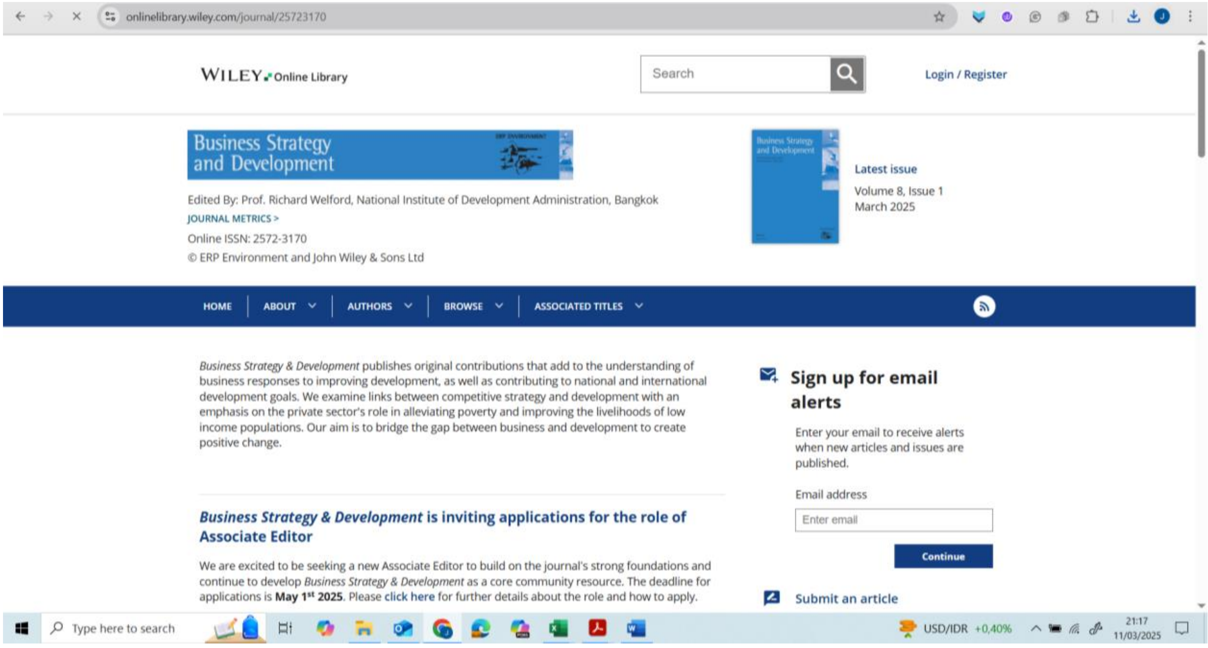

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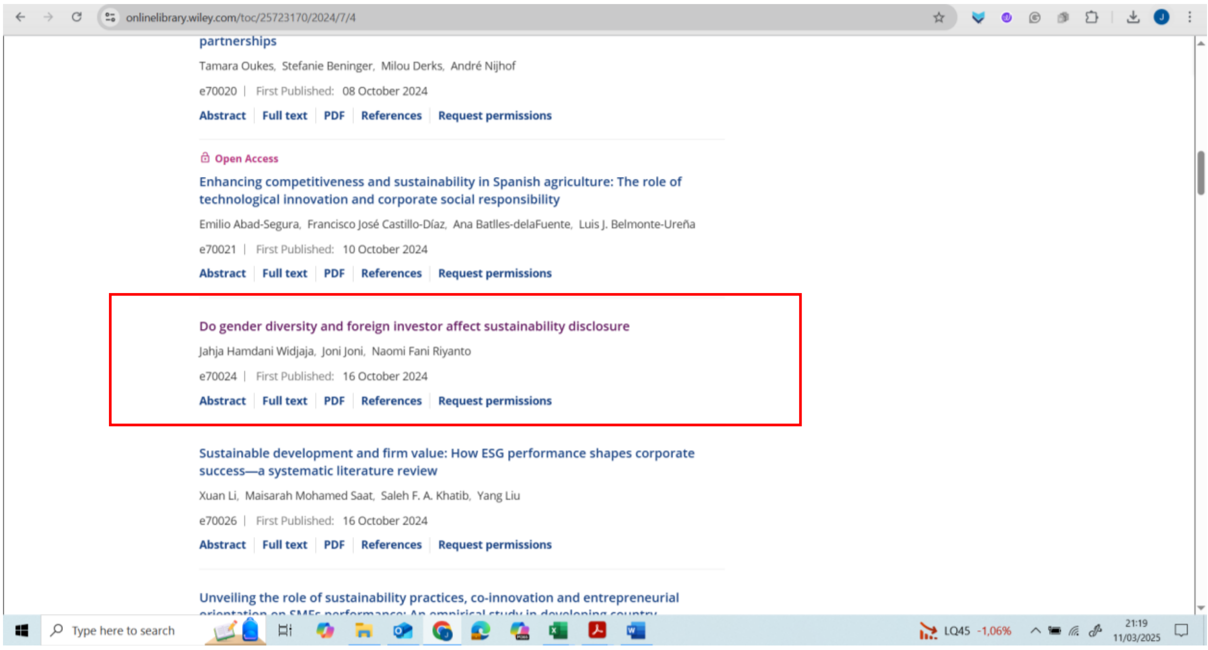

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RESEARCH ARTICLE

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Do gender diversity and foreign investor affect sustainability disclosure

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Abstract

We examine the effect of female board members and foreign institutional investors on corporate social responsibility (sustainability) disclosure in Indonesian listed firms from 2015 to 2017. Our final sample comprised 1192 firm-year observations. We apply ordinary least squares pool regression to estimate the associations and address the endogeneity problem using the two-stage least squares model, generalized method of moments, and lagged variables. While previous studies have focused on the impact of female board members and foreign institutional investors on financial outcomes, we extend the literature by investigating the association between both female board members and foreign investors and sustainable disclosure in Indonesia, where the participation of women is nominal, especially at the top management level, and the level of foreign ownership is high. Our findings propose a proportion of women as board members for listed firms and promote attractive policies to increase the number of foreign investors investing in Indonesia. It also contributes to conflicting results regarding the relationship between corporate governance and corporate social responsibility (CSR) commitment. Our results were robust after testing for endogeneity and adding more control variables. Overall, the findings have practical implications for policymakers and investors regarding corporate disclosure and governance in Indonesia.

