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THE EFFECT OF THE PRESENCE OF FOREIGN BOARD MEMBERS ON CORPORATE ESG SCORES IN INDONESIA

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Abstract: *The purpose of this study is to examine the impact of foreign boards and board commissioners on ESG scores in Indonesia from 2019-2023. Drawing upon the resource dependency theory, this paper applies multiple linear regression to investigate whether foreign boards and ESG performance of firms listed on Indonesia Stock Exchange (IDX) are related. The results indicate that foreign boards presence impacts ESG scores positively at 10%. Although this highlights that oversea boards can have a positive impact in such ways through expertise and global connections, the regulatory setting will remain just as important even if it is under reform. Instead, foreign boards have an insignificant negative impact on the ESG scores both for overall governance and all sub-dimensions suggesting that it may not be appropriate to use a more diversified board in terms of origin as panacea especially when it comes to advancing ESG practices. This study also has several limitations in that it explored companies from Indonesia, the period of research took place in a limited time frame and board demographics were not considered. Based on this study, one may argue part of the solution is to rely more heavily on foreign boards with greater familiarity and experience in implementing ESG appropriately for local conditions. The results are expected to provide implications for firms and regulators about the significance of board composition which enhances ESG performance, and corporate sustainability.*

Keywords**:** Foreign Board, Foreign Board of Commisioners, Foreign Board of Directors, ESG Score

INTRODUCTION

With the deepening integration of business practices and the structures of society, the aspect of sustainability has rapidly grown in concerns of business managers, and it is these aspects that rank highest among business leaders in today's world. Sustainable practices arise out of a need for greater societal and stakeholder consideration of the impact of businesses on society and the environment. Today, the approach to sustainability in business is centered on Environmental, Social and Governance (ESG) which places the responsibility of companies not only to its investors but to all parties concerned with the operations of the business including social and environmental. The ESG model consists of three main components: environmental, social and governance, which are structural systems of sustainable development and are characterized as striving for long-term value and comprehensive, practical and realistic governance methods (Li et al. 2021). Therefore, ESG has become an important parameter while evaluating sustainability and corporate social responsibility (Novia and Meythi 2022; Glennisa, Martusa, and Meythi 2024; Candra et al. 2024).

In a developing country such as Indonesia, the application of ESG in recent years has grown rapidly, driven by the proactive steps of companies in facing the challenges of globalization. The application of ESG in corporate business strategies in Indonesia is getting more attention along with the government's role in encouraging the importance of ESG to improve competitiveness and reputation in an increasingly competitive market (Juliandara, Jahroh, and Purwanto 2021). OJK as a regulator in Indonesia supports the implementation of ESG by issuing Financial Services Authority Regulation Number 51/POJK.03/2017 pertains to the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Under the regulation, companies are required to prepare a sustainability report that will come into effect in 2019. This sustainability development is also supported by the launch of Sustainable Finance Roadmap Phase II by OJK in 2021, which aims to create a comprehensive sustainable finance ecosystem (Otoritas Jasa Keuangan 2024). This step was taken as an effort to face the increasingly complex challenges of globalization and meet the expectations of the global community for more responsible business. Therefore, the implementation of ESG in Indonesia is not only a long-term strategy in facing the challenges of globalization, but also a corporate obligation as a form of compliance to support sustainable development. Compliance with the principles of social responsibility and sustainable development is measured through ESG scores, which are used as indicators of a company's sustainability performance. This score becomes an important reference in decision-making by investors and other stakeholders (Amel-Zadeh, Serafeim, and School 2017).

The ESG score is a metric to assess the degree of how well, poorly or adequately the company meets its obligation under environmental, social and governance (ESG) practices (IMD 2024). His includes from waste management, carbon emission control and labour rights to more transparency when it comes to business practices. These components act as primary indicators to gauge the sustainability of a company’s operations. ESG scores are also increasingly valued by investors seeking firms that demonstrate a strong commitment to ESG principles (LSEG 2021). The score’s importance is rising in corporate evaluations, especially in assessing sustainable practices. This aligns with stakeholder theory that emphasizes that companies should be concerned with all stakeholders to create long-term success and sustainability. This condition opens up opportunities for companies in Indonesia to strengthen governance, due to the different corporate governance systems in Indonesia.

