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EARNINGS QUALITY, BOARD DIVERSITY AND SUSTAINABILITY REPORTING: A STUDY OF INDONESIAN HOTEL COMPANIES

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A B S T R A K

Penelitian ini menguji pengaruh kualitas laba dan keberagaman dewan terhadap pengungkapan laporan keberlanjutan (*sustainability report* (SR)) dan hubungannya terhadap kinerja perusahaan. Penelitian ini merupakan penelitian kuantitatif yang melibatkan perusahaan dalam klasifikasi industri Bursa Efek Indonesia yaitu hotel, resor, dan kapal pesiar dari tahun 2021 hingga 2023. Pengumpulan data dilakukan menggunakan laporan tahunan dan laporan keberlanjutan setiap perusahaan sampel dan kemudian dianalisis menggunakan metode *Structural Equation Model-Partial Least Squares* (SEM-PLS). Terdapat hubungan positif antara keberagaman kewarganegaraan dewan dan pengungkapan SR, yang kemudian meningkatkan kinerja perusahaan. Namun, kualitas laba mengurangi kedalaman dan keluasan pengungkapan SR. Temuan ini menegaskan bahwa praktik keberlanjutan akan meningkatkan kinerja perusahaan perhotelan di Indonesia jika didukung dengan keberagaman anggota dewan.

A B S T R A C T

This study examines the influence of earnings quality and board diversity on SR disclosure and its relationship towards firm performance. This quantitative study involves companies classified under the Indonesia Stock Exchange's industrial classification of hotels, resorts, and cruise from 2021 to 2023. The study collects data through the company's annual and sustainability reports and then analyses it using the Structural Equation Model—Partial Least Squares (SEM-PLS) method. There is a positive link between board nationality diversity and SR disclosure, further enhancing firms' performance. However, earnings quality decreases the comprehensiveness of SR disclosure. These findings confirm that sustainability practices will boost the performance of Indonesian hotel companies if supported by diverse board members.

Introduction

The demand for greater transparency in corporate practices has resulted in the rapid evolution of sustainability practices, which are an essential component of modern corporate reporting. This is particularly true for the hotel industry, given its direct interaction with environmental and social systems and its dependence on stakeholder perceptions, including those of guests, investors, regulators, and local communities. Sustainability report (SR) disclosure covering environmental, social, and governance (ESG) practices has transitioned from its voluntary and ethical origins to become a strategic tool essential for maintaining legitimacy, attracting investment, and managing risk (Agung & Inawati, 2024, 2025; Fatemi *et al.*, 2018; Tahmid *et al.*, 2022). As global trends shift toward mandatory ESG frameworks, especially in emerging markets, the quality and credibility of disclosed sustainability information have become increasingly important. As sustainability reports becomes a communication platform about the company's management values that relate to its strategy and commitment to a sustainable global economy, environment and society (Agung, Dewi, *et al*., 2025; Qonita & Khomsiyah, 2025).

Concurrent with this development, earnings quality an indicator of the reliability and ethical integrity of financial reporting has been established as a fundamental pillar of transparent corporate governance (E. Cho & Chun, 2016; Velayutham, 2018). High-quality earnings reflect a company's genuine financial health and help reduce information asymmetry, thereby fostering trust among stakeholders. Conversely, earnings management an effort to manipulate earnings for opportunistic reasons can significantly undermine the credibility of SR disclosures when employed as a reputational shield (Mardianto & Novita, 2024; Ningsih *et al*., 2023).

Equally significant, the diversity of board nationality, or ethnic diversity among board members, is emerging as a crucial factor influencing corporate disclosure practices. Diverse boards are linked to broader perspectives, stronger stakeholder engagement, and increased ethical awareness (Haniffa & Cooke, 2005). In multi-ethnic and multicultural societies, such diversity may impact strategic decisions and the authenticity and scope of sustainability reporting as a legitimacy strategy.

Recently, scholars have explored the specific effects of sustainability reporting (SR) disclosure on firm performance. While some previous studies support the idea that transparent corporate reporting enhances reputation and further boosts investor confidence (Alsahali & Malagueño, 2022; García-Sánchez *et al*., 2018), other studies contend that such reporting may only serve as a symbolic gesture. These gestures would lead to a failure to result in operational enhancements or financial benefits (Wickert *et al*., 2016), especially in emerging economies where weak institutional frameworks, and limited enforcement mechanisms often impede the meaningful implementation of sustainability initiatives (Liou *et al*., 2023; Orazalin & Mahmood, 2020; Tauringana, 2020).