KEYWORDS

endogeneity problem, foreign investors, gender diversity, policymakers, sustainability

1 | INTRODUCTION

This study investigates the effects of female board members and foreign institutional investors on the disclosure of corporate social responsibility (CSR) activities in Indonesia from to 2015–2017. Specifically, our study focused on two important questions. First, does the presence of female boards improve CSR disclosure based on Indonesian listed companies? Second, do institutional foreign investors create greater awareness about increasing CSR activities? The trend in corporate governance literature and practice indicates that the number of women on corporate boards and top management positions is growing around the world, and is becoming more strategic (Garcia-Blandon et al., 2024; García-Sánchez et al., 2019). The effectiveness of female representation on corporate boards is an essential issue in policymaking (Ding et al., 2022; Gaio & Gonçalves, 2022; García-Sánchez et al., 2019). Several European countries (e.g., Belgium, France, and Norway) have stipulated that listed companies include women on corporate boards. For example, in Norway, publicly listed firms are required to have at least 40% female representation on their boards (Garcia-Blandon et al., 2024). Recently, large investors have put pressure on listed companies to add more females to corporate boards (Bloomberg, 2018). More importantly, the United Nations shows a strong commitment to addressing the gender equality issue through Sustainable Development Goals (SDGs) No. 5. Therefore, it has been extensively and strategically highlighted by academics, investors, and other stakeholders, including the media, the government, and other institutions.

Several scholars and practitioners are skeptical of the effectiveness of female board members (e.g., Pandey et al., 2023). They argue that the policy of adding more female board members is motivated by group pressure regarding gender equality (Amorelli & García-Sánchez, 2021). However, prior studies provide convincing empirical evidence that female board members positively influence the development of CSR engagement (e.g., Gaio & Gonçalves, 2022; Garcia-Blandon et al., 2024; Harjoto & Rossi, 2019). Compared with men, women tend to pay more attention to social and ethical disclosures, including charity. For women, charity can be a vehicle to express their moral beliefs and help, and it can also be a means of making more friendships and contributions to the community (Bilén et al., 2021; Buallay et al., 2022). He et al. (2021) indicate that female directors tend to respond to climate change and disclose carbon information. Ananzeh et al. (2022) document that having more females on corporate boards results in more charitable contributions. The presence of female board members increases the amount of CSR giving (Khidmat et al., 2022).

In addition to the corporate governance mechanism, the number of foreign direct investments is growing in emerging markets (Appiah-Kubi et al., 2020). Li et al. (2021) showed that foreign investors dominate listed companies in developing countries. Prior literature reports that foreign investors enhance corporate governance, technology innovation, transparency, and firm performance (e.g., Likitwongkajon & Vithessonthi, 2020). Furthermore, the presence of foreign investors may improve corporate social disclosure (Gulzar et al., 2019; Li et al., 2021). Companies with high foreign institutional ownership invest heavily in socially responsible activities and tend to report more CSR disclosure as a proactive legitimacy strategy. Foreign investment can affect corporate accountability and reporting, particularly on environmental, employee, social, and ethical issues (Bose et al., 2024). This, in turn, has led to increasing demand for the disclosure of CSR initiatives in companies with higher foreign institutional ownership. Second, foreign investors have more incentives to promote more CSR disclosures because they can reduce the level of investment risks in emerging countries with weak-governed economies, such as Indonesia (Li et al., 2021).

Our study differs from other studies (e.g., Gaio & Gonçalves, 2022; Garcia-Blandon et al., 2024) in several ways. First, we examine the association between female board diversity and CSR commitment in the context of Indonesia, where patriarchal culture deeply affects the business environment. Areneke et al. (2023) indicate that the number of women is underrepresented on the board as a cause of patriarchal stereotypes, and they are marginalized in their leadership capacity. It is interesting to explore how female boards improve CSR disclosures in this context, which limits women's participation in strategic decision-making. Second, our study contributes to the body of knowledge by providing empirical evidence on the influence of foreign institutional ownership on the disclosure of CSR activities in emerging economies. Literature on the effect of female board members and foreign institutional investors (corporate governance issues) on CSR disclosure in emerging economies is very limited. The only existing literature on the association between corporate governance and CSR disclosure is based on the Chinese context (Gulzar et al., 2019). Our research is based in Indonesia, which provides an ideal institutional background to examine a company's CSR commitments in the presence of foreign institutional investors for several reasons. First, corporate governance in developing economies is formed by several unique aspects of the country, including the domination of foreign investors in Indonesia (Li et al., 2021). Investment Coordinating Board of the Republic of Indonesia (2024) reports that the value of foreign direct investment (FDI) in Indonesia, excluding the oil and gas sector and banking industry, is IDR 217.3 trillion or $13.35 billion in the second quarter of 2024. This value increased by 16.6 percent compared with FDI in the previous year. Second, the development of CSR regulations in Indonesia is improving. The KPMG (2015) reports that CSR disclosure practices through mandatory requirements in several developing countries (Malaysia, India, Indonesia, and South Africa) have substantially increased. In Indonesia, as stipulated by Law No. 25 of 2007 on Capital Investment, all listed companies must implement CSR. Additionally, Indonesian Company Law No. 40 (2007) requires companies in certain sectors (e.g., natural resources) to carry out CSR without exception. Law No. 25 of 2007 does not apply any form of sanction for firms that fail or neglect to implement CSR. Although the disclosure of CSR activities is mandatory, its implementation remains limited.

