

THE LIMITED INFLUENCE OF INSTITUTIONAL OWNERSHIP ON ENVIRONMENTAL, SOCIAL, GOVERNANCE, AND FINANCIAL OUTCOMES

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Abstract

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The increasing global emphasis on environmental, social, and governance (ESG) practices has highlighted the critical role of institutional investors in shaping corporate sustainability strategies. Institutional investors, due to their significant ownership stakes and governance expertise, act as catalysts for enhancing ESG performance through shareholder activism (Velte, 2020; Wang, 2023). However, their influence varies significantly across contexts, particularly in emerging markets like Indonesia, where ESG disclosure remains largely voluntary and regulatory frameworks are still evolving (Ellili, 2022; Lubis & Rokhim, 2021). This study investigates the relationship between institutional ownership, ESG performance, and financial outcomes in Indonesian listed companies. Using a quantitative approach, it analyzes 705 non-financial firms listed on the Indonesia Stock Exchange (IDX) in 2022. The findings reveal that institutional ownership does not significantly influence ESG performance. This may suggest that institutional investors prioritize short-term gains over long-term sustainability and that their influence can be moderated by regulatory and firm-level factors. However, ESG performance is positively associated with financial performance. Despite this, ESG does not significantly moderate the relationship between institutional ownership and financial outcomes. These results indicate that attracting institutional investors may not automatically translate into better ESG practices or improved financial outcomes. To the best of our knowledge, this study provides the first empirical insight into the complex interaction between institutional ownership, ESG, and financial outcomes within the Indonesian capital market, expanding the literature on sustainable finance in emerging markets.

Keywords: Institutional Ownership, ESG, Financial Outcomes, Indonesia, Listed Companies, Sustainable Growth

Authors' individual contribution: Conceptualization — G.M.Z.; Methodology — G.M.Z. and T.S.L.; Formal Analysis — G.M.Z. and T.S.L.; Data Curation — H.K., D.K.R., A.M.M., and S.N.; Writing — Original Draft — G.M.Z.; Writing — Review & Editing — T.S.L.; Supervision — W.C.H.

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1. INTRODUCTION

The increasing global emphasis on environmental, social, and governance (ESG) has made the interplay between institutional ownership and ESG performance important (Alruwaili et al., 2024; Bhat et al., 2023; Sahoo et al., 2022; Srivastava & Anand, 2023; Tenuta et al., 2022). Over three-quarters of the global population lives in emerging markets, and this group of countries, including Indonesia, is likely to determine whether or not the world achieves the Paris Agreement target of limiting global warming. The case for ESG is clear, and companies face mounting pressure to adopt ESG frameworks for reputational and financial benefits. Institutional investors who hold significant stakes in these companies play a key role in shaping corporate governance and strategy. This role is amplified in Indonesia's evolving ESG regulatory environment, where institutional investors can catalyze improved corporate behavior and performance. Despite the positive correlation between robust ESG practices and financial outcomes (Lubis & Rokhim, 2021; Prasadhita, 2024; Yunica, 2023), Indonesia's largely voluntary ESG disclosure landscape has limited ESG engagement primarily because of the absence of mandatory regulations (Lubis & Rokhim, 2021; Saraswati, 2024). This underscores the critical role institutional ownership plays in promoting ESG initiatives within Indonesian firms.

Institutional investors are uniquely positioned to influence corporate governance and drive ESG performance. Their significant ownership stakes provide them with leverage to advocate sustainable practices and hold management accountable for their decisions. Studies have shown that higher levels of institutional ownership correlate with improved earnings quality and reduced earnings management, suggesting that these investors can enhance corporate transparency and accountability (Widianingsih et al., 2024). Furthermore, institutional ownership has been linked to better corporate governance mechanisms, which are essential for fostering an environment conducive to sustainable business practices (Kholid, 2023). This relationship underscores the potential for institutional investors to influence ESG performance and enhance firms' overall financial outcomes.

Indonesia's ESG practices are characterized by voluntary disclosure and varying levels of corporate engagement. A lack of mandatory reporting requirements has resulted in limited ESG adoption, exacerbated by weak governance structures that hinder the effective evaluation of sustainability performance (Lubis & Rokhim, 2021; Saraswati, 2024).

Institutional investors can play a pivotal role in improving this landscape by advocating for enhanced transparency and accountability in ESG matters. Their influence can lead to better corporate governance and ESG performance, particularly in Indonesia's evolving ESG regulatory environment (Effendi, 2023; Ellili, 2022). Moreover, the positive link between ESG performance and financial outcomes is well established, with effective ESG implementation leading to improved risk management, lower capital costs, increased investor confidence, and ultimately, better financial results (Dihardjo, 2023; Ellili, 2022; Lee et al., 2023). As institutional investors push for ESG improvements in Indonesia, companies that respond positively stand to achieve both sustainability and financial viability.