The COVID-19 pandemic and the escalating climate crisis have increased pressure on companies to adopt ESG principles. Investors, especially institutional and foreign ones, increasingly demand ESG-compliant disclosures, seeing sustainability as a marker of long-term resilience and value creation. According to a 2022 MSCI survey, over 79% of global institutional investors integrated ESG considerations into at least half of their portfolios (Accenture & The American Hotel & Lodging Association, 2022; CBRE, 2023). However, the connection between sustainability reporting and financial performance remains empirically debated. On one hand, voluntary sustainability reporting can enhance stock market performance by reducing information asymmetry and signalling good governance (Dogru & Sirakaya-Turk, 2017; Fatemi *et al*., 2018; Li *et al*., 2020; Tahmid *et al*., 2022). On the other hand, in situations with limited stakeholder pressure or misaligned incentives, such practices may negatively impact accounting performance due to resource diversion and implementation inefficiencies (Liou *et al*., 2023).

In light of this context, the current study aims to explore three key questions: 1) How does earnings quality influence sustainability report (SR) disclosure?; 2) What role does board nationality diversity play in shaping the extent and credibility of SR disclosures ?; and 3) How does sustainability report disclosure relate to the performance?.

Some previous studies have tried to answer similar research questions. However, these studies were conducted separately, and to the best of the authors' knowledge, limited research still exists in the Indonesian hospitality sector that tests the relationship between earnings quality, board diversity, and sustainability reporting on company performance simultaneously. This research will be the first to fill in this gap. Through these inquiries, this research seeks to enhance the understanding of how financial and governance variables interact to shape sustainability narratives, particularly in the hotel industry within emerging market contexts. Furthermore, this study is designed to positively contribute to the ongoing discourse on corporate sustainability by integrating institutional theory, stakeholder theory, and financial performance analysis. It also aims to provide practical insights for policymakers, investors, and managers working to balance ESG transparency with economic outcomes in a rapidly changing global environment.

Literature Review

Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984) in Monks & Minow (2011), asserts that companies are accountable not only to shareholders but also to a wider range of stakeholders who are impacted by or can influence the organization's outcomes. These stakeholders include investors, employees, customers, communities, and regulatory bodies. From this perspective, companies participate in sustainability reporting (SR) to manage relationships, uphold legitimacy, and align with stakeholder expectations, particularly in response to the increasing demand for ESG transparency.

From the stakeholder perspective, earnings quality plays a crucial role in shaping how stakeholders perceive corporate transparency and ethical behavior. High-quality earnings enhance stakeholder trust and lessen the reliance on non-financial signals. Conversely, low-quality earnings may lead firms to focus on sustainability reporting as a compensatory strategy to maintain stakeholder confidence (Huang & Watson, 2015). For instance, Fernandez-Feijoo *et al* (2018) and Buallay (2022) suggest that inadequate financial reporting or environmental performance can drive firms to leverage sustainability reporting strategically to influence stakeholder perceptions. Therefore, sustainability reporting disclosure may act as a communication tool to mitigate reputational risks associated with poor financial transparency.

Stakeholder theory also emphasizes the variety of perspectives needed to identify and address diverse stakeholder interests effectively. Board nationality diversity enhances this capability by incorporating multicultural and global viewpoints, which can enhance the credibility and breadth of sustainability disclosures. Diverse boards are more likely to be attuned to international ESG norms and responsive to cross-border stakeholders, such as foreign investors and multinational clients (Harjoto *et al*., 2015; Zattoni *et al*., 2020). Haniffa and Cooke (2005) provide empirical evidence demonstrating how director ethnicity influences social reporting practices, suggesting that diversity can enhance stakeholder engagement and enrich SR content.

