsman & Prasetyo, 2020). Although many studies have tried to evaluate the relationship, this topic will never be resolved, especially regarding the connection between sustainability and firm performance. This is due to growing public and stakeholder knowledge about sustainability challenges (Erin et al., 2021; Ifada & Indriastuti, 2021; Naciti, 2019; Zhang et al., 2020). In line with that, the member states of the United Nations have decided that all countries must apply the sustainability principles outlined

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in the idea of the sustainable development goals (SDGs) (Naciti, 2019).

On the other hand, previous studies have found inconsistent results. The effect of sustainability on firm performance is positively significant (Casado-Díaz et al., 2014; Devie et al., 2020; Jha & Aggrawal, 2020). Nonetheless, it was discovered that sustainability does not affect firm performance (Lin et al., 2020). Similarly, research analyzing CG and company performance is essential. Multiple studies have determined that CG improves firm performance (Chakroun et al., 2020; Rodriguez-Fernandez, 2015; Aldhamari et al., 2020). However, a negative relationship was also discovered (González et al., 2019; Al-Gamrh et al., 2020; Suhadak et al., 2020; Wu et al., 2020). In addition, the relationship between CG and company performance was not statistically significant (Al-ahdal et al., 2020; Gupta & Mahakud, 2021; Nawawi et al., 2020). The disparities between these results indicate that there is still a gap between studies. This difference is likely the result of different measuring instruments used in the study. Moreover, the analysis conducted on each variable remains relatively superficial. Consequently, this study will attempt to fill these gaps.

As is common knowledge, the motivation behind the development and running of businesses is the pursuit of profits that reflect adequate firm performance (Ciftci et al., 2019; Kyere & Ausloos, 2021; Ullah, 2017). Nonetheless, operational organizations frequently disregard their acts' repercussions. Therefore, social, economic, and environmental problems develop (Castillo-Merino & Rodríguez-Pérez, 2021). As a result, it was agreed that the business would operate by sustainability principles. This concept of sustainability encourages companies to respect the environment and society while pursuing profit (Beji et al., 2021; Qa'dan & Suwaidan, 2019). In response to stakeholder demands, the company will publish a sustainability report to obtain legitimacy in the community, thereby influencing the company's performance (Bae et al., 2018; Ibrahim & Hanefah, 2016; Konadu et al., 2021). Moreover, CG has a major effect on companies, including performance attainment (Amin et al., 2021; Mishra et al., 2021; Owusu & Weir, 2016). When fraud and bad practices are strongly tied to a company's board structure, good governance will lower the likelihood of these occurrences (Amin et al., 2021; Das & Dey, 2016).

This research aims to investigate the influence of the quality of sustainability disclosure and the influence of foreign boards on corporate performance in the Indonesian setting. Due to Indonesia's distinct sociopolitical context, Indonesian enterprises were chosen as research subjects for this study. Sustainability disclosure remains voluntary in Indonesia (Rudyanto & Siregar, 2018). In addition, this study focuses on the foreign boards of Indonesian companies in light of the president of Indonesia's invitation to foreign investors to invest in Indonesia. Consequently, this will impact the structure of the board. This research is distinctive in that it employs a more thorough quality of sustainability disclosure measurement, namely developing a measuring instrument with analysis content based on GRI Guidance. The existence or absence of sustainability disclosures and quality analysis of each disclosure form by offering a rating. Then, this study examines the effect of the quality of sustainability disclosure on firm performance. According to the author's understanding, this is the first study to assess Indonesia's Basic and chemical industries. The basic and chemical industries were chosen because everyone needs these industries, and their performance will greatly affect the economy in general. Furthermore, when this research is carried out in the basic and chemical sectors, it will significantly impact both in theory and practice.

Thus, this research adds to the advancement of the field by thoroughly examining each variable employed. This research provides corporations and investors with information for planning their strategic moves. In addition, the government can consider this study when formulating policies, particularly with sustainability issues.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This research relied on the legitimacy theory to explain the association between factors. According to this notion, the corporation will seek legitimacy by meeting its stakeholders' expectations (Deegan, 2002; Khan, 2010; Patten, 1992). Thus, the corporation will engage in activities that benefit the company and society (Moerman & Laan, 2015; Milne & Patten, 2002). The company needs legitimacy; without community support, it cannot achieve its maximal performance; one of the factors that will significantly impact the legitimacy of the company is its sustainability operations and disclosures (Devie et al., 2020; Issa et al., 2021).

