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The Impact of Corporate Governance Attributes on Achievement of SDGs in Indonesian Private Limited Companies: Mediating Role of Foreign Ownership

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Abstract: The attainment of Sustainable Development Goals (SDGs) is a global imperative necessitating heightened attention from both emerging scholars and policymakers. Accordingly, this study delves into the examination of how corporate governance attributes, namely board size, board diversity, and board independence, influence the achievement of SDGs within private enterprises in Indonesia. Additionally, the research explores the mediating effect of foreign ownership on the relationship between board characteristics and SDGs achievement. Employing survey questionnaires, data were collected from employees of private organizations, and the structural equation modelling technique, specifically Smart Partial Least Squares (Smart-PLS), was employed to assess data reliability and the interrelations among variables. Findings indicate a positive association between board size, board diversity, board independence, and SDGs achievement. Moreover, the study reveals that foreign ownership significantly mediates the relationships between board attributes and SDGs achievement in private enterprises in Indonesia. The insights garnered from this research offer valuable guidance for policymakers in formulating regulations aimed at effectively leveraging corporate governance mechanisms to advance SDGs.

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Introduction

Over time, the global community has encountered a myriad of challenges including issues pertaining to hunger, environmental degradation, and water scarcity, which have progressively exacerbated. Concerns regarding these challenges have been articulated by various entities, including the UN, which has consistently emphasized the urgency of addressing these issues. In pursuit of safeguarding the future, the UN's 2030 Agenda for Sustainable Development, encompassing the SDGs, has been embraced by all UN member states, Indonesia included (Sjaf et al., 2021). The 17 SDGs, comprising 167 targets, serve as pivotal instruments in addressing overarching global challenges spanning economic, social, and environmental domains (Dwijono, Suryandari, & Mukhlis, 2023). Indonesia has endeavoured to create a conducive environment for SDG implementation by fostering stakeholder knowledge and engagement, exemplified by initiatives such as mapping exercises involving non-governmental sectors and civil society (Ahmed & Anifowose, 2024). Despite these efforts, concerns persist regarding the effectiveness of global SDG implementation. Notably, a mere four out of ten of the top 250 global companies' sustainability reports acknowledge SDG-related initiatives (Ali & Yeon, 2019; Anish et al., 2019). A crucial approach to aiding firms in strategizing, executing, evaluating, and communicating their SDG endeavours is through the disclosure of SDG activities within corporate reporting frameworks. Given that board members play a pivotal role in setting organizational policies, their decisions profoundly influence the realization of a company's SDG objectives (Pahlevi et al., 2023). Embracing the SDGs as a strategic agenda can enable companies to differentiate themselves from competitors and gain a competitive advantage (Martínez-Ferrero & García-Meca, 2020).

The accomplishment of SDG objectives in Indonesia hinges significantly upon the involvement of businesses. Consequently, the principal aim of this study was to scrutinize the engagement of major Indonesian enterprises in SDG initiatives (Mangena, Sorour, & Mathuva, 2023). Furthermore, the study assessed the importance of corporate governance by investigating the impact of an organization's corporate governance attributes on its participation in SDG attainment. The prevailing corporate governance framework within a nation stands out as a pivotal determinant for advancing SDGs (Tang & Hastuty, 2022). Indonesia is among the economies that have shown considerable concern regarding corporate governance to enhance transparency in governance practices (Fabiani & Breliastiti, 2020). This concern is underscored by the aspiration to achieve SDGs, thereby securing the welfare of future generations. The government has introduced numerous regulatory reforms aimed at strengthening governance frameworks, with the overarching objective of realizing SDGs and fostering a prosperous future for the nation (Morita, Okitasari, & Masuda, 2020).