In terms of corporate governance, Indonesia adopts a *dual board system*, where supervisory and operational functions are carried out separately (Rudyanto and Siregar

2018). The supervisory function is under the responsibility of the board of commissioners, while the operational function is managed by the board of directors. In an effort to survive and thrive, many companies in Indonesia are now recruiting foreign board members to utilize their expertise. From the view point of resource dependency theory, the diversity of board members can enhance the quality of decisions as diverse backgrounds will contribute a broader array of experiences, knowledge, and viewpoints to the decision-making process (Haynes and Hillman 2010; Handa 2021; Conyon et al. 2019). Companies will also benefit from having an international board of directors in their corporate structure which implies more depth and breadth of scientific knowledge that can help us in many ways (Sari 2020). In addition, they improve governance, transparency, and enhance corporate social responsibility (Handa 2021; Setiawan et al. 2021). These reasons imply that foreign boards of directors, which allow companies to adapt to global norms and international standards that can positively influence shareholders' assessment of a company's ESG score can be a positive enforcer of legitimacy theory. Nonetheless, the role of foreign boards of directors in improving ESG scores in Indonesia still needs to be empirically tested, creating avenues for further research.

Existing studies have focused on the influence of foreign-based boards towards corporate financial performance (Joenoes and Rokhim 2019). Donkor, Trireksani, and Djajadikerta (2023) investigated board diversity and corporate sustainability performance, taking into account the moderating effects of CEO power and firms' environmental sensitivity, whereas Wu et al. (2024) investigated the effect of board internationalization on ESG performance in Chinese enterprises. However, little is known about the relationship between foreign-based boards and business ESG assessments, especially in the Indonesian setting. yet it has not been explored in regard to the association with corporate ESG assessment, especially for developing countries including Indonesia. As such, this study aims to empirically contribute on the position of foreign boards in enhancing ESG scores among companies listed in Indonesia. The present research is anticipated to generate several. This study will first fill gap in the current literature on foreign board presence and ESG performance of companies from Indonesia. Secondly, the results of this particular study are expected to be valuable in terms of guiding Indonesian firms particularly in designing the board of directors and board of commissioners structure aimed to enhance their ESG performance. Furthermore, the results of this research can also be considered by the regulatory authorities in developing the policies bearing on sustainable governance of companies.

Resource Dependence Theory

Resource Dependence Theory demonstrates how organizations come into partnership and exploitation of external resources as a means of coping with environmental uncertainty (Hillman, Withers, and Collins 2009). This theory stresses that excessive dependency on outside resources leads to an adverse situation in case the outside disturbances target the resources (Chen et al. 2023). From the perspective of corporate governance, this theory underlines the roles of the responsibilities of the board of directors and the board of commissioners in monitoring such dependencies, firstly, through resource dependence, and secondly, through establishing external relations that are advantageous to the business (Hillman, Withers, and Collins 2009).

Foreign boards with international expertise, networks and understanding can provide access to critical resources that support operational efficiency and credibility in the market. In addition, it also supports transparency of credible financial statements that can reduce market uncertainty (Tasheva and Nielsen 2022). This theory is consistent with studies on corporate governance involving foreign board members, as their presence has the potential to optimize strategic resources that enhance the company's performance in achieving legitimacy in the eyes of stakeholders (Hillman, Withers, and Collins 2009; Rudyanto 2023). Companies that are able to manage this dependency well will be more adaptive in the face of market changes and be able to make faster and more informed decisions. Therefore, from the perspective of resource dependency theory, the presence of foreign board members is critical to developing diverse perspectives and effective strategies in addressing the challenges faced.