We hand-collected data for 1192 firm-year observations for publicly listed companies on the Indonesia Stock Exchange from 2015 to 2017 to test the hypotheses. Overall, our study shows that female board members and foreign institutional investors improve the disclosure of CSR activities in Indonesia. Our findings align with agency, stakeholder, and social capital theories, suggesting that female board members and institutional investors improve CSR commitments.

The remainder of the paper is organized as follows. In Section 2, we describe the theories and hypotheses development, followed by the research design in Section 3. Section 4 discusses the results of this study. Section 5 presents an endogeneity check for a robustness test. The final section provides concluding remarks.

2 | LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The relationship between females on the board and CSR is described by several theories, such as agency theory, stakeholder theory, and social theory (e.g., Gaio & Gonçalves, 2022; Garcia-Blandon et al., 2024; Gulzar et al., 2019; Harjoto & Rossi, 2019). Agency theory focuses on the monitoring role of female boards and foreign investors to confirm that CSR disclosure reduces agency costs (Jensen & Meckling, 2019). From the perspective of agency theory, female boards and foreign investors can work together to minimize potential agency conflicts and information asymmetry by promoting more transparent disclosures, as reflected by more CSR disclosures. The stakeholder theory suggests that the corporate governance system is an important mechanism for improving CSR disclosure as a tool to meet and protect stakeholders' needs (Gulzar et al., 2019). Female board members and foreign institutional investors are corporate governance mechanisms that can create value for stakeholders through CSR policies (Amorelli & García-Sánchez, 2020). The number of female boards and institutional investors can be external stakeholders that indicate a firm's commitment to socially responsible behavior. According to the stakeholder theory, firms with more effective corporate governance experience better CSR engagement.

2.1 | Female board members and CSR disclosure

As a complement, social capital theory can be applied to improve the understanding of the relationship between female board members and CSR disclosure in an emerging market in Indonesia. Social capital theory emphasizes the individual social connections of female board members as resources for improving corporate value (Kor & Sundaramurthy, 2009). There are two categories of social capital: internal and external. The connection of an individual board with other board members within the company explains internal social capital. External social capital describes the capacity of an individual to interact with external individuals/groups. The internal and external social capital of female boards increase the strength of human capital for the benefit of the company. The presence of female board members is related to more social engagement and corporate ethical decision-making as corporate resources. Following this argument, the social capital of female board members (both internal and external) can improve CSR disclosure.

Many parties (including scholars, investors, stakeholders, and government) have drawn attention to the importance of female representation on boards in developed countries (Amorelli & García-Sánchez, 2020; Enciso-Alfaro & García-Sánchez, 2024; Gaio & Gonçalves, 2022; Garcia-Blandon et al., 2024). While scholars have examined the association between female board members and CSR disclosure in developed market contexts, including the U.S. and European countries (e.g., Gaio & Gonçalves, 2022; Ramdhony et al., 2021), few studies have used listed companies in an emerging market where the number of women in top management is limited. For instance, Cullinan et al. (2019) empirically investigated the effect of board characteristics (gender and other board roles) on CSR in the U.S. from 2013 to 2015. Using ordinary least squares (OLS) regression and 4194 firm-year observations, they found that a firm with more female directors is associated with higher social and environmental strengths and fewer CSR concerns. They also examine whether the joint consideration of gender and board types (female independent board, female executive board, and female greyboard) influences CSR's strengths and concerns.[1] The results indicate that female independent directors are positively related to CSR strengths and negatively related to CSR concerns. While female executive directors are positively associated with CSR strength, they have no association with any form of CSR concern. In addition, firms with more female gray directors experience fewer CSR concerns.

In the context of European countries, Pucheta-Martínez et al. (2019) tested the impact of independent female boards on CSR reporting using a sample of 152 Spanish non-financial listed companies from 2004 to 2014. The sample comprises 1312 firm-year observations. They found that this relationship is nonlinear. This means that the presence of independent female board members improves CSR reporting when it reaches a certain level (20.47% and 13.32%, respectively). Harjoto and Rossi (2019) empirically tested the effect of religiosity and female board members on CSR using 156 Italian-listed firms over the period 2002–2014. They used several instrumental variables, such as the frequency of words in papal encyclicals and other writings associated with gender diversity and religiosity, as well as demographic and socioeconomic characteristics. Harjoto and Rossi (2019) found that religiosity and the presence of female board members are positively associated with CSR. Beji et al. (2021) investigate whether female board members are related to ethical compliance in France. They found that female boards are positively associated with ethical compliance. Gaio and Gonçalves (2022) showed that companies with a higher percentage of women on the board promoted more CSR commitments from to 2013–2019. García-Sánchez et al. (2024) showed that female boards encourage corporate transparency. Consequently, the presence of female board members can improve a company's disclosure, including disclosure of charitable awareness and contributions (Ananzeh et al., 2022).

Elmagrhi et al. (2019) investigated the association between board members' gender diversity (age, proportion, and level of education) and CSR in China based on 383 listed A-shares from 2011 to 2015 (1674 firm-year observations). They indicate that the percentage and age of female board members positively influence overall and individual (environmental strategy, implementation, disclosure) environmental performance. Using a sample of Chinese firms, He et al. (2021) found that female top management tends to pay attention to climate change. Based on the theoretical background and the previous studies mentioned above, the following hypothesis is proposed:

> **H1.** A firm with female board members is positively associated with CSR disclosures, ceteris paribus.