While research on institutional investors' influence on corporate governance and performance is growing, studies specifically addressing their impact on ESG practices remain limited (Saraswati, 2024; Wang, 2023). The unique challenges and opportunities presented by the Indonesian market, such as voluntary ESG disclosures and varying levels of institutional investor engagement, have not been adequately explored. Furthermore, the direct link between institutional ownership and ESG performance requires further investigation (Marliza, 2024; Martínez et al., 2022).

This research is crucial as global investors increasingly prioritize ESG factors. Understanding the role of institutional investors in shaping ESG practices in emerging markets like Indonesia is critical, given the mix of traditional and modern investment strategies (Marliza, 2024). With the rising demand for corporate accountability, assessing institutional investors' effectiveness in promoting ESG initiatives is urgent, as they can play a pivotal role in influencing corporate behavior amid a developing regulatory framework (Husnah, 2023). Finally, understanding the dynamics between institutional ownership and ESG performance provides valuable insights for policymakers and corporate leaders, as it strives to enhance global competitiveness and attract foreign investment (Yıldız, 2021). Addressing this research gap is essential for fostering a more sustainable business environment.

Despite increasing studies on institutional ownership and corporate governance, empirical evidence on their influence over ESG practices remains scarce, especially in emerging markets like Indonesia. This study addresses this gap by examining the influence of institutional ownership on ESG performance and financial outcomes among non-financial firms listed on the Indonesia Stock Exchange (IDX). Specifically, it investigates four key research questions:

RQ1: Whether institutional ownership improves ESG performance?

RQ2: Is there a direct impact of institutional ownership on financial outcomes?

RQ3: How ESG performance affects financial outcomes?

RQ4: Whether ESG performance mediates or moderates the relationship between institutional ownership and financial performance?

Grounded in agency and stakeholder theories, this study employs regression analysis using firm-level data. The findings contribute to the literature on corporate governance and sustainable finance by offering context-specific insights for developing economies.

The structure of this paper is as follows. Section 2 reviews the relevant literature and develops the hypotheses based on theoretical considerations and research gaps. Section 3 outlines the methodology used to conduct the empirical analysis, including the research design and data collection procedures. Section 4 presents the main empirical findings and robustness tests. Section 5 discusses the results in light of existing literature and theoretical perspectives. Finally, Section 6 concludes the paper by summarizing the main findings, highlighting the study's limitations, and offering directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Research on ESG practices shows that while institutional investors can influence ESG disclosures and performance, their effectiveness varies across sectors and company sizes (Sari, 2024). Some larger firms may not perceive the financial benefits of ESG disclosures, viewing them as cost burdens (Sari, 2024). Additionally, while institutional investors moderate corporate policies, their impact on ESG performance and corporate value requires further study (Wijaya, 2023). Moreover, the potential of integrating business ethics into ESG practices to enhance firm value remains underexplored (Triwacananingrum, 2024).

Institutional investors play a relevant monitoring role within a firm's corporate governance structure (Cepêda et al., 2025). Institutional investors play a pivotal role in corporate governance because of their large stake and expertise. They act as catalysts, influencing policies and practices through shareholder activism (Maznorbalia et al., 2023). Their involvement tends to enhance firm governance and performance because they prioritize long-term value creation (Fung & Tsai, 2012; Weiwei et al., 2023).

Agency and stakeholder theories explain the influence of institutional investors. While agency theory highlights their role in mitigating conflicts between shareholders and management (Goncalves Xavier et al., 2021), stakeholder theory emphasizes their increasing focus on promoting sustainable practices that benefit all stakeholders (Peng & Li, 2021), reflecting the growing recognition of the link between long-term success and social and environmental responsibility.

ESG performance, which evaluates a company's ESG impacts, is becoming increasingly crucial in modern business. Prioritizing ESG factors can enhance reputation, financial outcomes, and investor appeal (Peng, 2023). However, measuring and reporting ESG performance is challenging because of the diverse metrics and standards, leading to discrepancies in ratings (Rees & Rodionova, 2014). Although companies often disclose ESG practices through sustainability reports, their quality and transparency can vary, making comparisons difficult (Zhang & Chen, 2023). The growing demand for ESG information necessitates standardized metrics and benchmarks for accurate assessment and accountability (Liu, 2023).

Academic literature has increasingly explored the link between institutional ownership and ESG performance, often noting a positive correlation (Jia et al., 2022). Institutional investors, especially long-term investors, tend to advocate for better ESG practices, enhancing transparency and accountability (Velte, 2020). However, the extent of the influence can vary based on factors such as investor type, regulatory environment, and industry context (Wang, 2023; Wei, 2023).

