E-ISSN: 3025-4922
DINASTI ACCOUNTING REVIEW
https://dinastirev.org/DAR dinasti.info@gmail.com +62 811 7404 455
**DOI:** https://doi.org/10.38035/dar.v4i3.3994
https://creativecommons.org/licenses/by/4.0/
**Received:** 20 October 2026 | **Revised:** 2 November 2026 | **Accepted:** 9 November 2026

# *The Effect Of Executive Remuneration On Sustainable Performance With Board Characteristics As A Moderating Variable In Public Companies In Indonesia*

**Hizkia Alfrano Hutauruk[1], Martino Wibowo[2], Maya Maria[3]**
[1]Universitas Terbuka, Palangkaraya, Indonesia, kiaalfranno@gmail.com
[2]Universitas Terbuka, Palangkaraya, Indonesia, tino@ecampus.ut.ac.id
[3]Universitas Terbuka, Palangkaraya, Indonesia, maya@ecampus.ut.ac.id

Corresponding Author: kiaalfranno@gmail.com[1]

**Abstract:** The corporate governance shift toward stakeholder capitalism has elevated Environmental, Social, and Governance (ESG) performance to a business imperative. In Indonesia, despite mandatory sustainable finance regulations, a practical gap persists where most companies fail to link board remuneration with ESG metrics, risking moral hazard and managerial myopia. This study analyzes the effects of Board of Directors' and Board of Commissioners' Remuneration on Sustainable Performance (ESG Score) and evaluates the moderating roles of Board Independence and Board Gender Diversity. Adopting an explanatory causal-associative design, this study examines panel data from 120 nonfinancial listed firms on the Indonesia Stock Exchange over 2020–2024. Data were analyzed using panel data regression via the Fixed Effect Model. Findings demonstrate that both Directors' and Commissioners' Remuneration positively and significantly affect ESG performance. Board Independence significantly strengthens the positive effect of Directors' Remuneration but does not moderate Commissioners' Remuneration. Conversely, Board Gender Diversity significantly strengthens the positive impacts of both remunerations on ESG outcomes. Executive remuneration acts as an effective agency bonding mechanism, while board independence and gender diversity serve as vital monitoring catalysts ensuring actual sustainability implementations.

**Keywords:** Board Gender Diversity, Board Independence, Executive Remuneration, Sustainable Performance, Two-Tier Board.

***Abstrak:*** *Transformasi tata kelola korporasi menuju kapitalisme pemangku kepentingan mendorong penguatan kinerja keberlanjutan (ESG). Di Indonesia, meskipun regulasi keuangan berkelanjutan telah mandatori, mayoritas emiten belum mengaitkan remunerasi dewan dengan metrik ESG, memicu risiko miopia manajerial. Penelitian ini bertujuan menganalisis pengaruh Remunerasi Direksi dan Remunerasi Komisaris terhadap Kinerja Berkelanjutan, serta menguji peran moderasi Independensi Dewan dan Keberagaman Gender. Menggunakan desain eksplanatori kausal-asosiatif, penelitian ini menganalisis data panel dari 120 emiten non-keuangan di Bursa Efek Indonesia periode 2020–2024. Analisis data menggunakan regresi data panel dengan Fixed Effect Model. Hasil menunjukkan bahwa Remunerasi Direksi dan*

*Komisaris berpengaruh positif signifikan terhadap Kinerja ESG. Independensi Dewan memperkuat pengaruh positif Remunerasi Direksi, namun tidak memoderasi Remunerasi Komisaris. Keberagaman Gender terbukti memperkuat pengaruh kedua remunerasi tersebut terhadap Kinerja ESG. Kesimpulannya, remunerasi eksekutif berfungsi sebagai instrumen mitigasi keagenan yang efektif, sementara independensi dan keberagaman gender dewan berperan sebagai katalis pengawasan yang memastikan penerapan keberlanjutan yang sesungguhnya.*

***Kata Kunci:*** *Independensi Dewan, Keberagaman Gender, Kinerja Berkelanjutan, Remunerasi Eksekutif, Dewan Dua Lapis.*

## INTRODUCTION

The global corporate governance paradigm shift from shareholder primacy to stakeholder capitalism has elevated Environmental, Social, and Governance (ESG) performance to a critical business imperative. In emerging markets like Indonesia, the discourse on sustainable performance has transitioned from peripheral philanthropy to a survival necessity, catalyzed by convergent pressures from regulators, global investors, and shifting societal expectations. The Financial Services Authority (OJK) of the Republic of Indonesia initiated this structural reform through Regulation No. 51/POJK.03/2017 on Sustainable Finance, marking a crucial transition from voluntary to mandatory ESG disclosure for public companies.