2.2 | Foreign institutional investors and CSR disclosure

Another unique feature of corporate governance in Indonesia is the dominance of foreign institutional investors. The presence of foreign investors can encourage listed companies to comply with CSR regulations (Guo & Zheng, 2021; Li et al., 2021; Tokas & Yadav, 2023). Foreign institutional investors support CSR implementation for at least three reasons, particularly in emerging economies with minority shareholder protection (Li et al., 2021). First, key theories (such as agency theory and stakeholder theory) argue that foreign investors as a corporate governance mechanism can improve a company's policy and strategy, including CSR (e.g., Setiawan et al., 2021). Second, foreign investors drive corporate transparency, as reflected in better disclosure (e.g., García-Sánchez et al., 2020). Third, foreign investors focus on long-term performance, which is reflected in CSR investments (Paul & Feliciano-Cestero, 2021). Ali et al. (2024) indicated that foreign investors with long-term investment horizons demand more biodiversity disclosure and initiatives. Fourth, CSR provides evidence of a company's responsibility and reliability to its stakeholders (Dmytriyev et al., 2021), including foreign investors' expectations.

Prior studies have shown mixed results regarding this association. Ardito et al. (2021) examined the effect of a female board on several dimensions of CSR based on European and US samples. The results show a negative relationship between the female board, environmental performance, and employee well-being. Moreover, it is not significantly related to ethical governance. However, most studies have shown a positive association. Gulzar et al. (2019) showed that corporate governance mechanisms through institutional foreign investors in China improve CSR engagement. Alshbili et al. (2020) examined the effects of multiple ownership (institutional, managerial, and foreign ownership) and CSR engagement. Using a final sample of listed firms in developing countries, they found that institutional and foreign ownership are positively associated with CSR ratings. Yu and Zheng (2020) found evidence that foreign institutional investors from common-law countries tend to invest in companies with CSR reporting. Recently, Li et al. (2021) provide convincing evidence of a positive association between qualified foreign institutional investors and CSR disclosure based on listed firms in China from 2009 to 2017. Foreign investors in countries with high social awareness have a positive impact. Manogna (2021) provided similar findings in the context of India. Based on cross-country data, Döring et al. (2023) show that foreign institutional investors positively affect corporate greenhouse gas emission reporting. Specifically, they report that foreign institutional investors enhance the quality of disclosure of greenhouse gas emissions.

Based on the theoretical background and the previous studies mentioned above, the following hypothesis is proposed:

> **H2.** A firm with foreign institutional investors is positively associated with its CSR disclosure, ceteris paribus.

3 | RESEARCH DESIGN

3.1 | Data and sample

We used all publicly listed firms on the Indonesian Stock Exchange (IDX) from 2015 to 2017 as our sample. This study covers the period when listed companies in Indonesia is required to conduct CSR activities as stated in PP No. 47 of 2012, concerning Social and Environmental Responsibility.

In Limited Liability Companies and Law No. 40 of 2007 concerning Limited Liability Companies. In terms of data collection, CSR and other corporate governance data are manually collected from the company's annual report and its website. We then extracted quantitative data, such as financial information, from Datastream. After screening firms with unavailable data, our final sample comprised 1192 observations (Table 1, Panel A) or 368 firms. The total sample is diversified across sectors based on the Global Industry Classification Standard (GICS) code, with 73% of firms in the industrial sector, 18% from the banking and other financial sectors (e.g., insurance), 6% from the transportation sector, and only 3% from the utility sector (Panel B of Table 1). Our sample is dominated by the industrial sector, which represents the actual conditions of the Indonesian capital market. It is confirmed that the industrial sector is the largest industry in Indonesia, contributing more than 50% to the Indonesian Gross Domestic Product (GDP) in 2023 (Statista, 2024).

3.2 | Model and variables

We apply the following OLS models to investigate the effect of female board members and foreign institutional investors on CSR disclosure. Three models are used to test the hypotheses. The first model uses the number of female board members as the empirical variable, and the second model applies a dummy variable to test whether the presence of female board members affects CSR disclosure. It has been argued that female board members can improve their CSR commitment due to their social connections and stakeholder concerns. This is consistent with prior studies such as those by Gaio and Gonçalves (2022) and Ramdhony et al. (2021). The third model applies a dummy variable to indicate the presence of foreign institutional investors. The presence of foreign institutional investors creates awareness that increases CSR initiatives. This finding is supported by previous studies, including Gulzar et al. (2019), Li et al. (2021), and Manogna (2021).

$$\begin{aligned}\mathrm{CSR\_SCORE}_{it} = {} & \alpha_1 \mathrm{FEM\_SIZE}_{it} + \alpha_2 \mathrm{SB\_SIZE}_{it} \\ & + \alpha_3 \mathrm{SB\_TENURE}_{it} + \alpha_4 \mathrm{LEV}_{it} + \alpha_5 \mathrm{FSIZE}_{it} \\ & + \alpha_6 \mathrm{ROA}_{it} + \alpha_7 \mathrm{LOSS}_{it} + \alpha_8 \mathrm{IND}_{it} + \alpha_9 \mathrm{YEAR}_{it} + \varepsilon_{it}\end{aligned} \tag{1}$$

$$\begin{aligned}\mathrm{CSR\_SCORE}_{it} = {} & \alpha_1 \mathrm{FEM\_DUMMY}_{it} + \alpha_2 \mathrm{SB\_SIZE}_{it} \\ & + \alpha_3 \mathrm{SB\_TENURE}_{it} + \alpha_4 \mathrm{LEV}_{it} + \alpha_5 \mathrm{FSIZE}_{it} \\ & + \alpha_6 \mathrm{ROA}_{it} + \alpha_7 \mathrm{LOSS}_{it} + \alpha_8 \mathrm{IND}_{it} + \alpha_9 \mathrm{YEAR}_{it} + \varepsilon_{it}\end{aligned} \tag{2}$$