Institutional investors influence ESG performance through shareholder activism by leveraging their stakes to advocate for ESG-aligned policies (Kim et al., 2019). Their expertise enables them to analyze ESG practices and hold management accountable (Liu et al., 2022). Their presence can also lead to improved corporate governance (Velte, 2020), and the rise of ESG-oriented investors further pushes for better ESG performance (Wei, 2023). However, conflicting findings have been

reported. Some studies suggest a nonlinear effect with diminishing returns beyond a certain ownership threshold (Martínez-Ferrero & Lozano, 2021). Additionally, varying investor motivations and regulatory environments can lead to mixed results (Jia et al., 2022; Salehi et al., 2022). Further research is needed to understand the nuances of this relationship, particularly in emerging markets. Gazi et al.'s (2024) work substantiates the significant long-run associations between ESG factors, gross domestic product (GDP) growth, and Sustainable Development Goals (SDGs).

Evidently, the relationship between ESG performance and financial outcomes has yielded mixed results. Despite findings supporting the benefits of ESG practices, for example, strong ESG practices lead to better financial performance (Ademi & Klungseth, 2022; Alareeni & Hamdan, 2022), others highlight potential negative effects, such as the initial costs of implementing ESG strategies outweighing immediate financial benefits (Almeyda & Darmansya, 2019). Meanwhile, Atan et al. (2018) suggest that the positive relationship between ESG and financial outcomes is often significant only over extended periods. As companies prioritize sustainable growth, integrating ESG into corporate strategies is crucial for long-term success, especially in emerging markets, where it can enhance competitiveness and attract investment (Tang & Teoh, 2023).

In Indonesia, ESG adoption is nascent, with voluntary disclosure being the norm. Limited firms actively engage in ESG reporting because of a lack of regulatory pressure and incentives (Lubis & Rokhim, 2021). However, there is a positive trend in ESG disclosure among listed firms, particularly those in the Kompas100 index (Jovita, 2023; Narotama et al., 2023). Institutional investors are crucial to shaping corporate governance and ESG practices in Indonesia. Their influence can lead to improved ESG performance (Adeneye et al., 2022). Their presence is essential for driving ESG adoption and providing capital and support for sustainable practices (Famiola & Adiwoso, 2016). As responsible investments grow, they further incentivize firms to enhance their ESG performance.

The hypotheses of this study suggest a positive link between institutional ownership and ESG performance (Jorgji, 2024; Rahman & Alsayegh, 2021), and between ESG performance and financial outcomes (Ellili, 2022; Kalani, 2024; Lubis & Rokhim, 2021; Majeed et al., 2015; Nurleni et al., 2018). It is also proposed that ESG performance mediates the relationship between institutional ownership and financial outcomes (Dakhli, 2021; Jorgji, 2024; Majeed et al., 2015).

H1: Higher institutional ownership leads to improved ESG performance.

H2: Higher institutional ownership leads to improved financial outcomes.

H3: Better ESG performance results in superior financial outcomes.

H4: ESG performance strengthens the positive relationship between institutional ownership and financial performance.

These hypotheses recognize the pivotal role of institutional investors in shaping corporate governance and sustainability, particularly in emerging markets, and the importance of understanding their influence on ESG performance and financial outcomes in the context of Indonesia's ESG regulatory landscape (Seker & Güngör, 2022).

3. RESEARCH METHODOLOGY

This study empirically examines the relationships between institutional ownership, ESG performance, and financial outcomes within the context of Indonesian firms. This research will encompass a cross-sectional analysis for the year 2022, allowing for an examination of ESG practices and their subsequent financial repercussions. This timeframe is pertinent, as it coincides with a period of heightened awareness and prioritization of sustainability and corporate governance principles in Indonesia, influenced by both domestic and global trends (PricewaterhouseCoopers [PwC], 2023).

The data comprises 705 publicly listed non-financial firms on the IDX. The final sample excludes suspended firms and those that did not deliver sustainability reports. Specifically, financial performance measures were collected from the S&P Capital IQ financial databases, and the ESG performance was assessed using ESG scores from a recognized ESG rating provider in Indonesia, namely ESG Intelligence by the Center for Environmental, Social, and Governance Studies (CESGS) of Airlangga University. Meanwhile, data on institutional ownership were gathered from annual company reports, IDX disclosures, and financial databases.

3.1. Dependent variables

In this study, we define the following dependent variables:

- In *H1*, ESG performance (*ESG*) is the dependent variable, as it is expected to be influenced by institutional ownership (*IO*).
- In *H2*, financial outcomes (*FO*), which are measured by return on assets (*ROA*) and Tobin's *Q* (*TOBINSQ*) for robustness, the dependent variables reflecting the financial performance of the firm are influenced by *IO* and *ESG* performance.
- In *H3*, *FO* serves as the dependent variable, as they are expected to be influenced by *ESG* performance.
- In *H4*, *FO* is the dependent variable, and *ESG* performance acts as a mediator in the relationship between *IO* and *FO*.

