# Gender Diversity Impact on ESG Performance: Evidence from Indonesian and Malaysian Manufacturing Sector

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**Abstract.** This study analyzes the impact of women's boards on ESG disclosure (community, employee, environment and government) performance in emerging markets, namely Indonesia and Malaysia. We suggest that the participation of women's boards is very beneficial for increasing social awareness of the community, employees, governance and the environment of the company and can improve overall performance and the achievement of company goals or targets, because it has an impact on increasing shareholder welfare. Concern for the sense of social, environmental and how the role of good corporate governance really supports the company's performance. Our research complements the existing literature by proposing that the positive benefits of published ESG reporting occur when companies have an effective and gender-diverse board structure, resulting in better governance. The results of this study are expected to provide long-term value for the company and increase awareness of the importance of the role of gender diversity in the managerial structure in managing good performance in the areas of governance, environment and social (community and employee) through the role of gender diversity in the company's managerial structure.

**Keywords:** Women on board · corporate governance · ESG performance · sustainability

## 1 Introduction

In recent years, gender diversity has risen to the forefront of corporate governance discussions. Currently, a significant number of women occupy the highest positions in multinational corporations like General Motors, Best Buy, and Anthem [1]. The promotion of women's empowerment and gender equality is one of the primary goals of the United Nations Development Program (UNDP). Little is known about the correlation between the gender gap in careers and corporate success [2]. This is a significant problem since disparities in firm success might be partially attributable to changes in characteristics connected with the chief executive officer (CEO). It was discovered in [3] that the existence of a women's board has a very positive influence on increasing ESG performance; thus, it is crucial to have a women's board for the proper operation


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of the board. This differs with [4], which claims that there is no correlation between the gender diversity of a board and its effectiveness.

Currently, all countries in the world have experienced environmental damage that has been created by various industries, demanding action and policy from regulators to maintain the created ecological balance [5]. The role of the board becomes very important in designing and implementing the company's environmental policy and to achieve this, a special committee is formed such as appointing a sustainability committee at the company level [6]. Therefore, many industries strongly support the commitment to sustainability activities by voluntarily publishing the company's environmental, social, and governance (ESG) activities included in their annual reports or sustainability reports. In 2016 the Global Reporting Initiative (GRI) drafted ESG disclosure requirements to facilitate transparency in reporting companies' ESG performance [7].

This study examines the effect of women on corporate boards on the environmental, social, and governance (ESG) disclosure performance of corporations in Indonesia and Malaysia, two rising markets. We suggest that the participation of women's boards is very beneficial for increasing social awareness of the community, employees, governance, and the environment of the company and can improve overall performance and the achievement of company goals or targets because it has an impact on increasing shareholder welfare. Concern for the sense of social, and environmental and how the role of good corporate governance supports the company's performance.

Manufacturing enterprises are the most connected with the network because they turn raw materials into market-ready goods using a variety of raw material sources, production methods, and time periods, and have a substantial effect on social concerns. As a form of economic, environmental, and social disclosure continues to expand and become an intriguing topic of discussion, manufacturing companies must conduct sustainability record disclosure studies on sustainability reviews as a form of economic, environmental, and social disclosure continues to expand and become an intriguing topic of discussion. The student studied in Indonesia and Malaysia. Given that the sustainability of information continues to expand in Asia, this statement is true. This attempts to evaluate if the disclosure of sustainability assessments through sustainability statistics, especially the release of ESG, has an effect on enterprises in the mining, power, and even production sectors, based on the responses of stakeholders to the report.

The formulation of the problem and the objectives of this study are (1) Are female board members positively related to ESG performance?; (2) Is the ratio of independent ownership positively related to ESG performance?. The effects of this look at are expected to provide a lengthy-term price for the corporation and growth focus on the importance of handling overall performance properly within the financial, and environmental, social, and governance fields through the role of gender diversity in the managerial structure.

Based on the observed gaps in the literature, this study offers numerous additions, which are described below. This study provides a theoretical contribution to the diversity and governance literature by examining the effect of women on boards on ESG disclosure across four dimensions: community, employee, environment, and governance.

This research complements previous research on the impact of gender diversity and governance on ESG disclosure. We assume that improving the efficiency of ESG disclosure performance can be achieved through the participation of women's boards and can strengthen the signal of the company's ability to generate future cash flows. This article is organized in the following order: Sect. 1 introduction, Sect. 2 reviews the literature, and Sect. 3 presents data and statistics.

## 2 Literature Review

### 2.1 Resource Dependence Theory

Based on practical resource dependence theory, the presence of a female board tends to increase the accountability of the board's potential, as a female ensures a diversity of perspectives, skills, abilities, critiques, and management patterns on the board and tends to increase quality, creativity, and innovation in decision-making [8]. Additionally, women's councils are more sensitive to social, environmental, and ethical concerns. Therefore, the inclusion of women on a board has a significant influence on the company's responsibility and disclosure of ESG concerns or operations [9]. The notion of useful resource reliance has been used to explain ESG and corporate governance with board-level elements. Contrary to this idea, organization theory suggests that large, diverse boards can achieve superior performance [10]. The ESG disclosure activities of a company are directly related with the board's obligations to enterprise, society, and the surroundings.