$$\begin{aligned}\mathrm{CSR\_SCORE}_{it} = {} & \alpha_1 \mathrm{FOREIGN\_II}_{it} + \alpha_2 \mathrm{SB\_SIZE}_{it} \\ & + \alpha_3 \mathrm{SB\_TENURE}_{it} + \alpha_4 \mathrm{LEV}_{it} + \alpha_5 \mathrm{FSIZE}_{it} \\ & + \alpha_6 \mathrm{ROA}_{it} + \alpha_7 \mathrm{LOSS}_{it} + \alpha_8 \mathrm{IND}_{it} + \alpha_9 \mathrm{YEAR}_{it} + \varepsilon_{it}\end{aligned} \tag{3}$$

The dependent variable of the empirical model is CSR disclosure (CSR SCORE). CSR SCORE is applied as the estimated variable in this study and a set of indicators developed by Muttakin and Khan (2014). Since CSR is a broad concept applied in business, in our study, we use a similar view to The World Business Council for Sustainable Development, which defines CSR as "the continuing commitment by business

TABLE 1 The sample description.

Panel A: The sample selection					
No.	**Fiscal year**	**2015**	**2016**	**2017**	**Total observations**
01.	Number of listed firms in IDX	582	582	582	1746
02.	Number of listed firms with missing data	(165)	(175)	(214)	(554)
Total listed firms in the sample		417	407	368	1192
Panel B: Distribution of firms by industry					
GICS code	**Industry**	**2015**	**2016**	**2017**	**Total observations**
01.	Industrial	304	298	269	871 (73%)
02.	Utility	13	13	9	35 (3%)
03.	Transportation	23	24	23	70 (6%)
04.	Bank/saving & loan	33	32	29	94 (8%)
05.	Insurance	12	9	8	29 (2%)
06.	Other financial	32	31	30	93 (8%)
Total listed firms in the sample		417	407	368	1192 (100%)

TABLE 2 Definition of variables.

Main variables	Expected sign	Definition
CSR_SCORE_{it}		20 components to identify CSR activity in emerging market for firm *i* in year *t* (Muttakin & Khan, 2014). A detailed description of CSR components is reported as follow: • Community involvement aspect consists of three components: charitable donations and subscriptions; sponsorship and advertising; community programme (health and education). • Environmental aspect consists of one component: environmental policies. • Employee information aspect consists of nine components: number of employees/human resource; employee relations; employee welfare; employee education; employee training and development; employee profit sharing; managerial remuneration; workers' occupational health and safety; child labour and related actions. • Product and service information aspect consists of six components: types of products disclosed; product development and research; product quality and safety; discussion of marketing network; focus on customer service and satisfaction; customer award/rating received. • Value added information aspect consists of one component: value added statement.
FEM_DUMMY_{it}	+	Indicator variable set to 1 if at least one female director on board for firm *i* in year *t* and 0 otherwise (Rossi et al., 2018)
FEM_SIZE_{it}	+	The number of female board member for firm *i* in year *t* (Rossi et al., 2018)
$FOREIGN\_II_{it}$	+	Indicator variable set to 1 if firm owned by foreign institutional investors, and 0 otherwise (Muttakin & Khan, 2014)
		Corporate governance characteristics—control variables
SB_SIZE_{it}	+	The number of supervisory board members for firm *i* in year *t* (M. A. Harjoto & Rossi, 2019)
SB_TENURE_{it}	+/−	The number of years since supervisory board joined for firm *i* in year *t*
		Corporate characteristics—control variables
$FSIZE_{it}$	+	The natural log of the total assets for firm *i* in year *t* (M. A. Harjoto & Rossi, 2019)
LEV_{it}	−/+	The natural log of the ratio of total long-term debt divided by the total assets for firm *i* in year *t* (Duchin et al., 2010; M. A. Harjoto & Rossi, 2019)
ROA_{it}	+	The ratio of the net income before interest and taxes divided by the average book value of total asset for firm *i* in year *t*
$LOSS_{it}$	−	Dummy variable, 1 if loss reported for firm *i* in year *t*, and zero otherwise
		Fixed effects—control variables
IND_{it}		A vector of industry dummy variables that classified using two-digit GICS (Global Industry Classification Standard).
$YEAR_{it}$		A vector of year dummy variables: 2015; 2016; 2017.

Abbreviation: CSR, corporate social responsibility.

to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large" (Halkos & Nomikos, 2021). Specifically, the disclosure of CSR activities is proxied by five aspects of social and environmental concerns in the context of the emerging market: employee information, environmental, product and service information, community involvement, and value-added information. CSR SCORE was measured using the CSR index (the average score). It consists of 20 indicators derived from five dimensions: the environment, community involvement, product and service information, value-added information, and employee information. We assign a value of one to each that is implemented and a value of zero to those that the company does not implement. The indicators were adopted because they have been tested in the context of developing countries, such as Bangladesh and Indonesia (Mulia & Joni, 2019; Selin et al., 2023). The other key variables are presented in Table 2. A detailed definition of the variables and references is as follows.

3.3 | Statistical analyses

To analyze the main models and derive the final conclusions, we followed several steps of empirical testing. First, we use descriptive statistics to understand whether the presented data are clear and to support our main analysis. Second, we apply correlation analysis to check the correlation between our main variables and other control variables. Additionally, we used the variance inflation factor (VIF) to address the multicollinearity problem. Third, OLS regression is employed to test our main hypotheses, which examine the effect of female board members and foreign institutional investors on CSR disclosure.