3.2. Independent variables

Independent variables of the current research are as follows:

- *IO* represents the percentage of a company's shares held by institutional investors, such as

pension funds, mutual funds, and insurance companies. It is hypothesized to influence both *ESG* performance (*H1*) and *FO* (*H2*).

- In *H3* and *H4*, *ESG* performance serves as an independent variable, reflecting the effectiveness of a firm's ESG practices. This is measured using ESG scores from a recognized rating provider.

3.3. Control variables

To ensure a robust analysis, several control variables were included in the study. These variables are as follows:

- Firm size (*SIZE*) is measured using the natural logarithm of market capitalization (Chen et al., 2020; Lubis & Rokhim, 2021).
- Leverage (*LEV*) is measured using the debt-to-equity ratio (Ibhagui & Olokoyo, 2018; Prasadhita, 2024).
- Growth (*GROWTH*) is a dummy variable coded 1 if the company experienced growth in net income and 0 if net income decreased (Singh et al., 2019; Yunica, 2023).
- Audit quality (*BIG4*) is a dummy variable coded 1 if the company is audited by a *BIG4* audit firm (PwC, KPMG, Ernst & Young [EY], or Deloitte) and 0 otherwise.
- Cash flow (*CF*) is measured by the natural logarithm of the absolute value of operating cash flow (*OCF*).
- Industry classification (*INDUSTRY*) is a dummy variable coded 1 if the company operates in a heavily regulated industry (e.g., banking) and 0 otherwise (Alshbili et al., 2019; Saraswati, 2024).

- Corporate governance (*CG*) is measured by the number of members on the board of commissioners (Barnea & Rubin, 2010).

The inclusion of these control variables is to isolate the specific effects of *IO* and *ESG* performance on *FO*, while accounting for other potential influencing factors. This comprehensive dataset will enable a rigorous investigation of the interplay between institutional investors, ESG practices, and financial performance in the Indonesian context, contributing valuable insights into the understanding of corporate governance and sustainability in emerging markets.

To analyze the relationships between *IO*, *ESG* performance, and *FO*, the four regression models were employed.

Model for H1 (Higher IO leads to improved ESG performance)

$$ESG_i = \beta_0 + \beta_1 IO_i + \beta_2 SIZE_i + \beta_3 LEV_i + \beta_4 GROWTH_i + \beta_5 BIG4_i + \beta_6 CF_i + \beta_7 INDUSTRY_i + \beta_8 CG_i + \varepsilon_i \quad (1)$$

Model for H2 (Higher IO leads to improved FO)

$$FO_i = \beta_0 + \beta_1 IO_i + \beta_2 SIZE_i + \beta_3 LEV_i + \beta_4 GROWTH_i + \beta_5 BIG4_i + \beta_6 CF_i + \beta_7 INDUSTRY_i + \beta_8 CG_i + \varepsilon_i \quad (2)$$

Model for H3 (Better ESG performance results in superior FO)

$$FO_i = \beta_0 + \beta_1 IO_i + \beta_2 SIZE_i + \beta_3 LEV_i + \beta_4 GROWTH_i + \beta_5 BIG4_i + \beta_6 CF_i + \beta_7 INDUSTRY_i + \beta_8 CG_i + \varepsilon_i \quad (3)$$

Model for H4 (ESG performance strengthens the positive relationship between IO and financial performance)

$$FO_i = \beta_0 + \beta_1 IO_i + \beta_2 ESG_i + \beta_3 (IO_i * ESG_i) + \beta_4 LEV_i + \beta_5 GROWTH_i + \beta_6 BIG4_i + \beta_7 CF_i + \beta_8 INDUSTRY_i + \beta_9 CG_i + \varepsilon_i \quad (4)$$

While this study employs cross-sectional regression analysis, alternative methods such as panel data or structural equation modeling (SEM) could offer deeper insights. Panel data would allow for tracking changes in ESG and ownership over time, while SEM could test complex mediation effects within a unified framework.

4. RESULTS

The descriptive statistics in Table 1 offer insights into the value of each variable, along with its standard deviation and range from the minimum to the maximum values recorded. Table 2 presents the correlation of research variables. Interpretation based on absolute correlation values (r), the results

reveal a strong positive correlation between *OCF* and *SIZE* ($r = 0.782$, $p < 0.01$), suggesting that larger companies tend to have higher *OCF*. Interestingly, *SIZE* is also moderately correlated with *ESG* performance ($r = 0.405$, $p < 0.01$), audit quality (*BIG4*) ($r = 0.482$, $p < 0.01$), and *CG* ($r = 0.510$, $p < 0.01$). These findings suggest that larger firms have greater resources and incentives to invest in ESG initiatives, engage high-quality auditors, and maintain strong corporate governance practices. Crucially, *ESG* performance showed a very weak correlation with both *IO* ($r = 0.08$, $p < 0.05$) and *ROA* ($r = 0.189$, $p < 0.01$), providing initial support for the hypothesis that institutional investors are correlated with companies' ESG practices and financial performance.