Sustainability reporting, when conducted in response to stakeholder demands, can yield long-term performance benefits. It builds reputation, enhances stakeholder trust, and potentially improves access to capital (Amin *et al*., 2024; Mahyuddin *et al*., 2022; Nursimloo *et al*., 2020). This idea is supported by Alsahali and Malagueño (Alsahali & Malagueño, 2022) who found a positive relationship between ESG disclosure and firm value, especially when backed by strong governance. However, the extent to which sustainability reporting contributes to firm performance depends on stakeholder receptiveness and the credibility of the information disclosed highlighting the strategic importance of sustainability reporting as a stakeholder relationship tool rather than simply a compliance exercise.

Legitimacy Theory

Legitimacy theory suggests that firms operate within a "social contract," meaning they must align their actions with the norms, values, and expectations of the society in which they operate (Suchman, 1995). When a perceived mismatch referred to as a "legitimacy gap" arises between firm behavior and societal expectations, organizations are compelled to respond, often through public communication such as sustainability reporting (Dowling & Pfeffer, 1975; Hummel & Schlick, 2016; Janang *et al*., 2020). Sustainability reporting thus becomes a strategic tool to gain, maintain, or repair legitimacy.

Firms with low earnings quality may face heightened scrutiny and a growing legitimacy gap. In response, they may boost their sustainability disclosures not necessarily as a sign of genuine commitment but as a symbolic action to mitigate external criticism (E. Cho & Chun, 2016). Cho *et al.* (2015) describe how firms selectively disclose positive sustainability impacts while ignoring negative aspects, especially when pressured by poor financial performance. In these contexts, sustainability reporting reshapes public perception and bridges legitimacy gaps through carefully crafted narratives.

Board diversity especially nationality diversity can significantly influence how firms build legitimacy across various stakeholder environments. In multicultural and multiethnic societies, the ethnic and national composition of the board influences disclosure practices, often reflecting efforts to meet both domestic and international legitimacy expectations. A diverse board can assist a firm in navigating complex institutional pressures and adopting legitimation strategies that are more globally accepted, thereby increasing the perceived authenticity of its sustainability reporting (Ahmad *et al*., 2018; Haniffa & Cooke, 2005; Musa *et al*., 2020; Qureshi *et al*., 2020).

Legitimacy considerations also mediate the relationship between sustainability reporting and firm performance. Firms that effectively align sustainability reporting with societal values may reap the rewards of enhanced legitimacy, leading to reputational gains, improved stakeholder relationships, and increased investor confidence. However, when sustainability reporting is seen as purely symbolic or opportunistic, the legitimacy benefits may be fleeting and may not result in better accounting performance (Wickert *et al*., 2016). Liou *et al.* (2023) underscore this complexity, demonstrating that sustainability reporting can improve stock market performance by boosting legitimacy in investors' eyes. However, implementation costs or internal inefficiencies may also diminish accounting performance.

Hypotheses Development

This research proposes three hypotheses, as described in figure 1.

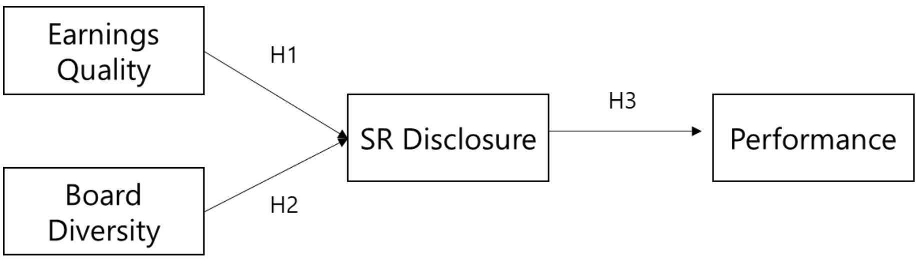

Figure 1. Research Model

Source: Processed by Researchers (2025)

Earnings Quality and Sustainability Disclosure

Earnings quality can reflect the company's actual financial performance. However, it can be doubted if the earnings presented in the financial report does not match the company's economic condition. If it is not presented correctly, it can mislead users of financial information (Wijaya, 2020). Thus, Earnings quality is generally seen as a proxy for managerial integrity and reporting transparency. Firms with higher earnings quality are believed to have lower information asymmetry and are therefore more likely to engage in credible sustainability reporting. However, contrasting studies indicate that firms with poor earnings quality may engage in symbolic sustainability disclosure as a form of reputational management, utilizing ESG narratives to counteract negative perceptions (Ningsih *et al*., 2023; Yoon *et al*., 2019).