According to Upper Echelons Theory and Stakeholder-Agency Theory, a corporation's strategic direction toward low-carbon and socially inclusive practices depends heavily on executive cognition and discretion. However, this discretion is fundamentally steered by the incentive and compensation architecture governing the decision-makers. An optimally configured remuneration system mitigates inherent conflicts of interest within agency relationships, reduces managerial myopia focused purely on short-term profits, and proactively drives executives to support capital-intensive ESG initiatives that demand long-term returns.

Despite these theoretical foundations, a multidimensional gap persists in practical business environments. First, a practical gap (decoupling) exists: most listed companies on the Indonesia Stock Exchange (IDX) fail to link board remuneration transparently with ESG metrics. Without this linkage, executives rationally sacrifice long-term ecological projects to secure maximum short-term cash bonuses. Second, a literature gap is evident. Current global literature on ESG-based executive compensation focuses almost exclusively on single-tier board systems in developed markets. Empirical investigation into the transmission of financial incentives toward ESG outcomes within Indonesia's mandatory two-tier board system (separating the Board of Directors and Board of Commissioners) remains unexplored. Third, a methodological gap exists. Given the lack of transparent, itemized ESG bonus disclosure in Indonesia, there is a need to utilize aggregate Total Remuneration as a comprehensive proxy to measure true executive managerial power and retention incentives.

Based on these identified gaps, this research aims to analyze and empirically test the effect of Board of Directors' Remuneration and Board of Commissioners' Remuneration on Sustainable Performance (ESG Score). Furthermore, this study evaluates the crucial moderating roles of Board Independence and Board Gender Diversity in strengthening or weakening these causal relationships..

## METHODS

This study adopts a quantitative approach with an explanatory causal-associative design to examine the causal relationship between executive compensation policies and corporate non-financial achievements. The population targets all non-financial companies listed on the IDX during the 2020–2024 observation period. Using purposive sampling, a final sample of 120

companies was selected, yielding a balanced panel of 600 firm-year observations. The selection criteria specifically required companies to possess consistent ESG risk ratings published by independent global rating agencies, such as Bloomberg or Sustainalytics.

Secondary data were collected through documentary procedures utilizing audited financial statements, annual reports, and sustainability reports. The dependent variable is Sustainable Performance, proxied by the Total ESG Score. The independent variables are Directors' Remuneration (X1) and Commissioners' Remuneration (X2), measured using the natural logarithm of the aggregate annual compensation paid to each board. The moderating variables are Board Independence (percentage of independent commissioners) and Board Gender Diversity (percentage of female directors and commissioners). Control variables include Firm Size (natural log of total assets), Profitability (ROA), and Leverage (DER).

Data analysis was conducted using panel data regression analysis. Following the Chow Test and Hausman Test diagnostics, the Fixed Effect Model (FEM) was selected. To robustly address identified heteroscedasticity and autocorrelation, the structural regression model was estimated utilizing Huber-White Robust Standard Errors in STATA 18.

## RESULTS AND DISCUSSION

The descriptive statistics analysis reveals that the average ESG score for the observed companies is 45.35 out of 100, placing the average Indonesian non-financial public company in the medium-risk category for sustainability exposure. Board independence averaged 38.50%, successfully complying with the OJK's minimum regulatory threshold of 30%. Conversely, board gender diversity registered a very low mean of 12.60%, with a minimum value of 0.00%, illustrating a persistent masculine hegemony in top-tier corporate decision-making structures across many listed entities.

The diagnostic testing (Chow Test p = 0.000; Hausman Test p = 0.000) confirmed the Fixed Effect Model (FEM) as the most consistent estimator. Consequently, three structural regression models were constructed to evaluate the direct effects and the respective moderation effects of independence and gender diversity. The robust estimation results are presented in Table 1.

Table 1. Panel Data Regression Results (Fixed Effect Model with Robust Standard Errors)