The Importance of ESG for Companies

Currently, ESG is gaining importance in global economic and societal practices, as companies around the world continue to push for coordinated implementation of environmental, social, and governance aspects (Drempetic, Klein, and Zwergel 2020; Li et al. 2021). The implementation of ESG in Indonesia influences investors' decision-making due to their interest in water and energy efficiency, as well as more efficient and durable buildings. Based on research Adams and Abhayawansa (2022), companies with strong ESG ratings generally achieve higher stock returns than companies with low ESG ratings. Research shows that good ESG implementation can improve profitability, operational efficiency, and a favorable perception of the company among investors and stakeholders (Alareeni and Hamdan 2020). Incorporating ESG aspects within the company enhances risk management, bolsters reputation, and fosters long-term value creation (Triyani, Setyahuni, and Kiryanto 2020). Thus, companies need to raise awareness of the importance of ESG implementation in their operations and reporting. Improving the quality and quantity of disclosure of information pertaining to ESG performance in annual reports and sustainability reports is essential, as ESG is no longer just an option, but a strategic necessity to maintain relevance and competitiveness in the global market (Durlista and Wahyudi 2023). ESG has also demonstrated a paradigm shift where organizations are increasingly being scrutinized by society and investors, creating an imperative for companies to be more accountable for their social and environmental impacts (Krishnamoorthy 2021; Lockhart 2023; Martusa, Joni, and Tin 2023).

One-tier and Two-tier Board System

There are two primary corporate governance systems utilized by different countries: one-tier board system and two-tier board system. The countries which use the one-tier board system are mainly Anglo-Saxon countries like USA, UK, Canada, and Australia; on the other hand, the two-tier board system is used mainly in the mainland's Germanic and Dutch countries as well as by Indonesia (Hopt and Leyens 2023).

The oversight and execution function are merged into a single entity known as the board of directors under a one-tier board system (Jungmann 2006). The board can integrate management and supervisory responsibilities into a single organization through this structure. Apart from deciding on investments and operations, the board is essential in helping the business navigate complicated and quick changes (Stefanus et al. 2023).

Under a two-tier board system, the structure of corporate governance comprises two separate organizations: board of directors and board of commissioners. The company's operations are performed by the board of directors, while the board of commissioners performs a supervisory role, watching over the board's activities in order to safeguard shareholders' interests and adherence to corporate governance policy. This separation improves risk and compliance management and increases accountability by simplifying the monitoring of policies adopted by the Board and clearly outlining management from oversight functions (Rudyanto and Siregar 2018). A clearer division between managerial and supervisory functions and increased scrutiny of the board of directors' adopted policies are made possible by this separation, which also improves accountability and fortifies risk and compliance controls (Hopt and Leyens 2023). Because of the clear separation of responsibilities between the board of directors and the board of commissioners, which helps to maintain a balance of power and provides more objective oversight, the Two-Tier Board System is thought to be more effective in minimizing potential conflicts of interest between overseeing and carrying out business operations (Jungmann 2006). A two-tier board structure is thought to be better suitable in Indonesia for promoting corporate responsibility and transparency, particularly for businesses subject to stringent rules and involving the public interest. The separation of roles between the operational-focused board of directors and the supervisory board of commissioners ensures more objective and independent control over the running of the company.

The Influence of Foreign Board Members and Corporate Governance

Research by Oxelheim and Randøy (2003) shows the positive effect of diversity in board composition, including the presence of foreign directors, which can improve transparency and corporate governance. Their presence can help improve corporate governance because they have a broader perspective, international experience, and in-depth knowledge of the best governance practices applied in developed countries (Conyon et al. 2019). This can strengthen oversight of management and improve decision-making processes, which in turn has a positive impact on the implementation of good corporate governance principles such as transparency, accountability, and responsibility. According to the resource dependency theory, foreign directors can also be viewed as a resource that brings international relations, technologies, and sophisticated knowledge that assists the company in providing a competition on the global market and elevating its performance (Hillman and Dalziel 2003).