Ningsih *et al.* (2023) find a positive correlation between earnings management and sustainability disclosure within the Indonesian context, suggesting that companies involved in financial manipulation may strategically utilize sustainability reports to establish legitimacy and lessen scrutiny. This supports the "compensation hypothesis," which asserts that poor financial transparency motivates firms to enhance their non-financial narratives. Therefore, the higher earnings quality will further motivate the company to disclose more information related to company's sustainability.

H$_1$: Earnings quality is positively associated with sustainability disclosure.

Board Nationality Diversity and SR Disclosure

The diversity of board members, especially in terms of nationality or ethnic background, has been linked to different disclosure behaviors. From a resource dependency perspective (Pfeffer & Salancik, 1978), diverse boards provide broader viewpoints, improving stakeholder engagement and the scope of reporting. As it is believed to strengthen the sense of responsibility in managing the company's business and resources more carefully (Luthfiana & Gupita Dewi, 2023). Furthermore, agency theory suggests that culturally diverse boards are more inclined to challenge managerial behavior and safeguard stakeholder interests (Ararat *et al*., 2010; Harjoto *et al*., 2015; McKinsey & Company, 2023; Qureshi *et al*., 2020).

Hanifa and Cooke (2005) use ethnicity as a proxy for culture and find that boards dominated by Malay directors are more likely to engage in corporate social disclosure, potentially to align with national policies and secure legitimacy. In multi-ethnic societies, board composition may reflect underlying power structures, with disclosure acting as a tool for political and social legitimation. Furthermore, recent literature confirms the positive impact of board diversity on the quality and extent of ESG disclosures, although the effect may vary based on whether minority directors possess decision-making power or fulfill symbolic roles (Kalbuana *et al*., 2022; Lu *et al*., 2015; Nursimloo *et al*., 2020; Velte, 2017). Thus, the higher the national diversity of the board, the more likely the company is to disclose SR comprehensively.

H$_2$: Board nationality diversity is positively associated with the extent of SR disclosure.

SR Disclosure and Firm Performance

Sustainability disclosures aim to enhance transparency, diminish information asymmetry, and foster legitimacy among stakeholders (Coelho *et al*., 2023; Khaveh *et al*., 2021; Sampong *et al*., 2018; Thomas *et al*., 2020). In the hotel industry, which is service-oriented and sensitive to reputation, sustainability disclosures can function as a trust-building tool for investors and consumers. Signaling theory also indicates that such disclosures convey a positive message about management quality and long-term focus, which can enhance investor confidence and increase stock valuation (Agung, Inawati, *et al*., 2025; Da Rosa & Silva, 2017; Duric & Topler, 2021; Fukey & Issac, 2014; Rosa & Silva, 2017) In line with Signaling Theory, the positive relation between SR disclosure and performance is the possibility that the disclosure will have a lower cost, which exceeds the investors' expectations, which could lead to more positive reactions from the investors (Husada & Handayani, 2021).

Indeed, Liou *et al.* (2023) found that voluntary sustainability reporting in emerging economies is positively associated with stock market performance, suggesting that such disclosure enhances perceived legitimacy among investors. In the hospitality sector, firms that align with global sustainability frameworks, such as the Global Reporting Initiative (GRI) or the UN Sustainable Development Goals (SDGs), may enjoy improved access to capital, increased brand equity, and stronger market valuation (Emma & Jennifer, 2021; Orazalin & Mahmood, 2020; Ramos *et al*., 2022). Accordingly, the more company disclose the information related to sustainability, investors will give more positive feedback to the company in the form of higher stock market performance (Prabowo & Ayem, 2021).

H$_3$: SR disclosure is positively associated with stock market performance in the hotel industry.

Method

This study employs a quantitative panel-data approach using secondary data from companies classified under the Indonesia Stock Exchange's industrial category of hotels, resorts, and cruises for the years 2021-2023. The sampling technique used in this research is purposive sampling with these criteria: (1) actively listed in Indonesia Stock Exchange's industrial category of hotels, resorts, and cruises for the whole years of 2021-2023; (2) annually provide annual report (AR) and SR each year. There are 31 companies listed in the industrial category. However, 12 of them do not regularly publish SRs. Therefore, 19 eligible companies have passed these criteria. The objective of this research is to empirically assess the relationships among earnings quality, board nationality diversity, and sustainability disclosure over time. Table 1 details the measurement of variables. Data is collected from each company's annual and sustainability reports and analysed using the Structural Equation Model Partial Least Squares (SEM-PLS) method through SmartPLS software.