Furthermore, agency theory is used in this study. According to agency theory, the company's activities will exhibit knowledge asymmetry, which leads to a high incidence of fraud or other irregularities. This hypothesis assumes that managers with more information will prioritize their own interests over the interests of the organization (Xue et al., 2020). So that the stakeholders will be harmed by the manager's activities. In addition, due to the possibility of fraud, strong governance is needed to prevent managers from engaging in opportunistic behavior (Detthamrong et al., 2017; López-Quesada et al., 2018). GCG will build an effective monitoring framework to protect stakeholder interests and increase public trust (Ayadi et al., 2019).

There is a requirement that businesses consider not only profit and other financial concerns but also social and environmental factors and that they report on these considerations (Aras & Crowther, 2008; Tjahjadi et al., 2021). According to legitimacy theory, businesses that adhere to established social standards will be viewed favorably by society and get support for their for-profit endeavors (Devie et al., 2020). Sustainable action is one of the most effective tactics (Khan, 2010). Consequently, businesses highlighting their sustainability efforts will have enhanced performance (Aldhamari et al., 2020; Chakroun et al., 2020).

H_1: The quality of sustainability disclosure significantly improves the firm performance

According to agency theory, organizations require excellent governance to suppress the opportunistic behavior of managers and achieve the intended performance (López-Quesada et al., 2018). Governance is largely affected by the composition of the board of directors. The presence of foreign boards within the organization will have a positive effect. The foreign board will introduce the organization to different perspectives, cultures, and values (Beji et al., 2021). In addition, the skills and knowledge they possess will greatly assist in making sound business judgments. With changes in the board's structure, its independence in carrying out its responsibilities will increase (Ibrahim & Hanefah, 2016).

H_2: The foreign board significantly improves the firm performance.

METHODS

Data and Analysis Techniques

The sample includes all basic and chemical industrial sector firms registered on the Indonesia Stock Exchange (IDX) 2014-2020 period. Using the purposive sampling technique, the final sample includes 47 businesses and 315 observations. Generalized least square (GLS) is the analytical technique used to evaluate the hypothesis. GLS was chosen after analyzing the empirical model because it has a heteroscedasticity problem. The author conducted a robustness test and additional analyses to provide a more comprehensive perspective. The empirical model in this research:

$$TBQ = \alpha + \beta_1 QSD + \beta_2 FORBOARD + \beta_3 LEV + \beta_4 SIZE + \beta_5 AGE + \epsilon \qquad (1)$$

Variables Measurement

The dependent variable is the company's performance as a proxy measured by Tobin's Q (TBQ). In addition, the robustness test employs an extra dependent variable, namely Market to Book Ratio (MBR). These measurements pertain to the study (Hatane et al., 2020); TBQ is determined by dividing the amount of total debt and total market capitalization by total assets; MBR is measured by dividing total market capitalization by equity.

Sustainability disclosure quality (QSD) is the independent variable. The author performed

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TBQ	315	.733	.986	.029	7.453
QSD	315	.181	.086	.063	.522
FORBOARD	315	.161	.225	0	.923
LEV	315	1.635	2.664	-4.934	23.917
SIZE	315	21.536	1.472	18.712	25.409
AGE	315	39.39	18.506	17	119

Source: Data Processed by the Author

a content analysis by the Global Reporting Initiatives Guidelines (GRI) Scoring indicators. This research uses GRI-4 divided into nine economic indicators, 34 environmental indicators, and 48 social indicators. The score is based on the following criteria: 0 if the item was not revealed; 1 if it is disclosed but not exhaustive; 2 if it is exhaustively revealed but not by guidelines; 3 if it is disclosed exhaustively and in compliance with the criteria. The second variable of independence is the foreign board (FORBOARD). Calculate the percentage of foreign commissioners and company directors to determine FORBOARD.

This investigation incorporates control variables such as leverage (LEV), firm size (SIZE), and firm age (AGE). Total debt is divided by total equity when determining leverage. The corporation's size is established by computing the natural logarithm of its total assets. The company's age is seen from the year of the annual report and the year the company was founded.