Besides, it is also important to emphasize that international board members may improve the firm's image and credibility in the global market. The foreign board shares the international vision of the company and signals that the company is serious about corporate governance and sustainability, which may benefit the company's value in the world market, thus, appealing to socially responsible investors (Abdelkader and Gao 2023). Increased credibility at the global level can improve economic performance by making the company attract funds of the investors whom ESG considerations have become an important parameter in their investment choices (Conyon et al. 2019).

The positive effect of foreign board presence on ESG scores is also supported by other studies. Research conducted by Naim and Alomair (2024) states that there is a significant increase in environmental and social performance if there are foreign board members in the company. This increase can occur because foreign board members bring experience and expertise that can integrate ESG practices into the company's strategic planning. Based on these results, the researcher argues that the presence of a foreign board of directors will provide better decisions in improving corporate environmental and social responsibility, gaining more trust from stakeholders, and reducing corporate risk. With the international background and connections that foreign board members have, they are expected to have credibility and expertise that can address the company's ESG issues. Since this study is conducted in Indonesia, which applies a two-tier board system, we propose the following hypothesis:

H_1: The presence of a foreign board of directors has a positive effect on a company's ESG score

H_2: The presence of a foreign board of commissioners has a positive effect on the company's ESG score

METHOD

Sample Selection

In this study, the purposive sampling method was used to select all company listings listed on the Indonesia Stock Exchange (IDX) within the period 2019 to 2023 which contained complete data relating to the ESG scores and the presence of foreign board members. The sample used is companies that publish sustainability reports and have received ESG ratings from the global rating agency Refinitiv. Refinitiv's ESG data is widely recognized for its consistency and accuracy, ensuring the robustness and validity of our analysis. Older data are secondary data from annual financial reports and reports about corporate sustainability which were published in the years 2019 to 2023. This time frame was selected since ESG scores for Indonesian companies came into existence post the promulgation of Financial Services Authority Regulation Number 51/POJK.03/2017 on the Need to Publish Sustainability Reports in 2019. The existence of ESG data is the main condition in determining the sample size. Out of the companies that were traded on the IDX, only the companies that were assigned ESG rankings by Refinitiv between the years 2019 to 2023 will serve as samples. SPSS software was adopted for data processing and analysis for this study. The sample selection results are shown in Table 1.

To facilitate a more nuanced comprehension of the composition of the selected sample, Tables 2 and 3 are provided. These tables present the distribution of board members, categorized into two groups: Indonesian and foreign directors and commissioners.

Table 1. Sample Selection Results

Criteria	Total
Companies listed on the IDX during the 2019-2023 period	668
Companies that do not have complete ESG scores from Refinitiv 2019-2023	(624)
Companies that are outliers in the research sample	(3)
Total research sample	41

Table 2. Board of Directors Composition

Criteria	Frequency	Percent (%)
Indonesian Directors	322	88.46
Foreign Directors	42	11.54
Total Board of Directors	364	100

Table 3. Board of Commissioners Composition

Criteria	Frequency	Percent (%)
Indonesian Commissioners	322	81.58
Foreign Commissioners	56	18.42
Total Board of Commissioners	304	100

ESG Score

The dependent variable in this study is the ESG Score which represents the company's performance in three main areas, namely Environmental (E), Social (S), and Governance (G). The ESG score is used to assess the extent to which the company carries out sustainable business practices (Vlaviorine and Widianingsih 2023). In addition to being a sustainability indicator, ESG scores are also known to provide economic benefits to companies, such as reduced cost of capital, improved future financial projections, and reduced systematic risks faced (Gillan, Koch, and Starks 2021; Powaski, Ordoñez, and Sánchez 2021).

Previous research indicates that companies with higher ESG scores often demonstrate stronger financial performance, particularly in regions with considerable environmental challenges, such as Southeast Asia (Setiani, Dewanti, and Cortez 2024). However, differences in regulation and adoption of ESG practices between countries may affect the application and measurement of ESG performance (Zumente and Lāce 2021).

The ESG score from Refinitiv used in this study is the result of a global rating agency assessment and indicates the company's performance in sustainability aspects in the period 2019 to 2023.