Based on the literature above, the hypotheses of this research are There is a favorable correlation between the number of women on corporate boards and ESG disclosure (H1). There is a favorable correlation between the number of women on boards and environmental disclosure, according to H1a. There is a positive association between the number of women's boards and community transparency, according to Hypothesis 1b. There is a positive correlation between the number of women on boards and employee transparency, according to Hypothesis 1c. There is a favorable correlation between the number of women on boards and governance disclosure, according to H1d.

### 2.2 Stakeholder Theory

The assumption underlying stakeholder principle is that agency disclosure is utilized by control as a device to offer information for diverse stakeholders.. The company always tries to get legitimacy recognition from stakeholders by disclosing ESG information transparently and publishing it in an annual report [11].

Stakeholders no longer most effective demand transparency concerning economic statistics inside the annual document but additionally more company duty by relating to financial, social, and environmental problems and overall performance. To meet the various interests of stakeholders, the company is very concerned about the performance of ESG disclosure by appointing a special ESG committee. Several characteristics of the board of directors (ownership independence, dual CEO) that affect the effectiveness of company governance and the amount and first-rate of ESG disclosure can be recognized [12, 13].

In line with the literature study above, a hypothesis is built, namely:

H2. There is an advantageous relationship between ownership of independence and ESG disclosure

H2a. There is an advantageous relationship between ownership of independence and environmental disclosure.

H2b. There is an advantageous relationship between ownership of independence and community disclosure.

H2c. There is an advantageous relationship between ownership of independence and employee disclosure.

H2d. There is an advantageous relationship between ownership of independence and governance disclosure.

## 3 Data and Descriptive Statistic

The sample of this study used manufacturing companies registered with CSRHub in Indonesia and Malaysia. The data used on this have a look at secondary information, taken from annual reviews or reports and sustainability reports for 7 years, from 2014 to 2020. The analytical tool used to test the hypothesis is multiple regression analysis with smart pls.

ESG disclosure data is taken from the csrhub database; independence ownership data retrieve from the annual data Osiris database. To avoid the uncertainty perspective so that it can be generalized, the study used a research period of 7 years. After deleting the observation data with an empty value, it produces 4,999 data.

The dependent variable of this study is the number of female board members and independence ownership [13]. The independent variable is ESG ratings consisting of environment, community, employee, and governance disclosure ratings [14, 15]. The control variable used is profitability using the return on asset indicator; and solvency using indicators of debt on equity ratio [16, 17].

## 4 Result and Discussion

The framework of this research model is as follows as shown in Fig. 1.

This study uses company data in Indonesia and Malaysia. To examine the impact of women's councils, independent ownership on the ESG rating as measured by CSRhub, namely the ESG rating, environment, community, employee and governance rating. For companies in Indonesia, the results of data analysis show that the female board has a positive effect on the ESG rating of 0.315 and with a P Value of 0.000 or a significant effect, while the independent ownership variable has a negative effect on the ESG rating of -0.002 with a P Value of 0.000 or a significant effect.

Meanwhile, to determine the contribution of the environment, community, employee and governance rating to the ESG rating, it can be seen from the magnitude of the loading factor, the environment has a loading factor value of 0.837 with a P value of 0.000 or significant, the community has a loading factor value of 0.971 with a p value of 0.000 or Significant. Employee has a loading factor value of 0.973 with a p value of 0.000 or a significant effect and a governance rating has a loading factor of 0.931 with a p value

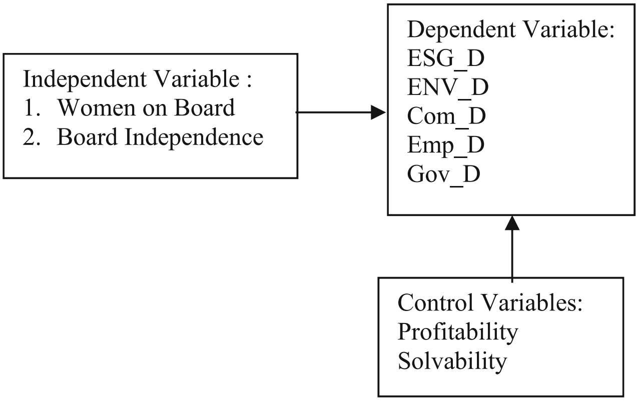


**Fig. 1.** Conceived Model.

of 0.000 or significant. Of the five loading factors, the ESG rating that has the largest contribution or loading factor is the employee indicator with a loading value of 0.973.

For companies in Malaysia, the results of data analysis show that the female board has a positive effect on the ESG rating of 0.057 and with a P Value of 0.077 or no significant effect, while the Independent ownership variable has a positive effect on the ESG rating of 0.011 with a P Value of 0.795 or no significant effect..

Meanwhile, to determine the contribution of the environment, community, employee and governance rating to the ESG rating, it can be seen from the magnitude of the loading factor, the environment has a loading factor value of 0.509 with a P value of 0.000 or significant, the community has a loading factor value of 0.981 with a p value of 0.000 or Significant., employee has a loading factor value of 0.978 with a p value of 0.000 or significant effect and governance rating has a loading factor of 0.951 with a p value of 0.000 or significant. Community Of the five loading factors, the ESG rating that has the largest contribution or loading factor is the Community indicator with a loading value of 0.981.

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