3.4 | Sensitivity analyses

One potential problem regarding the examination of the impact of female board members and foreign institutional investors on CSR is endogeneity. Companies with higher CSR commitments are more likely to have female board members and attract foreign investors. Thus, female board members and foreign investors can be endogenously determined. To address the potential endogeneity problem, we employ a two-stage least squares (2SLS) model, generalized method of moments (GMM), and lagged variables. The 2SLS model was applied using the instrumental variables. GMM is generally applied because it is an efficient prediction when heteroscedasticity exists. If there is no heteroscedasticity, it is asymptotically normal (Saleh et al., 2021; Sari et al., 2024). In addition, we address the endogeneity problem by using lagged dependent variables. We expect that our experimental variables will not be associated with lagged dependent variables. Finally, we added the political supervisory board as an additional control variable and estimated the three models again for the robustness test.

3.5 | Limitation

This study has several limitations. First, we use the information provided in Annual Reports to identify CSR disclosure. What is published in Annual Reports as only one form of disclosure? Not disclosing CSR activities may not mean that they have not been undertaken. Disclosing CSR activities does not measure quantity or quality, and this information has not yet been verified. Links between CSR disclosure and the strength or quality of corporate governance or ethical decision making were not demonstrated in our study. Second, CSR was measured using a single index developed in a previous study in the context of an emerging market. However, using a single CSR measure may reduce the internal consistency of the estimation. Third, Globally, CSR is giving way to ESG (environmental, social, and governance). This is evident in the recent report by the World Economic Forum attempting to synthesize and streamline a range of ESG standards, disclosure requirements, performance systems, and metrics by the World Economic Forum. It would be useful for this paper to frame its work on CSR as part of this broader international effort. However, we found only 46 large companies that provided ESG scores on the Indonesian Stock Exchange. Therefore, this could not be addressed in the present study. Fourth, this study will have more benefits if the amount of CSR spending can be explored; however, we find insufficient data to execute this idea. We leave these issues to future research. Fifth, our study does not cover the period after POJK Number 51/POJK 03/2017 concerning the implementation of sustainable finance for financial service institutions where sustainable report is compulsory for financial industry. This limitation can be addressed in future studies.

4 | RESULTS DAN DISCUSSION

Table 3 reports the descriptive statistics of the main variables in the full sample of 1192 observations. The key variables, such as CSR, show a mean value of 0.690, with a minimum value of 0.000 and a

TABLE 3 Descriptive statistics.

Variable	N	Mean	St. Dev	Min	Max
CSR	1192	0.690	0.157	0.000	0.900
FEM_SIZE	1192	0.766	1.010	0.000	8.000
FEM_DUMMY	1192	0.494	0.500	0.000	1.000
FOREIGN_II	1192	0.618	0.486	0.000	1.000
SB_SIZE	1192	2.574	1.318	1.000	15.000
SB_TENURE	1192	5.717	6.033	0.100	49.000
LEV	1192	70.516	76.946	0.000	297.440
FSIZE	1192	27.429	3.740	17.000	35.000
ROA	1192	0.071	0.455	−1.590	12.386
LOSS	1192	0.239	0.426	0.000	1.000

Note: The table reports the summary statistics of the key variables. We include 1192 firm-year observations from 2015 to 2017 as our sample. All variables are based on fiscal year. See Table 2 for variable definitions.

maximum value of 0.900. The mean of FEM_SIZE (FEM_DUMMY) was 0.766 (0.494), with a maximum value of 8.000 (1.000) and a minimum value of 0.000 (0.000). The average value of FOREIGN_II was 0.618, with a minimum value of 1.000 and maximum value of 0.000. Consistent with other studies (e.g., Ding et al., 2022; Gaio & Gonçalves, 2022; García-Sánchez et al., 2019; Gulzar et al., 2019; Li et al., 2021; Rossi et al., 2018), the CSR value, female board members, and foreign institutional investor estimates in the sample are considered reasonable.

Further, we calculated pairwise Pearson correlations to show the correlations of several key variables in the model in Table 4, except for the industry and year variables. The highest correlation existed between FOREIGN_II and SB_SIZE ($r = 0.224$) at the 1% level. Further, we address the multicollinearity issue using the VIF in Table 5. The average VIF for the three models is approximately 1.12, suggesting that none of the results suffer from multicollinearity.

Table 5 shows the OLS estimates for the models in which the association between female board members and CSR disclosure is

TABLE 4 The correlation of main variables.

Variable	1	2	3	4	5	6	7	8	9	10
CSR (1)	1.000									
FEM_SIZE (2)	0.106[a]	1.000								
FEM_DUMMY (3)	0.102[a]	0.767[a]	1.000							
FOREIGN_II (4)	0.110[a]	0.066[b]	0.076[a]	1.000						
SB_SIZE (5)	0.202[a]	0.084[a]	0.113[a]	0.224[a]	1.000					
SB_TENURE (6)	−0.079[a]	0.020	−0.019	−0.075[a]	−0.044	1.000				
LEV (7)	0.048[c]	−0.047	−0.007	0.039	−0.018	−0.009	1.000			
FSIZE (8)	0.117[a]	0.217[a]	0.167[a]	−0.010	0.135[a]	0.004	−0.044	1.000		
ROA (9)	−0.154[a]	−0.022	−0.024	0.001	0.010	−0.008	−0.022	−0.004	1.000	
LOSS (10)	−0.154[b]	−0.063[b]	−0.055[c]	0.007	−0.098[a]	0.008	0.130[a]	−0.175[a]	−0.144[a]	1.000

Note: The table shows the pairwise Pearson correlation matrix for 1192 firm–year observations as the full sample. We use the superscripts a–c to represent two-sided significance at the 1%, 5%, and 10% levels, respectively. See Table 2 for variable definitions.