The current study addresses several gaps identified in the literature pertaining to the investigation of a model incorporating factors such as SDGs achievement, board size, board diversity, and board independence, particularly within the context of Indonesia. Notably, previous research by Johari et al. (2023) and Taglialatela et al. (2023) explored the relationship between board size and SDGs achievement. However, this study extends the analysis by incorporating additional factors such as board diversity and board independence, as well as examining the mediating effect of foreign ownership within the Indonesian setting. Similarly, the investigation conducted by Zampone et al. (2024) and Singh et al. (2021) focused on the relationship between board diversity and SDGs achievement. In contrast, the present study broadens this analysis by including board size and board independence as additional factors, while also examining the mediating effect of foreign ownership in the Indonesian context. Furthermore, previous studies by Ardillah (2022) and Jiang, García-Meca, & Martinez-Ferrero (2023) explored the relationship between board independence and SDGs achievement. However, this study expands upon their findings by integrating factors such as board diversity and board size, in addition to examining the mediating effect of foreign ownership within Indonesia. Lastly, research conducted by Alrabba et al. (2018) and Ali et al. (2022) explored the mediating effect of foreign ownership in various relationships at different times. Similarly, this study incorporates this mediating effect in the relationships between board size, board diversity, board independence, and SDGs achievement.

Literature Review

Ensuring proper conduct of business operations and attainment of development goals necessitates the implementation of effective governance structures within every organization. Corporate governance serves as a fundamental framework directly influencing sustainability performance enhancement and bolstering investor confidence (DMartínez-Ferrero & García-Meca, 2020). The responsibilities of corporate governance actors, particularly the board's interactions with both internal and external stakeholders, are delineated within these governance frameworks. Establishing a corporate governance framework conducive to enhancing business performance while fostering positive outcomes across social, economic, and environmental dimensions is imperative. Adjustments to the corporate governance paradigm are essential to support organizations in their endeavours towards achieving robust social accountability and responsibility (Anish et al., 2019). Enterprises adhering to sound governance practices possess a keen understanding of stakeholders' expectations and actively involve them in addressing challenges related to Sustainable Development Goals (SDGs) attainment (Ahmed & Anifowose, 2024). Active participation in and accomplishment of SDGs can enhance a company's standing and legitimacy within the community and broader society. The concept of SDGs closely intertwines with corporate sustainability, emerging as a global concern transcending national boundaries.

The application of stakeholder theory has been instrumental in elucidating numerous challenges pertaining to corporate governance and SDGs. A relevant approach for evaluating corporate governance within enterprises is through the lens of stakeholders' perspectives (Freeman et al., 2010). Stakeholder theory offers insights into how the activities of an organization impact all stakeholders involved in the enterprise. Central to this concept is the notion that creating value for all parties involved is imperative for ensuring the longevity of a company (Kayikci et al., 2022). Moreover, it elucidates how businesses can mitigate conflicts among stakeholders. Fulfilling this commitment may be facilitated through corporate governance mechanisms, as the board plays a pivotal role in safeguarding shareholder rights and ensuring the realization of sustainability objectives to enhance market value (Miharja et al., 2019; Singhal, 2023). Stakeholder theory has found application across a broad spectrum of voluntary reporting research, including environmental and social reporting, underscoring the importance of providing stakeholders with adequate information to make informed decisions. Enterprises characterized by robust corporate governance practices serve as symbols of transparency.

The attainment of SDGs stands as a pivotal objective for governance bodies worldwide, with corporate governance emerging as a primary mechanism toward this end. Within corporate governance, the composition of the corporate board represents a key determinant. Board size, in particular, plays a crucial role in governance dynamics, serving as a cornerstone of effective governance structures. Typically, private limited entities tend to favour smaller boards, while public limited companies often opt for larger boards in accordance with prevailing legal frameworks. A larger board size is commonly perceived as indicative of enhanced performance. In this context, Chindasombatcharoen et al. (2022) investigated the relationship between board size, innovation, and SDGs, focusing on a sample population in China comprising 150 board members. Employing the Ordinary Least Squares (OLS) regression analysis method, the study analysed the collected data. Results suggested a significant association between board size and SDG achievement.