Table 1. Measurement of Variables

Variable	Operational Definition
Earnings Quality	Absolute of Performance-Adjusted Discretionary Accruals (ADA) (Kothari *et al.*, 2005)
Board Nationality Diversity	The proportion of foreign board members to total board members (Monks & Minow, 2011)
SR Disclosure	The number of disclosures made by the sample company, divided by the total disclosures, based on the Regulation of the Indonesia Financial Services Authority (POJK) No. No 51 /POJK.03/2017. (Regulation of Indonesia Financial Services No 51 /POJK.03/2017, 2017)
Performance	Return on Asset (RoA) = net profit divided by total asset (American Hotel & Lodging Association, 2018)

Source: Processed by Researchers (2025)

Results and Discussions

Table 2 presents the values for Cronbach's alpha, rho alpha, composite reliability, and AVE. According to the table, we can infer that all values are 1.000, confirming the measurement reliability of this study (Henseler, 2018). Each variable is measured by using one specific measurement described in Table 1. Therefore, all values of Cronbach's alpha, rho alpha, composite reliability, and AVE are 1.000. One instrument only is sufficient to measure each variable, as each measurement has been widely accepted and commonly used in many previous studies. Table 3 shows the Heterotrait Monotrait (HTMT) ratio, which illustrates the discriminant validity of the variables. The table indicates values below 0.9, affirming the validity of this study (Henseler, 2018).

Table 2. Result of Reliability Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted
Earnings Quality	1.000	1.000	1.000	1.000
Board Nationality Diversity	1.000	1.000	1.000	1.000
SR Disclosure	1.000	1.000	1.000	1.000
Performance	1.000	1.000	1.000	1.000

Source: Processed by Researchers (2025)

Table 3. Result of Validity Test

	Board Nationality Diversity	Performance	Earnings Quality	SR Disclosure
Board Nationality Diversity				
Performance	0.202			
Earnings Quality	0.116	0.137		
SR Disclosure	0.251	0.286	0.324	

Source: Processed by Researchers (2025)

Table 4. Result of Hypotheses Test

	β Values	T Statistics	p Values	Hypoteses Test Result
H_1: Earnings Quality towards SR Disclosure	-0.299	2.446	0.014	Hypothesis Rejected
H_2: Board Nationality Diversity towards SR Disclosure	0.216	2.469	0.014	Hypothesis Accepted
H_3: SR Disclosure towards Performance	0.286	2.326	0.020	Hypothesis Accepted

Source: Processed by Researchers (2025)

Table 4 presents the results of the hypothesis tests. Based on this table, H_2 and H_3 are accepted, while H_1 is rejected. H_1 shows a significant influence of earnings quality on SR disclosure. However, the β value is negative. This research finds that earnings quality negatively impacts SR disclosure, contradicting the proposed hypothesis. This finding indicates that higher earnings quality is linked to lower SR disclosure a significant but inverse relationship and presents a compelling counter-narrative to the prevailing assumption that transparency in financial reporting positively correlates with non-financial disclosures. The result aligns with studies by Ningsih *et al.* (2023), which found that companies with higher levels of earnings management are more likely to produce detailed sustainability reports, potentially to divert stakeholder attention from aggressive financial practices. It also echoes several previous studies that describe this dynamic as an "opportunistic CSR" strategy, where firms seek legitimacy through non-financial reporting to mitigate questionable financial behaviour (Holcomb & Smith, 2017; Jiddi & Ibenrissoul, 2020; Michelon *et al.*, 2015).

There are several possible explanations for this. The first relates to the concept of "symbolic legitimacy management." Legitimacy theory suggests that firms strategically use disclosures, particularly sustainability reports, to address perceived legitimacy threats (Dowling & Pfeffer, 1975; Suchman, 1995). Firms with lower earnings quality (i.e., higher earnings management) may use sustainability disclosures as a compensatory mechanism to reduce reputational risk. This practice is often referred to as "greenwashing," which reflects a misleading understanding of symbolic legitimacy management. Secondly, this finding supports the political cost hypothesis proposed by Watts & Zimmerman (1986) in Ningsih *et al.* (2023), which asserts that firms facing scrutiny (due to poor financial performance or earnings manipulation) may engage in visible social or environmental actions to lessen regulatory or political attention. This reinforces the idea that firms with low earnings quality may disclose more CSR content, while firms with high earnings quality feel less pressure to engage in such signalling.