Foreign Board Members (Independent)

The independent variable in the present research is the overseas targeted family members that comprise individuals who are appointed to the board of directors or the board of commissioners and are from other countries. Overseas targeted family members are described in this context as people who are not citizens of the operating country of the company and usually possess global practice and knowledge (Joenoes and Rokhim 2019). improve its competitiveness in the global marketplace, widen the horizon of the top management, and create an international network of relations beneficial for the company's global business (Conyon et al. 2019). The social capital and the network of relations that the overseas targeted family members possess are crucial in the strategic aspects affecting the respective company's performance across international boundaries including facilitating access to the overseas markets as well as improving the company's competitiveness in the foreign markets. To be able to assess the existence of overseas targeted family members, a dummy variable was used in this study (Joenoes and Rokhim 2019). The use of dummy variables enables researchers to include this information into the regression model and thereby assist the analysis on how the presence of foreign board members influence the ESG scores. In addition, the inclusion of dummy variables makes the analysis of the findings easier since the coefficients show the degree of impact of foreign board members on the ESG score of a company. Also, this method has assisted in the examination of whether ESG scores differ significantly between companies with foreign boards and without them.

Control Variable

This study has several control variables used from previous studies to control for factors that may affect ESG scores apart from the foreign board presence factor. The control variables applied in this study are company size, company profitability, leverage, and company age. Company size is assessed based on the total assets of the company, because companies that have more abundant resources tend to implement their compliance with ESG rules. Profitability is assessed from return on assets (ROA), on the grounds that more profitable companies will tend to invest in implementing social and environmental responsibility. Leverage or the ratio of debt to equity, because companies with higher leverage will experience difficulties in undergoing ESG compliance. The industry of the company is also controlled, because there are differences in regulations and social responsibility in different industries. Company age is also used as a control variable because companies that are established first generally have more organized corporate governance (Arayssi, Jizi, and Tabaja 2020). To control for factors that may affect ESG scores, the following model can be formulated:

$$ESGscore_{i,t} = \beta_0+\beta_1 BOARD_C+\beta_2 BOARD_D+\beta_3 FSIZE_{i,t}+\beta_4 LEVERAGE_{i,t}+\beta_5 ROA_{i,t} +\beta_7 AGE_{i,t}+e$$

RESULTS

Descriptive Statistics

Table 5 describes the observed average for all variables from the 205 sample companies that were examined in this study. Descriptive statistics do reveal that there is heterogeneity among the companies in the sample. An average ESG score earned was 53.44, which implies a high degree of dispersion in the assessment of the Environmental, Social and Governance (ESG) performance of these companies. About 35% of the foreign directors were available in the companies sampled, while