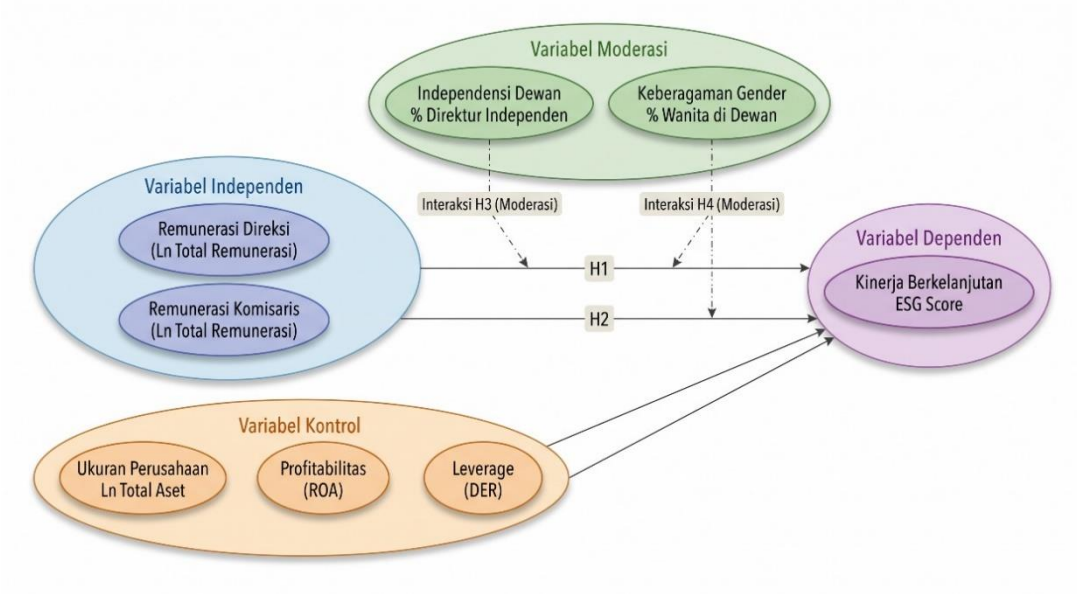
| Variables | Model 1 (Direct Effect) | Model 2 (Independence) | Model 3 (Gender) |
|---|---|---|---|
| Constant | -18.50 (-1.98*) | -22.45 (-2.12**) | -16.80 (-1.80*) |
| Directors' Remuneration (X1) | 1.48 (3.25***) | 1.12 (2.45**) | 1.02 (2.18**) |
| Commissioners' Remuneration (X2) | 0.78 (2.18**) | 0.55 (1.85*) | 0.48 (1.52) |
| Board Independence (Z1) | - | 0.22 (2.42**) | - |
| Board Gender Diversity (Z2) | - | - | 0.31 (3.52***) |
| Interaction X1 × Z1 | - | 0.042 (2.24**) | - |
| Interaction X2 × Z1 | - | 0.018 (1.28) | - |
| Interaction X1 × Z2 | - | - | 0.062 (3.25***) |
| Interaction X2 × Z2 | - | - | 0.038 (2.12**) |
| Firm Size (Control) | 2.25 (4.35***) | 2.12 (4.15***) | 2.01 (3.98***) |
| Profitability / ROA (Control) | 0.42 (3.15***) | 0.38 (2.98***) | 0.35 (2.85***) |
| Leverage / DER (Control) | -0.04 (-2.12**) | -0.03 (-1.98**) | -0.03 (-1.96*) |

Source: Output STATA 18 Processed (2026). * p<0.10, ** p<0.05, *** p<0.01. Values in parentheses denote t-statistics.

Based on Model 1, Directors' Remuneration yields a positive and highly significant effect on sustainable performance ($\beta = 1.48$; $p < 0.01$). This proves that competitive total compensation acts as an effective agency bonding mechanism. When executives achieve financial security (slack resources), their cognitive bandwidth is freed from short-term career

survival anxieties, allowing them to proactively execute capital-intensive, long-term environmental and social strategies. Similarly, Commissioners' Remuneration positively affects ESG performance ($\beta = 0.78$; $p < 0.05$). In a dual-tier board system, providing proper compensation to the supervisory board is crucial to prevent willful blindness and motivate commissioners to rigorously oversee the implementation of sustainability commitments.

Model 2 explores the moderating role of Board Independence. The interaction coefficient between Directors' Remuneration and Independence ($X1 \times Z1$) is positive and significant ($\beta = 0.042$; $p < 0.05$). This confirms that a high proportion of independent commissioners acts as a vital objective anchor. They ensure that the substantial compensation packages granted to directors are genuinely balanced by substantive ecological improvements and social responsibility, effectively neutralizing the risks of decoupling and greenwashing. However, independence did not significantly moderate the commissioners' own remuneration ($\beta = 0.018$; $p > 0.10$).




Source: Research Results (2025)

**Figure 1. Conceptual Framework**

Model 3 highlights the profound impact of Board Gender Diversity. The interaction variables show that gender diversity significantly amplifies the positive impact of both Directors' Remuneration ($\beta = 0.062$; $p < 0.01$) and Commissioners' Remuneration ($\beta = 0.038$; $p < 0.05$) on ESG outcomes. Consistent with Critical Mass Theory, female leadership representation transforms the boardroom culture to be more empathetic toward environmental stewardship and social equity. This inclusive oversight guarantees that massive financial incentives are steered precisely toward building resilient, long-term corporate value rather than being absorbed entirely as agency costs.