RESULTS AND DISCUSSION

Descriptive Statistics

Based on the information in Table 1, it is known that the performance of Indonesian enterprises is fairly good, albeit not exceptional. This suggests that in the past seven years, Indonesian businesses have also stabilized at good levels. Table 2 demonstrates that the company's performance varies from 0.20 in 2014-2017 to 0.15 in 2018-2020, likely due to the Covid 19 epidemic. Examining the Quality of the Sustainability Disclosure (QSD) variable reveals that it remains relatively low. This must be a top priority for the Indonesian government when drafting rules to promote sustainable improvement. The second independent variable is the foreign board (FORBOARD). According to Table 1, the amount of foreign board participation is still quite low. The author did a Pearson correlation test to check the model lacked multicollinearity issues. It is evident from Table 3 that all variables have a modest Pearson correlation (0.80). Therefore, the model has no multicollinearity issues.

Table 2. Descriptive Statistics TBQ by Years

Variable	Obs	Mean	Std. Dev.	Min	Max
2014	43	.185	.083	.086	.433
2015	46	.191	.088	.086	.436
2016	44	.21	.097	.098	.476
2017	45	.224	.107	.089	.522
2018	46	.15	.064	.063	.395
2019	47	.15	.062	.065	.405
2020	44	.16	.067	.065	.417

Source: Data Processed by Authors

Table 3. Pearson Correlation

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) TBQ	1.000					
(2) CSRD	0.329	1.000				
(3) FOR_BOARD	0.237	0.028	1.000			
(4) LEV	-0.174	-0.034	-0.137	1.000		
(5) SIZE	0.196	0.266	0.183	0.008	1.000	
(6) AGE	-0.095	-0.126	-0.067	-0.045	0.001	1.000

Source: Data Processed by Authors

Regression Results

The analysis technique used is GLS. GLS selection is made by testing the best model: the Chow test, the Breusch Pagan Lagrange Multiplier (LM) Test, and the Hausman Test. Then tested the classical assumptions of multicollinearity and heteroscedasticity. However, there are problems with heteroscedasticity, so using the GLS analysis technique is the solution.

Table 4 shows that the Quality of sustainability disclosure (QSD) considerably benefits firm performance; therefore, H_1 is acceptable. Thus, when QSD disclosure is high, the company's performance will improve. This is directly tied to the legitimacy thesis, which claims that organizations require support, positive attitudes, and positive images in their operations to achieve successful company performance. The company will attempt to demonstrate that it has applied the sustainability principle to stakeholder needs. If the company is by the expectations and standards of its stakeholders, it will have a competitive edge. This research strengthens and verifies that companies that are concerned with sustainability issues and provide high-quality information will increase their performance (Bahta et al., 2020; Casado-Díaz et al., 2014; Devie et al., 2020; Jha & Aggrawal, 2020).

Table 4. Main Results of Regression

	(1)	(2)	(3)	(4)
	TBQ	**TBQ**	**TBQ**	**TBQ**
QSD		3.502^{***}		3.549^{***}
		(5.36)		(5.54)
FOR_BOARD			0.770^{***}	0.797^{***}
			(3.22)	(3.49)
LEV	-0.067^{***}	-0.066^{***}	-0.057^{***}	-0.056^{***}
	(-3.32)	(-3.44)	(-2.84)	(-2.93)
SIZE	0.130^{***}	0.071^{**}	0.109^{***}	0.048
	(3.60)	(1.94)	(3.02)	(1.33)
AGE	-0.006^{**}	-0.004	-0.005^{*}	-0.003
	(-2.01)	(-1.47)	(-1.77)	(-1.20)
Intercept	-1.846^{**}	-1.291^{*}	-1.560^{**}	-0.988
	(-2.33)	(-1.69)	(-1.99)	(-1.31)
Years	Yes	Yes	Yes	Yes
N	315	315	315	315

