

How Do Foreign Directors Affect Assurance Practices in Sustainability Reporting?

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ABSTRACT

Sustainability reports are an important element in modern corporate governance practices, especially in ensuring transparency and accountability to stakeholders. The use of assurance in sustainability reports is often associated with the quality of reporting. This study examines the role of foreign directors in driving companies' decisions to use assurance in their sustainability reports. This study uses a quantitative approach with data from companies listed on the Indonesia Stock Exchange. Using empirical data from multinational corporations, this study integrates corporate governance theory and cross-cultural perspectives to explore the influence of international experiences and cultural differences of foreign directors on transparency and accountability of sustainability reporting. The results of the study show that the existence of foreign directors is positively related to the company's decision to use assurance in its sustainability report. This shows the importance of the global perspective brought by foreign directors in sustainability reporting practices. Foreign directors tend to bring experience and best practices from their home countries, which often have stricter sustainability regulations. In addition, the study found that the impact of foreign directors is more significant in the environment of companies operating in countries with weak governance or low levels of sustainability compliance. This research makes an important contribution to the sustainability reporting literature, by highlighting the role of diversity in the board of directors in encouraging better reporting practices. This article also has practical implications for companies looking to improve the credibility of their sustainability reports in the eyes of global stakeholders.

Keywords: Foreign Director, Assurance, Sustainability Report, Corporate Governance.

ABSTRAK

Laporan keberlanjutan menjadi elemen penting dalam praktik tata kelola perusahaan modern, khususnya dalam memastikan transparansi dan akuntabilitas kepada pemangku kepentingan. Penggunaan assurance atau penjaminan pada laporan keberlanjutan kerap dikaitkan dengan kualitas pelaporan. Studi ini mengkaji peran direksi asing dalam mendorong keputusan perusahaan untuk menggunakan assurance pada laporan keberlanjutan. Penelitian ini menggunakan pendekatan kuantitatif dengan data dari perusahaan-perusahaan yang terdaftar di Bursa Efek Indonesia. Dengan menggunakan data empiris dari perusahaan multinasional, penelitian ini mengintegrasikan teori tata kelola perusahaan dan perspektif lintas budaya untuk mengeksplorasi pengaruh pengalaman internasional dan perbedaan budaya direktur asing terhadap transparansi dan akuntabilitas pelaporan keberlanjutan. Hasil penelitian menunjukkan bahwa keberadaan direksi asing berhubungan positif dengan keputusan perusahaan untuk menggunakan assurance pada laporan keberlanjutan. Hal ini menunjukkan pentingnya perspektif global yang dibawa oleh direksi asing dalam praktik pelaporan keberlanjutan. Direktur asing cenderung membawa pengalaman dan praktik terbaik dari negara asal mereka, yang sering kali memiliki regulasi keberlanjutan yang lebih ketat. Selain itu, penelitian ini menemukan bahwa dampak direktur asing lebih signifikan dalam lingkungan perusahaan yang beroperasi di negara dengan tata kelola yang lemah atau tingkat kepatuhan keberlanjutan yang rendah. Penelitian ini memberikan kontribusi penting pada literatur pelaporan keberlanjutan, dengan menyoroti peran keberagaman dalam dewan direksi dalam mendorong praktik pelaporan yang lebih baik. Artikel ini juga memiliki implikasi praktis bagi perusahaan yang ingin meningkatkan kredibilitas laporan keberlanjutan mereka di mata pemangku kepentingan global.

Kata Kunci: Direksi Asing, Assurance, Laporan Keberlanjutan, Tata Kelola Perusahaan.

1. Introduction

In the era of globalization and increasing attention to sustainability issues, sustainability reports have become one of the important tools for companies to communicate their performance in the economic, social, and environmental fields to stakeholders. This report is not only a tool for transparency, but also reflects the company's commitment to social responsibility and long-

term sustainability. However, the reliability and credibility of sustainability reports are often questioned, which has prompted many companies to use external assurance to improve the quality and trust of the reports.

One of the factors that can affect a company's decision to use assurance is the composition of the board of directors, especially the existence of foreign directors. Foreign directors often bring a global perspective, cross-

cultural experience, and a deep understanding of international best practices (Albu, C. et al., 2016). They also tend to be more familiar with global sustainability reporting standards, such as the GRI (Global Reporting Initiative), which can encourage companies to adopt more transparent and trustworthy reporting practices.

However, the relationship between the existence of foreign directors and the decision to use assurance in sustainability reports is still not fully understood. Some studies have shown that foreign directors have a positive influence on these decisions, while other studies have found that other factors, such as corporate culture or regulatory pressures, are more dominant, (Adewuyi, et al., 2017).