Similarly, Johari et al. (2023) examined the nexus between board size and SDGs, conducting their study on a population of listed companies in Malaysia, with a sample size of 320. Utilizing regression analysis, the investigation found a significant correlation between board size and SDG achievement. Likewise, Taglialatela et al. (2023) explored the relationship between board size, board characteristics, and SDGs within a population consisting of internationally listed companies. The study sample comprised data from 4417 listed companies, and fractional regression analysis was employed to analyse the data. Results indicated a significant association between board size and the achievement of SDGs.

H1: Board size has an association with the achievement of SDGs in Indonesia.

Gender diversity is advocated globally to promote societal equality. While prevalent in developed economies, it's less favoured in developing ones. Diverse boards better represent society, incorporating various perspectives for effective decision-making. Zampone et al. (2024) explored the link between board diversity, specifically gender diversity, and SDGs across 39 economies, analysing data from 526 listed companies through PLS analysis, revealing a significant association between board diversity and SDGs. Singh et al. (2021) similarly investigated this relationship across 39 economies over a 5-year period (2014-2019) through multiple regression analysis, confirming the positive association. Monteiro, Lemos, & Ribeiro (2022) explored the same nexus in Portugal over four years (2016-2020) using panel regression analysis, also finding a significant relationship. Board diversity fosters societal equality, especially in developing economies, and is integral to good corporate governance.

H2: Board diversity has an association with the achievement of SDGs in Indonesia.

Corporate governance hinges on autonomous decision-making, free from external pressures or directives, to ensure sound and transparent decisions. The attainment of SDGs is closely linked to corporate governance effectiveness. Ardillah (2022) investigated the interplay among board characteristics, diversity, independence, and SDGs in Indonesia over a three-year period (2019-2021) using multiple linear regression analysis, finding significant associations between these factors and SDG achievement. Additionally, Jiang et al. (2023) explored the relationship between board diversity, characteristics, and SDGs in China over three years (2016-2018) using logit regression analysis, revealing that higher levels of foreign or institutional ownership negatively impact SDG reporting adoption, while board-level factors, such as independence, size, and the presence of a corporate social responsibility committee, significantly influence SDG reporting. Moreover, Al Lawati & Alshabibi (2023) investigated the nexus between board diversity, board structure, and SDGs in Oman over four years (2016-2020) using multivariate analysis, finding that board diversity and independence are significantly associated with SDG achievement. Improved SDG disclosure is facilitated by the independence and financial knowledge of the board, although gender and nationality diversity showed adverse correlations with SDG disclosure.

H3: Board independence has an association with the achievement of SDGs in Indonesia.

The composition of the board, particularly its size, plays a crucial role in fostering transparent governance within organizations. Board size significantly influences governance dynamics, yet adherence to standard board sizes does not always guarantee improved governance outcomes. In such instances, firms may opt for foreign ownership, which can act as a catalyst in bridging the association between board size and SDGs. Foreign owners often prioritize compliance, thereby facilitating SDG achievement, effectively acting as mediators in this context. Mallinguh, Wasike, & Zoltan (2020) investigated the relationship between the business sector, firm age, and firm performance in Spain, focusing on Medium Enterprises (MEs). Utilizing a sample of 46 MEs selected through simple random sampling, the study employed SEM analysis. Results indicated that both the business sector and firm age significantly influence the performance of Spanish MEs, with foreign ownership actively mediating this relationship.

H4: Foreign ownership significantly mediates in the nexus amid board size and achievement of SDGs in Indonesia.

When conventional efforts to achieve SDGs through corporate governance prove inadequate, changes in ownership structure, such as the introduction of foreign ownership, become pivotal. Foreign ownership injects diversity into the boardroom, mitigating gender bias and reshaping the board's approach toward SDG achievement. Thus, foreign ownership acts as a mediator in this context. Alrabba et al. (2018) investigated the relationship between board characteristics and voluntary disclosure in Jordan's banking sector, utilizing data from 2013 to 2017. Employing OLS analysis, the study revealed that board characteristics significantly influence voluntary disclosure, with foreign ownership actively mediating this relationship.