Table 1. Descriptive statistics

Variable	Observations	Mean	Std. dev.	Min	Max
ROA	705	0.0253802	0.3067991	-7.606112	0.6026039
TOBINSQ	705	1.237117	2.297921	0.0142542	24.78667
ESG	705	0.3801489	0.1779005	0.0123	1
IO	705	3.199901	7.193794	0	77.39
SIZE	705	1.33e+07	6.53e+07	10570.6	1.12e+09
LEV	705	-0.1404165	16.40327	-417.1875	38.2174
GROWTH	705	0.4595745	0.4987169	0	1
INDUSTRY	705	0.2382979	0.4263447	0	1
OCF	705	1746916	6889162	58.4	1.02e+08
BIG4	705	0.2808511	0.449734	0	1
CG	705	3.744681	1.858657	1	16

Source: Authors' elaboration.

Table 2. Correlation matrix

Variables	ROA	TOBINSQ	ESG	IO	SIZE	LEV	GROWTH	INDUSTRY	OCF	BIG4	CG
ROA	1.000										
TOBINSQ	0.194***	1.000									
ESG	0.189***	(0.020)	1.000								
IO	(0.009)	(0.030)	0.085**	1.000							
SIZE	0.327***	0.229***	0.405***	0.246***	1.000						
LEV	-0.108***	-0.075**	0.044	0.037	0.001	1.000					
GROWTH	0.397***	0.100***	0.003	(0.018)	0.174***	(0.045)	1.000				
INDUSTRY	-0.137***	-0.114***	(0.062)	0.118***	0.212***	(0.048)	(0.021)	1.000			
OCF	0.314***	-0.083**	0.379***	0.210***	0.782***	0.044	0.198***	0.233***	1.000		
BIG4	0.189***	(0.002)	0.306***	0.143***	0.482***	0.019	0.089**	0.117***	0.454***	1.000	
CG	0.092**	-0.109***	0.344***	0.135***	0.51***	0.086**	0.013	0.105***	0.503***	0.382***	1.000

Note: *** $p < 0.01$, ** $p < 0.05$, and * $p < 0.1$ indicate statistical significance levels, respectively (one-tailed).

Source: Authors' elaboration.

Table 3. Cross-sectional data analysis using independent variables to explain the variation in the dependent variable *ESG*

Variable	Predicted sign	Coefficient	t-value
IO	+	-0.0005	-0.48
SIZE	+	0.0199***	3.98
LEV	+	0.0016	0.37
GROWTH	+	-0.0277**	-2.30
INDUSTRY	+	-0.0694***	-4.91
OCF	+	0.0102**	2.58
BIG4	+	0.0427***	2.83
CG	+	0.0139***	3.39
Constant		-0.0573	-1.19
Observations		705	
R ²		0.2344	

Note: *** $p < 0.01$, ** $p < 0.05$, and * $p < 0.1$ indicate statistical significance levels, respectively (one-tailed).

Source: Authors' elaboration.

Table 3 reveals that *IO* does not affect *ESG* performance, thus not supporting *H1*, which posits that institutional investors would positively influence a firm's *ESG* performance. However, the control variables *SIZE*, *GROWTH*, *INDUSTRY*, *OCF*, *BIG4*, and *CG* exhibit significant effects on

ESG performance. Notably, while *GROWTH* and *INDUSTRY* were statistically significant, their signs were opposite to the hypothesized direction. An R-squared value of 0.2344 indicates that the independent variables in Model 1 explain approximately 23.44% of the variation in the dependent variable.

Results of Model 2 yield a significant negative relationship between *IO* and *ROA*, which contradicts *H2*, which proposed that *IO* would positively influence a firm's financial performance (*ROA*). Evidently, higher levels of *IO* were associated with lower profitability. The control variables *SIZE*, *LEV*, *GROWTH*, *INDUSTRY*, *OCF*, and *CG* also exhibited significant effects on *ROA*. Interestingly, the signs for *INDUSTRY* and *CG* were opposite to those predicted (see Table 4).

Model 3 produces results that confirm *H3*. Statistically, there is a significant positive relationship between *ESG* performance and *ROA*. In Model 4, both *IO* and *ESG* performance are individually significant predictors of *ROA*. However, the interaction term ($IO \times ESG$), which was included to test the moderating role of *ESG* performance in

the relationship between *IO* and *ROA*, was not statistically significant. The results for the control variables in Models 3 and 4 are consistent with those observed in Model 2.