The third point relates to the resource allocation trade-off, which is managed through cost rationality. Firms with high earnings quality may prioritise investments that promote long-term economic value and, consequently, avoid extensive sustainability disclosures that are not mandatory or do not directly enhance firm value. On the other hand, firms with weaker financials might invest more in disclosure to improve perceived value. Previous studies also support this argument, such as Cho *et al.* (2016), who highlight that sustainability reports can serve as impression management tools rather than genuine ethical commitments, especially in situations of poor financial health. Likewise, managers sometimes replace financial transparency with narrative reporting, particularly during periods of financial distress (Bergmann & Posch, 2018; Buallay, 2022; Dienes *et al.*, 2016; Fernandez-Feijoo *et al.*, 2018; Qomariah, 2021).

The last possible explanation may relate to the institutional and regulatory context. In emerging markets, where sustainability reporting (SR) disclosure is still largely weakly enforced, companies may have greater discretion in how they communicate their environmental, social, and governance (ESG) initiatives. In such settings, firms with poor earnings quality may be more motivated to use sustainability disclosures as a means of seeking legitimacy. In contrast, transparent companies may not feel compelled to engage in additional, potentially symbolic reporting. Furthermore, in some contexts, political, ethnic, and cultural pressures may influence SR disclosure more than firm performance (de Grosbois & Fennell, 2022; Haniffa & Cooke, 2005; Langgat *et al.*, 2023).

H_2 shows a positive and significant influence of board nationality diversity towards SR disclosure, emphasising that boards composed of individuals from different cultural backgrounds are more responsive to the expectations of stakeholders. This finding is consistent with Hanifa and Cooke (2005), who suggest that the composition of a board, particularly in diverse societies, significantly influences disclosure practices, as well as Hasan *et al* (2019), who underscore the role of diversity in enhancing ethical awareness. Having a diverse board in terms of nationality indicates that corporate governance can improve stakeholder-focused reporting when it incorporates various cultural viewpoints. Boards with diverse backgrounds may be more aware of socio-political dynamics, leading to increased transparency in sustainability reporting.

This result strengthens the argument that diverse boards, especially regarding national origin, are more likely to foster transparency and accountability in corporate sustainability practices (Frias-Aceituno *et al.*, 2013; Satria *et al.*, 2023). One plausible explanation for this finding is that directors from diverse national backgrounds may contribute varied experiences, values, and expectations concerning environmental, social, and governance (ESG) issues. These perspectives often reflect international norms and stakeholder expectations, thereby prompting firms to adopt and disclose more extensive sustainability practices (Harjoto *et al.*, 2015). In a globalized industry like hospitality, where customers, investors, and partners frequently span across borders, having board members with international insights can lead to stronger alignment with global sustainability frameworks and enhanced disclosure quality.

Having an ethnically diverse board should improve its level of effectiveness by encouraging more critical oversight. As boards become more varied, the chances of questioning managerial decisions would increase, especially when it comes to long-term non-financial strategies like formulating a sustainability practices plan. The diverse composition allows all members to strengthen governance mechanisms, leading to a more thorough sustainability disclosure process. Moreover, boards with national diversity may be more sensitive to global stakeholder expectations, encouraging them to support comprehensive sustainability reporting as a demonstration of legitimacy and commitment

For hotel businesses in Indonesia, a culturally diverse country with a high level of dependence on the tourism sector, having directors with international backgrounds can provide strategic advantages. Board members can motivate companies to adopt global best practices in sustainability and openly communicate them, which can improve their reputation and build trust among stakeholders (Agung *et al.*, 2024).