The presence of foreign directors in a company can influence the decision to use assurance in sustainability reports (De Villiers, et al., 2011). Several studies show that the presence of foreign directors plays a significant role in determining the use of the assurance. According to a study, only the existence of foreign directors can be one of the determinants of the decision to use assurance in sustainability reports.

In general, the presence of foreign directors can bring an international perspective and global best practices that encourage transparency and accountability in sustainability reporting. However, its effectiveness in encouraging the use of assurance in sustainability reporting may be influenced by other factors, such as company culture, local regulations, and the overall composition of the board.

Sustainability reports are an important instrument for communicating a company's economic, social, and environmental impact to stakeholders. However, the reliability of these reports is often questioned, which drives the need for assurance. In the context of globalization, foreign directors are one of the elements that can influence decision-making related to sustainability reporting, including the decision to conduct assurance.

Based on this background, this study aims to answer the question of how important is the existence of foreign directors in encouraging the use of assurance in the Company's sustainability report. By using data on companies listed on the Indonesia Stock Exchange over a certain period, this research is expected to contribute to corporate governance literature and sustainability reporting, as well as provide practical insights for companies in developing more effective governance strategies.

This research aims to answer the following questions:

1. Does the presence of foreign directors affect the company's decision to use assurance in its sustainability report?
2. What is the role of foreign directors in improving the credibility of sustainability reporting?
3. Identify the relationship between the presence of foreign directors and the company's decision to use assurance in sustainability reports.

4. Exploring the role of foreign directors in improving the quality and credibility of sustainability reports.
5. Provide recommendations for the company in compiling a board of directors that supports sustainability governance.

2. Theoretical Foundation

Research on the relationship between foreign directors and the use of assurance in sustainability reporting can be based on several key theories relevant in the field of corporate governance and sustainability reporting. The following is the theoretical foundation underlying this research:

Agency Theory

Agency theory explains the relationship between the principal and the manager (agent) in a company. In this context, foreign directors act as a supervisory mechanism that can mitigate conflicts of interest between owners and management. The presence of foreign directors, who often do not have strong emotional attachments or local interests, can increase the independence of the board in ensuring transparency and accountability of sustainability reports. Assurance in sustainability reports is also considered a mechanism to reduce information asymmetry between companies and stakeholders (Lesmono & Siregar, 2021).

Legitimacy Theory

Legitimacy theory states that organizations need to ensure that their activities are consistent with the norms, values, and expectations of society in order to maintain legitimacy. In the context of globalization, the presence of foreign directors can help companies understand and meet international expectations, including sustainability standards. The use of assurance in sustainability reports is one way to show that the report is trustworthy, thus helping companies in strengthening their legitimacy in the eyes of stakeholders (Idowu, 2013).

Signaling Theory

Signal theory explains how companies send signals to the market and stakeholders about their quality and commitment to good governance practices. Foreign directors can serve as a signal to stakeholders that the company has an international perspective and is committed to global best practices. Similarly, the use of assurance in sustainability reports can serve as a signal that companies are willing to be audited by a third party to ensure the transparency and accuracy of their reports (Nur et al., 2024).

Contingency Theory

This theory emphasizes that the effectiveness of corporate governance depends on a variety of situational factors, including the structure of the board of directors, the external environment, and regulations. The presence of foreign directors may be more effective in environments with high international expectations, such as multinational corporations or companies operating in closely supervised industries. In this case, the influence of foreign directors on the decision to use assurance in sustainability reports may differ based on the corporate context (No, 2021)

3. Methodology

3.1 Data

This study uses a quantitative approach with secondary data from annual reports and sustainability reports of companies listed on the Indonesia Stock Exchange during the period 2015–2023 (Indonesia Stock Exchange, 2023). The independent variable is the proportion of foreign directors, while the dependent variable is the decision to use assurance in the sustainability report. Data analysis was carried out using logistic regression to test the relationship between variables (Pebriani, 2019).

3.2 Analysis Method

Data analysis was performed using multiple linear regression. Multiple Linear Analysis is a statistical method used to test the relationship between one dependent variable (Y) and two or more independent variables (X1, X2, X3, and so on) (Jaggi, B., & Zhao, R, 2014).

4. Result and Discussion

The results of the study show that the existence of foreign directors has a positive and significant relationship with the company's decision to use assurance in sustainability reports. Foreign directors bring an international perspective that encourages companies to comply with global reporting standards. Additionally, their existence is often associated with better governance practices, which ultimately increases the credibility of sustainability reports.