H5: Foreign ownership significantly mediates in the nexus amid board diversity and achievement of SDGs in Indonesia.

Independence stands as a fundamental determinant for effective management and decision-making processes. However, local governance structures sometimes impede board independence by exerting influence or fostering group dynamics aimed at securing board approval for specific decisions. To mitigate such factors, foreign ownership is introduced to the board, serving as a mediator in shaping governance dynamics toward the attainment of SDGs. In this regard, Ali et al. (2022) investigated the relationship between board diversity and the risk of financial distress in China. Utilizing a sample of 13,740 firms selected through simple random sampling, the study employed the Generalized Method of Moments (GMM) analysis approach. Results indicated that board diversity significantly influences the risk of financial distress, particularly in China, with foreign ownership actively

mediating this relationship.
H6: Foreign ownership significantly mediates in the nexus amid board independence and achievement of SDGs in Indonesia.

Research Methods

The study investigates the influence of corporate governance attributes, including board size, board diversity, and board independence, on the achievement of SDGs, while also exploring the mediating effect of foreign ownership on these governance factors and SDG attainment within private organizations in Indonesia. Data were collected through survey questionnaires administered to employees of private organizations. The constructs were assessed using questions adapted from previous studies. Specifically, board size was measured using eight questions from Roffia, Simón-Moya, & Sendra García (2022), board diversity with six questions from Kanadlı, Zhang, & Kakabadse (2020), board independence with four questions from Ben Rejeb, Berraies, & Talbi (2020), foreign ownership with five questions from Adu-Danso & Abbey (2022), and achievement of SDGs with four questions from Ghasemy, Rosa-Díaz, & Gaskin (2021).

Furthermore, the study targeted employees from private organizations engaged in SDGs activities, employing purposive sampling to select participants. Surveys were distributed through personal visits to these organizations, resulting in a response rate of approximately 58.27%, with 356 surveys received out of the 611 distributed. Additionally, the researchers utilized smart-PLS to assess data reliability and the relationships among variables. This analytical tool, known for its effectiveness even with complex models, provided outcomes based on primary data (Hair Jr, Howard, & Nitzl, 2020). The study incorporated three dimensions of corporate governance as independent variables: board size (BS), board diversity (BD), and board independence (BI). Furthermore, one mediating variable, foreign ownership (FO), and one predictive variable, achievement of SDGs (ASDG), were included, as illustrated in Figure 1.

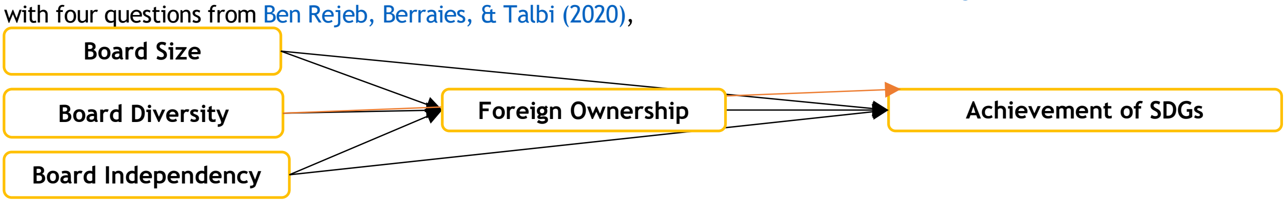

Figure 1: Theoretical Framework.

Research Findings

The study assessed convergent validity, revealing significant correlations between items. Both Alpha and composite reliability (CR) values exceeded 0.70, while factor loadings and average variance extracted (AVE) values surpassed 0.50, indicating high correlation between items. These values are summarized in Table 1.

Table 1: Convergent Validity.