H_3 shows a positive and significant influence of SR disclosure towards performance, leading to an argument that SR disclosure has a positive and significant impact on the performance of Indonesian hotel firms. This result supports the growing body of literature suggesting that when communicated transparently, sustainability practices can enhance firm value and operational efficiency (Fatemi *et al.*, 2018). One possible explanation for this positive relationship is that SR disclosure enhances a firm's legitimacy in the eyes of stakeholders. In the hotel industry, where environmental and social issues such as energy consumption, waste management, and community engagement are particularly prominent, clear communication of sustainability efforts can lead to a stronger brand reputation and increased customer loyalty (Bianco *et al.*, 2017; Dibene-Arriola *et al.*, 2021; Font *et al.*, 2016). This, in turn, may result in increased bookings and profitability, ultimately improving performance.

Furthermore, adopting and disclosing sustainability initiatives can indicate improved internal management practices and long-term strategic thinking. By engaging in sustainability reporting, hotel firms are likely to establish systems for monitoring resource usage, assessing risks, and enhancing stakeholder engagement all of which lead to more efficient operations and better financial outcomes (Clark *et al.*, 2015). The results also underscore the growing significance of non-financial reporting in emerging markets like Indonesia, where stakeholder awareness of environmental and social issues is increasing. For hotel companies, adopting sustainability reporting may not only be a response to regulatory pressures or market trends but also a proactive strategy to achieve a competitive advantage in a burgeoning tourism sector (Gunawan *et al.*, 2020; Tilt, 2016).

Moreover, the result also reveals that the Standardised Root Mean Square Residual (SRMR) value is $0.044 < 0.08$, which means that the difference between the observed and predicted correlations is small. The value further suggests that the model of this research is a good fit for the data. The R^2 value is 0,298, or 29.8%, for board nationality diversity and earnings quality in influencing SR disclosure. This indicates that 29.8% of the variance in SR disclosure can be attributed to the variables of board nationality diversity and earnings quality. In contrast, the remaining 70.2% of the variance is accounted for by other factors not included in this research. An R^2 of 0.298 indicates moderate explanatory power. It suggests that both variables exert a noticeable, albeit not strong, influence on SR disclosure. Furthermore, the R^2 value for SR disclosure in influencing performance stands at 0.077 or 7.7%, indicating that SR disclosure accounts for only 7.7% of the variance in firm performance. In contrast, the remaining variance is attributed to other factors not included in this research. This finding suggests that SR disclosure is not a robust standalone predictor of firm performance.

Conclusion

This study analyzes the relationships between earnings quality, board nationality diversity, and SR disclosure, as well as the impact of SR disclosure on the performance of Indonesian hotel firms. Although the study involves a limited number of samples (19 sample companies), it finds that SR disclosure is positively influenced by board nationality diversity. However, earnings quality negatively impacts the comprehensiveness of SR disclosure. Additionally, SR disclosure positively affects firm performance. These findings confirm that ESG practices significantly contribute to the performance generation of Indonesian hotel companies, even though support from diverse board members would be beneficial. This study also indicates that ESG practices are vulnerable to other objectives in the Indonesian hotel context, particularly concerning firms' earnings management practices.

From a theoretical perspective, this study contributes to the field by revealing a negative relationship between earnings quality and SR disclosure in the hotel industry. This finding challenges the conventional assumption that higher earnings quality corresponds with greater transparency and SR reporting. Instead, it suggests that firms with lower earnings quality may use SR disclosure strategically to offset or obscure poor financial reporting practices. This insight enhances stakeholder and legitimacy theories by highlighting the potential for SR reporting to function as a reputational mechanism rather than a true reflection of accountability.

This study contributes to the existing literature on corporate governance and sustainability reporting within the hospitality industry of developing countries. It also provides practical contributions to the hotel industry in developing countries by highlighting the potential use of SR disclosure as a strategic tool, especially among firms with lower earnings quality. Hotel managers and stakeholders should recognize that sustainability reporting may not always indicate strong financial fundamentals but could instead serve to enhance corporate image. Therefore, investors, regulators, and other stakeholders need to critically evaluate the substance behind SR disclosures to ensure that sustainability claims are backed by transparent and reliable financial performance.

Furthermore, hotel leaders are advised to pay greater attention to these ESG practices by fostering diversity among board members and avoiding earnings management practices. Future researchers are encouraged to explore the relationship between earnings quality and SR disclosure with a larger sample size. It is also suggested that future research do an ESG analysis in another industry sector (e.g., the manufacturing sector, mining, etc.) and do a comparative analysis between each sector.

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