TABLE 5 Female board members, foreign institutional investors, and CSR-pool OLS.

	Estimated coefficient		
Variables	Model 1	Model 2	Model 3
INTERCEPT	0.613[a] (16.52)	0.609[a] (16.45)	0.592[a] (15.77)
FEM_SIZE	0.010[a] (2.42)		
FEM_DUMMY		0.021[a] (2.40)	
FOREIGN_II			0.022[a] (2.42)
SB_SIZE	0.020[a] (5.94)	0.019[a] (5.85)	0.018[a] (5.36)
SB_TENURE	−0.001[b] (−2.50)	−0.001[a] (−2.40)	−0.001[b] (−2.25)
LEV	0.000 (2.46)	0.000[a] (2.38)	0.000[b] (2.21)
FSIZE	0.001 (0.83)	0.001 (0.89)	0.001 (1.37)
ROA	0.008 (0.91)	0.008[a] (0.92)	0.008[a] (0.85)
LOSS	−0.047[a] (−4.42)	−0.047[a] (−4.40)	−0.048[a] (−4.50)
YEAR	Included	Included	Included
INDUSTRY	Included	Included	Included
Mean VIF	1.12	1.11	1.12
R^2	0.096	0.096	0.096
F	9.02[a]	9.01[a]	9.02[a]
Prob > F	0.000	0.000	0.000
N	1192	1192	1192

Note: The table shows OLS coefficient estimates and indicator variables are included in the model to control for year and industry variables, however, the results are not displayed due to space constraints. We use the superscripts a–c to represent two-sided significance at the 1%, 5%, and 10% levels, respectively. See Table 2 for variable definitions.
Abbreviations: CSR, corporate social responsibility; OLS, ordinary least squares.

addressed. In Model 1, the relationship between female board members' size and CSR disclosure is significantly positive at the 1% level (coefficient = 0.010, $t = 2.42$). In addition to female board members, Model 2 uses a dummy variable to investigate the relationship between female board members and CSR disclosures. As Table 5 shows, female board members (dummy variable) are also positively associated with CSR disclosure at the 1% level (coefficient = 0.021, $t = 2.40$). Following previous studies, Table 5 reports significant results after controlling for leverage, firm size, ROA, and loss. Overall, our results are consistent with those of previous studies (Cullinan et al., 2019; Ding et al., 2022; Elmagrhi et al., 2019; Gaio & Gonçalves, 2022; García-Sánchez et al., 2019; Harjoto & Rossi, 2019), suggesting that the presence of female board members helps listed companies improve their disclosure of social and ethical activities. Compared with male board members, who are more concerned about economic denominators, female board members focus more on discretionary elements of CSR. Female board members play an important role in monitoring corporate strategies, protecting stakeholder interests, and reducing agency costs. From the stakeholder theory perspective, firms with more female board members show a better relational ability that enables them to communicate with multiple stakeholders. According to the social capital theory, female board members, through their internal and external social relations, can be a valuable resource for improving corporate value. They are more generous and more sensitive to ethical and social issues. Consequently, the social capital of female board members in a company can influence CSR initiatives.

Table 5 reports that foreign institutional investors are positively associated with CSR disclosure at the 1% level (coefficient = 0.022, $t = 2.42$). This finding suggests that firms with more foreign institutional investors promote more corporate social disclosure. These results are consistent with those of previous studies, including Gulzar et al. (2019) and Li et al. (2021). According to agency theory, a firm can improve its monitoring process by having more foreign investors to protect them. As a result, the long-term value of the company increases, as reflected in higher CSR performance. Next, the presence of foreign investors helps companies focus on long-term CSR engagement and meet the expected social norms as a proactive legitimacy strategy. From the perspective of stakeholder theory, CSR disclosure reflects the responsibility of a company to its stakeholders, and it has been shown that foreign investors demand more concern for stakeholders' interests by disclosing environmental, social, and ethical aspects in corporate reports.

TABLE 6 Female board members, foreign institutional investors, and CSR-2SLS.

Variables	Estimated coefficient Model 1	Model 2	Model 3
FEM_SIZE	0.020^a (0.00)	-	-
FEM_DUMMY	-	0.082^a (0.00)	-
FOREIGN_II	-	-	0.732^a (0.00)
Control Variables	Included	Included	Included
YEAR	Included	Included	Included
INDUSTRY	Included	Included	Included
R^2	12.20	18.70	18.40
Wald chi2	1.26	6.03	6.87
N	1192	1192	1192

Note: We use the superscripts a–c to represent two-sided significance at the 1%, 5%, and 10% levels, respectively. See Table 2 for variable definitions.
Abbreviations: 2SLS, two-stage least squares; CSR, corporate social responsibility.

5 | ROBUSTNESS TEST

Since the endogeneity problem is the main concern in the corporate governance literature, we address one of the potential endogeneity issues called simultaneity. It is possible that the presence of female board members and foreign investors is determined endogenously. Thus, firms with more CSR concerns tend to appoint more female board members and attract more foreign institutional investors. First, we used the 2SLS model to control for the potential endogeneity problem. To apply the 2SLS model, we consider one-year lagged measures of female board members (size and dummy) and foreign institutional ownership as instrumental variables (Gulzar et al., 2019). Table 6 shows the results of the 2SLS for our three models. These results were consistent with the main results presented in Table 5.[2]

Next, we check the endogeneity issue using the GMM, which is commonly known as an efficient estimation in the case of heteroskedasticity, and it is asymptotically normal if heteroskedasticity is not in the model. As shown in Table 7, after controlling for endogeneity, the results are consistent with the main results in Table 5 (Model 1: coefficient = 0.012, t = 3.16; Model 2: coefficient = 0.020, t = 2.34; Model 3: coefficient = 0.022, t = 2.31).