Source: Data Processed by Authors

Table 5. Robustness Results of Regression

	(1) MBR	(2) MBR	(3) MBR	(4) MBR
QSD		8.047***		8.145***
		(5.70)		(5.87)
FORBOARD			1.591***	1.652***
			(3.05)	(3.34)
LEV	0.044	0.045	0.065	0.066
	(1.01)	(1.08)	(1.48)	(1.60)
SIZE	0.170**	0.034	0.127	-0.013
	(2.17)	(0.43)	(1.62)	(-0.16)
AGE	-0.013**	-0.009	-0.011*	-0.007
	(-2.07)	(-1.51)	(-1.84)	(-1.25)
Intercept	-2.073	-0.799	-1.483	-0.171
	(-1.20)	(-0.48)	(-0.87)	(-0.10)
Years	Yes	Yes	Yes	Yes
N	315	315	315	315

Source: Data Processed by Authors

Then, based on Table 4, it can also be demonstrated that FORBOARD has a favorable, beneficial effect on the company's performance; H_2 is approved. In other words, a foreign board's presence will increase a company's success. Due to the forum's expertise, knowledge, and culture, the decision-making process will be of high quality. When these quality judgments are implemented using the principles of good corporate governance, the company's performance will improve. This outcome is consistent with the agency hypothesis, as the opportunistic nature of firm management creates the opportunity for deception. In addition, agency theory emphasizes the potential for fraud due to inadequate corporate governance controls. Weaknesses in corporate governance create opportunities for parties to maximize their interests at the expense of those of shareholders and other stakeholders. Good governance practiced by foreign boards will reduce the likelihood of this happening. This is due to foreign board's superior competence and independence, which will better safeguard shareholder interests. Thus, CG will also enhance the success of the organization.

Robustness Tests

The author conducted a robustness test using alternative surrogates for the dependent variable (table 5). MBR is a surrogate proxy for company performance (Hatene et al., 2020). MBR is used because it is market-based company performance. MBR is seen as more relevant because it is difficult to manipulate and reflects the company's performance in the long run. Both QSD and FORBOARD have a beneficial effect on firm performance, according to the data (MBR). Therefore, the used model is robust.

Additional Test

In addition, the author examines each component of QSD, including the economic (ECO), social (SOC), and environmental (ENV) categories. Our findings indicate that SOC and ENV have a substantial positive link with company performance, while the economic category has no significant effect. This indicates that organizations with high-quality sustainability disclosure will enhance their performance. Furthermore, these findings indicate that companies in the basic and chemical sectors have a disclosure effect that can directly affect their performance in the

Table 6. Results of Additional Regression

	(1) MBR	(2) MBR	(3) MBR
PENVI	2.889***		
	(5.15)		
PSOC		1.254***	
		(4.52)	
PECO			0.275
			(0.48)
LEV	-0.069***	-0.064***	-0.068***
	(-3.58)	(-3.26)	(-3.36)
SIZE	0.079**	0.110***	0.126***
	(2.20)	(3.12)	(3.40)
AGE	-0.004	-0.004	-0.006***
	(-1.51)	(-1.55)	(-2.05)
Intercept	-1.134	-1.731*	-1.782*
	(-1.47)	(-2.26)	(-2.22)
Industry	Yes	Yes	Yes
N	315	315	315

Source: Data Processed by the Author

social and environmental sectors. This is linear with legitimacy theory, where when a company has activities that meet the expectations and norms of society, it will get a positive image and ultimately gain legitimacy for society. Thus, companies must be able to increase their attention to all aspects of the quality of sustainability reports, especially in the social and environmental sections.

CONCLUSIONS

This research investigates the impact of QSD and FORBOARD on firm performance. Our findings reveal that QSD and FORBOARD positively enhance firm performance, implying that H_1 and H_2 are approved. In addition, each category of QSD is analyzed in this study. The research findings suggest that SOC and ENV favorably enhance firm success. However, the ECO category has no effect on the company's performance. These findings provide empirical support for the legitimacy and agency theory.

This research contributes to the growth of accounting literature, particularly those that examine the relationship between the quality of sustainability disclosure and the influence of foreign boards on corporate performance in an Indonesian environment. In practice, firms and investors can utilize the findings of this study as a guide for managing the strategic measures necessary to improve performance. In addition, the Indonesian government might use these findings as a basis for policy formulation, particularly in promoting sustainability disclosure.

The scope of this research is limited to the basic and chemical industries, which is a constraint. In addition, only the direct effect on corporate performance is discussed in this study. Given these constraints, we propose more research to broaden the sample by analyzing additional industries. In addition, future studies should investigate other variables, such as board gender and other board features, as moderating or mediating factors.

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