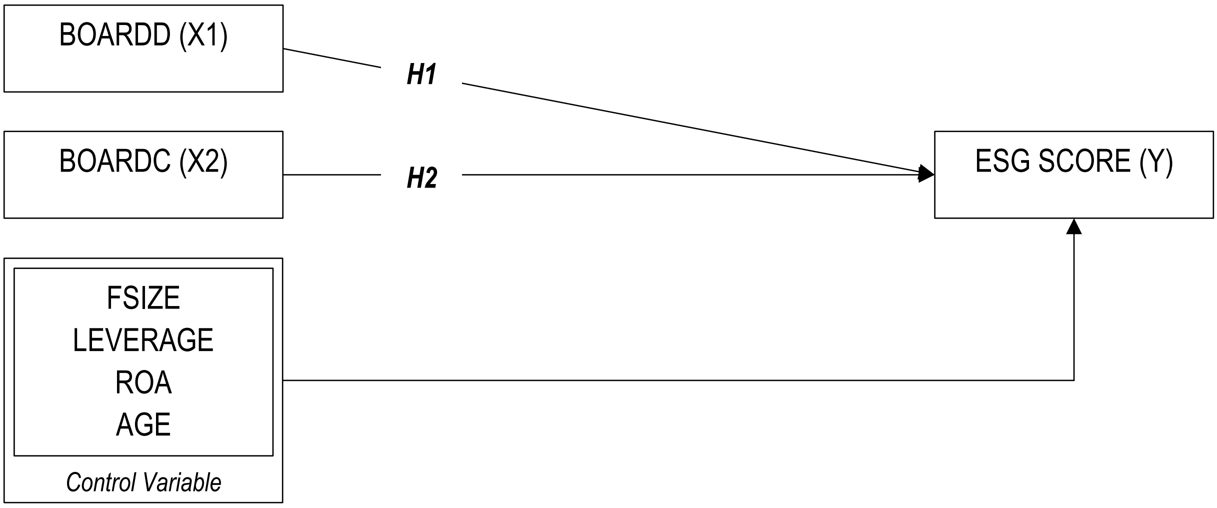

Figure 1. Research Model

42% of the foreign directors were in the sampled companies. These figures are reasonable and consistent with previous findings (Joenoes and Rokhim 2019). The log total assets measure has a minimum of 12.27, a maximum of 14.50 and a mean of 13.54 for it varies across the sample firm size. average about 50.86%. On the other hand, the average Return on Assets (ROA) achieved is 5.35%, which is average and in line with previous literature (Al Naim and Alomair 2024). For instance, firms' age in the sample also varies considerably, acquiring an average of 49.49 years, with a minimum of 7 years and a maximum of 128 years. This variation illustrates the presence of long-established. The results of the research should meet the classical assumptions from the regression model in order to produce valid and unbiased research findings. The first step in classical assumption testing is to check for normality using the Kolmogorov-Smirnov test. If the significance value is 0.05 or higher, the data is considered normally distributed (Habibzadeh 2024). A value of 0.06 in significance is presented through the data which is acceptable and means that the data is at normal distribution level. Besides, there should be no multicollinearity In this case, the significance value of 0.06 indicates that the data follows a normal distribution. The next step is to test for multicollinearity using the Variance Inflation Factor (VIF) and tolerance values. Since the VIF values are below 10 and tolerance values are above 0.1, there is no multicollinearity (Lavery et al. 2019). The Glejser test is then used to detect heteroscedasticity, and since the significance levels for all variables are greater than 0.05, there is no evidence of heteroscedasticity (Ilori and Tanimowo 2022). Finally, the Durbin-Watson test is applied to check for autocorrelation. The result of 1.848 falls within the acceptable range (1.782 < DW < 4-1.782), indicating that there is no autocorrelation (Y. Chen 2016).

Correlation Between Variables

Table 6 appears that the ESG score variable and the foreign board of directors share a very weak positive relation while the same

Table 4. Variable Definition

Variable	Definition
ESG_SCORE	A quantitative measure used to assess company performance in three key aspects: Environmental, social, and governance (IMD 2024)
BOARD_D	Using a dummy, value = 1 if the company has a foreign board member, otherwise 0 (Joenoes and Rokhim 2019)
BOARD_C	Using a dummy, value = 1 if the company has a foreign board member, otherwise 0 (Joenoes and Rokhim 2019)
FSIZE	Firm size equals log of book value of equity (Kumari and Mishra 2023)
LEV	Leverage measured as total liabilities divided by total assets (Lara, Osma, and Penalva 2016)
ROA	Return on Assets is net income divided by total assets (Lara, Osma, and Penalva 2016)
AGE	Number of years since the company was founded (Arayssi, Jizi, and Tabaja 2020)

Table 5. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Dependent Variables					
ESG_SCORE	205	13.80	88.730	53.443	19.061
Independent Variables					
BOARD_D	205	0	1	0.35	0.477
BOARD_C	205	0	1	0.42	0.495
Control Variables					
FSIZE	205	12.27	14.50	13.543	0.416
LEV	205	0.08	0.96	0.509	0.227
ROA	205	-0.19	0.27	0.054	0.058
AGE	205	7	128	49.490	25.522