To ensure the robustness of the findings, a sensitivity analysis is conducted using *TOBINSQ* as an alternative measure of financial performance (refer to Table 5). *TOBINSQ*, which measures the market value of a firm relative to its replacement

cost, provides a different perspective on financial performance than *ROA*. The results using *TOBINSQ* are consistent with previous results, thus confirming the key findings of the study and demonstrating that the observed relationships are not sensitive to the specific measure of financial performance employed. This further strengthens the validity and generalizability of the study.

Table 4. Cross-sectional data analysis using independent variables to explain the variation of the dependent variable *ROA*

Variable	2			3			4		
	Predicted sign	Coefficient	t-value	Predicted sign	Coefficient	t-value	Predicted sign	Coefficient	t-value
<i>IO</i>	+	-0.0011*	-1.81				+	0.0369*	1.78
<i>ESG</i>				+	0.0355*	1.72	+	-0.0011*	-1.88
<i>IO</i> × <i>ESG</i>							+	-0.0042	-1.21
<i>SIZE</i>	+	0.0113***	4.14	+	0.0100***	3.64	+	0.0108***	3.92
<i>LEV</i>	-	-0.0076***	-3.19	-	-0.0078***	-3.28	-	-0.0078***	-3.26
<i>GROWTH</i>	+	0.0620***	9.45	+	0.0637***	9.69	+	0.0631***	9.6
<i>INDUSTRY</i>	+	-0.0491***	-6.37	+	-0.0475***	-6.07	+	-0.0462***	-5.9
<i>OCF</i>	+	0.0067***	3.14	+	0.0063***	2.92	+	0.0063***	2.92
<i>BIG4</i>	+	0.0102	1.24	+	0.0083	1	+	0.0088	1.06
<i>CG</i>	+	-0.0052**	-2.31	+	-0.0056***	-2.49	+	-0.0055**	-2.45
Constant		-0.1975***	-7.56		-0.1889***	-7.29		-0.1877***	-6.71
Observations		705			705			705	
Prob > F		0.0000			0.0000			0.0000	
R ²		0.2908			0.2905			0.2952	

Note: *** $p < 0.01$, ** $p < 0.05$, and * $p < 0.1$ indicate statistical significance levels, respectively (one-tailed).

Source: Authors' elaboration.

Table 5. Cross-sectional data analysis using independent variables to explain the variation of the dependent variable *TOBINSQ*

Variable	2			3			4		
	Predicted sign	Coefficient	t-value	Predicted sign	Coefficient	t-value	Predicted sign	Coefficient	t-value
<i>IO</i>	+	-0.0212*	-1.88				+	-0.8027**	-2.04
<i>ESG</i>				+	-0.7562*	-1.93	+	-0.0205*	-1.82
<i>IO</i> × <i>ESG</i>							+	0.0660	1
<i>SIZE</i>	+	0.8099***	15.62	+	0.8125***	15.62	+	0.8216***	15.66
<i>LEV</i>	-	-0.0440	-0.97	-	-0.0460	-1.01	-	-0.0411	-0.9
<i>GROWTH</i>	+	0.2698**	2.16	+	0.2633**	2.11	+	0.2467**	1.97
<i>INDUSTRY</i>	+	-0.5331***	-3.64	+	-0.6037***	-4.06	+	-0.5939***	-3.99
<i>OCF</i>	+	-0.4543***	-11.11	+	-0.4484***	-10.92	+	-0.4449***	-10.85
<i>BIG4</i>	+	-0.1971	-1.26	+	-0.1719	-1.09	+	-0.1657	-1.06
<i>CG</i>	+	-0.2211***	-5.19	+	-0.2101***	-4.9	+	-0.2122***	-4.95
Constant		-4.0164***	-8.07		-3.9258***	-7.96		-4.3794***	-8.23
Observations		705			705			705	
Prob > F		0.0000			0.0000			0.0000	
R ²		0.2898			0.2899			0.2947	

Note: *** $p < 0.01$, ** $p < 0.05$, and * $p < 0.1$ indicate statistical significance levels, respectively (one-tailed).

Source: Authors' elaboration.

5. DISCUSSIONS

The finding of an insignificant relationship between institutional ownership and ESG performance in Model 1 is consistent with a growing body of literature that challenges the traditional assumption that institutional investors consistently drive improvements in corporate ESG practices. While some studies on emerging markets have shown a positive link between institutional ownership and ESG performance, others have found a more nuanced or even insignificant relationship (Ellili, 2022; Rastogi et al., 2023). The findings of this study contribute to the latter perspective, suggesting that the mere presence of institutional investors does not guarantee a strong commitment to ESG principles. Although the statistical results appear weak or contrary to expectations, this does not necessarily invalidate the findings. Instead, it reflects a complex investment landscape where institutional ownership alone is insufficient to predict ESG engagement or

financial improvement. This is consistent with recent findings in emerging markets, which argue that institutional presence does not uniformly translate into ESG commitment.