The authors further use lagged variables to address endogeneity concerns. According to Joni et al. (2020), the potential for endogeneity problems is likely to be insignificant when the lagged dependent variable is employed. The regression results (not tabulated) show that female board members (coefficient = 0.016, $t = 0.92$) and foreign institutional investors (coefficient = 0.006, $t = 0.56$) were not significantly associated with the lagged dependent variable (lagged CSR disclosure score).

In addition, we rerun our models using a politically connected supervisory board as an additional control variable in the robustness test. Selin et al. (2023) argue that politically connected supervisory boards in Indonesia improve their CSR commitment. The results (not tabulated) show that firms with political supervisory board members increase CSR initiatives (coefficient = 0.008, $t = 1.72$).[3]

6 | CONCLUSION REMARK

We test the effect of female board members and foreign institutional investors on CSR disclosure in the context of Indonesia's emerging

TABLE 7 Female board members, foreign institutional investors, and CSR-GMM.

Variables	Estimated coefficient Model 1	Model 2	Model 3
INTERCEPT	0.575[a] (17.09)	0.567[a] (16.89)	0.552[a] (16.39)
FEM_SIZE	0.012[a] (3.16)	-	-
FEM_DUMMY	-	0.020[a] (2.34)	-
FOREIGN_II	-	-	0.022[b] (2.31)
SB_SIZE	0.020[a] (6.56)	0.020[a] (6.42)	0.019[a] (5.90)
SB_TENURE	−0.001[a] (−2.50)	−0.001[a] (−2.42)	−0.001[b] (−2.25)
LEV	0.000[a] (2.76)	0.000[a] (2.63)	0.000[a] (2.51)
FSIZE	0.002[b] (1.93)	0.002[b] (2.16)	0.003[a] (2.62)
ROA	0.009[a] (2.73)	0.009[a] (2.76)	0.009[b] (2.33)
LOSS	−0.047[a] (−4.00)	−0.047[a] (−4.01)	−0.048[a] (−4.09)
YEAR	Included	Included	Included
INDUSTRY	Included	Included	Included
N	1192	1192	1192

Note: We use the superscripts a–c to represent two-sided significance at the 1%, 5%, and 10% levels, respectively. See Table 2 for variable definitions.
Abbreviations: CSR, corporate social responsibility; GMM, generalized method of moments.

economy. We demonstrate that the presence of female board members effectively improves corporate disclosure of CSR activities. Further, our study documents that firms with foreign institutional investors proactively demand CSR disclosures. The results are robust after testing for endogeneity. Our study contributes to the literature by providing empirical evidence on the effectiveness of female board members in improving corporate disclosure of environmental, social, and ethical issues, while previous studies focus on financial outcomes. This is consistent with the agency, stakeholder, and social capital theories. Gender diversity is a unique characteristic of corporate governance. The presence of female board members plays an important role in overseeing corporate social and ethical decision making, which is reflected in CSR disclosure and reduces agency conflicts between management and stakeholders. From a stakeholder theory perspective, female board members use CSR activities to promote stakeholder interests and integrate shareholder and stakeholder interests. It is interesting to explore the important role of female board members in dealing with the corporate disclosure of CSR activities because they have more social connections. In line with the social capital theory, female board members improve CSR performance due to their social capital.

We also contribute to the literature by documenting the positive impact of foreign institutional investors on CSR disclosure because of a proactive legitimacy strategy. Using emerging market contexts in which the role of women is nominal and foreign ownership is high, our research extends the corporate governance literature. Compared with developed countries such as Norway, the Indonesian capital market does not regulate the proportion of women on the board.

By providing empirical evidence on the effectiveness of female board members and foreign investors in CSR disclosure, our study has important implications for practitioners, especially policymakers and investors in emerging markets. Practically, they can consider the proportion of female board members in listed firms as a mandatory requirement. Policymakers should promote diverse board members when creating corporate governance regulations in emerging markets. As in Norway, the percentage of women as board members increased from 5% in 2001 to 40% in 2007, a board gender quote between 5%–40% of the total board members can be considered practical for policymaking in an emerging economy.

Our results also show that foreign investors improve their awareness of CSR disclosure and focus on long-term investment. Therefore, policymakers must propose appropriate regulations to attract foreign investors to invest in Indonesia. In addition, our study implies that policymakers can improve regulations to help listed companies in emerging markets fulfill the international standards of CSR disclosure. Socially responsible investors might modify their investment composition based on publicly disclosed information on CSR initiatives and the board diversity of the company.

AUTHOR CONTRIBUTIONS

Jahja Hamdani Widjaja as the first author has made a major contribution in conception and design, data acquisition, and data analysis. Next, Joni Joni as second author and corresponding author has been involved in drafting the manuscript or revising it critically for important intellectual content, and then considering the final approval of the version to be published. Joni has participated sufficiently in the work to take public responsibility for the appropriate parts of the content; and agree to be accountable for all aspects of the work in ensuring that questions regarding the accuracy or integrity of any part of the work are appropriately investigated and resolved. The third author is Naomi Fani Riyanto she has made major contributions to the analysis and interpretation of the data.

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ENDNOTES

[1] A Greyboard member is defined as a non-executive board member who has a relationship with the company or its executives that could compromise their independence (Cullinan et al., 2019).

[2] Model 1: coefficient = 0.020; Model 2: coefficient = 0.082; Model 3: coefficient = 0.732.

[3] The full statistical results are provided upon request.

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