Constructs	Items	Loadings	Alpha	CR	AVE
Achievement of SDGs	ASDG1	0.770	0.794	0.866	0.618
	ASDG2	0.792			
	ASDG3	0.796			
	ASDG4	0.786			
Board Diversity	BD1	0.817	0.903	0.929	0.723
	BD2	0.829			
	BD3	0.905			
	BD4	0.801			
	BD6	0.893			
Board Independency	BI1	0.862	0.890	0.924	0.752
	BI2	0.861			
	BI3	0.908			
	BI4	0.838			
Board Size	BS1	0.861	0.896	0.918	0.617
	BS2	0.824			
	BS3	0.804			
	BS4	0.692			
	BS5	0.733			
	BS6	0.798			
	BS8	0.774			
Foreign Ownership	FO1	0.830	0.823	0.877	0.588
	FO2	0.794			
	FO3	0.690			
	FO4	0.773			
	FO5	0.740			

Table 2: Fornell Larcker.

	ASDG	BD	BI	BS	FO
ASDG	0.786				
BD	0.591	0.850			
BI	0.654	0.519	0.867		
BS	0.641	0.463	0.591	0.786	
FO	0.639	0.459	0.461	0.510	0.767

Table 3: Cross-loadings.

	ASDG	BD	BI	BS	FO
ASDG1	**0.770**	0.455	0.547	0.511	0.509
ASDG2	**0.792**	0.451	0.552	0.409	0.627
ASDG3	**0.796**	0.505	0.463	0.554	0.446
ASDG4	**0.786**	0.449	0.489	0.547	0.417
BD1	0.526	**0.817**	0.409	0.389	0.392
BD2	0.449	**0.829**	0.434	0.438	0.364
BD3	0.510	**0.905**	0.466	0.380	0.386
BD4	0.532	**0.801**	0.449	0.393	0.427
BD6	0.483	**0.893**	0.441	0.367	0.372
BI1	0.566	0.443	**0.862**	0.534	0.375
BI2	0.605	0.448	**0.861**	0.527	0.368
BI3	0.567	0.485	**0.908**	0.522	0.436
BI4	0.527	0.421	**0.838**	0.466	0.420
BS1	0.595	0.432	0.599	**0.861**	0.428
BS2	0.537	0.431	0.487	**0.824**	0.412
BS3	0.424	0.306	0.372	**0.804**	0.430
BS4	0.451	0.319	0.380	**0.692**	0.359
BS5	0.572	0.398	0.499	**0.733**	0.424
BS6	0.509	0.360	0.520	**0.798**	0.349
BS8	0.388	0.262	0.343	**0.774**	0.393
FO1	0.535	0.364	0.338	0.378	**0.830**
FO2	0.525	0.455	0.418	0.438	**0.794**
FO3	0.494	0.279	0.369	0.425	**0.690**
FO4	0.459	0.291	0.278	0.336	**0.773**
FO5	0.423	0.351	0.349	0.367	**0.740**

The study assessed discriminant validity, revealing stronger associations among constructs than with other constructs. Cross-loadings and Fornell-Larcker criteria were used, with values indicating low correlations between variables. These findings are summarized in Tables 2 and 3.

The study assessed discriminant validity using the Heterotrait Monotrait (HTMT) ratio, with values below 0.90 indicating low correlations between variables. These results are presented in Table 4.

Table 4: Heterotrait Monotrait Ratio.

	ASDG	BD	BI	BS	FO
ASDG					
BD	0.695				
BI	0.775	0.577			
BS	0.753	0.508	0.653		
FO	0.782	0.525	0.535	0.590	

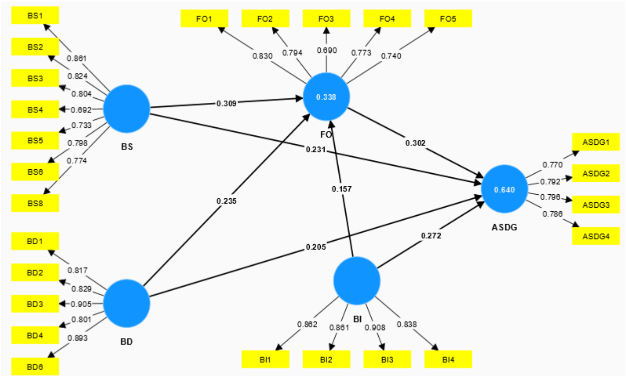

Figure 2: Measurement Model Assessment.