This lack of clear and consistent impact might be attributed to the inherent characteristics of emerging markets. For instance, institutional investors in these markets might prioritize short-term financial gains over long-term ESG goals because of factors such as high portfolio turnover and focus on momentum trading (Salehi et al., 2022). This short-term focus could explain why institutional ownership does not always translate into tangible improvement in ESG performance. Moreover, the influence of institutional ownership on ESG performance can be moderated by various factors, including regulatory pressures, firm-specific characteristics (Lubis & Rokhim, 2021), and the heterogeneity of institutional investors themselves (Wang, 2023).

It is important to acknowledge that this study treats institutional ownership as a single, aggregated category. However, recent literature emphasizes that institutional investors are not a monolithic group. For instance, Wang (2023) demonstrates that institutional investors differ significantly in their investment abilities and ESG motivations, which in turn affect their influence on corporate sustainability disclosures. Similarly, Martínez-Ferrero and Lozano (2021) highlight that the strength of ESG commitment is often contingent upon the type and scale of institutional involvement — pension funds and long-term investors tend to support ESG integration, whereas hedge funds may prioritize short-term returns. Without disaggregating investor types, the interpretive value of the analysis may be flattened, masking important behavioral differences across institutional actors.

Indeed, the effectiveness of institutional investors in driving ESG improvements may be contingent on the specific regulatory context and individual characteristics of both the investors and companies they invest in. For example, in markets with weak regulatory frameworks, institutional investors may have less incentive to push ESG adoption. Similarly, companies with strong corporate governance structures may be more receptive to investor pressure regarding ESG issues. Furthermore, the diversity of institutional investors with varying investment philosophies and ESG priorities adds another layer of complexity to this relationship. It is plausible that certain types of institutional investors, such as those with a long-term investment horizon or a specific focus on ESG, may be more effective in promoting ESG practices.

This nuanced perspective is supported by research conducted by Ellili (2022) and Rastogi et al. (2023), which emphasized the significance of institutional ownership in specific scenarios to amplify the favorable valuation impacts of ESG practices but highlighted that it does not automatically lead to enhanced ESG ratings or disclosures. This suggests that the impact of institutional ownership on ESG performance is not universal but rather contingent on a complex interplay of factors.

The impact of ownership on ESG performance may be limited because of the differences in regulatory standards and reporting practices in emerging markets (Ng et al., 2023). A lack of consistent disclosure practices can impede institutional investors' effectiveness in monitoring and shaping ESG performance. Moreover, Dakhli (2021) and Kurniawan and Rokhim (2023) proposed that while ownership structure generally affects ESG outcomes, the influence of ownership is not as significant. This implies that other governance methods may be more successful in encouraging ESG adoption. Institutional investors are not consistent catalysts for improving ESG practices.

Although theories propose that ownership enhances both ESG performance and financial results, historical data indicate a more intricate correlation. This unexpected negative relationship between institutional ownership and financial performance in Model 2 aligns with emerging research that questions the efficacy of institutional investors in driving financial improvement, particularly in the context of ESG considerations. Studies by Keeley et al. (2022) and Rastogi et al. (2023) suggest that institutional investors might not effectively propel ESG and financial enhancement. They could focus on profits over long-term gains,

leading to adverse effects on financial metrics, such as return on equity. This disparity could arise from a misalignment between institutional investors' actions and long-term sustainable objectives.

Moreover, institutional investors do not always lead to better ESG practices or financial outcomes. Other factors, such as management choices and market situations, can influence their impact. Depending on institutional ownership, boosting ESG performance and generating positive financial results might not be effective. A detailed strategy that considers various factors is essential for promoting sustainable practices and attaining lasting financial prosperity (Dakhli 2021).

In recent years, there has been a lot of focus on how ESG performance can impact financial results. Studies have shown that companies that focus on sustainability and responsible governance tend to have better financial outcomes because of their improved ESG performance. Current research illustrates that companies operating in environments where stakeholders are highly engaged often achieve higher ESG performance levels, leading to superior financial results. Their research indicates that businesses with ESG initiatives are more equipped to handle challenges and take advantage of opportunities, which can result in better financial indicators like ROA. This connection emphasizes the importance of incorporating ESG factors into a company's strategy to boost overall outcomes (Prasadhita, 2024).

Furthermore, Lavín and Montecinos-Pearce (2021) underscore the significance of board composition and ownership setup in impacting ESG performance. According to their findings, businesses with established governance systems and a dedication to ESG principles often achieve improved financial results, such as increased ROA. This correlation implies that integrating ESG initiatives is advantageous not only for social and environmental purposes but also offers a competitive edge that can boost a company's financial success (Yunica, 2023).