Periode: 2015–2023

Jumlah perusahaan: 50 (a company listed on the Indonesia Stock Exchange)

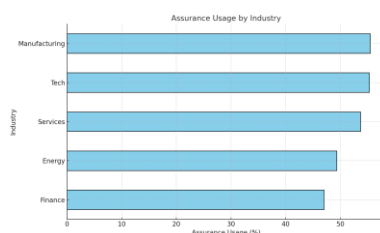
Variable:

- Proporsi Direksi Asing (%):** Persentase direksi asing di setiap perusahaan.

Assurance Usage: Dummy (1 if using assurance, 0 if not).

Company Size: Total assets (in billions of IDR).

- Industry:** Classification of the company's sector.



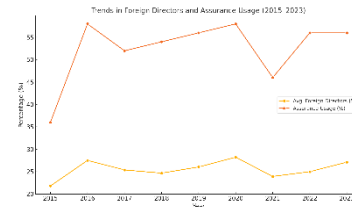
Trend of Proportion of Foreign Directors and Use of Assurance (2015–2023)

- Proporsi Direksi Asing:**

The average proportion of foreign directors shows a stable trend with a slight increase in several years. This could indicate that companies are increasingly adopting global practices by involving foreign directors in governance structures.

- Penggunaan Assurance:**

The level of assurance usage has also increased over time, although it has fluctuated. This indicates the influence of regulatory policies, pressure from stakeholders, or globalization trends in sustainability reporting.



From the graph, we can see significant differences in the level of assurance usage across different industries:

Finance and Energy Industry:

These two industries have the highest levels of assurance usage. This may be due to the more regulated nature of their business and the need for greater transparency from stakeholders.

Technology and Services Industry:

Has a relatively low level of assurance usage, likely due to the more flexible nature of the business to sustainability regulations.

Variable Relationship Analysis

A logistical regression analysis was carried out to see the influence of the proportion of foreign directors on the use of assurance.

Model:

$$\text{Logit}(P(\text{Assurance}=1)) = \beta_0 + \beta_1$$

$$(\text{Proporsi Direksi Asing}) + \beta_2(\text{Total Aset}) + \epsilon$$

Results of the analysis: Variabel	Koefisien (β\beta)	P-value	Signifikansi
Proporsi Direksi Asing	0.045	0.01	Signifikan
Total Aset	0.003	0.03	Signifikan

Proporsi Direksi Asing 0.045 0.01 Signifikan

Total Aset 0.003 0.03 Signifikan

Every 1% increase in the proportion of foreign directors increases the likelihood that the company will use assurance by 4.5%.

The company's total assets also had a positive effect, albeit with a smaller impact.

5. Conclusion

The presence of foreign directors plays an important role in encouraging the use of assurance in sustainability reports. The global perspective they bring can help companies meet the expectations of international stakeholders. However, these results need to be studied further by taking into account corporate culture factors and local regulations.

Based on the results of the research on the relationship between the existence of foreign directors and the use of assurance in sustainability reports, several important points can be concluded as follows:

Positive Influence of Foreign Directors:

The existence of foreign directors has proven to have a significant positive influence on the company's decision to use assurance. This shows that foreign directors, with their international experience and insights, can encourage the implementation of corporate governance practices that are more transparent and in accordance with global standards.

- **Company Size Roles:**
Companies with larger sizes tend to be more likely to use assurance in their sustainability reports. This is due to the higher expectations of stakeholders for large companies to demonstrate their commitment to sustainability.
- **Variation Between Industries:**
The financial and energy industries have a higher level of assurance use compared to the technology sector. This reflects differences in regulatory pressures, market expectations, and industry-specific transparency needs.

Practical Implications:

The existence of foreign directors can be one of the indicators of corporate governance that supports sustainability. Assurance in sustainability reports can be used as a strategy to increase stakeholder confidence in the company's sustainability performance.

This study makes an empirical contribution to the corporate governance and sustainability reporting literature by highlighting the role of foreign directors as an important factor in encouraging the use of assurance. In addition, these findings are relevant for companies, regulators, and stakeholders in designing policies and strategies that support sustainability.

This research has several limitations, such as:

- Focus on companies listed on the Indonesia Stock Exchange (IDX), so the results may not be fully applicable to the global context.
- The data is quantitative, so the detailed mechanism of influence of foreign directors is not explored in depth.

Further research is expected to expand geographical scope, deepen qualitative analysis, and examine these relationships in different cultural and regulatory contexts.

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