Ultimately, the findings revealed a positive association between board size, board diversity, and board independence with the achievement of SDGs in private organizations in Indonesia, confirming hypotheses H1, H2, and H3. Additionally, the results demonstrated that foreign ownership significantly mediates the relationship between board size, board diversity, board independence, and SDGs achievement in private organizations in Indonesia, supporting hypotheses H4, H5, and H6. These results are detailed in Table 5.

Table 5: Path Analysis.

Relationships	Beta	Standard Deviation	T Statistics	P Values
BD -> ASDG	0.205	0.043	4.748	0.000
BD -> FO	0.235	0.056	4.176	0.000
BI -> ASDG	0.272	0.045	6.034	0.000
BI -> FO	0.157	0.058	2.717	0.007
BS -> ASDG	0.231	0.052	4.459	0.000
BS -> FO	0.309	0.068	4.530	0.000
FO -> ASDG	0.302	0.045	6.774	0.000
BD -> FO -> ASDG	0.071	0.020	3.566	0.000
BI -> FO -> ASDG	0.047	0.019	2.510	0.012
BS -> FO -> ASDG	0.093	0.027	3.437	0.001

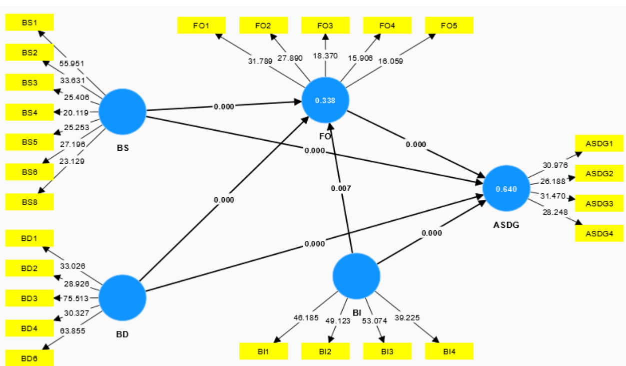

Figure 3: Structural Model Assessment.

Discussions

The article critically examines the relationship between specific aspects of corporate governance and the attainment of SDGs in Indonesian private limited firms, with particular attention to the mediating role of foreign ownership in this context. It endeavours to explore how fundamental governance attributes, such as board size, diversity, and independence, influence a company's ability to contribute meaningfully to sustainable development agendas, especially amidst Indonesia's evolving economic landscape characterized by increased foreign ownership.

Drawing on the foundational principles of organizational management articulated by Steckler & Clark (2019), corporate governance serves as the bedrock encompassing procedures and policies aimed at ensuring transparency, accountability, and ethical conduct. Within this framework, stakeholder engagement initiatives, risk management practices, and strategic direction are significantly shaped by the composition and functioning of the board of directors. The study underscores the importance of board independence, diversity, and size in recognizing the intricate interplay between governance dynamics and sustainable development outcomes. It begins by examining the critical role of board size in shaping corporate governance practices and their alignment with SDGs. The research highlights that larger boards often offer a diverse array of perspectives and expertise, facilitating more comprehensive decision-making processes geared toward long-term outcomes, a finding supported by Nahum & Carmeli (2020). Conversely, an excessively large board may face inefficiencies and challenges in consensus-building, potentially impeding progress toward the SDGs, as also noted by Lashitew (2021). The research endeavours to elucidate, accounting for the distinctive context of Indonesian private limited enterprises, the optimal board size that optimally enhances the positive impact on SDG achievement through empirical investigation.