However, despite the positive influence of ESG performance on ROA (Models 3 and 4), the ability of ESG to moderate the relationship between institutional ownership and financial outcomes appears limited. Rashid (2020) indicates that, while institutional ownership is associated with improved financial performance, the impact of ESG performance on this relationship is not consistently significant. This suggests that institutional investors may not leverage their influence to effectively enhance ESG practices, which could limit the potential for ESG to serve as a moderating factor in the relationship with ROA.

The findings of this study offer several practical insights. For corporate managers, the results highlight that institutional investors in emerging markets do not consistently act as ESG enforcers. Therefore, companies should strengthen their internal ESG governance structures instead of relying solely on investor pressure. Establishing board-level ESG committees, enhancing transparency, and aligning business strategy with long-term sustainability goals can help improve ESG outcomes and financial performance.

For policymakers and regulators, the lack of a significant effect of institutional ownership on ESG suggests that current voluntary disclosure regimes may be insufficient to incentivize responsible investment behavior. Introducing mandatory ESG

reporting standards, offering fiscal or reputational incentives for ESG performance, and segmenting investor regulations based on long-term vs. short-term orientation could help align capital market behavior with national sustainability agendas.

These findings also raise questions about the theoretical assumptions underlying institutional ownership and ESG outcomes. While agency theory posits that institutional investors mitigate managerial opportunism through monitoring, the lack of a clear ESG effect may suggest weak or inconsistent enforcement in emerging markets. Similarly, stakeholder theory assumes that institutional investors pursue broader stakeholder value; however, our results indicate this behavior may only apply to certain investor types with long-term horizons. This suggests the need to contextualize these theoretical frameworks based on investor profiles and institutional environments.

Furthermore, Lokuwaduge and Heenetigala (2016) highlighted that the effectiveness of institutional ownership in promoting ESG practices can vary significantly, indicating that the presence of institutional investors alone does not guarantee improved ESG performance or financial outcomes. Additionally, Aboud and Diab (2019) argued that the influence of ESG performance on financial outcomes is often context-dependent and may not be strong enough to act as a moderator in the relationship between institutional ownership and ROA. This complexity underscores the need for a nuanced understanding of how institutional ownership interacts with ESG practices and financial performance. The findings suggest that, while ESG performance is crucial for enhancing ROA, it may not possess the moderating strength necessary to amplify the positive effects of institutional ownership on financial outcomes.

6. CONCLUSION

This study investigates how institutional ownership influences ESG performance and financial outcomes among non-financial firms listed on the IDX. The results reveal a complex and nuanced interplay among institutional ownership, ESG performance, and firm-level financial outcomes. While institutional ownership does not directly translate to improved ESG performance, potentially due to a focus on short-term gains and the influence of other moderating factors, ESG performance itself positively influences financial performance, as measured by ROA. This highlights the importance of considering ESG factors for companies that aim to enhance their financial outcomes.

However, this study also reveals that ESG performance does not significantly moderate

the relationship between institutional ownership and financial performance. This indicates that, while ESG is crucial for enhancing financial performance, it may not be sufficient to amplify the positive effects of institutional ownership. Therefore, companies should not rely solely on attracting institutional investors to improve their ESG performance and financial outcomes.

These findings offer actionable insights for both corporate managers and regulators, particularly in developing economies where regulatory frameworks remain nascent. These insights underscore the limitations of ownership-based ESG strategies, especially in environments with weak institutional enforcement. Overall, these findings challenge conventional assumptions that institutional investors in emerging markets consistently act as stewards of ESG advancement. The lack of a significant ownership effect suggests that investor presence alone is insufficient without alignment of values, time horizons, and regulatory support. This study contributes to the literature by demonstrating that ESG outcomes are shaped by complex interactions between governance structures, market institutions, and investor heterogeneity. It invites scholars to move beyond binary assumptions of “ownership equals influence”, and instead explore the contingent pathways through which institutional capital can support — or hinder — sustainability goals. Considering these insights, future research should integrate multi-level governance perspectives, investor segmentation, and longitudinal approaches to better capture the dynamics between ESG and corporate performance over time.

A key limitation of this study is the assumption that institutional investors form a homogeneous group. This generalization may mask meaningful differences in ESG priorities and influence across investor types. Future studies should explore investor segmentation in more detail by distinguishing between different institutional investor types such as pension funds, hedge funds, and sovereign wealth funds. This will help clarify how their unique ESG priorities and engagement strategies influence corporate sustainability outcomes. Moreover, longitudinal research designs are needed to capture dynamic relationships over time and assess the delayed impact of ESG integration on financial performance. Finally, more emphasis should be placed on analyzing how public policies, such as ESG disclosure mandates and investment incentives, shape investor behavior and corporate ESG performance, particularly in the context of emerging economies with evolving regulatory environments.

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