Table 6. Correlation between Variables

	ESG_SCORE	BOARD_D	BOARD_C	FSIZE	LEV	ROA	AGE
ESG_SCORE	1						
BOARD_D	0.023	1					
BOARD_C	-0.078	0.316**	1				
FSIZE	0.326**	-0.143*	-0.243**	1			
LEV	0.236***	-0.143*	-0.267**	-0.199**	1		
ROA	-0.063	0.090	-0.019	0.060	-0.534**	1	
AGE	0.388**	-0.132	-0.137	0.299**	0.322**	0.722	1

Notes: ***,**,* Indicates 1%, 5% dan 10% significance

correlation is of a very weak negative nature towards the foreign board of commissioners. However, firm age variable shares the strongest positive correlation with ESG score while higher governing body also shares weak positive correlation with firm size, leverage and ROA respectively. These findings imply that older enterprises practice relatively responsible social and environmental practices while foreign

Multiple Linear Regression

Table 7 displays the findings of the correlation analysis conducted using multiple linear regression. It can be observed from the table that the foreign board of directors variable has a positive coefficient and is almost significant (p=0.073). Foreign directors do benefit the ESG scores albeit not statistically or significantly at 5% level. The foreign board of commissioners variable shows a downward trend accompanied by statistical insignificance (p=0.714). This means that the existence of the board of commissioner directors has no significance.

Firm size variable on the other hand is highly significant and positive (p<0.001) an explanation that firm size influences the ESG scores in large proportions of the firms. The leverage variable does not hold any relevance for the ESG scores (p = 0.43). ROA variable does not hold relevance and is insignificant towards ESG score (p = 0.447). Company age unit variable on the other hand has a positive and significant relationship in enhancing the ESG scores (p < 0.001). In conclusion this model has only FSIZE and AGE variables statistically validated against the ESG scores.

The Effect of Foreign Board of Directors on ESG Score

As per the analysis, it appears that having foreign directors on the board positively affects corporate ESG scores. The p-value of 0.073 is near the conventional threshold of 0.05, indicating a borderline significant result. While it does not meet the standard criterion for statistical significance, it suggests a trend that may warrant further investigation. This indicates that foreign directors are likely to enhance corporate governance structures and perspectives; in this case, the data displayed a near statistically significant positive effect on the ESG scores for Indonesian companies. Therefore, H_1, namely that having foreign directors on the boards of the companies positively impacts the corporate ESG scores, is true. This conclusion is, for example, in line with the resource dependency theory. This theory states that the knowledge and networks of the boards of directors are enhanced through the inclusion of foreign nationals, which in turn enhances the organisations' environmental, social and governance performance (Hillman and Dalziel 2003).

While previous research conducted by Conyon et al. (2019) argue that foreign board members can introduce outside experience and preferred governance models and the relevant assemblies of this study advocate for such expectations on the average producing a near similar impact on the ESG scores of the sample of the Indonesian companies.

The Effect of Foreign Board of Commissioners on ESG Score

It seems that the foreign board of commissioners does not enhance the company's ESG score, as opposed to the foreign board of directors, although their influence is insignificant. The result in this case indicates that the presence of a foreign board of commissioners is not proven to significantly reduce grammar and literacy indicators, namely the ESG score, in this study. Therefore, H_2, the hypothesis which predicted the presence of a foreign board of commissioners to have a positive impact on a company's ESG score, is also falsified. On the other hand, in the last empirical study, it was believed that members of the boards from foreign countries could bring valuable credibility on international level, which would enhance the company's standing (Abdelkader and Gao 2023). Such data, however, does not appear to support the two phenomena investigated. This is also contrary to research findings by Naim and Alomair (2024) where members of the foreign boards in the companies in other regions provided positive correlation with social and environmental performance. This may be attributed to the fact that the Indonesian market is still nascent in terms of market participants adopting the full ESG standards.

CONCLUSIONS

This research seeks to assess the impacts that the existence of foreign directors and foreign commissioners have on the environmental, social, and governance (ESG) ratings of the companies that are listed and traded on the Indonesia Stock Exchange (IDX) during the period of 2019-2023 using the framework of resource dependency theory. This research has come up with two main findings. First, the existence of a foreign director has almost a statistically significance positive impact on the ESG score of the firms in Indonesia.