Finally, evaluating the control variables aligns cohesively with the Resource-Based View. Firm Size ($\beta = 2.25$; $p < 0.01$) and Profitability ($\beta = 0.42$; $p < 0.01$) positively impact ESG scores, proving that operational scale and financial liquidity provide the essential slack resources required for green innovation. Conversely, Leverage negatively impacts sustainability ($\beta = -0.04$; $p < 0.05$), affirming that heavy debt obligations throttle managerial flexibility, forcing capital reallocation toward creditor repayments rather than long-term environmental overhauls. This comprehensive dynamic highlights that the novelty of this research fundamentally lies in proving the efficacy of financial incentives and structured oversight in driving real-world corporate sustainability compliance.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusion

This study concludes that executive remuneration allocations for both the Board of Directors and the Board of Commissioners significantly and positively drive sustainable performance in Indonesian non-financial companies. Competitive monetary incentives function as an incredibly reliable agency bonding mechanism to reduce managerial myopia. Furthermore, board independence effectively moderates and ensures that executive pay translates into genuine ESG improvements, preventing decoupling and greenwashing. Concurrently, board gender diversity serves as an exceptionally strong catalyst; reaching a critical mass of female leaders shifts the corporate cognitive focus toward intergenerational ecological protections and holistic stakeholder capitalism.

### Limitations

This study has several limitations. First, it was conducted solely on non-financial companies over a specific five-year period (2020–2024), meaning the findings cannot yet be generalized to the highly regulated financial sector or other regions. Second, the study utilized aggregate remuneration data due to restrictive disclosure practices in Indonesia, which may not capture the microscopic nuances of specific ESG-linked bonus clauses.

### Recommendations

Future studies should broaden the scope of research objects, use a longer observation period, and apply different analytical methods, such as Structural Equation Modeling (SEM). Companies are advised to explicitly integrate ESG parameters into their executive compensation formulas with material weights. The Financial Services Authority (OJK) should consider amending regulations to mandate individual, itemized remuneration disclosures. Moreover, institutional investors should heavily utilize board independence and gender diversity metrics as primary screening tools to detect genuine sustainability commitments.

### Author Contributions

All authors made significant contributions to this study. These contributions included research conceptualization, development of the theoretical framework, data collection, data analysis, interpretation of results, manuscript preparation, scholarly revision, and final approval of the manuscript for publication. All authors confirm that they have read and approved the final version of the article.

### AI Disclosure Statement

The author declares that this research manuscript was prepared, researched, written, and developed independently without the use of artificial intelligence (AI) technologies or techniques for data interpretation.

## REFERENCES

Abdelkader, M. G., Gao, Y., & Elamer, A. A. (2024). Board gender diversity and ESG performance: The mediating role of temporal orientation in South Africa context. *Journal of Cleaner Production*, 440, 140728.

Abu-Ali, B. O., Al-Jamal, D., & El-Masry, A. (2024). The relationship between executive compensation, sustainability, and performance: A systematic review. *Open Journal of Business and Management*, 12(5), 3020-3083.

Cohen, S., Kadach, I., Ormazabal, G., & Reichelstein, S. (2023). Executive compensation tied to ESG performance: International evidence. *Journal of Accounting Research*, 61(3), 805-853.

Flammer, C., Hong, B., & Minor, D. (2019). Corporate governance and the rise of integrating corporate social responsibility criteria in executive compensation. *Strategic Management Journal*, 40(7), 1097-1128.

Gull, A. A., Hussain, N., Khan, S. A., Khan, Z., & Saeed, A. (2023). Governing corporate social responsibility decoupling: The effect of the governance committee. *Journal of Business Ethics*, 185(2), 349-374.

Homroy, S., Mavruk, T., & Nguyen, V. D. (2023). ESG-linked compensation, CEO skills, and shareholder welfare. *The Review of Corporate Finance Studies*, 12(4), 939-985.

Saeed, U. F., & Abdul-Karim, M. (2025). The evolving role of executive compensation, sustainability performance, and corporate dynamics in the era of corporate sustainability. *Cogent Business & Management*, 12(1), 2512833.

Velte, P. (2023). Determinants and consequences of corporate social responsibility decoupling—Status quo and limitations of recent empirical quantitative research. *Corporate Social Responsibility and Environmental Management*, 30(6), 2695-2717.