Secondly, the study investigates the correlation between pursuing SDGs and board diversity. It is widely recognized that diversity within the boardroom, encompassing factors such as gender, ethnicity, age, and professional background, serves as a catalyst for innovation and effective governance. A diverse board fosters a multitude of perspectives and insights crucial for addressing complex sustainability challenges (Nižetić et al., 2020). However, the research acknowledges potential obstacles to achieving board diversity, including entrenched practices, institutional biases, and structural constraints.

To underscore the importance of inclusive governance practices in advancing sustainable development within the Indonesian business sector, the study examines the extent to which board diversity correlates with SDG achievement. Additionally, the study explores how independent boards may facilitate alignment with SDGs and sustainable business practices. Consistent with findings from other studies such as those by Zaid, Abuhijleh, & Pucheta-Martínez (2020) and Naciti (2019), independent directors play a crucial role in corporate oversight and decision-making, ensuring that the interests of all stakeholders, including society and the environment, are duly considered. Their independence from management enhances transparency and mitigates conflicts of interest, thereby promoting long-term sustainability and corporate accountability. The efficacy of independent directors in advancing the SDGs may hinge upon various factors, including their level of engagement, qualifications, and influence within the boardroom (Zhao & Gómez Fariñas, 2023). To shed light on optimal corporate governance practices in the Indonesian context, the study seeks to elucidate the mechanisms through which board independence contributes to SDG attainment via empirical analysis. Furthermore, the study investigates the influence of foreign ownership on the relationship between corporate governance attributes and SDG achievement. Besides providing financial resources, Chariri et al. (2019)

suggest that foreign investors grant Indonesian firms access to global best practices and standards, potentially impacting governance frameworks and sustainability initiatives. However, the impact of foreign ownership on SDGs may vary depending on factors such as the level of control exerted by foreign investors, their strategic objectives, and their interactions with local stakeholders (Liou, Ting, & Chen, 2023). By elucidating the mediating role of foreign ownership, the study aims to offer insights into how other factors influence corporate governance dynamics and sustainability outcomes in Indonesian private limited enterprises.

Implications of the Study

The research carries significant and multifaceted implications. Firstly, the findings underscore the critical role of corporate governance in driving sustainable development initiatives within Indonesian private limited firms. By underscoring the importance of board size, diversity, and independence in advancing the Sustainable Development Goals, the research offers valuable guidance to business leaders and policymakers seeking to enhance governance practices aligned with sustainable objectives. Secondly, the study elucidates the mediating role of foreign ownership, highlighting the importance of engaging with external stakeholders and embracing global best practices to bolster sustainable outcomes. These findings hold substantial implications for investors, urging them to prioritize sustainable investments and actively engage with investee companies to promote ethical governance standards. Furthermore, the report underscores the necessity of targeted interventions and regulatory measures to address governance gaps and facilitate the integration of sustainability principles into corporate decision-making processes. Ultimately, the implications of this study extend beyond the Indonesian context, offering valuable insights and actionable recommendations for advancing sustainable development agendas in emerging economies worldwide. The paper serves as a valuable resource for policymakers in formulating regulations aimed at achieving the SDGs through effective corporate governance practices.

Limitations

Despite its significant contributions, the study is subject to limitations. Firstly, concerns may arise regarding the quality and accessibility of data, particularly concerning corporate governance attributes and SDG performance metrics within Indonesian private limited enterprises. Restrictions on reliable data sources may constrain the breadth and generalizability of the findings. Moreover, the study's focus solely on specific dimensions of corporate governance and their impact on SDGs may overlook other pertinent factors such as organizational culture, market dynamics, and legal frameworks, which could influence sustainable outcomes. Additionally, although the study explores the mediating role of foreign ownership, it may not fully capture the intricate dynamics of foreign investment and its implications for sustainability initiatives and governance frameworks. Furthermore, potential biases or limitations in establishing causal relationships between variables may arise due to the study's reliance on cross-sectional data or specific statistical methodologies.

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