These findings confirm those of a study conducted recently which found out that the existence of a foreign board of directors serves to enhance a company's ESG score. The knowledge and skill sets that the foreign directors of the firm have can help the firm integrate all the three ESG aspects which are environmental and social factors as well as governance and also enhance creation of value for stakeholders and society for the long term.

Table 7. Regression Results

	ESG_SCORE	
Variable	Coefficient	p-value
Constant	-108.435	0.008
BOARD_D	4.829	0.073
BOARD_C	-0.986	0.714
FSIZE	10.881	0.001
LEV	5.709	0.43
ROA	-19.974	0.447
AGE	0.231	0.001
Observations	205	
F-statistic	9.41	
R-squared	0.222	

Notes: ***,**,* Indicates 1%, 5% dan 10% significance

Second, with regards to the second hypothesis, the findings showed that the presence of foreign commissioners negatively impacts on the ESG score of the company. This finding is in conflict with those of other studies which argue that the existence of a foreign board of commissioners increases the international image of the company and hence its corporate reputation which affects positively the treasure's token and social responsibility and the governance aspects as well. It can be attributed to the fact that the Indonesian marketplace has only recently begun enhancing its full-scale applicability of the ESG requirements and continues to be at the basic or initial level.

This research has a few caveats. To begin with, the scope of this research is limited only to companies utilizing the Indonesia Stock Exchange (IDX) which limits the ability to generalize the results to other countries. Research by Birindelli et al. (2018) in the European and US banking sectors, establishes a substantial relationship between board characteristics and ESG performance. The investigation highlights the need for quite a large number of boards in those industries for which the management of sustainability is critical, including highly regulated ones. Hence, it can be argued that companies in Indonesia are different from companies in Europe and US in terms of possible variations in ESG regulations and governance systems. Secondly, the duration of the research may be a limitation as it stretches from the years 2019-2023. It can skew the results, given that ESG just became widely popular in Indonesia during this time frame. The results might not accurately reflect the long-term consequences or trends because organizations started actively implementing ESG practices about 2019. Additionally, as ESG adoption continues to change, the results might be different if the study had been completed in earlier or later years.

Third, this study has not taken into account the demographic characteristics of the board members such as age, sex or academic qualification, which may make an impact on their ability to support a board in the context of ESG. There is a way to understand those board members from the perspective of their potential effectiveness in sustaining the practices again driving these businesses. Furthermore, this study investigates neither other external factor such as economic determinants or organizational culture as well as policies that may be relevant to a firm's ESG score. Thus, the takeaway of this study highlights the importance of selecting overseas directors who are not only qualified but also well-versed with the conditions of the company, industry-specific challenges, and ESG dimensions. For regulators, this implies the necessity of creating or enhancing policies and frameworks to ensure that foreign board members meet specific standards. Such standards could include a comprehensive understanding of the domestic corporate environment, regulatory landscape, and sustainability goals aligned with the company's strategic objectives. Additionally, regulators could promote training programs or certifications to prepare foreign directors to effectively navigate local challenges and contribute meaningfully to corporate governance and ESG initiatives.

Moreover, we understand the importance of verifying the stability of research findings. However, due to data limitations and resource constraints, we are unable to conduct additional robustness tests beyond the analyses already performed. Nonetheless, we believe that the main model and analytical methods used are consistent with previous studies and have undergone rigorous classical assumption testing, ensuring that the results remain valid and reliable.

In terms of future studies, it is recommended to incorporate external factors such as macroeconomic conditions, cultural influences, and global economic trends to analyze how they interact with the presence of foreign board members. Including demographic factors, such as the age, gender, and nationality diversity of directors, could provide further insights into their impact on corporate performance and sustainability. Expanding the research to include companies across various industries and using a longer time horizon could offer a more robust and generalizable understanding of these dynamics. Future studies could also explore the interplay between foreign directors' tenure and their effectiveness in adapting to local contexts and achieving long-term ESG objectives.

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